First Quarter Report

Contents:

Saskatchewan Telecommunications Holding Corporation

First Quarter Report 2009

For the Period Ending March 31, 2009

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 and software solutions through SaskTel International and deliver SaskTel products and services outside of the province. Our subsidiaries have significant points of presence throughout Canada and internationally. This presence provides another means to bring back their profits and expertise to Saskatchewan.

SaskTel and our wholly-owned subsidiaries have a workforce of approximately 5,000 permanent, part-time, casual, and temporary employees including all interns, co-op and summer students.

Our vision is "*To improve the lives of everyone we serve each and every time*" and our mission is *"We will go beyond in delivering innovative information, communication and entertainment solutions to our customers in Saskatchewan and other select markets. We will be a socially and environmentally responsible organization that delivers sound financial returns. Our focus is our Customer. Our strength is our People"*.

Financial Highlights

Consolidated Net Income

Quarter ended March 31, **($ millions)**	**2009**	2008	% Change
Operating revenues	**$282.4**	$275.8	2.4
Operating expenses	**232.7**	230.3	1.0
Income from operations	**49.7**	45.5	9.2
Other items	**1.1**	(1.8)	(161.1)
Interest and related items	**(5.9)**	(5.2)	13.5
Income from continuing operations	**44.9**	38.5	16.6
Loss from discontinued operations	**0.6**	0.4	0.5
Net income	**$44.3**	$38.1	16.3

SaskTel's net income for the first quarter of 2009 was $44.3 million, up $6.2 million from the same period in 2008. This was driven primarily by increased revenues from growth services, net of related expenses, as well as one-time items related to the recovery of bad debts previously written off and a sales tax refund.

Management Discussion and Analysis

Forward-Looking Information

The following discussion focuses on the consolidated financial position and results of the operations of SaskTel for the first quarter 2009. This discussion and analysis should be read in conjunction with SaskTel's audited financial statements for the year ended December 31, 2008. 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 cannot 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 SaskTel's 2008 annual report. These interim statements have been prepared in accordance with the Canadian Institute of Chartered Accountants Handbook section 1751, "Interim Financial Statements." These interim statements have been approved by the SaskTel Board of Directors.

Results of Operations

Operating revenues

($ millions)	**2009**	2008	Change	%
Quarter ended March 31,	**$282.4**	$275.8	$6.6	2.4

Operating revenues for the first quarter of 2009 increased to $282.4 million, up $6.6 million or 2.4% from the same period in 2008. This increase was driven primarily by continued growth in cellular and *Max* Entertainment services, and subsidiaries revenues, partially offset by reduced wholesale long distance revenues.

Operating expenses

($ millions)	**2009**	2008	Change	%
Quarter ended March 31,	**$232.7**	$230.3	$2.4	1.0

Operating expenses for the first quarter of 2009 increased to $232.7 million, up $2.4 million from the same period in 2008. This increase was primarily to support revenue growth, partially offset by reduced wholesale long distance cost of sales, bad debt recovery and a sales tax refund.

Interest and related items

Interest and related items for the first quarter of 2009 were $5.9 million, $0.7 million higher than the same period in 2008 primarily due to the change in fair value of financial instruments.

Liquidity and Capital Resources

Cash provided by operating activities

($ millions)	**2009**	2008	Change	%
Quarter ended March 31,	**$67.2**	$56.4	$10.8	19.1

Cash provided by operating activities in the first quarter of 2009 increased to $67.2 million, up $10.8 million from the same period in 2008, primarily due to increased earnings and reduced pension funding, partially offset by increased working capital requirements.

Cash used in investing activities

($ millions)	**2009**	2008	Change	%
Quarter ended March 31,	**$33.9**	$24.1	$9.8	40.7

Cash used in investing activities in the first quarter of 2009 increased to $33.9 million, up $9.8 million from the same period in 2008. SaskTel's net spending on property, plant and equipment for the first quarter of 2009 was $33.2 million, up $10.0 million from the same period in 2008. Spending increased primarily due to the Saskatchewan Infrastructure Improvement Program, which is a SaskTel partnership with the government of Saskatchewan to provide last mile broadband to 100% of rural Saskatchewan, cellular expansion to 98% of the population of Saskatchewan and backbone infrastructure upgrades to increase basic internet to 5megabits per second.

Investment in 2009 is focused on supporting the telecommunications networks, increasing efficiency, and meeting customer demand, as well as growth and diversification including initiatives such as *Max* Entertainment Services and cellular expansion.

Cash used in financing activities

($ millions)	**2009**	2008	Change	%
Quarter ended March 31,	**$30.3**	$8.9	$21.4	240.4

Cash used in financing activities in the first quarter of 2009 increased to $30.3 million, up $21.4 million from the same period in 2008. Dividend payments were $26.6 million in 2009 compared to $7.5 million in 2008. The 2009 payment is the final installment of the agreed upon 2008 annual dividend based on actual net earnings. Debt repayment activities increased $2.8 million from 2008 due to the repayment of notes payable.

Liquidity and capital resource ratios

Debt ratio

	March 31, 2009	December 31, 2008
Debt ratio	**26.3%**	27.3%

The debt ratio after the first quarter of 2009 decreased to 26.3%, down from 27.3% at December 31, 2008. The overall level of net debt decreased $8.4 million during the first quarter due to increased cash and short-term investments and sinking fund assets, and reduced notes payable.

Retained earnings increased by $21.1 million in the first quarter of 2009 after recording net income $44.3 million and dividends of $23.2 million.

2009 Outlook

The 2008 SaskTel Annual Report identified a consolidated net income target for 2009 of $115.7 million. SaskTel anticipates continued competitive pressures throughout the remainder of 2009. At this time SaskTel believes that it will meet the established 2009 net income target.

Risk Assessment

The 2008 Annual Report discusses the risks and uncertainties in SaskTel's business environment. They include developments in the technological, economic and regulatory environments, challenges faced by the defined benefit pension plan, competitive activity and more. SaskTel's basic risk profile remains unchanged as at March 31, 2009. 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.

Future Accounting Changes - International Financial Reporting Standards (IFRS)

In February, 2008, the Canadian Accounting Standards Board confirmed that publicly accountable enterprises, including SaskTel and its subsidiaries, will be required to adopt IFRS in place of Canadian Generally Accepted Accounting Principles (GAAP) for interim and annual reporting in fiscal years beginning on or after January 1, 2011, including comparative figures for the prior year. SaskTel has commenced an IFRS conversion project including initiating the development of a high level IFRS implementation plan. An external advisor has been engaged to assist with the development of this plan and to perform a detailed review of major differences between current Canadian GAAP and IFRS. Work is in the early stages and, as a result, the impact on SaskTel's future financial position and results of operations is not reasonably determinable. However, such impact may be material. As part of the IFRS implementation, SaskTel plans to make changes to certain processes and systems before 2010 to ensure transactions are recorded in accordance with IFRS for comparative reporting purposes on the required implementation date.

Consolidated Statement of Operations and Comprehensive Income

For the three months ended March 31, Thousands of dollars	(Unaudited) **2009**	2008
Operating revenues	**$282,440**	$275,843
Operating expenses		
Operations	**190,302**	188,076
Depreciation and amortization	**42,396**	42,289
	232,698	230,365
Income from continuing operations	**49,742**	45,478
Other items	**1,030**	(1,756)
Interest and related items (Note 3)	**(5,870)**	(5,167)
Income from continuing operations	**44,902**	38,555
Loss from discontinued operations (Note 4)	**597**	410
Net income	**44,305**	38,145
Other comprehensive income	**-**	-
Comprehensive income	**$44,305**	$38,145

Consolidated Statement of Retained Earnings

For the three months ended March 31, Thousands of dollars	(Unaudited) **2009**	2008
Retained earnings, beginning of period	**$535,142**	$492,660
Net income	**44,305**	38,145
	579,447	530,805
Dividends	**23,206**	12,319
Retained earnings, end of period	**$556,241**	$518,486

See Accompanying Notes

Consolidated Statement of Financial Position

As at Thousands of dollars	(Unaudited) March 31, 2009	(Audited) December 31, 2008
Assets		
Current assets		
Cash and short-term investments	**$7,752**	$3,808
Accounts receivable (Note 6a)	**99,465**	91,361
Inventories	**7,278**	8,521
Prepaid expenses (Note 6a)	**23,842**	18,462
Assets held for sale	**8,412**	14,040
	146,749	136,192
Property, plant and equipment	**2,899,253**	2,884,588
Less accumulated depreciation	**2,024,783**	2,003,131
	874,470	881,457
Intangible assets – finite-life	**161,704**	155,538
Less accumulated amortization	**77,860**	70,283
	83,844	85,255
Intangible assets – indefinite-life	**65,981**	65,981
Goodwill	**17,915**	18,079
Sinking funds	**64,056**	62,540
Deferred pension costs	**95,617**	91,518
Other assets	**14,075**	11,761
Assets held for sale	**6,639**	7,967
	$1,369,346	$1,360,750
Liabilities and Province's equity		
Current liabilities		
Accounts payable and accrued liabilities (Note 6a)	**$105,209**	$112,960
Notes payable	**28,900**	31,700
Dividend payable	**23,206**	26,612
Services billed in advance (Note 6a)	**57,808**	53,513
Current portion of long-term debt	**3,670**	3,699
Liabilities related to assets held for sale	**6,891**	9,006
	225,684	237,490
Deferred revenue	**10,172**	10,714
Long-term debt	**327,249**	327,404
	563,105	575,608
Province of Saskatchewan's equity		
Equity advance	**250,000**	250,000
Retained earnings	**556,241**	535,142
	806,241	785,142
	$1,369,346	$1,360,750

See Accompanying Notes

Consolidated Statement of Cash Flows

For the three months ended March 31, Thousands of dollars	(Unaudited) **2009**	 2008
Operating activities		
Net income	**$44,902**	$38,555
Adjustments to reconcile net income to cash provided by operations		
Depreciation and amortization	**42,396**	42,289
Contributions to defined benefit pension plans	**(2,088)**	(9,859)
Pension income of defined benefit plans	**(2,016)**	(3,445)
Sinking fund earnings	**(826)**	(1,009)
Change in fair value of financial instruments	**409**	(452)
Other	**(508)**	(331)
Net change in non-cash working capital (Note 6b)	**(15,048)**	(9,377)
Cash provided by operating activities	**67,221**	56,371
Investing activities		
Property, plant and equipment expenditures	**(33,223)**	(23,222)
Customer accounts	**(690)**	(891)
Cash used in investing activities	**(33,913)**	(24,113)
Financing activities		
Repayment of notes payable	**(2,800)**	-
Sinking fund installments	**(1,235)**	(1,163)
Capital lease obligations	**(55)**	(35)
Dividends paid	**(26,612)**	(7,500)
Financing leases	**441**	(170)
Cash used in financing activities	**(30,261)**	(8,868)
Increase in cash from continuing operations	**3,047**	23,390
Increase (decrease) in cash from discontinued operations	**19**	(684)
Cash and cash equivalents, beginning of period	**4,942**	12,046
Cash and cash equivalents, end of period	**$8,008**	$34,752
Comprised of:		
Cash of continuing operations	**$7,752**	$232
Short-term investments of continuing operations	**-**	32,453
Cash and cash equivalents of continuing operations	**7,752**	32,685
Cash of discontinued operations	**256**	2,067
Cash and cash equivalents	**$8,008**	$34,752

See Accompanying Notes

Notes to Consolidated Financial Statements (Unaudited)
As at March 31, 2009

Note 1 – Interim consolidated financial statements

The unaudited interim consolidated financial statements should be read in conjunction with the Saskatchewan Telecommunications Holding Corporation's (the Corporation) December 31, 2008 audited consolidated financial statements. The interim consolidated financial statements of the Corporation 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 the Corporation's audited consolidated financial statements for the year ended December 31, 2008, except as described in note 2.

Note 2 – Summary of significant accounting policies

Change in accounting policies and recent accounting pronouncements

Effective January 1, 2009, the Corporation adopted the accounting recommendations for goodwill and intangible assets (Canadian Institute of Chartered Accountants (CICA) Handbook Section 3064) in accordance with the transition provisions of the section. This section requires intangible assets to be recognized as assets only if they meet the definition of an intangible asset and the recognition criteria, and provides further information on the recognition of internally generated intangible assets.

The new recommendations have been implemented retroactively resulting in the following adjustments:

Total adjustments to December 31, 2008 balances are as follows:

Increase (decrease)	*(Thousands of dollars)*
Intangible assets – finite life – software	$55,728
Intangible assets – finite life – development costs	481
Intangible assets – finite life – customer contracts	2,071
Other assets – deferred expenses	(3,014)
Property, plant and equipment	(55,266)

Effective for year-ends beginning on or after January 1, 2009, the CICA has amended certain sections of the CICA Handbook to remove the rate regulation exemption for recognition of certain assets and liabilities arising from rate regulation as well as other recognition and measurement guidance. The Corporation has implemented these changes with no impact on the financial statements of the Corporation.

Note 3 – Interest and related items

For the three months ended March 31,	**2009**	2008
		Thousands of dollars
Interest on long-term debt	**$6,241**	$6,739
Sinking fund earnings – held for trading	**(826)**	(1,008)
Change in fair value of sinking fund	**409**	(452)
Interest expense (income)	**46**	(112)
	$5,870	$5,167

Note 4 – Discontinued operations

During the fourth quarter of 2008, the Corporation, through its subsidiaries Saskatchewan Telecommunications (SaskTel) and DirectWest Corporation (DirectWest), approved plans for the divestiture of specific underperforming out of province assets. Effective February 20, 2009, the Corporation disposed of the net assets of the Alberta operations of DirectWest Canada, Inc. for consideration of $4,683,000 resulting in a loss of $120,413 which has been included in loss from discontinued operations in the Consolidated Statement of Operations and Comprehensive Income. The operating loss from discontinued operations for the period was $477,327.

Note 5 – Contingencies

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. The Corporation, 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. The Corporation'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 due to two motions that were pending in the Court of Queen's Bench. Those motions were decided on May 7, 2009 such that the Corporation's application for leave to appeal can be heard. The Corporation continues to believe that it has strong defenses to the allegations and that legal errors were made by the court in the certification proceeding.

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 the Corporation wrongfully obtained its Multipoint Communication Systems (MCS) licence in Saskatchewan and is legally responsible for the failure of Image Wireless Communications Inc. as 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. The Corporation 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. The court struck the lawsuit in its entirety and the Plaintiff's appeal of the decision to the Saskatchewan Court of Appeal was heard on November 20, 2008 with the decision to be given at a later date.

On June 26th, 2008, a proceeding under the Class Actions Act (Saskatchewan) was brought against several Canadian wireline, wireless and cellular service providers, including Saskatchewan Telecommunications Holding Corporation and Saskatchewan Telecommunications. The proceeding involves allegations by wireline and wireless customers of breach of contract, misrepresentation, negligence, collusion, unjust enrichment and breach

Note 5 – Contingencies, continued

of statutory obligations concerning fees and charges paid for 9-1-1 service. The Plaintiffs seek unquantified damages from the defendant communications service providers. Thus far the claim has simply been issued by the Plaintiffs. The Corporation is not aware whether all the named defendant carriers have been served with the claim yet. The Corporation believes that it has strong defenses to the allegations that are made by the Plaintiffs in the claim and will be strongly defending and opposing the claims that have been made. External legal counsel has been retained by the Corporation to handle this matter.

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

In the normal course of operations, the Corporation becomes involved in various claims and litigation. While the final outcome with respect to claims and litigation pending at March 31, 2009 cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material adverse effect on the Corporation's consolidated financial position or results of operations.

Note 6 – Additional financial information

a) Balance sheet

	March 31, 2009	December 31, 2008
		Thousands of dollars
Accounts receivable		
Customer accounts receivable	**$81,652**	$80,832
Accrued receivables - customer	**4,865**	4,990
Allowance for doubtful accounts (Note 7b)	**(4,070)**	(9,159)
	82,447	76,663
High cost serving area subsidy	**5,555**	5,110
Other	**11,463**	9,588
	$99,465	$91,361
Prepaid expenses		
Prepaid expenses	**$17,619**	$12,102
Deferred service connection charges	**6,223**	6,360
	$23,842	$18,462
Accounts payable and accrued liabilities		
Trade accounts payable and accrued liabilities	**$41,953**	$50,080
Payroll and other employee-related liabilities	**51,983**	52,413
Taxes payable	**6,381**	5,450
Interest payable	**4,685**	4,460
Other	**207**	557
	$105,209	$112,960

Note 6 – Additional financial information, continued

	March 31, 2009	December 31, 2008
		Thousands of dollars
Services billed in advance		
Advance billings	**$45,128**	$40,361
Deferred customer activation and connection fees	**8,492**	8,694
Customer deposits	**4,188**	4,458
	$57,808	$53,513

b) Supplementary cash flow information

	Three months	
Periods ended March 31,	**2009**	2008
		Thousands of dollars
Net change in non-cash working capital		
Accounts receivable	**$(6,918)**	$3,134
Inventories	**1,244**	1,841
Prepaid expenses	**(5,380)**	(6,948)
Accounts payable and accrued liabilities	**(8,110)**	(11,653)
Services billed in advance	**4,338**	3,502
Deferred revenues	**(542)**	61
Deferred expenses	**320**	686
	$(15,048)	$(9,377)
Interest paid	**$5,904**	$5,992

Note 7– Financial instruments

The Corporation's financial instruments include cash and short-term investments, accounts receivable, sinking funds, accounts payable and accrued liabilities, notes payable, dividend payable and long-term debt, which by their nature are subject to risks.

a) Fair value

Fair values approximate amounts at which financial instruments could be exchanged between willing parties based on current markets for instruments with similar characteristics such as risk, principal and remaining maturities. Fair values are estimates using present value and other valuation techniques which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates that reflect varying degrees of risk. Therefore, due to the use of judgment and future-orientated information, aggregate fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

The carrying value of cash and short-term investments (HFT[1]) and accounts receivable (LAR[1]), accounts payable and accrued liabilities (OL[1]), notes payable (OL[1]) and dividend payable (OL[1]) approximates their fair value due to the short-term maturity of these financial instruments.

Sinking funds are recorded at fair value based on quoted market prices for the securities held by the fund.

Note 7– Financial instruments, continued

The fair values of the Corporation's long-term debt are estimated based on quoted market prices for the issues or for similar issues.

As at (Thousands of dollars)		**March 31, 2009**		December 31, 2008	
Financial Instruments	Classification[1]	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
Long-term debt	OL	**324,107**	**402,925**	324,121	408,784
Other long-term debt	OL	**6,812**	**7,486**	6,982	7,668

[1] Classification details are:
HFT – held-for-trading
LAR – loans and receivables
OL – other liabilities

b) Credit risk

The Corporation is exposed to credit risk through its short-term investments, accounts receivable and sinking fund assets. Credit risk related to short-term investments and sinking fund assets is minimized by dealing with institutions that have strong credit ratings. Credit risk related to customer accounts receivable is minimized because of the large and diverse customer base covering many consumer and business sectors. The Corporation evaluates customer credit risk and limits credit availability when necessary.

The aging of customer receivables from continuing operations and related to assets held for sale, which indicates potential impairment losses, are as follows:

Continuing operations	**March 31, 2009**	December 31, 2008
		Thousands of dollars
Current	**$58,126**	$56,588
30-60 days past billing date	**10,845**	12,651
61-90 days past billing date	**4,065**	5,197
Greater than 90 days past billing date	**8,616**	6,396
Total	**$81,652**	$80,832

Assets held for sale	**March 31, 2009**	December 31, 2008
		Thousands of dollars
Current	**$2,108**	$3,554
30-60 days past billing date	**3,335**	3,391
61-90 days past billing date	**523**	1,336
Greater than 90 days past billing date	**3,028**	2,107
Total	**$8,994**	$10,388

Note 7– Financial instruments, continued

Provisions for credit losses are maintained and regularly reviewed by the Corporation, based on an analysis of the aging of customer accounts. Amounts are written off once reasonable collection efforts have been exhausted. Details of the related allowance accounts are as follows:

Continuing operations	**March 31, 2009**	December 31, 2008
		Thousands of dollars
Allowance for doubtful accounts, opening balance	**$9,159**	$3,597
Accounts written off	**(2,209)**	(8,902)
Recoveries	**595**	2,849
Provision for losses (recovery)	**(3,475)**	11,615
Allowance for doubtful accounts, closing balance	**$4,070**	$9,159

Assets held for sale	**March 31, 2009**	December 31, 2008
		Thousands of dollars
Allowance for doubtful accounts, opening balance	**$2,966**	$1,003
Accounts written off	**(975)**	(1,376)
Recoveries	**451**	271
Provision for losses	**1,225**	3,068
Allowance for doubtful accounts, closing balance	**$3,667**	$2,966

Note 8 – Pension costs

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

For the three months ended March 31,	**2009**	2008
		Thousands of dollars
Current service cost - defined benefit plan	**$(315)**	$(652)
Interest cost	**(14,901)**	(13,482)
Expected return on pension plan assets	**16,622**	15,897
Amortization of net transitional asset	**961**	2,913
Amortization of past service costs	**(264)**	(881)
Amortization of actuarial loss	**(87)**	(350)
Net pension income	**$2,016**	$3,445

Note 9 – Comparative figures

Certain of the 2008 figures have been reclassified to conform to the current period's presentation.