

Third Quarter Report

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Saskatchewan Telecommunications
Holding Corporation

Third Quarter Report 2007
For the Period Ending September 30, 2007

Saskatchewan Telecommunications Holding Corporation (SaskTel) is a Saskatchewan Crown corporation. We are the leading full service communications provider in Saskatchewan, offering competitive voice, data, dial-up and high speed internet, entertainment and multimedia services, security, web hosting, text and messaging services, and cellular and wireless data services over our digital networks. We also provide security monitoring services through SecurTek, directory services through DirectWest, in-room communications services to the healthcare sector through Hospitality Network, telecommunications consulting service through SaskTel International and have an out-of-province sales and service channel in Alberta and British Columbia. Our subsidiaries

have significant points of presence throughout Canada and internationally.

SaskTel and our wholly-owned subsidiaries have a workforce of approximately 5,100 permanent, part-time, casual, and temporary employees including all interns, co-op and summer students.

As reflected in our vision, SaskTel is an innovative, quality-driven communications solutions provider for our customers worldwide. Together, our team of dedicated employees, our business partners, and our technology leadership will deliver sound financial returns and public policy benefits to the people of Saskatchewan.

Financial Highlights

Consolidated Net Income

Millions of dollars, (unaudited)	Three months ended			Nine months ended		
	September 30,			September 30,		
	2007	2006	% Change	2007	2006	% Change
Operating revenues	\$272.4	\$254.4	7.1	\$790.4	\$752.0	5.1
Operating expenses	230.9	212.7	8.6	696.5	654.8	6.4
Income from operations	41.5	41.7	(0.5)	93.9	97.2	(3.4)
Other items	0.4	1.1	(63.6)	1.7	4.4	(61.4)
Interest and related costs	(5.8)	(6.1)	(4.9)	(20.5)	(19.6)	4.6
Gain on sale of investments	-	-	<i>nmf</i> ¹	0.6	0.1	<i>nmf</i>
Net income	\$36.1	\$36.7	(1.6)	\$75.7	\$82.1	(7.8)

The Corporation's consolidated net income for the third quarter of 2007 was \$36.1 million, down \$0.6 million (1.6%) from the same period in 2006.

Year-to-date net income is \$75.7 million, down \$6.4 million (7.8%) from 2006. Operating revenues increased \$38.4 million (5.1%) from the same period last year but were more than offset by increases in operating expenses of \$41.7 million (6.4%). Strong growth by the Wireless and Max™ Entertainment Services portfolios was partially offset by reductions in the higher margin long distance and access portfolios. Expense increases directly reflect revenue growth, network enhancements to support future revenue streams as well as salary and benefits improvements.

¹ No meaningful figure (*nmf*)

Management Discussion and Analysis

Forward - Looking Information

The following discussion focuses on the consolidated financial position and results of the operations of the Corporation for the third quarter 2007. This discussion and analysis should be read in conjunction with the Corporation's audited financial statements for the year ended December 31, 2006. Some sections of this discussion include forward-looking statements about SaskTel's corporate direction and financial objectives. A statement is forward-looking when it uses information known today to make an assertion about the future. Since these forward-looking statements reflect expectations and intentions at the time of writing, actual results could differ materially from those anticipated if known or unknown risks and uncertainties impact the business, or if estimates or assumptions turn out to be inaccurate. As a result, SaskTel can not guarantee that any of the

predictions forecasted by forward-looking statements will occur. As well, forward-looking statements do not take into consideration the effect of transactions or non-recurring items announced or occurring subsequently. Therefore, SaskTel disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. For a full discussion of risk factors, please consult Management's Discussion & Analysis in the Corporation's 2006 annual report. These interim statements have been prepared in accordance with the Canadian Institute of Chartered Accountants section 1751, "Interim Financial Statements." These interim statements have been approved by the SaskTel Board of Directors.

Results of Operations

Operating revenues

<u>Millions of dollars</u>	<u>2007</u>	<u>2006</u>	<u>Change</u>	<u>%</u>
Three months ended September 30,	\$272.4	\$254.4	\$18.0	7.1
Year-to-date	\$790.4	\$752.0	\$38.4	5.1

Operating revenues for the third quarter were \$272.4 million, an increase of \$18.0 million over the same period in 2006. Year-to-date operating revenues were \$790.4 million which represents a \$38.4 million increase over 2006. Revenue growth continues to be driven significantly by Wireless and *Max* Entertainment Services as well as sales of customer premise equipment, however, this was offset somewhat by competition-driven reductions in long distance and access services.

Operating expenses

Millions of dollars	2007	2006	Change	%
Three months ended September 30,	\$230.9	\$212.7	\$18.2	8.6
Year-to-date	\$696.5	\$654.8	\$41.7	6.4

Operating expenses were \$230.9 million for the third quarter, up \$18.2 million from the same period in 2006. Year-to-date, expenses of \$696.5 million were up \$41.7 million from 2006. The year-over-year increases were in support of revenue growth, including Wireless services and *Max* Entertainment Services, as well as in support of future revenue streams as the Corporation enhances its network infrastructure. Also included in the year-to-date 2007 results are salary and benefits increases to all employees resulting from ratification of the new collective agreement.

Interest and related costs

Interest and related costs were \$5.8 million for the third quarter, down \$0.3 million from the same period in 2006. Year-to-date, interest and related costs were \$20.5 million, up \$0.9 million from 2006 due primarily to the change in fair value of financial instruments.

Liquidity and Capital Resources

Cash provided by operating activities

Millions of dollars	2007	2006	Change	%
Three months ended September 30,	\$64.7	\$57.6	\$7.1	12.3
Year-to-date	\$155.2	\$157.6	\$(2.4)	(1.5)

Cash provided by operating activities during the third quarter of 2007 was \$64.7 million, up \$7.1 million from the same period in 2006. Cash generated by operations increased \$0.7 million in the third quarter of 2007 as compared to 2006. Working capital requirements decreased by \$6.4 million mainly as a result of the 2006 impact of the Next Generation Access Infrastructure (NGAI) Program.

Cash provided by operating activities in the first nine months was down \$2.4 million when compared to the same period in 2006. Cash from operations decreased \$7.4 million consistent with reduced net income. Working capital requirements decreased \$5.0 million compared to the same period in 2006. The decrease is attributable to lower accounts payable related to timing of supplier payments, partially offset by increased Wireless accounts receivable.

Cash used in investing activities

Millions of dollars	2007	2006	Change	%
Three months ended September 30,	\$(44.6)	\$(68.8)	\$24.2	(35.2)
Year-to-date	\$(110.8)	\$(167.5)	\$56.7	(33.9)

Cash used in investing activities decreased by \$24.2 million to \$44.6 million in the third quarter of 2007 compared to the same period in 2006. Year-to-date cash used in investing activities decreased by \$56.7 million from the same period in 2006 to \$110.8 million in 2007. The decrease can be attributed to a decrease in overall capital spending.

The Corporation's net capital spending for the third quarter of 2007 was \$43.3 million, down \$24.8 million from the same period in 2006. Net capital spending for the nine months ended September 30, 2007 was \$107.3 million, down \$58.2 million from the same period in 2006. Spending decreased primarily due to completion of the NGAI Program Phase 1 resulting in a lower capital program for 2007. Investment continues to support the telecommunications networks and meet customer demand, as well as growth initiatives such as *Max* Entertainment Services, cellular expansion, and multimedia development.

Cash used in financing activities

Millions of dollars	2007	2006	Change	%
Three months ended September 30,	\$(18.6)	\$(23.8)	\$5.2	(21.8)
Year-to-date	\$(39.9)	\$(53.8)	\$13.9	(25.8)

Cash used in financing activities during the third quarter was \$18.6 million compared to \$23.8 million for the same period in 2006. Year-to-date cash used in financing activities was \$39.9 million compared to \$53.8 million in 2006. During 2007, the corporation repaid \$9.9 million of long-term debt, and paid a dividend of \$27.5 million to Crown Investment Corporation of Saskatchewan compared to debt repayment of \$23.3 million and dividends of \$25.8 million for the same period in 2006.

Liquidity and capital resource ratios

Debt ratio

(\$ millions)

As at September 30,	2007	2006	Change	%
Long-term debt	\$356.1	\$378.2	\$(22.1)	(5.8)
Less: Net unamortized debt discount, premium and issue costs	2.4	-	2.4	<i>nmf</i> ²
Sinking funds	53.1	47.9	5.2	10.9
Cash and short-term investments	20.6	33.3	(12.7)	(38.1)
Net debt	280.0	297.0	(17.0)	(5.7)
Equity	741.7	709.7	32.0	4.5
Capitalization	\$1,021.7	\$1,006.7	\$15.0	1.5
Debt ratio	27.4%	29.5%	(2.1)	<i>nmf</i> ²

The debt ratio after the third quarter of 2007 decreased to 27.4% from 29.5% at September 30, 2006 as the Corporation continues to self-finance its capital and dividend requirements. The overall level of net debt decreased \$17.0 million due to repayment of long-term debt and increased sinking funds partially offset by a reduction in cash and short-term investments. In addition, retained earnings increased by \$32.0 million.

The carrying amount of the long-term debt has been restated to include \$2.4 million of net unamortized debt discount, premium and issue costs upon the adoption of the new CICA financial instrument standards on January 1, 2007.

2007 Outlook

The 2006 SaskTel Annual Report identified a consolidated net income target for 2007 of \$61.4 million. Results to September 30, 2007 are favourable and currently exceed this target. It should be noted, however, that significant, planned expenses will occur in the fourth quarter, including restructuring charges associated with phase three of the Early Retirement Program. At this time SaskTel believes that it will meet or exceed the established 2007 net income target.

Risk Assessment

The 2006 Annual Report discusses the risks and uncertainties in SaskTel's business environment. They include developments in the economic and regulatory environments, challenges faced by the defined benefit pension plan and competitive activity. SaskTel's basic risk profile remains unchanged as at September 30, 2007. Management continues to monitor individual risks as they change and evolve and employs the industry accepted risk management processes of identification, mitigation, transfer, assumption and control of key risks.

² No meaningful number (*nmf*)

Consolidated Statement of Operations and Comprehensive Income

Thousands of dollars, (unaudited)	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Operating revenues	\$272,392	\$254,401	\$790,374	\$752,015
Operating expenses				
Operations	187,568	174,758	550,702	515,453
Depreciation and amortization	43,260	37,935	123,608	113,369
Restructuring charges (Note 3)	41	-	22,130	26,003
	230,869	212,693	696,440	654,825
Income from operations	41,523	41,708	93,934	97,190
Other items	381	1,106	1,759	4,404
Interest and related costs	(5,781)	(6,075)	(20,542)	(19,569)
Income before the following	36,123	36,739	75,151	82,025
Gain on sale of investments (Note 4)	-	-	571	114
Net income	36,123	36,739	75,722	82,139
Other comprehensive income	-	-	-	-
Comprehensive income	\$36,123	\$36,739	\$75,722	\$82,139

Consolidated Statement of Retained Earnings

Thousands of dollars, (unaudited)	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Retained earnings, beginning of period (Restated Note 2)	\$463,094	\$435,467	\$438,495	\$415,067
Net income	36,123	36,739	75,722	82,139
	499,217	472,206	514,217	497,206
Dividends	7,500	12,500	22,500	37,500
Retained earnings, end of period	\$491,717	\$459,706	\$491,717	\$459,706

See Accompanying Notes

Consolidated Statement of Financial Position

As at Thousands of dollars, (unaudited)	September 30, 2007	December 31, 2006
Assets		
Current assets		
Cash and short-term investments	\$20,580	\$16,110
Accounts receivable (Note 7a)	98,033	95,518
Inventories	10,141	8,170
Prepaid expenses (Note 7a)	25,800	18,804
	154,554	138,602
Property, plant and equipment		
Property, plant and equipment	2,850,880	2,793,517
Less accumulated depreciation	1,904,029	1,834,874
	946,851	958,643
Intangible assets		
Intangible assets	55,341	50,894
Less accumulated amortization	26,519	22,525
	28,822	28,369
Investments		
Investments	227	768
Goodwill		
Goodwill	18,359	18,350
Sinking funds		
Sinking funds	53,100	50,207
Other assets (Note 5)		
Other assets (Note 5)	78,916	62,222
	\$1,280,829	\$1,257,161
Liabilities and Province's equity		
Current liabilities		
Accounts payable and accrued liabilities (Note 7a)	\$115,001	\$132,688
Dividend payable	7,500	12,500
Services billed in advance (Note 7a)	50,686	45,347
Current portion of long-term debt	9,044	17,253
	182,231	207,788
Deferred revenue		
Deferred revenue	9,785	10,415
Long-term debt		
Long-term debt	347,096	351,236
	539,112	569,439
Non-controlling interest		
Non-controlling interest	-	152
Province of Saskatchewan's equity		
Equity advance	250,000	250,000
Retained earnings	491,717	437,570
	741,717	687,570
	\$1,280,829	\$1,257,161

See Accompanying Notes

Consolidated Statement of Cash Flows

Thousands of dollars, (unaudited)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2007	2006	2007	2006
Operating activities				
Net income	\$36,123	\$36,739	\$75,722	\$82,139
Adjustments to reconcile net income to cash provided by operations				
Depreciation and amortization	43,260	37,935	123,608	113,369
Contributions to defined benefit pension plans	(11,187)	(8,845)	(29,196)	(26,779)
Pension expense (income) of defined benefit plans	(1,446)	805	(4,341)	1,420
Special termination benefits costs	-	-	15,573	21,076
Net share of loss (income) from significantly influenced companies	-	33	12	(4)
Sinking fund earnings	(344)	(791)	(1,335)	(1,553)
Change in fair value of financial instruments	(632)	-	1,318	-
Gain on sale of investments	-	-	(571)	(114)
Other	(11)	(844)	(71)	(1,422)
Net change in non-cash working capital (Note 7b)	(1,077)	(7,442)	(25,539)	(30,570)
	64,686	57,590	155,180	157,562
Investing activities				
Property, plant and equipment expenditures	(43,252)	(68,052)	(107,306)	(165,502)
Proceeds on sale of investment	-	-	1,100	574
Investments acquired	-	-	(460)	-
Customer accounts	(1,306)	(715)	(4,153)	(2,620)
	(44,558)	(68,767)	(110,819)	(167,548)
Financing activities				
Sinking fund installments	(900)	(900)	(2,000)	(1,650)
Repayment of long-term debt	(9,816)	(9,633)	(9,937)	(23,314)
Capital lease obligations	(15)	(636)	(15)	(2,280)
Dividends paid	(7,500)	(12,500)	(27,500)	(25,815)
Financing leases	(344)	(126)	(439)	(749)
	(18,575)	(23,795)	(39,891)	(53,808)
Increase (decrease) in cash	1,553	(34,972)	4,470	(63,794)
Cash and cash equivalents, beginning of period	19,027	68,257	16,110	97,079
Cash and cash equivalents, end of period	\$20,580	\$33,285	\$20,580	\$ 33,285
Comprised of:				
Cash			\$4,501	\$3,279
Short-term investments			16,079	30,006
Cash and short-term investments			\$20,580	\$ 33,285

See Accompanying Notes

Notes to Consolidated Financial Statements, September 30, 2007

Note 1 – Interim financial statements

The unaudited interim consolidated financial statements should be read in conjunction with SaskTel's December 31, 2006 audited consolidated financial statements. The interim consolidated financial statements of Saskatchewan Telecommunications Holding Corporation (SaskTel) have been prepared in accordance with generally accepted accounting principles in Canada. The accounting policies and methods for interim reporting purposes are consistent with those used in the preparation of SaskTel's audited consolidated financial statements for the year ended December 31, 2006, except as described in note 2.

Note 2 – Change in accounting policies

Effective January 1, 2007, SaskTel adopted the accounting recommendations for accounting changes (Canadian Institute of Chartered Accountants (CICA) Handbook Section 1506) in accordance with the transitional provisions of the section. The new standard allows for voluntary changes in accounting policy only if they result in the financial statements providing reliable and more relevant information and that new disclosures are required in respect of changes in accounting policies, changes in accounting estimates and correction of errors. The adoption of section 1506 has had no material impact on these unaudited interim consolidated financial statements.

Effective January 1, 2007, SaskTel adopted the accounting recommendations for comprehensive income (CICA Handbook Section 1530), financial instruments - recognition and measurement (CICA Handbook Section 3855), financial instruments – disclosure and presentation (CICA Handbook Section 3861) and equity (CICA Handbook Section 3251) in accordance with the transitional provisions of the sections. These sections provide standards for recognition, measurement, disclosure and presentation of financial assets, financial liabilities and non-financial derivatives. CICA Handbook Section 1530 provides standards for the reporting and presentation of comprehensive income, which represents the change in equity from transactions and other events and circumstances from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with generally accepted accounting principles in Canada.

Upon adoption of these new standards, SaskTel designated its cash, cash equivalents, short-term investments and sinking funds as held-for-trading which are measured at fair value. Accounts receivable are classified as loans and receivables which are measured at amortized cost. Accounts payable, accrued liabilities and long-term debt are classified as other financial liabilities which are measured at amortized cost using the effective interest method. The result of these designations is an increase in retained earnings and sinking funds of \$875,662 at January 1, 2007.

Sinking funds were previously presented as a reduction of long-term debt based on requirements to contribute to sinking funds for specific debt issues. Upon adoption of the new standards, sinking funds are disclosed as other assets and long-term debt is reported at the gross amount of the debt. The impact at January 1, 2007 was to increase assets and long-term debt by \$51,082,461.

The discount or premium on long-term debt had been deferred and amortized over the term of the debt in equal annual amounts. The new recommendations require the use of the effective interest method to recognize the discount or premium whereby the amount recognized varies over the term of the debt and provides a constant return based on the principal outstanding. The discount or premium has been reclassified as part of the carrying value of the long-term debt.

Notes to Consolidated Financial Statements, September 30, 2007

Note 2– Change in accounting policies, continued

As at January 1, 2007, SaskTel adjusted the unamortized discount/premium to what the balance would have been had the effective interest method been used since the issuance of the debt. The impact was an increase in the unamortized discount/premium balance and an increase in retained earnings of \$49,430.

Total adjustments to January 1, 2007 balances are as follows:

Thousands of dollars, (unaudited)	
Increase (decrease)	
Unamortized discount/premium on long-term debt	\$49
Sinking funds	51,082
Other assets	(2,302)
Long-term debt	47,905
Retained earnings	924

SaskTel has recorded an increase in the fair value of financial instruments of \$632,462 for the three months ending September 30, 2007, and a reduction in the fair value of financial instruments of \$1,317,917 for the nine months ended September 30, 2007, which has been included with interest and related costs.

SaskTel selected January 1, 2003 as the transition date for embedded derivatives, as such only contracts or financial instruments entered into or modified after the transition date were examined for embedded derivatives. As at September 30, 2007, and December 31, 2006, SaskTel does not have any outstanding contracts or financial instruments with embedded derivatives.

SaskTel had no “other comprehensive income or loss” transactions during the period and no opening or closing balances for accumulated other comprehensive income or loss.

Note 3 – Restructuring charges

During the nine month period ended September 30, 2007, \$22,130,068 (2006 - \$26,003,170) was recorded to restructuring charges. The charges relate to phase two of a proposed three-phase voluntary Early Retirement Program (ERP) for Saskatchewan Telecommunications.

The ERP has been undertaken to reduce operating costs and manage the employee demographic profile in the context of a changing labour market. In the first nine months of 2007, 83 (2006 – 93) employees elected to receive a package that includes a cash allowance and immediate pension benefits.

Thousands of dollars, (unaudited),	2007	2006
Balance in accounts payable and accrued liabilities at January 1	\$8,102	\$8,670
Restructuring charges	22,130	26,003
Less:		
Cash payments	10,001	10,106
Special termination benefits cost	15,573	21,076
Balance in accounts payable and accrued liabilities at September 30	\$4,658	\$3,491

Notes to Consolidated Financial Statements, September 30, 2007

Note 4 – Acquisitions and disposals

Effective January 1, 2007, SaskTel, through its subsidiary DirectWest Corporation, purchased all of the outstanding partnership units of The Phone Book Company Partnership owned by MidWest Marketing Inc. for cash consideration of \$460,000.

Effective January 31, 2007, SaskTel disposed of a portion of its interest in Streamlogics Inc. for cash proceeds of \$1,100,000, resulting in redemption of preference shares and a gain of \$571,209 on the disposal of common shares.

Note 5 – Other assets

	September 30, 2007	December 31, 2006
Thousands of dollars, (unaudited)		
Deferred pension costs	\$64,345	\$46,569
Deferred expenses	7,247	7,795
Unamortized discount on long-term debt	-	2,302
Financing leases	3,464	1,531
Other	3,860	4,025
	\$78,916	\$62,222

Note 6 – Contingencies

On August 9, 2004, a proceeding under the *Class Actions Act* (Saskatchewan) was brought against several Canadian wireless and cellular service providers, including Saskatchewan Telecommunications Holding Corporation and Saskatchewan Telecommunications. The proceeding involves allegations by wireless customers of breach of contract, misrepresentation, negligence, collusion, unjust enrichment and breach of statutory obligations concerning system administration fees. The plaintiffs seek unquantified damages from the defendant wireless communications service providers. Similar proceedings have been filed by, or on behalf of, plaintiffs' counsel in other provincial jurisdictions. On July 18, 2006, the Saskatchewan court declined to certify the action as a class action, but granted the plaintiffs leave to renew their application in order to further address certain statutory requirements respecting class actions. The Plaintiffs renewed their application for certification and the renewed application was heard in June of 2007. On September 17, 2007, the Saskatchewan court certified the Plaintiff's proceeding as a class action with respect to an allegation of unjust enrichment only. SaskTel, together with all other defendants in the proceedings have filed motions with the Saskatchewan Court of Appeal seeking leave to appeal the decision of the court certifying the action as a class action. SaskTel believes that it has strong defenses to the allegations and that legal errors were made by the court in the certification proceeding. SaskTel's leave to appeal application is presently before the Court of Appeal. No specific date has yet been set for the hearing of that application.

On March 20, 2007, R.L.T.V. Investments Inc. brought a lawsuit against Saskatchewan Telecommunications Holding Corporation, Saskatchewan Telecommunications and several current and former officers and employees of Saskatchewan Telecommunications. The lawsuit includes allegations that SaskTel wrongfully obtained its MCS licence in Saskatchewan and is legally responsible for the failure of Image Wireless Communications Inc. as

Notes to Consolidated Financial Statements, September 30, 2007

Note 6– Contingencies, continued

a consequence of alleged breach of contract, intentional interference with trade or business, deceit, misrepresentation and breach of the *Competition Act*. The Plaintiff claims damages in excess of \$87 million. SaskTel believes that it has strong defenses to the allegations and a motion to strike all claims against the defendants was heard on September 25, 2007. A decision on the application to strike was reserved.

Should the ultimate resolution of these actions differ from management’s assessments and assumptions, a material adjustment to SaskTel’s financial position or results of operations could result.

Note 7 – Additional financial information

a) Balance sheet

Thousands of dollars, (unaudited)	September 30, 2007	December 31, 2006
Accounts receivable		
Customer accounts receivable	\$82,111	\$77,016
Accrued receivables - customer	5,348	5,251
Allowance for doubtful accounts	(4,589)	(5,162)
	82,870	77,105
High cost serving area subsidy	4,779	5,894
Other	10,384	12,519
	\$98,033	\$95,518
Prepaid expenses		
Prepaid publishing costs	\$10,158	\$7,974
Prepaid expenses	7,839	5,607
Deferred service connection charges	6,522	5,223
Centennial plan	1,281	-
	\$25,800	\$18,804
Accounts payable and accrued liabilities		
Trade accounts payable and accrued liabilities	\$49,758	\$65,939
Payroll and other employee-related liabilities	53,151	55,725
Taxes payable	6,302	4,648
Interest payable	5,691	5,248
Other	99	1,128
	\$115,001	\$132,688

Notes to Consolidated Financial Statements, September 30, 2007

Note 7 – Additional financial information, continued

a) Balance sheet, continued

	September 30, 2007	December 31, 2006
Services billed in advance		
Advance billings	\$38,521	\$36,089
Deferred customer activation and connection fees	9,027	6,595
Customer deposits	3,138	2,663
	\$50,686	\$45,347

b) Supplementary cash flow information

Thousands of dollars, (unaudited)	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Net change in non-cash working capital				
Accounts receivable	\$(5,579)	\$(4,279)	\$(4,262)	\$3,405
Inventories	183	98	(1,971)	(524)
Prepaid expenses	4,555	3,873	(6,996)	(6,558)
Accounts payable and accrued liabilities	175	(7,917)	(17,536)	(29,485)
Deferred revenue	(344)	1,235	(663)	3,117
Deferred expenses	305	(998)	549	(2,475)
Services billed in advance	(372)	546	5,340	1,950
	\$(1,077)	\$(7,442)	\$(25,539)	\$(30,570)
Interest Paid	\$6,480	\$6,935	\$20,509	\$22,421

Notes to Consolidated Financial Statements, September 30, 2007

Note 8 – Pension costs

The table below shows the cost components of the defined benefit pension plans.

Thousands of dollars, (unaudited)	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Current service cost - defined benefit plan	\$(1,112)	\$(1,606)	\$(3,335)	\$(5,294)
Interest cost	(13,075)	(13,129)	(39,226)	(39,182)
Expected return on pension plan assets	14,963	14,887	44,894	44,660
Special termination benefits cost	-	-	(15,573)	(21,076)
Amortization of net transitional asset	2,913	2,916	8,738	8,748
Amortization of past service costs	(952)	(1,055)	(2,856)	(3,165)
Amortization of actuarial loss	(1,291)	(1,590)	(3,874)	(4,771)
Impact of settlement	-	(1,228)	-	(2,416)
Pension income (cost)	\$1,446	\$(805)	\$(11,232)	\$(22,496)

Note 9 – Subsequent event

On October 23, 2007, the CRTC released Telecom Decision CRTC 2007-99, *Saskatchewan Telecommunications – Application for a subsidy adjustment for the period 1 January 2002 to 31 December 2006*, which approves a revision to the rate used to calculate the Residential Subsidy paid to the Corporation by the Central Fund Administrator from the National Contribution Fund, based on an application filed by the Corporation on May 30, 2007. The CRTC agreed that the revision is retroactive to January 1, 2002.

As a result of the decision, the Corporation will record total revenues of \$1,464,000 in the fourth quarter of 2007 related to services previously provided from January 1, 2002 through December 31, 2006.

Note 10 – Comparative figures

Certain of the 2006 figures have been reclassified to conform to the current year's presentation.