SaskTel

Second Quarter Report

Contents:

Saskatchewan Telecommunications Holding Corporation

Second Quarter Report 2009

For the Period Ending June 30, 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

Millions of dollars, (unaudited)	Three months ended June 30, **2009**	2008	% Change	Six months ended June 30, **2009**	2008	% Change
Operating revenues	**$286.6**	$282.0	1.6	**$570.3**	$558.5	2.1
Operating expenses	**255.2**	256.3	(0.4)	**487.9**	486.8	0.2
Income from operations	**31.4**	25.7	22.2	**82.4**	71.7	14.9
Other items	**1.6**	3.9	(59.0)	**2.6**	2.1	23.8
Interest and related items	**(5.6)**	(6.7)	(16.4)	**(11.4)**	(11.9)	(4.2)
Income before the following	**27.4**	22.9	19.7	**73.6**	61.9	18.9
Gain on disposal of intangible assets	**3.1**	-	*nmf*[1]	**3.1**	-	*nmf*[1]
Income from continuing operations	**30.5**	22.9	33.2	**76.7**	61.9	23.9
Loss from discontinued operations	**0.4**	0.6	(33.3)	**1.0**	1.0	0.0
Net income	**$30.1**	$22.3	35.0	**$75.7**	$60.9	24.3

SaskTel's consolidated net income for the second quarter of 2009 was $30.1 million, up $7.8 million (35.0%) from the same period in 2008.Year-to-date net income is $75.7 million, up $14.8 million from 2008. Operating revenues increased by 2.1% from the same period last year with continued strong growth by the cellular and *Max*™ Entertainment Services portfolios, as well as growth in subsidiary revenues. Operating expenses increased 0.2% from the same period last year. Direct expenses increased as a result of revenue growth, partially offset by reduced restructuring charges and one-time items related to the recovery of bad debts previously written off, and a sales tax refund. In addition, a gain on the disposal of intangible assets was recognized.

[1] *nmf – no meaningful number*

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 second 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 section 1751, "Interim Financial Statements." These interim statements have been approved by the SaskTel Board of Directors.

Results of Operations

Operating revenues

Millions of dollars	**2009**	**2008**	**Change**	**%**
Three months ended June 30,	**$286.6**	$282.0	$4.6	1.6
Year-to-date	**$570.3**	$558.5	$11.8	2.1

Operating revenues for the second quarter were $286.6 million, an increase of $4.6 million over the same period in 2008. Year-to-date operating revenues were $570.3 million which represents an $11.8 million increase over 2008. Revenue growth continues to be driven by growth in cellular, *Max* Entertainment and Internet services as well as subsidiary revenues, partially offset by reduced wholesale long distance revenues.

Operating expenses

Millions of dollars	**2009**	**2008**	**Change**	**%**
Three months ended June 30,	**$255.2**	$256.3	($1.1)	(0.4)
Year-to-date	**$487.9**	$486.8	$1.1	0.2

Operating expenses were $255.2 million for the second quarter, down $1.1 million from the same period in 2008. Year-to-date expenses increased to $487.9 million, up $1.1 million from 2008. The increase was primarily to support revenue growth in cellular, *Max* Entertainment and Internet services, partially offset by reduced restructuring charges and one-time items related to the recovery of bad debts previously written off, and a sales tax refund.

Interest and related items

Interest and related items were $5.6 million for the second quarter, down $1.1 million from the same period in 2008. Year-to-date, interest and related costs were $11.4 million, down $0.5 million from 2008 due primarily to reduced levels of long term debt, partially offset by reduced earnings on short-term investments.

Liquidity and Capital Resources

Cash provided by operating activities

Millions of dollars	2009	2008	Change	%
Three months ended June 30,	**$67.9**	$57.6	$10.3	17.9
Year-to-date	**$135.1**	$114.0	$21.1	18.5

Cash provided by operating activities during the second quarter of 2009 was $67.9 million, up $10.3 million from the same period in 2008. Cash generated by operations increased $5.6 million in the second quarter of 2009 as compared to 2008 primarily due to a decrease in pension funding and decreased working capital requirements.

Cash provided by operating activities in the first six months was up $21.1 million when compared to the same period in 2008. Cash from operations increased $22.9 million primarily due to reduced pension funding and increased earnings.

Cash used in investing activities

Millions of dollars	2009	2008	Change	%
Three months ended June 30,	**$16.2**	$36.5	($20.3)	(55.6)
Year-to-date	**$50.1**	$60.6	($10.5)	(17.3)

Cash used in investing activities decreased by $20.3 million to $16.2 million in the second quarter of 2009 compared to the same period in 2008. Year-to-date cash used in investing activities decreased by $10.5 million from the same period in 2008 to $50.1 million in 2009. The decrease can be attributed to government funding received for the Rural Infrastructure Program (RIP). While the overall level of investment spending increased, the funding results in a net reduction of cash used in investing activities.

SaskTel's net capital spending for the second quarter of 2009 was $61.2 million, up $24.7 million from the same period in 2008. Net capital spending for the six months ended June 30, 2009 was $95.1 million, up $34.5 million from the same period in 2008. Spending increased primarily due to the Saskatchewan Infrastructure Improvement Program, a portion of this program, RIP 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 5 megabits 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 of dollars	**2009**	**2008**	**Change**	**%**
Three months ended June 30,	**$52.3**	$12.5	$39.8	318.4
Year-to-date	**$82.6**	$21.3	$61.3	287.8

Cash used in financing activities during the second quarter was $52.3 million compared to $12.5 million for the same period in 2008. Year-to-date cash used in financing activities was $82.6 million compared to $21.3 million in 2008. During 2009, SaskTel paid a dividend of $49.8 million to Crown Investment Corporation of Saskatchewan compared to $19.8 million for the same period in 2008. In addition, SaskTel reduced short term borrowings by $31.7 million.

Liquidity and capital resource ratios

Debt ratio

	June 30, 2009	December 31, 2008
Debt ratio	**24.1%**	27.3%

The debt ratio as at June 30, 2009 decreased to 24.1% from 27.3% at December 31, 2008. The overall level of net debt decreased $36.7 million due primarily to a reduction in notes payable, as SaskTel continues to self-finance its capital and dividend requirements. In addition, retained earnings increased by $29.3 million to the end of the second quarter after recording net income of $75.7 million and dividends of $46.4 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 and at this time 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 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 June 30, 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)

The CICA Accounting Standards Board has confirmed that publicly accountable enterprises 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. The Public Sector Accounting Board (PSAB) is currently deliberating the definition of publicly accountable enterprises as it applies to government entities including SaskTel and its subsidiaries. The PSAB issued an exposure draft in July 2009, Financial Reporting by Certain Government Organizations (Amendment to Introduction), which if accepted, would require SaskTel, as a Government Business Enterprise (GBE), to adopt IFRS. SaskTel is proceeding with adoption of IFRS as the most appropriate basis of accounting.

SaskTel and its subsidiaries, has commenced an IFRS conversion project including initiating the development of high level IFRS implementation plans for each subsidiary that include stakeholder identification, milestones and deadlines, planned scope and approach, risks and mitigations, project governance and accountability responsibilities, and resource requirements. An external advisor has been engaged to assist with the development of plans and to perform a detailed review of major differences between current Canadian GAAP and IFRS.

Management and staff from SaskTel have participated in detailed IFRS training seminars. Project teams have completed an initial assessment of those international financial reporting standards with the highest potential for impacts on either individual subsidiaries or for SaskTel as a whole. Based on the analysis to date, the most significant areas of difference are related to accounting for property, plant and equipment, employee future benefits, impairment testing and financial statement disclosures. Working groups have been formed to review identified standards in detail and discuss specific issues as a basis for ensuring common understanding and, where possible, consistency in approaches to issue resolution. Selection of consolidated and/or subsidiary specific accounting policies has begun. At this time, the impact of IFRS on SaskTel’s processes, systems, internal controls over financial reporting and disclosures, future financial position and results of operations is not reasonably determinable. Preliminary impacts on processes, systems and controls as well as draft IFRS financial statement presentation formats are anticipated in the second half of 2009. 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

	(Unaudited)			
	Three months ended June 30,		**Six months ended June 30,**	
	2009	2008	**2009**	2008
Thousands of dollars		(restated see Note 3)		(restated see Note 3)
Operating revenues	**$286,593**	$282,043	**$570,349**	$558,492
Operating expenses				
Operations	**208,098**	198,906	**398,488**	387,106
Depreciation and amortization	**42,886**	42,980	**85,282**	85,269
Restructuring charges (Note 4)	**4,176**	14,450	**4,176**	14,450
	255,160	256,336	**487,946**	486,825
Income from operations	**31,433**	25,707	**82,403**	71,667
Other items	**1,573**	3,871	**2,603**	2,115
Interest and related items (Note 5)	**(5,560)**	(6,722)	**(11,430)**	(11,889)
Income before the following	**27,446**	22,856	**73,576**	61,893
Gain on disposal of intangible assets (Note 6)	**3,073**	-	**3,073**	-
Income from continuing operations	**30,519**	22,856	**76,649**	61,893
Loss from discontinued operations (Note 7)	**401**	593	**998**	1,003
Net income	**30,118**	22,263	**75,651**	60,890
Other comprehensive income	**-**	-	**-**	-
Comprehensive income	**$30,118**	$22,263	**$75,651**	$60,890

See Accompanying Notes

Consolidated Statement of Retained Earnings

	(Unaudited)			
	Three months ended June 30,		**Six months ended June 30,**	
	2009	2008	**2009**	2008
Thousands of dollars		(restated see Note 3)		(restated see Note 3)
Retained earnings, beginning of period as previously reported	**$556,241**	$518,486	**$535,142**	$492,660
Prior period adjustment (Note 3)	**4,604**	1,128	**3,376**	646
Retained earnings, beginning of period as restated	**560,845**	519,614	**538,518**	493,306
Net income	**30,118**	22,263	**75,651**	60,890
	590,963	541,877	**614,169**	554,196
Dividends	**23,207**	17,170	**46,413**	29,489
Retained earnings, end of period	**$567,756**	$524,707	**$567,756**	$524,707

See Accompanying Notes

Consolidated Statement of Financial Position

As at	(Unaudited) June 30, 2009	December 31, 2008
Thousands of dollars		(restated see Note 3)
Assets		
Current assets		
Cash and short-term investments	**$6,213**	$3,808
Accounts receivable (Note 10a)	**93,603**	91,361
Inventories	**9,082**	8,521
Prepaid expenses (Note 10a)	**22,757**	17,157
Assets held for sale	**6,034**	14,040
	137,689	134,887
Property, plant and equipment	**2,911,258**	2,881,234
Less accumulated depreciation	**2,019,531**	1,999,810
	891,727	881,424
Intangible assets – finite life	**163,184**	158,892
Less accumulated amortization	**75,745**	73,604
	87,439	85,288
Intangible assets – indefinite life	**65,981**	65,981
Goodwill	**17,915**	18,079
Sinking funds	**64,712**	62,540
Deferred pension costs	**99,695**	91,518
Other assets	**14,385**	11,761
Assets held for sale	**6,619**	7,967
	$1,386,162	$1,359,445
Liabilities and Province's equity		
Current liabilities		
Accounts payable and accrued liabilities (Note 10a)	**$103,830**	$112,960
Notes payable	**-**	31,700
Dividend payable	**23,207**	26,612
Services billed in advance (Note 10a)	**50,309**	48,832
Current portion of long-term debt	**3,551**	3,699
Liabilities related to assets held for sale	**5,813**	9,006
	186,710	232,809
Deferred revenue	**9,611**	10,714
Deferred revenue – Rural Infrastructure Program funding (Note 8)	**44,927**	-
Long-term debt	**327,158**	327,404
	568,406	570,927
Province of Saskatchewan's equity		
Equity advance	**250,000**	250,000
Retained earnings	**567,756**	538,518
	817,756	788,518
	$1,386,162	$1,359,445

See Accompanying Notes

Consolidated Statement of Cash Flows

Thousands of dollars	(Unaudited) Three months ended June 30, 2009	Three months ended June 30, 2008 (restated see Note 3)	Six months ended June 30, 2009	Six months ended June 30, 2008 (restated see Note 3)
Operating activities				
Net income from continuing operations	**$30,519**	$22,856	**$76,649**	$61,893
Adjustments to reconcile net income to cash provided by operations				
Depreciation and amortization	**42,813**	42,981	**85,209**	85,269
Contributions to defined benefit pension plans	**(2,062)**	(9,681)	**(4,150)**	(19,540)
Pension income of defined benefit plans	**(2,016)**	(3,470)	**(4,032)**	(6,915)
Special termination benefits costs	**-**	9,384	**-**	9,384
Sinking fund earnings	**(704)**	(756)	**(1,530)**	(1,765)
Change in fair value of financial instruments	**47**	1,067	**457**	616
Other	**(1,842)**	(1,220)	**(2,351)**	(1,548)
Net change in non-cash working capital (Note 10b)	**1,151**	(3,529)	**(15,125)**	(13,389)
	67,906	57,632	**135,127**	114,005
Investing activities				
Property, plant and equipment expenditures	**(51,772)**	(31,228)	**(80,445)**	(52,304)
Intangible assets	**(9,432)**	(5,259)	**(14,672)**	(8,297)
Rural Infrastructure Program funding	**45,000**	-	**45,000**	-
	(16,204)	(36,487)	**(50,117)**	(60,601)
Financing activities				
Sinking fund installments	**-**	-	**(1,100)**	(1,100)
Short-term borrowings (repayments)	**(28,900)**	-	**(31,700)**	-
Repayment of long-term debt	**(193)**	(67)	**(327)**	(130)
Capital lease obligations	**-**	(36)	**(55)**	(71)
Dividends paid	**(23,206)**	(12,319)	**(49,818)**	(19,819)
Financing leases	**(45)**	(38)	**395**	(208)
	(52,344)	(12,460)	**(82,605)**	(21,328)
Increase (decrease) in cash from continuing operations	**(642)**	8,685	**2,405**	32,076
Decrease in cash from discontinued operations	**(595)**	(738)	**(576)**	(1,423)
Cash and cash equivalents, beginning of period	**8,008**	34,752	**4,942**	12,046
Cash and cash equivalents, end of period	**$6,771**	$42,699	**$6,771**	$42,699
Comprised of:				
Cash of continuing operations			**$6,213**	$7,071
Short-term investments of continuing operations			**-**	34,172
Cash and cash equivalents of continuing operations			**6,213**	41,243
Cash of discontinued operations			**558**	1,456
Cash and cash equivalents			**$6,771**	$42,699

See Accompanying Notes

Note 1 – Interim 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	$55,809
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	(55,347)

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 – Prior period adjustment

Revenue and expenses related to certain prepaid cellular services had been incorrectly recorded for the years 2005 to 2008. The financial statements have been retroactively restated for all periods presented.

The effect of the correction on the financial statements at June 30, 2008 and December 31, 2008 is as follows:

Thousands of dollars	Three months ended June 30, 2008	Six months ended June 30, 2008	Twelve months ended December 31, 2008
Revenue increased	$710	$1,316	$3,160
Operating expenses increased	176	300	430
Net income increased	534	1,016	2,730
Deferred revenue decreased	2,812	2,812	4,681
Prepaid expenses decreased	1,150	1,150	1,305
Beginning retained earnings increased	1,128	646	646
Ending retained earnings increased	1,662	1,662	3,376

Note 4 – Restructuring charges

During the period, $4,176,232 (2008 - $14,449,939) was recorded to restructuring charges. The charges relate to phase three 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 six months of 2009, 46 (2008 – 60) employees elected to receive a package that includes a cash allowance and immediate pension benefits.

	June 30, 2009	December 31, 2008
		Thousands of dollars
Balance in accounts payable and accrued liabilities at January 1	**$9,140**	$9,760
Restructuring charges	**4,176**	21,506
Less:		
Cash payments	**6,392**	10,542
Special termination benefits costs	**53**	11,584
Balance in accounts payable and accrued liabilities	**$6,871**	$9,140

Note 5 – Interest and related items

Thousands of dollars	Three months ended June 30, **2009**	2008	Six months ended June 30, **2009**	2008
Interest on long-term debt	**$6,237**	$6,763	**$12,477**	**$**13,502
Sinking fund earnings – held for trading	**(704)**	(756)	**(1,529)**	(1,765)
Change in fair value of sinking fund	**48**	1,067	**457**	616
Other interest expense (income)	**(21)**	(352)	**25**	(464)
	$5,560	$6,722	**$11,430**	**$**11,889

Note 6 – Gain on disposal of intangible assets

On June 29, 2009 the Corporation through its subsidiary SecurTek Monitoring Solutions Inc. exchanged regional customer accounts with an unrelated corporation. Consideration included selected regional accounts of each purchaser, valued based on industry standard valuation techniques and cash consideration of $1,261,285 paid by SecurTek Monitoring Solutions Inc., resulting in a gain of $3,072,599.

Note 7 – 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 $877,138.

Note 8 – Deferred revenue – Rural Infrastructure Program funding

The Corporation received $45,000,000 in funding from the Province of Saskatchewan through Crown Investments Corporation of Saskatchewan, as partial funding of the 2009 portion of the Rural Infrastructure Program (RIP). The funding has been deferred and will be recognized as related expenses are incurred or amortized as assets related to the program are put into service.

As at June 30, 2009, funded expenditures amounted to $10,117,882. Funding related to capital expenditures of $10,045,134 continues to be deferred until the related assets are put into service. Funding of $72,748 related to operating expenses has been recognized as income in the current period.

Note 9 – 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 as well as the Plaintiffs 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 and will be heard October 7th, 2009. On July 24th, 2009 a second proceeding under the *Class Actions Act* (Saskatchewan) was issued against several Canadian wireless and cellular service providers, including Saskatchewan Telecommunications Holding Corporation and Saskatchewan Telecommunications. The Corporation believes this second claim involves substantially the same allegations as the 2004 claim that will be before the Saskatchewan Court of Appeal in October. On August 13th, 2009 the Corporation was advised of a motion by the Plaintiffs in the 2004 Claim seeking an order to dismiss or have the 2004 Claim stayed by the Court of Appeal while the Plaintiffs in the 2009 claim pursue certification of that claim as a class proceeding. This application is to be spoken to by legal counsel for all parties before the Court of Queen's Bench on September 1st, 2009 to determine how to deal with this motion. The Corporation is in the process of determining how it will respond to this motion. 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 of the 2004 claim and that it has strong defenses to the allegations contained in the most recent 2009 claim.

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. The Saskatchewan Court of Appeal released its unanimous decision on July 23, 2009 and agreed with the Court of Queen's Bench that the lawsuit should be dismissed in its entirety.

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 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

Note 9 – Contingencies, continued

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 June 30, 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 10 – Additional financial information

a) Balance sheet

Thousands of dollars	**June 30, 2009**	December 31, 2008 (restated see note 3)
Accounts receivable		
Customer accounts receivable	**$79,792**	$80,832
Accrued receivables - customer	**4,704**	4,990
Allowance for doubtful accounts	**(3,931)**	(9,159)
	80,565	76,663
High cost serving area subsidy	**5,527**	5,110
Other	**7,511**	9,588
	$93,603	$91,361
Prepaid expenses		
Prepaid expenses	**$13,901**	$10,712
Prepaid salaries - Centennial plan	**2,837**	85
Deferred service connection charges	**6,019**	6,360
	$22,757	$17,157
Accounts payable and accrued liabilities		
Trade accounts payable and accrued liabilities	**$43,963**	$50,080
Payroll and other employee-related liabilities	**49,809**	52,413
Taxes payable	**5,491**	5,450
Interest payable	**4,334**	4,460
Other	**233**	557
	$103,830	$112,960
Services billed in advance		
Advance billings	**$37,804**	$35,944
Deferred customer activation and connection fees	**8,207**	8,694
Customer deposits	**4,298**	4,194
	$50,309	$48,832

Note 10 – Additional financial information, continued

b) Supplementary cash flow information

	Three months ended June 30,		Six months ended June 30,	
Thousands of dollars	**2009**	2008 (restated see Note 3)	**2009**	2008 (restated see Note 3)
Net change in non-cash working capital				
Accounts receivable	**$7,105**	$(4,335)	**$187**	$(1,202)
Inventories	**(1,804)**	(438)	**(560)**	1,403
Prepaid expenses	**(357)**	601	**(5,649)**	(6,214)
Accounts payable and accrued liabilities	**(2,203)**	1,253	**(10,312)**	(10,400)
Deferred revenue	**(561)**	(651)	**(1,103)**	(590)
Deferred expenses	**416**	(337)	**736**	349
Services billed in advance	**(1,445)**	378	**1,576**	3,265
	$1,151	$(3,529)	**$(15,125)**	$(13,389)
Interest Paid	**$6,380**	$7,341	**$12,284**	$13,333

Note 11 – Financial instruments

The Corporation's financial instruments include cash and short-term investments, accounts receivable, sinking funds, accounts payable, accrued liabilities, 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]), 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.

Notes to Consolidated Financial Statements (Unaudited)
As at June 30, 2009

Note 11– 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)		**June 30, 2009**		December 31, 2008	
Financial Instruments	Classification[1]	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
Long-term debt	OL	**$324,088**	**$403,714**	$324,121	$408,784
Other long-term debt	OL	**6,621**	**7,092**	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	**June 30, 2009**	December 31, 2008 Thousands of dollars
Current	**$57,490**	$56,588
30-60 days past billing date	**11,091**	12,651
61-90 days past billing date	**2,871**	5,197
Greater than 90 days past billing date	**8,340**	6,396
Total	**$79,792**	$80,832

Assets held for sale	**June 30, 2009**	December 31, 2008 Thousands of dollars
Current	**$2,135**	$3,554
30-60 days past billing date	**1,796**	3,391
61-90 days past billing date	**548**	1,336
Greater than 90 days past billing date	**3,250**	2,107
Total	**$7,729**	$10,388

Note 11– 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	**June 30, 2009**	December 31, 2008
		Thousands of dollars
Allowance for doubtful accounts, opening balance	**$9,159**	$3,597
Accounts written off	**(4,222)**	(8,902)
Recoveries	**1,141**	2,849
Provision for losses (recovery)	**(2,147)**	11,615
Allowance for doubtful accounts, closing balance	**$3,931**	$9,159

Assets held for sale	**June 30, 2009**	December 31, 2008
		Thousands of dollars
Allowance for doubtful accounts, opening balance	**$2,966**	$1,003
Accounts written off	**(1,072)**	(1,376)
Recoveries	**456**	271
Provision for losses	**1,450**	3,068
Allowance for doubtful accounts, closing balance	**$3,800**	$2,966

Note 12 – Pension costs

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

	Three months ended June 30,		**Six months ended June 30,**	
Thousands of dollars	**2009**	2008	**2009**	2008
Current service cost - defined benefit plan	**$317**	$636	**$632**	$1,288
Interest cost	**14,899**	13,508	**29,800**	26,991
Expected return on pension plan assets	**(16,628)**	(15,932)	**(33,250)**	(31,830)
Special termination benefits costs	**53**	9,384	**53**	9,384
Amortization of net transitional asset	**(959)**	(2,912)	**(1,920)**	(5,825)
Amortization of past service costs	**266**	881	**530**	1,762
Amortization of actuarial loss	**89**	349	**176**	699
Net pension (income) cost	**$(1,963)**	$5,914	**$(3,979)**	$2,469

Note 13 – Comparative figures

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