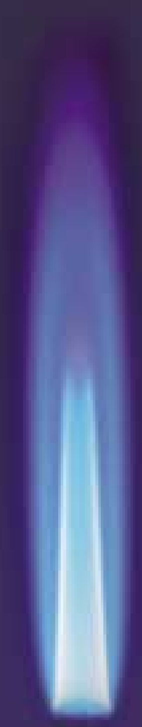
Management's Discussion and Analysis 2003
Consolidated Financial Statements 2003



the energy to deliver

SaskEnergy

TABLE OF CONTENTS

This Discussion and Analysis is a review of the strategic financial direction, performance measurement, results of operations, risk factors and outlook of SaskEnergy Incorporated and its subsidiaries for the year ended December 31, 2003.

This discussion should be read in conjunction with the audited consolidated financial statements of the Corporation, and the notes thereto, contained in this annual report.

Corporate Background

SaskEnergy Incorporated (SaskEnergy or the Corporation) is a Saskatchewan Crown corporation governed by *The SaskEnergy Act*. Its two major business units are a natural gas distribution utility owned and operated by SaskEnergy and a natural gas transmission utility owned and operated by TransGas Limited (TransGas), a wholly owned subsidiary. SaskEnergy has an exclusive legislated franchise to own and operate a natural gas distribution utility within the Province of Saskatchewan. The Provincial Cabinet (Cabinet) regulates SaskEnergy's rates, on the advice of the Saskatchewan Rate Review Panel. TransGas has the exclusive legislated franchise to own and operate the natural gas transmission pipeline system within the Province of Saskatchewan. TransGas also owns and operates a non-regulated natural gas storage business. The Corporation's structure consists of SaskEnergy, plus seven wholly owned subsidiaries that either own and operate natural gas related businesses or hold equity interests in natural gas related businesses. The corporate structure is discussed in more detail on pages four and five of the Annual Report.

Our Strategy

As the Corporation provides natural gas distribution, transportation and storage services that are considered fundamental to the infrastructure of the Province, core business excellence must be at the forefront of the strategic corporate direction. In addition, the owner has expectations that opportunities must be pursued to achieve growth in enterprise value. Taken together, core business excellence and growth form the foundation of the strategic corporate direction.

Our Industry

Supply of natural gas

Saskatchewan has over three trillion cubic feet of natural gas reserves. These reserves are located in what is referred to as the Western Canadian Sedimentary Basin, which extends into Alberta and British Columbia. The reserves lie primarily in western Saskatchewan and consequentially, natural gas generally flows in a west to east direction within the Province.

Although Canadian natural gas production fell for the first time since 1986, Saskatchewan increased its natural gas production. This increase was primarily attributable to new development in the Shackleton area, northwest of Swift Current. The Shackleton development, combined with strong natural gas prices in 2003, provided the incentive for producers to drill a record number of natural gas wells in the Province. Currently, supply exceeds demand within the Province, making Saskatchewan a net exporter of natural gas.

Demand for natural gas

Natural gas is a leading energy source in Saskatchewan as its competitive advantages include characteristics of being clean-burning and environmentally friendly. In Saskatchewan natural gas is used primarily for space and water heating in homes and in numerous commercial and industrial processes, including the generation of electricity. In addition, natural gas can be used as a feedstock in the petrochemical and fertilizer industries.

Another advantage to natural gas is its widespread availability due to the extensive development of the TransGas and SaskEnergy pipeline systems. As such, the energy sector and end-use customers continue to demand the distribution, transmission and storage services offered by SaskEnergy and TransGas.

Our Business Model – Delivering Results

SaskEnergy focuses on maximizing value from the fieldgate to the end-user.

a) Transmission Pipeline System – Business Model

1. Producer

Natural gas producers meet the challenges of exploring, developing and producing natural gas reserves. The volumes produced flow onto the transmission pipeline system. The number of natural gas wells drilled in Saskatchewan is a key indicator of the future level of Saskatchewan natural gas production.

2. TransGas

TransGas generates revenue through the transportation of natural gas on its transmission pipeline system. Customers, including SaskEnergy, contract for capacity on the transmission pipeline system. Revenues are primarily derived from the level of capacity contracted by natural gas producers, marketers, and end-users. The capacity contracted accounts for approximately 85 per cent of transportation revenue with the remainder earned through utilization dependent charges.

Transportation - receipt contract revenue

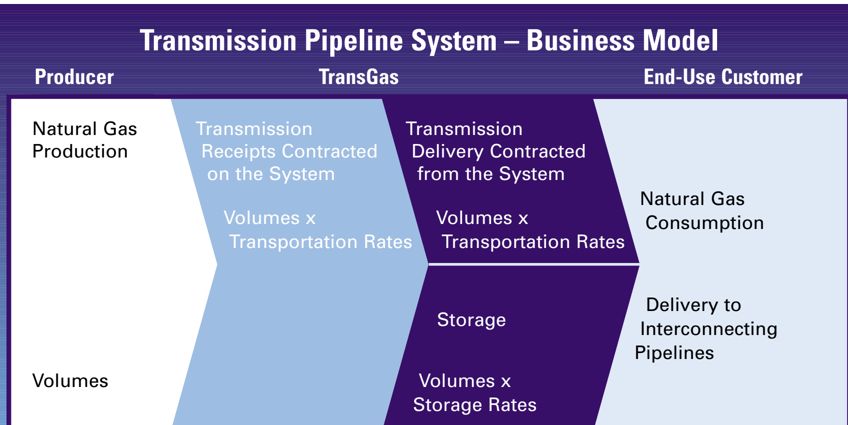
TransGas receipt contract revenue is dependent upon the level of receipt volumes contracted by shippers. Shippers contract for capacity on the transmission pipeline system to transport natural gas from production areas (primarily in western Saskatchewan) to the TransGas Energy Pool (TEP). TEP is the notional natural gas trading hub in Saskatchewan.

Transportation - delivery contract revenue

The amount of delivery contract revenue earned by TransGas is dependent upon the level of delivery volumes contracted by shippers. Shippers contract for capacity on the transmission pipeline system to transport natural gas from TEP to a delivery point in Saskatchewan or to an interconnecting pipeline.

Storage revenue

Customers, including SaskEnergy, may contract to inject natural gas into TransGas' underground storage facilities for withdrawal at a later date. TransGas charges customers for this service based on the volume of storage capacity contracted and withdrawal rate required.



b) Distribution Pipeline System – Business Model

SaskEnergy

The distribution pipeline system is designed to receive natural gas from the transmission pipeline system and deliver that natural gas to end-use customers within Saskatchewan.

Delivery revenue

End users consist primarily of residential, farm, commercial and industrial customers that consume natural gas for heating their premises during the winter or in various commercial and industrial processes. For this delivery service, customers pay a fixed monthly charge and a per unit charge based on the volume of natural gas delivered. Delivery revenue is dependent upon the volume of natural gas distributed. The volume charge is approximately 72 per cent of retail delivery revenue with the remainder earned through a basic monthly charge designed to recover the fixed costs of customer service.

Commodity sales revenue

End-use customers may purchase natural gas from SaskEnergy or any other supplier. Those customers that purchase natural gas from SaskEnergy pay a charge for each unit consumed based on a rate approved by Cabinet. The rate is designed so that, in the long term, SaskEnergy neither profits from nor incurs a loss on the sale of the commodity. Commodity sales revenue is dependent upon the volume of natural gas distributed.

Our Markets and Our Advantage

Transmission Pipeline System

Our markets

The natural gas transmission pipeline system in Saskatchewan had its origin in the early 1950s. The system was designed to transport natural gas from the producing areas in western Saskatchewan to end-use customers primarily in the central and eastern portions of the Province. Since de-regulation, the transmission pipeline system expanded as natural gas reserve areas were further explored and developed. When Saskatchewan production began to exceed consumption, the transmission system was developed so that TransGas could deliver natural gas to interconnecting pipelines, thereby allowing natural gas to be exported from the Province.

In addition to the producing areas, the transmission system has also been extended throughout the populated portions of the Province, as it delivers natural gas to SaskEnergy's natural gas distribution system at over 600 locations and to large end-use customers. As a result, today's TransGas transmission pipeline system is considered to be in a mature stage of development, providing service to a wide range of producers, exporters and end-use customers.

Distribution Pipeline System – Business Model

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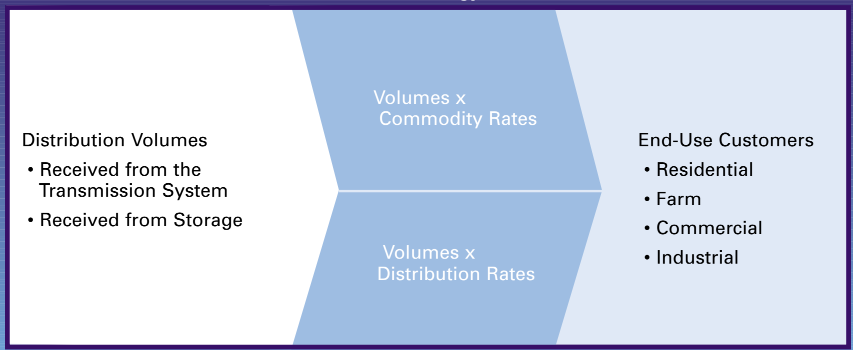


Our advantages

Safety

Operating its transmission pipeline system in a safe and responsible manner is of paramount importance to TransGas. As such, TransGas has developed comprehensive programs specifically designed to ensure the safe operation of its pipeline system. The effectiveness of these programs is confirmed by TransGas' excellent safety record over an extended period of time.

Reliability

Producers, shippers and end-use customers expect the pipeline system to operate with a high degree of reliability, especially during the winter heating season. Consistent with its approach to safety, TransGas has designed the physical aspects of its system to ensure that it can operate virtually without interruption during all types of adverse operating conditions to meet its customers' needs.

90 day tie-in policy

Producers place a high value on being able to deliver the natural gas to market soon after they have developed a reserve. In response, TransGas has developed a policy whereby it will connect new customers to existing infrastructure within 90 days of the customer commitment and before the timeline required. This policy has been a successful component in encouraging natural gas reserve development in Saskatchewan.

Competitive rates

TransGas' objective is to provide fair and competitive rates, balancing stability and market responsiveness. TransGas has been able to achieve this objective, as it held rates constant over the years 2000 to 2002. Although TransGas did increase rates on January 1, 2003, it was able to partially offset that increase with a temporary rate decrease from August 1, 2003 to December 31, 2003. Furthermore, there was also a rate decrease effective January 1, 2004. In addition, its export rates are highly competitive when compared to those in Alberta.

Distribution Pipeline System

Our markets

Over the past 50 years the demand for natural gas service has been the impetus for the continual expansion of the distribution pipeline system. The result has been the development of a distribution system that provides service to virtually every city and town in the southern half of the Province. In addition, a substantial portion of rural Saskatchewan is also served by the distribution system. Similar to the transmission pipeline system, the distribution system is considered to be in a mature stage of development.

Our advantages

Product

Natural gas is a clean-burning, environmentally friendly source of energy used primarily for space and water heating in domestic, commercial and industrial applications. Recently, natural gas usage has expanded to include more non-traditional uses. As such, end-use customers in the Province continue to rely on natural gas as a product that forms an integral component of their energy needs.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Accessibility

The natural gas distribution system is extensively developed throughout a significant geographic area and is considered to be a fundamental component of the infrastructure of the Province. This extensive service area provides new and existing customers the ability to access natural gas services in a cost-effective manner.

Competitive cost

End-use customers use the services of the distribution system to have natural gas delivered to their premises. In addition, the overwhelming majority of the more than 325,000 distribution system customers buy their natural gas supply from SaskEnergy.

SaskEnergy has had only one delivery rate increase since 1994. A concerted effort to contain costs and lower interest expense by refinancing long-term debt at lower interest rates have made major contributions to this lengthy period of rate stability.

Even though natural gas prices in the open market have risen to new highs, natural gas still remains cost competitive when compared to other forms of energy.

Safe, reliable system

Similar to the transmission system, SaskEnergy considers it imperative that the distribution system be operated in a safe, reliable and responsible manner. The distribution system has developed extensive programs to address both safety and reliability. Customers have come to rely on the consistent performance of the distribution system, where service is provided with the highest regard for safety and reliability.

Delivering Results

By operating safe, reliable transmission and distribution pipeline systems, offering competitive rates and customer responsive solutions, SaskEnergy and TransGas have positioned themselves to deliver customer service excellence, grow enterprise value for the owner and ensure future success in the marketplace.

Consolidated Financial Results and Analysis

Statement of consolidated net earnings for the year ended December 31, 2003 (millions)

	Actual	Business Plan	Variance
Revenue			Favourable (Unfavourable)
Delivery	$ 165	$ 169	$ (4)
Transportation and storage	81	75	6
Net sales from gas marketing	41	29	12
Revenue collected for municipalities	24	24	-
Other	6	2	4
	317	299	18
Expenses			
Operating and maintenance	115	114	(1)
Interest	52	52	-
Amortization of property, plant and equipment	49	50	1
Payments to municipalities	24	24	-
Saskatchewan taxes and royalties	9	8	(1)
	249	248	(1)
Net earnings from operations before the following	68	51	17
Commodity revenue	375	330	45
Cost of gas sold	402	299	(103)
Net revenue (loss) from commodity sales	(27)	31	(58)
Consolidated net earnings	$ 41	$ 82	$ (41)

Statement of Earnings Analysis

The following is an analysis of the 2003 financial results:

Revenue

Delivery revenue

Delivery revenue is primarily driven by the volume of natural gas delivered to residential, farm, commercial and industrial customers in Saskatchewan. The majority of SaskEnergy's distribution customers consume natural gas for space and water heating purposes and as a result the volume of natural gas distributed is sensitive to variations in the weather, particularly through the November to March prime heating load season.

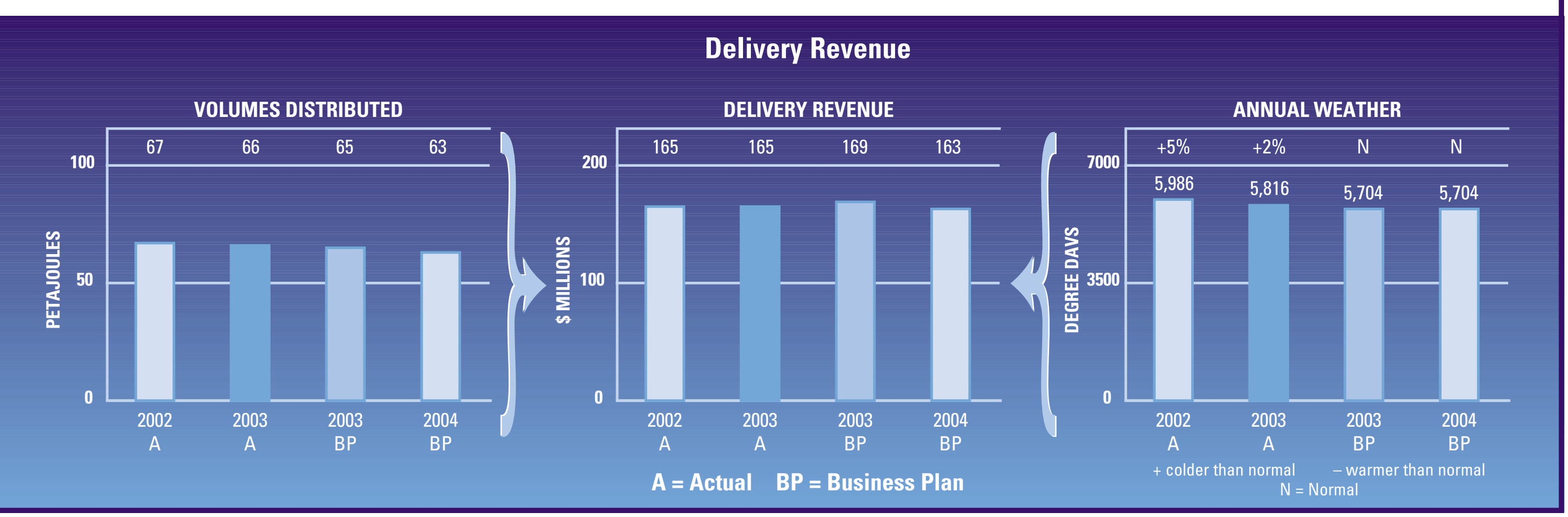
Delivery revenue totaled $165 million for 2003 which was $4 million less than the Business Plan. Factors which favourably impacted 2003 revenue included colder than normal weather, the addition of new customers and incremental revenue from new service offerings. Lower than expected delivery rates caused revenues to fall below the 2003 Business Plan level.

Weather, as measured by heating degree days over the year, averaged two per cent colder than normal in 2003 and three per cent warmer than 2002. The impact of colder than normal weather in 2003 was an incremental $2 million in delivery revenue compared to the Business Plan but $2 million less than 2002.

In total, 1,783 new customers (net of service retirements) were added during the year which contributed $1 million in incremental delivery revenue. These new customers consisted largely of new residences in the larger urban centres, resort communities and several large-volume commercial end-use customers.

SaskEnergy promoted its Natural Choice Service offerings which generated additional revenues of $0.2 million in 2003. These services include home heating check-ups, financing of customer service line costs and providing billing services for the EnerGuide for Houses Program.

Continued installation of energy-efficient furnaces combined with improved levels of building insulation is forecast to lower the average consumption per customer (excluding the impact of weather) in the future. The reduced natural gas consumption for heating purposes is partially offset by continued growth in the installation of non-traditional appliances and more industrial use in the oil industry.



MANAGEMENT'S DISCUSSION AND ANALYSIS

Transportation and storage revenue

Overall, 2003 transportation and storage revenue was $81 million compared to the 2003 Business Plan of $75 million. Transportation and storage revenue was eight per cent higher than the 2003 Business Plan and 19 per cent above 2002. This increase is primarily due to increased transportation revenue attributable to new development in the Shackleton area.

Natural gas well drilling in Saskatchewan continued at a record-breaking pace throughout 2003. The 2,294 gas wells drilled in 2003 were significantly above the levels expected in the Business Plan (1,350), and were 23 per cent higher than 2002 (1,864), again establishing a new record for Saskatchewan natural gas wells drilled. Much of the drilling activity in 2003 focused in the Hatton, Shackleton and Kindersley areas of the Province. As a result, natural gas production was higher than expected with Saskatchewan receipt volumes being approximately 27 Petajoules (PJ) above the 2003 Business Plan. The majority of this favourable variance relates to the Shackleton volumes, which grew to approximately 120 Terajoules per day (TJ/day) by December 2003. On December 23, 2003, TransGas achieved an all-time maximum for Saskatchewan receipts transported of 766 TJ/day exceeding the previous record of 765 TJ/day, which occurred in January 1995.

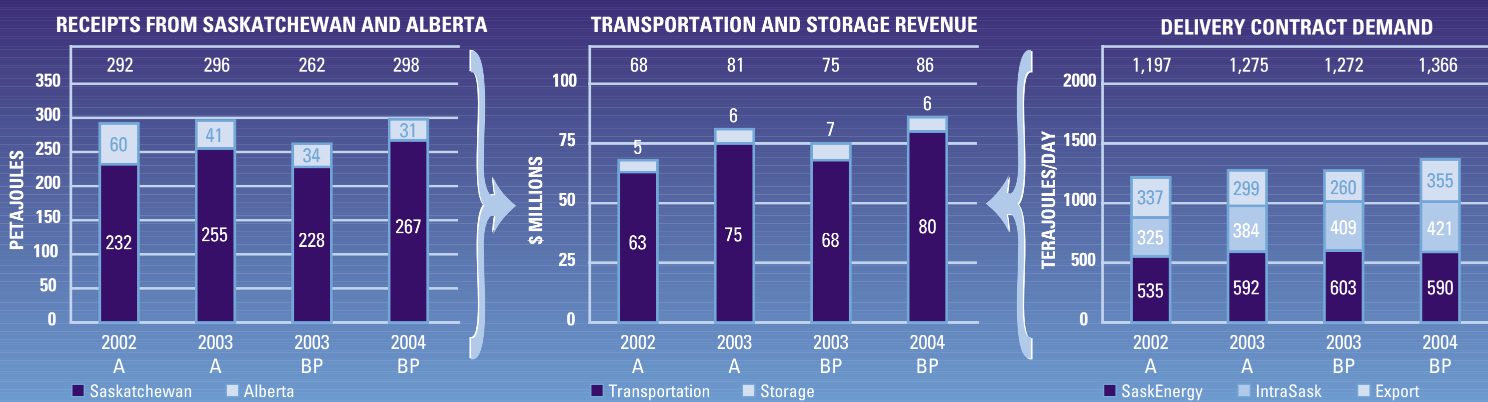
Transportation revenue is determined primarily by the capacity contracted by shippers for natural gas receipts and deliveries. Transportation revenue for 2003 was $75 million, which exceeded the 2003 Business Plan of $68 million. This increase was 10 per cent higher than the 2003 Business Plan and 19 per cent higher than 2002, primarily due to shippers' increased transportation of natural gas from production areas. Export contract demand decreased by 11 per cent from 2002 levels.

End-use customer demand in Saskatchewan increased by 18 per cent from 2002 ($3 million) primarily due to capital expansion projects by large-scale industrial customers coming into service during the year. However, these large capital expansion projects became operational later than anticipated in the 2003 Business Plan.

Storage revenue in 2003 increased by 20 per cent from 2002 due to rate restructuring that took effect May 1, 2003. Storage capacity continued to be fully contracted in 2003 and is expected to remain at this level in 2004.

The strong throughput on the transmission pipeline system, resulting from increased drilling and production activity in 2003, is expected to increase further in 2004. The 2004 Business Plan anticipates an increase in the volumes consumed within Saskatchewan as the two large industrial projects that became operational in 2003 will have operated for a full year in 2004. Energy transported in 2004 is forecast to increase by 16 per cent from 2003 levels, primarily due to higher export volumes and industrial usage in Saskatchewan. Transportation and storage service rates were reduced by two per cent, beginning on January 1, 2004.

Transportation and Storage Revenue



A = Actual BP = Business Plan

Net sales from gas marketing

a) Natural gas sales

1. The Corporation owns underground natural gas storage fields that are no longer used as commercial storage operations. The natural gas from these fields is being removed and sold in the open market.
2. The Corporation's other storage facilities may be leveraged such that when opportunities arise, natural gas is purchased (or sold) in the open market, injected into (or withdrawn from) storage, and sold (or purchased) in the open market at a later date for a margin.

The financial results from conducting the above activities during 2003 were as follows:

	Volumes Sold (Petajoules)		Net Margin (millions)	
	Actual	Business Plan	Actual	Business Plan
1. Natural gas sold from storage	5.8	5.3	$ 25.2	$ 21.2
2. Natural gas purchased for resale	5.4	3.7	$ 8.9	$ 6.1

b) Natural gas marketing

SaskEnergy's natural gas distribution utility contracts for transmission and storage capacity based on the peak requirements of the heating load season. During off-peak periods, the natural gas distribution system may have under-utilized capacity. In order to maximize the utilization of this contracted capacity, the natural gas distribution system may purchase and sell natural gas in the open market to earn a margin. SaskEnergy also offers to supply natural gas to large end-use customers in Saskatchewan through a competitive bidding process. During 2003 SaskEnergy earned a margin of $3 million from these activities on sales volumes of 38.4 petajoules.

Revenue collected for municipalities

In accordance with the provisions of *The SaskEnergy Act*, the Corporation is required to collect and remit revenue collected on behalf of specified urban municipalities. These municipal payments are charged to customers and reported as revenue with an equal and offsetting expense on the statement of earnings. The revenue collected for municipalities of $24 million is consistent with the 2003 Business Plan.

Other revenue

The Corporation owns a gross overriding royalty on properties located in Saskatchewan and Alberta whereby it receives payments in accordance with the terms and conditions of the royalty interest. The 2003 royalty earnings were $6 million compared to the 2003 Business Plan of $2 million due to higher volumes produced at natural gas prices which exceeded Business Plan expectations.

Expenses

Operating and maintenance

Operating and maintenance expenses in 2003 were greater than the 2003 Business Plan by $1 million. Transportation costs paid to third parties were $1.4 million more than forecast. However, $0.9 million of these incremental transportation costs were incurred as part of activities that generated $1.5 million of additional revenue. Other costs which exceeded the 2003 Business Plan include natural gas consumed in operations of $0.9 million, provision for bad debts of $0.6 million, and other items of $0.7 million. These higher than forecast amounts were partially offset by lower costs of $2.6 million relating to external cost recoveries and additional amounts allocated to capital projects.

Interest

The interest expense of $52 million was comparable to the amount anticipated in the 2003 Business Plan. The impact of the favourable short-term interest rates of three per cent compared to the Business Plan of five per cent was offset by the need for additional short-term borrowing to fund the shortfall in commodity sales revenue compared to the commodity cost of gas sold. The increase in short-term interest expense is expected to continue until the commodity sales revenue shortfall is ultimately received from customers.

Amortization

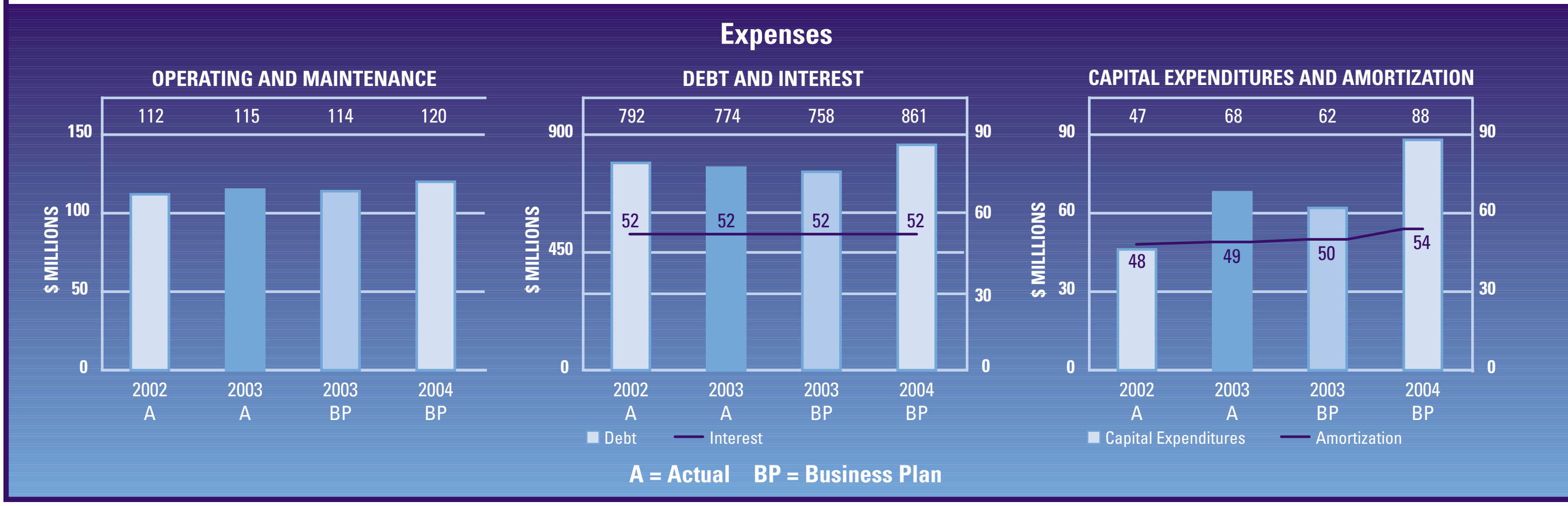
Amortization for 2003 was $1 million lower than the 2003 Business Plan of $50 million. Certain capital projects anticipated to be placed into service in 2003 will not be completed until 2004. These multi-year projects include the completion of the second phase of pipeline expansion in the Shackleton natural gas reserve area, the OneWorld single software solution project, TransGas SCADA (Supervisory Control and Data Acquisition) software upgrade project, and the natural gas storage cavern project just west of Saskatoon at Asquith. When these projects become operational in future periods, amortization will increase accordingly. In 2003 capital expenditures relating to the enhanced pipeline integrity program were continued and the program will expand in 2004.

Payments to municipalities

In accordance with the provisions of *The SaskEnergy Act*, the Corporation is required to collect and remit payments to specified urban municipalities. The payments to municipalities of $24 million is consistent with the 2003 Business Plan.

Saskatchewan taxes and royalties

The Corporation makes payments to the Province in the form of corporate capital taxes on capital employed and royalties based on the value of natural gas removed from natural gas storage fields. Saskatchewan taxes also include mitigation payments and property taxes. The Saskatchewan taxes and royalties were $9 million, which exceeded the 2003 Business Plan of $8 million due to higher natural gas volumes produced.



Net revenue (loss) from commodity sales

SaskEnergy is the supplier of natural gas to the vast majority of its more than 325,000 delivery customers. Similar to practices in other regulated Canadian jurisdictions, SaskEnergy's commodity rates are designed to ensure that, in the long term, the Corporation neither profits from nor incurs a loss on the sale of natural gas to its commodity customers. The rates for the sale of the commodity are subject to a review by the Saskatchewan Rate Review Panel and are regulated by Cabinet.

In order to ensure that customers pay only the cost of the commodity, SaskEnergy has established a Gas Cost Variance Account (GCVA). The GCVA accumulates the difference between commodity sales revenue and the commodity cost of gas. This balance is either refunded to or recovered from customers in future commodity rates. The change in the balance in the GCVA is included as a component of the commodity cost of gas.

In 2003, the commodity cost of gas exceeded commodity sales revenue by $27.3 million on a consolidated basis, as the commodity rate charged to customers during the year was not sufficient to recover the current year's natural gas costs. For commodity rate purposes, the loss on commodity sales in 2003 will be recovered in future years through an increased commodity rate, as approved by Cabinet effective August 1, 2003.

In 2003, as part of the commodity rate decision, Cabinet reduced the amount recoverable from customers through future commodity rates by $12.8 million and disallowed interest charged by the Corporation on the balance in the GCVA exceeding $20 million.

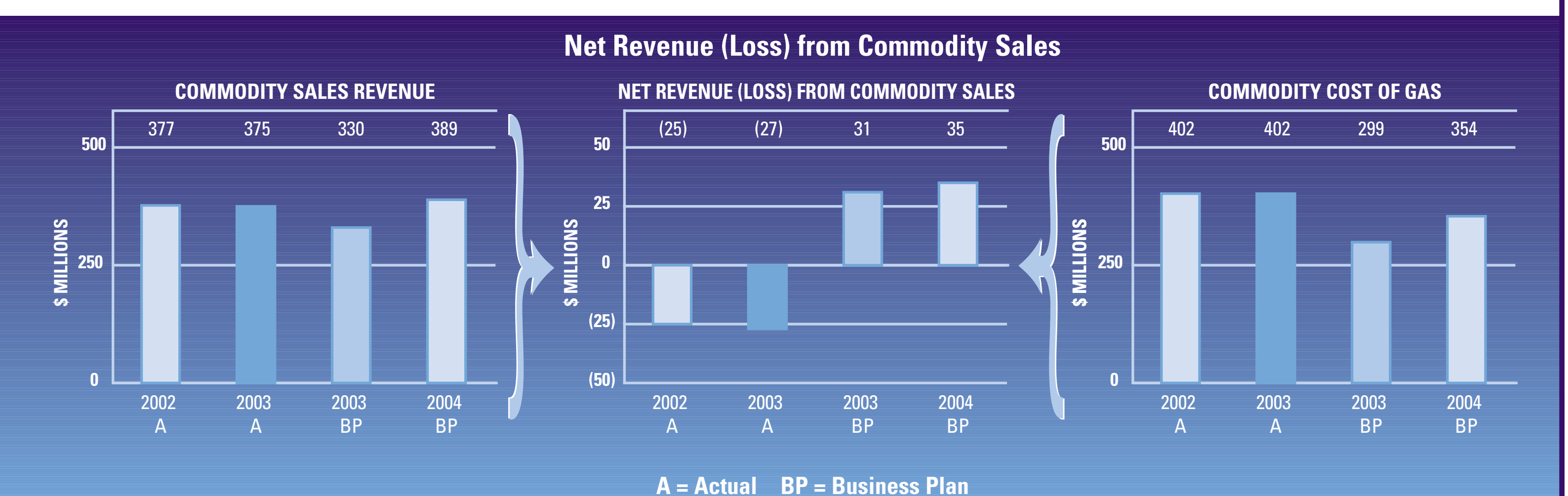
Subsidiaries

Bayhurst Gas Limited (Bayhurst)

Effective January 1, 2003, certain natural gas storage assets were transferred from TransGas to Bayhurst. In 2002 all revenue and expenses related to the assets transferred were included in the financial results of TransGas. For 2003, the related revenue and expenses are reported in the financial statements of Bayhurst. The net margin from the operation of these assets in 2003 was $25 million which was $4 million higher than the 2003 Business Plan. In addition, Bayhurst owns a gross overriding royalty on approximately 450 properties located in Saskatchewan and Alberta. The earnings from these royalty interests in 2003 were $6 million compared to the 2003 Business Plan of $2 million.

Many Islands Pipe Lines (Canada) Limited (MIPL)

MIPL owns and operates 14 natural gas transmission pipelines which interconnect with other pipeline facilities at the Saskatchewan, Alberta, Manitoba, and United States borders. The 2003 net earnings of $0.2 million were comparable to the 2003 Business Plan.



SaskEnergy International Incorporated (SEII)

SEII was created in 1996 to market SaskEnergy's world-class expertise and invest in emerging natural gas distribution, transmission and storage systems. SEII's revenue is derived from investment earnings and expenses include direct costs as well as a corporate overhead allocation. Overall, SEII's loss for 2003 was $0.5 million which was a $0.3 million improvement from 2002.

As of December 31, 2003, SEII had two equity investments as follows:

	2003		2002	
	Per cent Ownership	Total Invested (millions)	Per cent Ownership	Total Invested (millions)
Gas Sur S.A.	30.0	$ 13.6	30.0	$ 12.6
Integrated Gas Services de Mexico, S. de R.L. de C.V.	40.1	10.7	12.4	3.7
		$ 24.3		$ 16.3

Gas Sur S.A. (Gas Sur) is a natural gas distribution company in Chile. Gas Sur was formed to capitalize on the introduction of natural gas to the Chilean marketplace, an energy alternative that is safer, more convenient and more cost effective than bottled propane, the existing fuel of choice. With more than 24,000 customers, Gas Sur achieved 2003 net earnings of approximately $0.4 million. Gas Sur anticipates increased earnings in 2004.

Through its investment in Igasamex USA Ltd., SEII owns a 40.1 per cent equity investment in Integrated Gas Services de Mexico, S. de R.L. de C.V. (Igasamex). Igasamex is a Mexico City based company which provides natural gas transportation services to Mexico's industrial sector. Igasamex currently flows gas on 18 laterals (a pipeline in a transmission system which branches away from the central and primary part of the system), and serves a wide range of industrial customers, including the textile, automotive, food processing, pulp and paper and consumer products sectors. In 2003, Igasamex achieved net earnings of approximately $1.0 million. Igasamex anticipates increased earnings in 2004.

Swan Valley Gas Corporation (SVGC)

SVGC was formed in 2000 to own and operate a natural gas distribution utility in the Swan Valley area in western Manitoba. New customer connections have not occurred as quickly as expected resulting in a revenue shortfall. SVGC's loss for 2003 was $0.5 million compared to a loss of $0.2 million for 2002. Cost reduction measures along with further marketing efforts will be pursued in 2004 to lower costs and increase revenue.

Saskatchewan First Call Corporation (*Sask 1st Call*)

Sask 1st Call has established a database for the location of certain oil, natural gas and other pipeline systems located in Saskatchewan. Primarily for safety reasons, *Sask 1st Call* provides a service whereby landowners and other stakeholders may contact *Sask 1st Call* to determine the location of pipeline facilities. Although, *Sask 1st Call* commenced operations later than anticipated, it issued in excess of 49,000 line locates during 2003. This entity provides essential line location services to its members more efficiently than the former process and is intended to break even when fully operational.

SaskEnergy Nova Scotia Holdings Ltd. (SENSHL)

SENSHL holds the Corporation's 50.1 per cent investment in Heritage Gas Limited (Heritage Gas). On August 16, 2002, Heritage Gas applied for a full regulation class franchise for a specific area in Nova Scotia pursuant to *The Gas Distribution Act (Nova Scotia)*. The Nova Scotia Utility and Review Board (NSUARB) awarded Heritage Gas the franchise to distribute natural gas to all or part of six counties in the Province of Nova Scotia on February 7, 2003 which Heritage Gas accepted on June 3, 2003. The franchise term is 25 years. Since the date of franchise acceptance, Heritage Gas has acquired and constructed natural gas distribution facilities and undertaken those activities necessary to establish an operational natural gas distribution utility. A license to operate was issued by the NSUARB on December 19, 2003.

Shareholders have advanced $9.0 million to Heritage Gas in proportion to their interest. As at December 31, 2003 SaskEnergy had advanced $4.5 million consisting of a shareholder loan amounting to $2.5 million and an equity investment of $2.0 million.

The Balanced Scorecard – Measuring Results

SaskEnergy measures its performance on key success factors through a process known as The Balanced Scorecard. The financial targets in The Balanced Scorecard are based on standard financial performance measures for regulated Canadian natural gas distribution and transmission utilities.

The Balanced Scorecard

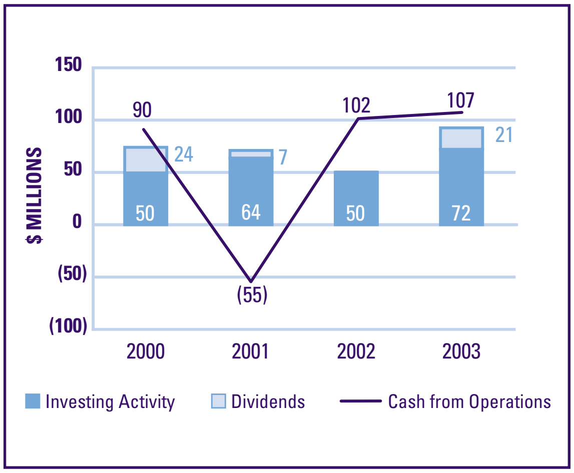
Shareholder Value

Objective	Measures	Actual 2002	Actual 2003	Target 2003	Target 2004	Target 2005	Target 2006	Target 2007	Target 2008
Provide risk adjusted returns to the shareholder and grow enterprise value	**Annual Return to the Shareholder (excluding GCVA effects)**								
	Consolidated Net Earnings from Operations ($ millions)	32	68	51	67	62	59	59	60
	TransGas Rate of Return on Equity	12.3%	14.4%	10.6%	11.0%	11.0%	11.0%	11.0%	11.0%
	SaskEnergy Rate of Return on Equity	1.9%	9.9%	10.5%	10.5%	10.5%	10.5%	10.5%	10.5%
	Annual Return to the Shareholder (including GCVA effects)								
	Pay Dividend to Crown Investments Corporation ($ millions)	5	27	53	66	49	38	38	39
	Financial Condition (including GCVA effects)								
	Consolidated Debt-to-Equity Ratio	73/27	72/28	70/30	72/28	69/31	68/32	66/34	64/36

Liquidity and Capital Resources

Cash flow and capital expenditures

SaskEnergy requires capital funding to finance the purchase and construction of assets, maintain system integrity and meet its growth objectives. This capital is typically generated through operating activities and by borrowing from the Province of Saskatchewan. As illustrated, in 2000 SaskEnergy generated sufficient cash from operations to meet the dividend requirements of Crown Investments Corporation of Saskatchewan (CIC), internally finance capital expenditures, and reduce the level of outstanding debt. In 2001, accumulations in the GCVA reduced cash from operations and limited SaskEnergy's ability to further reduce its debt obligations. In 2002 and 2003, SaskEnergy's regained the financial capacity to fund capital expenditures, operating expenditures and dividends from internally generated cash.



Risk Management

The transmission, storage, distribution and sale of natural gas presents a range of business and financial risks. SaskEnergy's philosophy with respect to risk management is to take only those risks for which it has appropriate resources, expertise and financial capacity to manage. In addition, the nature of accepted risks must be understood, as well as the impact these risks may have on operations, reputation and financial condition. The appropriate policies and procedures must be in place to respond to these risks. SaskEnergy manages the risks presented below in accordance with policies and guidelines established by the Board of Directors.

Price risk

SaskEnergy's exposure to natural gas price risk results primarily when it purchases natural gas from suppliers at indexed or market prices and resells this natural gas to its customers at rates that are generally fixed for a specific term. The risk of natural gas costs rising above the rate at which the natural gas is sold to customers can be mitigated through a natural gas price hedging program. Also the GCVA allows accumulated differences between the projected cost of natural gas and the actual cost of natural gas to be recovered from or refunded to customers in subsequent periods.

SaskEnergy is also exposed to natural gas price risk in its natural gas marketing business. The natural gas price risk is subject to the Natural Gas Marketing Risk Management Policy, which limits the amount of exposure to price volatility and establishes a program to measure, monitor and report on natural gas price risk daily.

Interest rate risk

Like other natural gas distribution and transmission utilities, SaskEnergy has a significant capital investment in physical assets. The majority of its capital expenditures have been financed through debt. Consequently, changes in interest rates can affect financial performance. SaskEnergy manages interest rate risk by requiring all long-term borrowing to be financed with long-term fixed rate debt thereby minimizing the impact of changing interest rates on financial results. In addition, SaskEnergy may use Forward Rate Agreements, Swaps, and Options to hedge short-term debt against changes in short-term interest rates.

Winter weather

In Saskatchewan, variability in winter weather temperature has a direct impact on natural gas consumption.

Provincial economic and market factors

Economic growth within the Province is critical to the continued expansion of SaskEnergy's core business. SaskEnergy currently serves more than 90 per cent of the communities in the Province. Opportunities to expand infrastructure are dependent upon economic growth and it is increasingly difficult to economically expand service to areas within the Province which do not currently receive natural gas distribution service. In addition, conservation initiatives by customers have reduced the average volume of natural gas usage per customer, population is in decline in certain rural service areas and the growth of urban centres has put added pressure on urban distribution systems. While SaskEnergy's transportation pipeline system has benefited significantly from the development of the Shackleton area, the age and declining reserve life of the Western Canadian Sedimentary Basin remains a longer term issue.

Operational risk

Operating a natural gas distribution, transmission and storage utility involves many risks common to all utilities such as unusual or unexpected operating, environmental and weather conditions, as well as safety concerns, acts of civil disobedience, or disruptions which could result in personal injury, loss of life or damage to property. SaskEnergy mitigates its operational risks through public awareness programs, employee and operator training, operating manuals and procedures, and safety programs. In addition the financial impact of these risks is mitigated, where possible, through the purchase of insurance.

Credit risk

SaskEnergy is at risk of financial loss in the event that counterparties to contracts or customers who have received services fail to fulfill their obligations. SaskEnergy mitigates its credit risk by requiring customers to post deposits prior to receiving service, reviewing the credit worthiness of large customers and contractual counterparties, limiting the maximum amount of credit extended to any customer, and by continual monitoring of customer and counterparty credit. In addition, SaskEnergy provides for an allowance for uncollectible accounts in the normal course of business. These policies and procedures ensure that the financial impact of customer or counterparty default is minimized.

Regulatory risk

Regulatory risk is the uncertainty presented by the regulatory environment within which a utility operates. In July 2000, the Government of Saskatchewan introduced the Saskatchewan Rate Review Panel which functions as a ministerial advisory committee to the Minister of CIC. The rate decisions made by Cabinet can directly affect financial results.

Environmental risk

Environmental risks are inherent in the business of natural gas transmission and distribution. Natural gas is lighter than air and dissipates quickly when accidentally released into the atmosphere which reduces the risk of explosion relative to other volatile hydrocarbons. Gathering, compression, storage, transmission and distribution of natural gas involves the use of certain chemicals and materials that are considered hazardous and require special handling procedures. The environmental risks presented by these materials are mitigated by proper handling and containment procedures, and employee training.

Canada's commitment to reduce greenhouse gas emissions, as outlined in the Kyoto Agreement, will have an undetermined impact on the Corporation. Studies by industry associations during 2003 have assessed the approach proposed by the federal government for the industrial sector (referred to as Large Final Emitters) which includes a combination of regulatory measures and emissions trading and credits. Most of the work being conducted by the industry associations has focused on the natural gas distribution sector. However the impact on the natural gas transmission sector will also be addressed.

Critical Accounting Policies and Estimates

The Corporation prepares its financial statements in accordance with Canadian generally accepted accounting principles (GAAP) applied on a consistent basis and includes certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue, and expenses. The accounting policies are summarized in Note 2 to the accompanying Consolidated Financial Statements. Accounting policies and estimates with significant impact are as follows:

Gas cost variance account

SaskEnergy uses a Gas Cost Variance Account to accumulate the difference between commodity sales revenue and the related cost of gas sold. Subject to approval of Cabinet, balances are either recovered from or refunded to customers in future commodity rates. This account is used to ensure that SaskEnergy neither earns a profit nor incurs a loss on the sale of commodity over the long term. The change in the balance of the GCVA is included as a component of the cost of gas sold. As a result a profit or a loss on commodity sales may occur during a fiscal period. Commodity rate changes would be expected to result in an offsetting profit or loss in subsequent periods.

As at April 30, 2003, the commodity cost of gas sold exceeded commodity sales revenue by $71.9 million. On April 24, 2003, the Corporation submitted a rate application to Cabinet for a commodity rate increase. Subject to a review by the Saskatchewan Rate Review Panel (the Panel), an interim commodity rate increase was approved by Cabinet effective May 1, 2003.

Following a review by the Panel, Cabinet gave final approval to a new commodity rate effective August 1, 2003. Included in the rate decision, Cabinet reduced the amount that could be recovered from customers through the GCVA by $12.8 million. In addition, Cabinet disallowed interest that could be charged by the Corporation on any balance in the GCVA exceeding $20 million.

Competitive gas sales

The primary purpose of the distribution utility is to supply natural gas to customers who use the natural gas primarily for heating their premises. Consumption of natural gas in Saskatchewan is cyclical and periods exist where pipeline and storage capacity are not used to their fullest extent. In order to take advantage of underutilized capacity during these off-peak periods, the distribution utility may enter into transactions whereby it purchases natural gas, places it into storage and earns a margin by selling it in the open market at a later date.

Competitive gas sales transactions may occur where the sale or purchase price is determined initially, but the settlement price is finalized at a later date. During the period between the purchase or sale of the natural gas and the date of settlement, the profit or loss is determined by comparing the purchase price to the current market price and is recorded in the statement of earnings.

Gas price hedging

The majority of natural gas purchase contracts are priced according to a monthly average market price. To help avoid potential wide fluctuations in prices, SaskEnergy may utilize financial instruments offered by financial institutions or other counterparties to exchange a variable price for a fixed price. These financial instruments result in either the receipt of funds by the Corporation or the payment of funds to the counterparty depending on whether the market price is above or below the agreed upon fixed price. The payments made to or received from counterparties are included in the commodity cost of gas.

Revenue recognition

Delivery and commodity revenue is recognized when natural gas is delivered to customers. Since it is not cost-effective to read all customer meters on the same day at the end of the financial reporting period, the revenue associated with the volume of gas delivered but not billed as of December 31, must be estimated. The volume of unbilled sales is determined by comparing the total volume of natural gas purchased by the distribution system to the total estimated volume of natural gas delivered to customers. Volumes purchased are reconciled to volumes billed using regular meter readings.

Outlook

SaskEnergy's strategic financial direction is designed to focus on: Shareholder Value, Financial Stewardship, and Growth. SaskEnergy's future plans have been carefully assessed to ensure alignment with the goals and objectives associated with each of these perspectives.

Shareholder value

SaskEnergy creates value for the shareholder by generating industry comparable returns, paying dividends based on 65 per cent of consolidated net earnings and protecting the financial condition of the owner's investment by maintaining a prudent capital structure. In 2004, SaskEnergy anticipates net earnings from operations of $67 million and dividend payments of $44 million (before the effects of the GCVA). In addition, the capital structure is forecast to strengthen in 2004 and progress towards the Corporation's long-term target of 65 per cent debt and 35 per cent equity.

Financial stewardship

SaskEnergy focuses on being cost-effective and providing value to customers. SaskEnergy has developed programs to contain and reduce costs incurred in providing service, which translates into lower rates for customers.

Transmission rates remained unchanged for the three years 2000 – 2002 prior to a two per cent rate increase in January 2003. However, from August 2003 to December 2003, TransGas implemented a temporary rate reduction of four per cent to share with its customers the unexpected benefits from incremental transportation revenues earned from new natural gas reserve developments. This temporary reduction has been followed by a rate reduction of two per cent for 2004.

Similarly, SaskEnergy has adjusted its distribution delivery rates only once since 1994. Maintaining these service rates was made possible through cost control programs and innovative ways to deliver required services more efficiently.

As part of the budgeting process, SaskEnergy identified approximately $8 million in cost savings over the 2001 to 2004 timeframe by developing a program specifically designed to capture cost-saving opportunities. These efforts demonstrate SaskEnergy's commitment to its customers to prudently manage operational costs.

Growth

SaskEnergy's strategic plan focuses on investments as a means for growing the value for our owner – the people of Saskatchewan. Only through growth can SaskEnergy ensure that it will remain a vibrant, healthy and successful corporation.

The Corporation's investments can be placed into two major categories:

Investing in Saskatchewan

SaskEnergy plans for expenditures of approximately $72 million in 2004 to support the growth and maintenance of its transmission and distribution pipeline systems. Natural gas reserve development and producer activities in the Shackleton area are expected to require additional capital expenditures in 2004. The continued development of a natural gas storage facility at Asquith will also require further capital spending in 2004.

As SaskEnergy serves a mature Saskatchewan market with extensive infrastructure throughout the Province, ensuring a safe and reliable system is a major priority. To ensure the safety and reliability of service, SaskEnergy will commit nearly 30 per cent of its capital budget in 2004 to sustaining and improving transmission and distribution-related facilities and infrastructure.

In response to its mature market development, SaskEnergy will continue to align its processes and policies to make them more inviting for economic development in Saskatchewan and to facilitate the increased usage of natural gas in emerging commercial opportunities.

Investing for Saskatchewan

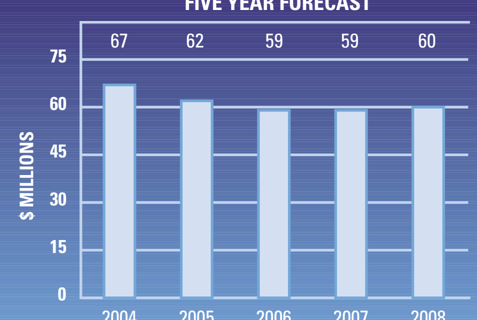
SEII's two international investments, Gas Sur, a natural gas distribution company in Chile, and Igasamex, a natural gas midstream company in Mexico, are continuing to develop in terms of market share and presence. Through these investments, SEII expects sufficient revenues to sustain operating costs in 2004 and then begin generating a profit each year thereafter.

In 2003, Heritage Gas accepted the franchise rights to be the natural gas distributor in Nova Scotia. On December 20, 2003, the distribution pipeline system became operational in Nova Scotia. In 2004, SaskEnergy looks forward to working with its partners, the employees of Heritage Gas, and the people of Nova Scotia to ensure the successful implementation of this new natural gas distribution system and utility service.

Financial results and factors affecting performance

SaskEnergy's Business Plan forecasts an earnings performance in 2004 that will result in stable net earnings from operations of $67 million plus an assumed recovery of $35 million in the GCVA. This will result in a total net earnings forecast of $102 million in 2004. Over the planning horizon, SaskEnergy anticipates strong, stable earnings in the range of $60 million each year. This level of financial performance is sensitive to the status of the GCVA and changes to some of the key sensitivities identified.

CONSOLIDATED NET EARNINGS FROM OPERATIONS
FIVE YEAR FORECAST



The following sensitivities are intended to be illustrative of the relationship between the key variables that affect financial performance and are not intended to reflect management's view as to the likelihood of this variability.

Factor	Sensitivity	Impact on Net Earnings ($ millions)
1. Winter weather	One per cent change	0.7
2. Natural gas prices	$0.10 change per Gigajoule	5.6
3. TransGas receipt contracted volumes	One per cent change to contracted levels	0.6
4. Short-term interest rates	0.25 per cent change	0.3

1. SaskEnergy's revenue forecasts are based on the assumption of normal winter weather. Normal is defined to be the average weather experienced each day over the last thirty years. Variations in winter weather of one per cent from this average could impact net earnings by approximately $0.7 million.
2. Fluctuations in the market price of natural gas could impact earnings. As SaskEnergy purchases approximately 56 million Gigajoules annually, a 10 cent change in the natural gas purchase price of a Gigajoule, could impact net earnings by as much as $5.6 million if not recovered from customers.
3. TransGas revenue levels are sensitive to the capacity contracted by shippers for the transportation of their natural gas. A one per cent change to the contracted receipt transportation levels could impact both receipt and delivery transportation revenues resulting in a change of approximately $0.6 million.
4. A change to the short-term borrowing rates of 25 basis points could impact net earnings by approximately $0.3 million.

Regulation

The Government of Saskatchewan established the Saskatchewan Rate Review Panel in 2000. The Saskatchewan Rate Review Panel functions as a ministerial advisory committee to the Minister of CIC. The panel's mandate is to conduct reviews of rate change requests from specific Crown corporations including SaskEnergy.

The panel provides an opinion to the Minister of CIC on the fairness and reasonableness of the proposed rate changes. It takes into consideration the interests of the customers, the applicant Crown corporation, and the public. Cabinet makes the final decision on rate change requests.

Crown Investments Corporation of Saskatchewan

Crown sector strategic plan

SaskEnergy is a Saskatchewan Crown corporation and, for governance purposes, is considered a subsidiary of CIC. CIC, also a provincial Crown corporation, is the holding company for Saskatchewan’s commercial Crown corporations.

CIC and its subsidiaries developed a Crown Sector Strategic Plan to provide long-term direction to the Crown Corporation sector, and facilitate long-term planning. The plan includes a guiding vision statement for the Crown sector, its primary business purposes, common business values and strategic business objectives. SaskEnergy has developed its Corporate Strategic Direction to support CIC’s five overall strategic objectives: Customer Service Excellence, Financial Health, Mandate and Role, Public Purpose, and Human Resources.

Corporate strategic plan

SaskEnergy’s Corporate Strategic Plan is directly aligned with CIC’s Crown Sector Strategic Plan and overall strategic objectives.

The corporate strategic direction focuses on the core business excellence of the distribution and transportation pipeline systems. Further success will result from building on these competencies and strengths, which includes strategically investing in opportunities that grow the Corporation both in and for Saskatchewan.

Financial Terms

CICA – the Canadian Institute of Chartered Accountants.

Core earnings – earnings generated from the operations of the Corporation's two major business units which are the natural gas distribution pipeline system and natural gas transmission and storage operations.

GAAP – generally accepted accounting principles. Accountants prepare financial statements in accordance with GAAP. In Canada, the recommendations of the Canadian Institute of Chartered Accountants (CICA), as found in the CICA Handbook, formally represent Canadian GAAP. The Accounting Standards Board of the CICA develops the Handbook's content regarding financial accounting. The structure of this board and its operating procedures permit the exercise of due process when formulating recommendations. This constitutes the formal process that generates Canadian GAAP.

CONSOLIDATED FINANCIAL STATEMENTS

Management's Responsibility for Financial Statements

The management of SaskEnergy Incorporated is responsible for the integrity of the accompanying consolidated financial statements and all other information contained in this Annual Report. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, that are applied on a consistent basis, and include amounts based on management's informed judgments and estimates. Financial information included elsewhere in this Annual Report is consistent with the consolidated financial statements.

The Corporation's Board of Directors (the Board) is responsible for overseeing the business and affairs of the Corporation. The Board, through its Audit and Finance Committee (the Committee), is responsible for ensuring that management fulfills its financial reporting responsibilities. The Committee is composed of independent directors who are not employees of the Corporation. The Committee reviews the Management's Discussion and Analysis included in this Annual Report and meets regularly with management, internal audit and the external auditors to discuss internal controls, accounting, auditing and financial matters. The Committee recommends the appointment of the external auditors. The Committee reports its findings to the Board for its consideration in approving the consolidated financial statements and subsidiary financial statements.

Management maintains a system of internal controls to ensure the integrity of information that forms the basis of the financial statements. The internal control system ensures that: transactions are executed in accordance with proper authorization; the financial information is relevant, reliable, and accurate; and assets are appropriately accounted for and adequately safeguarded. The internal control system includes an internal audit function and an established code of conduct.

The consolidated financial statements have been audited by Deloitte & Touche LLP, Chartered Accountants as appointed by the Lieutenant Governor in Council and approved by the Crown Investments Corporation of Saskatchewan. The Auditors' Report expresses their opinion on the fairness of the financial statements prepared by management.

R.S. Clark

Ronald S. Clark
President
and Chief Executive Officer

Greg Mrazek
Vice-President, Finance & Administration
and Chief Financial Officer

Auditors' Report

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the consolidated statement of financial position of SaskEnergy Incorporated as at December 31, 2003 and the consolidated statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Regina, Saskatchewan
February 6, 2004

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31

	Note	2003	2002
		(thousands)	
ASSETS			
CURRENT ASSETS			
Cash		$ -	$ 1,831
Accounts receivable		144,524	119,507
Natural gas in storage held for resale		82,102	105,618
Inventories of supplies		6,458	5,329
		233,084	232,285
PROPERTY, PLANT AND EQUIPMENT	4	940,267	921,179
INVESTMENTS AND OTHER ASSETS	5	34,789	29,652
NATURAL GAS IN STORAGE HELD FOR RESALE AND OPERATIONS		25,766	28,340
TOTAL ASSETS		$ 1,233,906	$ 1,211,456
LIABILITIES AND PROVINCE'S EQUITY			
CURRENT LIABILITIES			
Bank indebtedness		$ 1,295	$ -
Short-term debt	6	110,000	173,200
Accounts payable		140,985	121,037
Dividend payable		10,560	4,460
Current portion of long-term debt	6	34,997	4,040
		297,837	302,737
LONG-TERM DEBT	6	627,884	614,555
TOTAL LIABILITIES		925,721	917,292
PROVINCE OF SASKATCHEWAN'S EQUITY			
Equity advances	7	71,531	71,531
Retained earnings	3	237,738	223,373
Foreign currency translation adjustment	5	(1,084)	(740)
		308,185	294,164
TOTAL LIABILITIES AND EQUITY		$ 1,233,906	$ 1,211,456
COMMITMENTS AND CONTINGENCIES	8		

(See accompanying notes)

On behalf of the Board:

______________________, Director ______________________, Director

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31

	Note	2003	2002
		(thousands)	
REVENUE			
Delivery		$ 164,825	$ 165,060
Transportation and storage		80,983	67,649
Net sales from gas marketing	9	41,168	14,552
Revenue collected for municipalities	10	24,432	22,598
Other		6,115	4,656
Total revenue		317,523	274,515
EXPENSES			
Operating and maintenance		114,666	111,798
Interest	6	52,075	52,136
Amortization of property, plant and equipment	4	48,759	47,516
Payments to municipalities	10	24,432	22,598
Saskatchewan taxes and royalties	11	9,239	9,021
Total expenses		249,171	243,069
Net earnings from operations before the following		68,352	31,446
Commodity revenue		374,658	377,276
Cost of gas sold		401,985	401,858
Loss from commodity sales		(27,327)	(24,582)
Net earnings		41,025	6,864
Retained earnings, beginning of year		223,373	220,969
Dividend		(26,660)	(4,460)
Retained earnings, end of year	3	$ 237,738	$ 223,373

(See accompanying notes)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31

	Note	2003	2002
		(thousands)	
OPERATING ACTIVITIES			
Net earnings		$ 41,025	$ 6,864
Add items not requiring an outlay of cash			
Amortization of property, plant and equipment		48,759	47,516
Other non-cash items		309	738
		90,093	55,118
Net change in non-cash working capital related to operations	12	17,318	46,640
Cash provided by operating activities		107,411	101,758
INVESTING ACTIVITIES			
Additions to property, plant and equipment		(77,570)	(56,844)
Additions to investments and other assets		(6,685)	(5,269)
Customer capital contributions received		9,723	9,646
Decrease in natural gas in storage (non-current)		2,574	2,250
Cash used in investing activities		(71,958)	(50,217)
FINANCING ACTIVITIES			
Decrease in short-term debt		(63,200)	(44,992)
Sinking fund instalments		(4,540)	(4,040)
Increase in deferred charges		(279)	-
Proceeds from long-term debt		50,000	-
Dividend paid		(20,560)	-
Cash used in financing activities		(38,579)	(49,032)
INCREASE (DECREASE) IN CASH during year		(3,126)	2,509
CASH POSITION, beginning of year		1,831	(678)
CASH POSITION, end of year		$ (1,295)	$ 1,831

Cash position consists of cash less bank indebtedness.

(See accompanying notes)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2003

1. STATUS OF THE CORPORATION

SaskEnergy Incorporated (SaskEnergy) is a Saskatchewan provincial Crown corporation operating under authority of *The SaskEnergy Act*. SaskEnergy's primary business is the transportation, distribution and storage of natural gas in Saskatchewan.

By virtue of *The Crown Corporations Act, 1993*, SaskEnergy has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC), a provincial Crown corporation. Accordingly, the financial results of SaskEnergy are included in the consolidated financial statements of CIC.

As a provincial Crown corporation, SaskEnergy and its wholly owned subsidiaries are not subject to Federal or Provincial income taxes in Canada.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimations. The following accounting policies are considered to be significant:

a. Principles of consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries, SaskEnergy Nova Scotia Holdings Ltd., Bayhurst Gas Limited, Many Islands Pipe Lines (Canada) Limited, Saskatchewan First Call Corporation, SaskEnergy International Incorporated, SaskEnergy Chilean Holdings I Ltd., SaskEnergy Chilean Holdings II Ltd., SaskEnergy Mexican Holdings Ltd., Swan Valley Gas Corporation, and TransGas Limited. The accounts also include the Corporation's 100 per cent ownership interest in SaskEnergy Chilean Holdings Limitada, a Chilean limited partnership and the Corporation's 50.1 per cent proportionate share of the accounts of Heritage Gas Limited. Separate audited financial statements are prepared for each of these entities.

b. Natural gas in storage

- Natural gas in storage held for resale

  Natural gas in storage held for resale (both current and non-current) is stated at lower of cost and net realizable value. Natural gas held for resale removed from storage is accounted for on an average cost basis. Natural gas in storage held for resale classified as a current asset is the estimated amount of natural gas in storage to be sold in 2004 with the remainder classified as non-current.

- Natural gas in storage held for operations

  Natural gas in storage held for operations is stated at cost. Natural gas in storage held for operations classified as a non-current asset is located within the Corporation's various storage facilities and is required for the ongoing operation of the storage facilities.

c. Inventories of supplies

Inventories of supplies consist primarily of pipe and general stock for construction and maintenance and are recorded at the lower of average cost or replacement cost.

d. Property, plant and equipment

Property, plant and equipment is stated at cost and includes all direct costs plus overhead charges and an allowance for interest costs related to financing construction of the related assets.

The costs of renewals and betterments which extend the economic useful life of assets are capitalized.

Retirement or sale of a major item or class of property, plant and equipment, is accounted for by relieving the asset accounts of the associated cost and accumulated amortization. The difference between the proceeds and the net book value of the assets disposed is included in earnings for the current period.

Other asset retirements are recorded by reducing the account by the cost of the asset and charging this amount, net of proceeds received, to accumulated amortization.

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The amortization rates are as follows: (in per cent)

Transmission and storage	2.5 to 2.6
Distribution	2.5 to 3.5
Gathering, treatment and compression	2.5 to 3.5
Vehicles, equipment and other	2.5 to 50.0

Customer capital contributions relate to construction of new service connections. These contributions from customers are amortized on a straight-line basis over the estimated service life of the related asset.

e. Investments

The Corporation accounts for its investments in Gas Sur S.A. and Igasamex USA Ltd. using the equity method.

f. Foreign currency translation adjustment

The Corporation’s foreign investments are self-sustaining, and the financial statements are translated from the functional currency into Canadian dollars using the current rate method. Translation adjustments resulting from changes in the exchange rate between the functional currency and the Canadian dollar are reflected in the foreign currency translation adjustment in the Province of Saskatchewan’s Equity.

g. Revenue recognition

Delivery and commodity revenue is recognized when natural gas is delivered to customers. An estimate of gas delivered, but not billed as of December 31, is included in revenue.

Revenue is recognized when transportation, transportation-related services and storage are provided to customers. An estimate of transportation, storage and related services rendered, but not billed as of December 31, is included in revenue.

For natural gas purchased for resale, revenue is recognized in the financial statements upon completion of the delivery of natural gas.

Royalty revenue is recognized when natural gas is sold from wells subject to royalty agreements. Royalty revenue, accounts receivable and accrued revenue are subject to measurement uncertainty. These amounts are based on the Corporation’s best information and judgment.

h. Cost of gas sold

The cost of gas sold includes the cost of purchasing natural gas on the open market, net hedging settlements, transportation, direct operating costs related to supply acquisition, and natural gas inventory carrying costs.

i. Gas cost variance account

For rate setting purposes, SaskEnergy's approved selling price for natural gas is based on the principle that there is neither a profit nor a loss on natural gas sold to customers. Therefore, the Corporation established a Gas Cost Variance Account (GCVA) to accumulate differences between commodity revenue and the cost of gas sold. Subject to approval of the Government of Saskatchewan, balances accumulated in the GCVA are either recovered from or refunded to customers through future rates.

In these financial statements, amounts over-recovered or under-recovered during the year are reported as a gain or loss from commodity sales. Where the cost of gas sold exceeds commodity revenue from customers, the Government of Saskatchewan, at its discretion will decide whether the shortfall will be recovered from customers.

j. Competitive gas sales

Where the Corporation purchases natural gas in the open market at a fixed purchase price and simultaneously enters into agreements to sell this natural gas at a fixed selling price, the gain or loss is recorded at the time the transaction is settled.

In addition, the Corporation may enter into contracts that require either the physical delivery (sale) or receipt (purchase) of natural gas in a future period. Contracts may be structured so that the settlement price is determined in the future at the time of delivery or receipt. Changes in the value of the contract due to a change in market prices up to the date of settlement are recorded as gains or losses in the period of change.

k. Hedge accounting

The Corporation uses various derivative financial instruments to hedge its operating exposures to fluctuations in foreign currency exchange rates, interest rates and the price of natural gas. A Corporate Derivatives Policy and specific hedging strategies establish the guidelines within which such instruments may be used. These policies require that SaskEnergy use financial instruments only to manage risks associated with transactions undertaken in the normal course of business.

Hedge accounting is used when there is a high degree of correlation between price movements in the derivative financial instrument and the item designated as being hedged. Gains and losses are recognized in the same period as the hedged item is settled and are recorded in the statement of earnings. If correlation ceases, hedge accounting is terminated and future changes in the market value of the derivative instruments are recognized as gains or losses in the period of change.

- Natural gas price risk management

  The Corporation may hedge the purchase price and sale price of natural gas. The purchase or sale price of gas may be fixed within the contract, or referenced to a floating index price. When the price is referenced to a floating index price, financial instruments may be used as a hedge to fix the settlement amount. The types of financial instruments SaskEnergy uses to effect these hedges include natural gas price swaps, options, and swaptions traded on the over-the-counter market. In addition, SaskEnergy may use futures contracts and options on futures contracts traded on the New York Mercantile Exchange. The Corporation may sell options to generate premium revenue, which is used to offset the cost to purchase call options.

- Foreign currency exchange and interest rate risk management

  The Corporation uses financial instruments to hedge the interest rate on anticipated borrowing requirements and the foreign currency exchange rate on foreign currency denominated transactions. For the purpose of hedging interest rates, the Corporation may use forward rate agreements, options, and interest rate swaps. For the purpose of hedging the exchange rate on transactions denominated in foreign currency, SaskEnergy may use currency forwards and currency options.

l. Employees' future benefits

The Corporation provides pension plans for all eligible employees, including a defined contribution pension plan and a defined benefit pension plan. The defined contribution pension plan is governed by *The Public Employees Pension Plan Act and Regulations*. The defined benefit pension plan is governed by *The Superannuation (Supplementary Provisions) Act and Regulations*, as well as *The Power Corporation Superannuation Act*.

Under both plans the Corporation's obligations are limited to making regular payments to the plans to match contributions made by the employees for current services. When made, these contributions are charged against income.

The cost of future retirement allowance benefits earned by employees is actuarially determined using the projected benefit method and management's best estimates. Past service costs are amortized on a straight-line basis over the estimated average remaining service period of active employees.

m. Deferred financing charges

Included in deferred financing charges are issue costs, discounts resulting from the issue of long-term debt, and costs of terminating delayed start interest rate swaps relating to financing of debt. These deferred financing charges are amortized as part of interest expense over the term of the related debt on a straight-line basis.

3. GAS COST VARIANCE ACCOUNT

The GCVA, as at December 31, includes natural gas costs to be recovered from or refunded to customers as follows:

	2003	2002
	(thousands)	
Commodity sales revenue	$ 374,448	$ 377,281
Less:		
Cost of gas before interest on the GCVA	404,031	418,038
Interest on the GCVA	1,593	439
Loss from commodity sales during the year	31,176	41,196
Amounts not recoverable	(12,784)	-
Interest not recoverable	(1,133)	-
Balance, beginning of year to be collected from (refunded to) customers	31,677	(9,519)
Balance, end of year to be collected from customers in future years	$ 48,936	$ 31,677

The loss from commodity sales of $31,176 thousand (2002 - $41,196 thousand) is included in the December 31, 2003 retained earnings balance of $237,738 thousand (2002 - $223,373 thousand) on the statement of financial position.

As at April 30, 2003, the cost of gas sold exceeded commodity sales revenue by $71,926 thousand. On April 24, 2003, the Corporation submitted a rate application to the Provincial Cabinet (Cabinet) for a commodity rate increase. Subject to a review by the Saskatchewan Rate Review Panel, an interim commodity rate increase was approved by Cabinet effective May 1, 2003.

Following a review by the Saskatchewan Rate Review Panel, Cabinet gave final approval to a new commodity rate effective August 1, 2003. Included in the rate decision, Cabinet reduced the amount that could be recovered from customers through the GCVA by $12,784 thousand. In addition, Cabinet disallowed interest that could be charged by the Corporation on any balance in the GCVA over $20,000 thousand.

4. PROPERTY, PLANT AND EQUIPMENT

	2003			2002		
	(thousands)					
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Transmission and storage	$ 591,079	$ 157,804	$ 433,275	$ 573,181	$ 147,833	$ 425,348
Distribution	589,744	157,801	431,943	566,118	141,704	424,414
Gathering, treatment and compression	151,993	55,199	96,794	157,780	55,262	102,518
Vehicles, equipment and other	143,865	77,964	65,901	134,621	67,578	67,043
Royalty interest	6,509	6,509	-	6,509	6,509	-
Construction in progress	23,298	-	23,298	5,943	-	5,943
	$1,506,488	$ 455,277	$1,051,211	$1,444,152	$ 418,886	$1,025,266
Less:						
Unamortized customer capital contributions (see below)			110,944			104,087
			$ 940,267			$ 921,179

Property, plant and equipment includes $4,565 thousand (2002 - nil) which represents the Corporation's 50.1 per cent proportionate interest in Heritage Gas Limited.

a. Customer capital contributions

Customer capital contributions are required to be paid by customers to SaskEnergy to aid in construction of certain customer-specific facilities in accordance with established business policies.

	2003	2002
	(thousands)	
Balance, beginning of year	$ 104,087	$ 97,190
Contributions received	9,723	9,646
Contributions amortized	(2,866)	(2,749)
Balance, end of year	$ 110,944	$ 104,087

b. Amortization

	2003	2002
	(thousands)	
Amortization of property, plant and equipment	$ 51,625	$ 50,265
Amortization of customer capital contributions	(2,866)	(2,749)
	$ 48,759	$ 47,516

The composite rate of amortization (excluding the effect of customer capital contributions amortization) was 3.50 per cent during 2003 (3.55 per cent during 2002).

5. INVESTMENTS AND OTHER ASSETS

Investments and other assets are as follows:

	2003		2002	
	Per cent Ownership	Amount (thousands)	Per cent Ownership	Amount (thousands)
a. Equity investments				
i. Gas Sur S.A.	30.0	$ 13,214	30.0	$ 11,986
ii. Igasamex USA Ltd.	40.1	10,554	12.4	3,846
Total equity investments		23,768		15,832
b. Deferred costs		-		1,515
c. Other receivables		122		-
d. Deferred charges				
Unamortized deferred financing costs		7,080		7,850
Unamortized past service costs		3,819		4,455
		10,899		12,305
Total investments and other assets:		$ 34,789		$ 29,652

a. Investments:

i. Gas Sur S.A.

Under authority of Order-in-Council 735/1998 dated December 9, 1998, the Corporation purchased a 15 per cent equity interest in Gas Sur S.A., a Chilean natural gas distribution company. On December 14, 2001, under authority of Order-in-Council 825/2001 dated November 13, 2001, the Corporation increased its equity interest in Gas Sur S.A. to 30 per cent.

On March 12, 2003, under authority of Order-in-Council 735/1998, the Corporation contributed incremental equity to Gas Sur S.A. of $1,040 thousand. The Corporation's equity interest in Gas Sur S.A. was maintained at 30 per cent as the other shareholder contributed its 70 per cent proportionate share. The total amount invested was $13,784 thousand as at December 31, 2003 (2002 – $12,740 thousand).

The Corporation's share of the foreign currency translation adjustment resulted in a $66 thousand increase in the balance of the investment in Gas Sur S.A. (2002 – $740 thousand reduction). The Corporation's 30 per cent share of Gas Sur S.A.'s 2003 net earnings was $118 thousand (2002 – $14 thousand loss).

The cost of the investment exceeds the Corporation's underlying share of the net book value of Gas Sur S.A. by approximately $5,100 thousand and is not being amortized.

ii. Igasamex USA Ltd.

Under authority of Order-in-Council 879/2001 dated December 5, 2001, the Corporation purchased a 12.4 per cent equity interest in Igasamex USA Ltd. a limited liability partnership registered in the United States. Igasamex USA Ltd. owns a 100 per cent voting interest in Integrated Gas Services de Mexico, S. de R.L. de C.V., a corporation that provides natural gas transmission services to Mexico's industrial sector.

On June 30, 2003, under authority of Order-in-Council 879/2001, the Corporation increased its equity interest in Igasamex USA Ltd. to 40.1 per cent. The total amount invested was $10,880 thousand as at December 31, 2003 (2002 – $3,846 thousand).

In 2002, the 12.4 per cent equity interest in Igasamex USA Ltd. was recorded using the cost basis of accounting. On June 30, 2003, the equity ownership in Igasamex USA Ltd. was increased to 40.1 per cent and as a result, the investment was accounted for by the equity basis of accounting from that date.

The Corporation's share of the foreign currency translation adjustment for 2003 resulted in a $410 thousand reduction in the balance of the investment in Igasamex USA Ltd. The Corporation's 40.1 per cent share of Igasamex USA Ltd.'s 2003 net earnings was $84 thousand.

The cost of the investment exceeds the Corporation's underlying share of the net book value of Igasamex USA Ltd. by approximately $5,240 thousand and is not being amortized.

The equity interest is held through general partnership and limited partnership units.

The Order-in-Council limits the investment in Igasamex USA Ltd. to a maximum of $12,000 thousand United States dollars.

b. Deferred costs

On August 16, 2002, Heritage Gas Limited applied for a full regulation class franchise for a specific area in Nova Scotia pursuant to *The Gas Distribution Act (Nova Scotia)*. The Nova Scotia Utility and Review Board (NSUARB) awarded Heritage Gas Limited the franchise to distribute natural gas to six counties in the Province of Nova Scotia on February 7, 2003 which Heritage Gas Limited accepted as of June 3, 2003. Since the date of franchise acceptance, Heritage Gas Limited has acquired and constructed gas distribution facilities and undertaken those activities necessary to establish an operational natural gas distribution utility. A license to operate was issued by the NSUARB on December 19, 2003. As a result, during 2003, deferred costs were transferred to Heritage Gas Limited.

c. Other receivables

Other receivables is comprised of a regulatory receivable ($122 thousand). The regulatory receivable includes an accrual of the revenue deficiency in Heritage Gas Limited based on the rate base employed over the period June 3 to December 31, 2003. The return on rate base is calculated using Heritage Gas Limited's weighted average cost of capital as approved by the NSUARB.

6. LONG-TERM DEBT

	2003		2002	
Years to Maturity	Principal Outstanding (thousands)	Average Fixed Interest Rate (per cent)	Principal Outstanding (thousands)	Average Fixed Interest Rate (per cent)
Province of Saskatchewan				
1 - 5	$ 321,079	8.4	$ 245,954	8.6
6 - 10	169,136	6.7	194,261	7.5
16 - 30	193,971	7.3	193,971	7.3
	684,186		634,186	
Less sinking fund equity	(26,121)		(20,407)	
Less due within one year	(34,997)		(4,040)	
Due to Province of Saskatchewan	623,068		609,739	
Other	4,816	13.5	4,816	13.5
Total long-term debt	$ 627,884		$ 614,555	

a. Sinking funds

Under conditions attached to certain advances from the Province of Saskatchewan's General Revenue Fund, SaskEnergy is required to (on an annual basis) invest an amount equal to one per cent of the related outstanding debt. This investment is referred to as a sinking fund. These funds are administered by the Province of Saskatchewan's Department of Finance. The investments held in these sinking funds are primarily Province of Saskatchewan debt instruments. The yield on these investments was 5.20 per cent for 2003 (5.36 per cent for 2002).

b. Maturity dates

Maturity dates are equivalent to interest rate repricing dates.

c. Short-term debt

During 2003, the Corporation borrowed funds on a short-term basis from the Province of Saskatchewan’s General Revenue Fund at an average interest rate of 2.9 per cent (2002 – 4.0 per cent).

Short-term debt at December 31, 2003 consists of $110,000 thousand (2002 – $173,200 thousand) that was due to the Province of Saskatchewan's General Revenue Fund with an interest rate of 2.7 per cent (2002 – 2.7 per cent).

d. Principal repayments

Principal repayments and sinking fund instalments due in each of the next five years are as follows:

	2004	2005	2006	2007	2008
			(thousands)		
Principal	$ 30,457	$ 101,195	$ 66,597	$ 47,705	$ 75,126
Sinking fund instalments	4,540	4,540	3,790	3,790	3,790
Total	$ 34,997	$ 105,735	$ 70,387	$ 51,495	$ 78,916

e. Interest expense

Interest expense was as follows:

	2003	2002
	(thousands)	
Interest expense on long-term debt	$ 52,876	$ 50,468
Interest expense on short-term debt	3,050	4,059
Amortization of deferred financing costs	1,053	1,111
Interest on cost of gas sold	(3,527)	(2,387)
Sinking fund earnings	(1,173)	(937)
Interest capitalized	(204)	(178)
	$ 52,075	$ 52,136

Cash interest paid during 2003 on long-term debt was $53,091 thousand (2002 – $50,466 thousand).

7. EQUITY ADVANCES

The Corporation does not have share capital. However, the Corporation has received advances from CIC to form its equity capitalization. The advances reflect an equity investment in the Corporation by CIC.

8. FINANCIAL INSTRUMENTS, COMMITMENTS AND CONTINGENCIES

FINANCIAL INSTRUMENTS

a. Fair value of financial instruments

The fair value of the Corporation's financial instruments is listed below:

	2003		2002	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(thousands)			
Long-term debt	$ 689,002	$ 790,799	$ 639,002	$ 741,938
Sinking fund equity	26,121	27,536	20,407	21,299
Natural gas price hedges				
owed to (by) SaskEnergy:				
- swaps	-	(13,986)	-	(12,498)
- options	412	751	-	-
Interest rate hedges				
owed to (by) SaskEnergy:				
- forward rate agreements	(6)	(145)	-	(129)

The fair values of the above instruments were based on the following:

i. Long-term debt - The present value of future cash flows discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.

ii. Sinking fund equity - The market value of the investments held in the sinking fund as at year end.

iii. Natural gas price swaps - The relevant index price in effect as at year end.

iv. Natural gas price options - The relevant index price in effect as at year end.

v. Interest rate hedges - Closing quotations from the counterparty as to the amount to settle the contract as at year end.

The carrying values of other financial instruments (accounts receivable, accounts payable, dividends payable and short-term debt) approximate fair value.

b. The Corporation has entered into forward purchase agreements to purchase 1.6 petajoules of natural gas during 2004.

c. The Corporation has entered into natural gas price swaps with counterparties, to fix the purchase price for a total of 1.6 petajoules in 2005 and 2006. The natural gas purchased in 2005 and 2006 will be held for operations.

d. The Corporation has entered into forward sale agreements to deliver 5.4 petajoules of natural gas during 2004 and 2005. The Corporation has entered into natural gas price swaps, to fix the final selling price for the 5.4 petajoules committed for sale during 2004 and 2005.

e. Credit risk management

The Corporation extends credit to its customers in the normal course of business and is at risk of loss in the event of non-performance by counterparties on certain of the financial instruments described above. To reduce its credit risk, SaskEnergy has established policies and procedures to monitor and limit the amount of credit extended to its customers and counterparties.

f. Guarantees

SaskEnergy Incorporated has granted a guarantee related to certain obligations established under the Gas Sur S.A. Shareholders' Agreement. The guarantee is expressly limited to $5,000 thousand United States dollars (USD).

g. Letters of credit

i. The Corporation has posted a $3,006 thousand United States dollar denominated letter of credit in favour of Bank One, N.A., a United States bank. The letter of credit was used as collateral for the Corporation's share of a line of credit Bank One, N.A. has granted to Igasamex Bajio, S. de R.L. de C.V., a wholly owned subsidiary of Integrated Gas Services de Mexico, S. de R.L. de C.V.

Bank One, N.A. may draw upon this letter of credit if Igasamex defaults under the terms of its loan agreement with Bank One, N.A.

ii. The Corporation has posted a $10,000 thousand letter of credit with NGX Financial Inc. (NGX) as security for gas purchase and sales transactions conducted by SaskEnergy on the NGX electronic natural gas exchange in Alberta. NGX may only draw on the letter of credit if SaskEnergy fails to make timely payment for, or delivery of natural gas as per the related contract. The posting of letters of credit is designed to ensure the security of the contracts traded on the NGX. All participants in the NGX are required to post security.

iii. The Corporation has posted a $20 thousand letter of credit to Saskatchewan Industry and Resources.

LEASES

The Corporation leases natural gas storage facilities near Regina, Saskatchewan. The base lease payments are as follows: (thousands)

2004	2005	2006	2007	2008	Thereafter	Total
$226	$195	$199	$204	$210	$547	$1,581

9. NET SALES FROM GAS MARKETING

Net sales from gas marketing include the following:

	2003	2002
	(thousands)	
Competitive gas sales	$ 271,651	$ 331,103
Cost of gas	230,483	316,551
Margin	$ 41,168	$ 14,552

Of the $271,651 thousand in gross revenue from natural gas sales noted above, $21,658 thousand (2002 - $13,378 thousand) was generated from natural gas purchased from an affiliate at nil cost. The consideration was equal to the affiliate's carrying value.

10. REVENUE COLLECTED FOR AND PAID TO MUNICIPALITIES

a. Natural gas distribution

In accordance with regulations under *The SaskEnergy Act*, SaskEnergy is required to remit to 109 urban municipalities an amount calculated as either five per cent or three per cent of natural gas sales to customers within the respective municipality. These municipal payments are charged to customers and reported as revenue collected for municipalities. These amounts are remitted to the respective municipalities and reported as payments to municipalities on the statement of earnings and retained earnings. In 2003, revenue collected and paid to municipalities was $19,149 thousand (2002 - $18,637 thousand).

b. Natural gas transmission

In accordance with regulations under *The SaskEnergy Act*, TransGas Limited (TransGas) is required to collect from specific customers an amount based on the value of natural gas transported on their behalf. TransGas in turn pays the revenue collected to the certain municipalities. The revenue collected is classified as revenue collected for municipalities, and the expense paid is classified as payments to municipalities on the statement of earnings and retained earnings. In 2003, revenue collected and paid to municipalities was $5,283 thousand (2002 - $3,961 thousand).

11. SASKATCHEWAN TAXES AND ROYALTIES

Saskatchewan taxes and royalties include the following:

	2003	2002
	(thousands)	
Corporate capital tax	$ 4,615	$ 6,080
Royalties	3,460	1,926
Mitigation payments and property taxes	1,164	1,015
	$ 9,239	$ 9,021

The above amounts do not include Saskatchewan Provincial Sales Tax payments.

12. NET CHANGE IN NON-CASH WORKING CAPITAL

	2003	2002
	(thousands)	
Accounts receivable	$ (25,017)	$ 26,204
Natural gas in storage – held for resale	23,516	(7,818)
Prepaid expenses	-	36,506
Inventories of supplies	(1,129)	(18)
Accounts payable	19,948	(8,234)
	$ 17,318	$ 46,640

13. RELATED PARTY TRANSACTIONS

Included in these consolidated financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as related parties).

Routine operating transactions with these related parties are settled at exchange amounts which approximate prevailing market prices under normal trade terms. Transactions during the year, and amounts outstanding at year end, are as follows:

	2003	2002
	(thousands)	
Revenue	$ 42,090	$ 31,378
Operating expenses	27,577	23,680
Customer capital contributions	3,345	2,567
Accounts receivable	1,505	2,346
Accounts payable	704	651

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Province of Saskatchewan's Department of Finance on all its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts and transactions due to and from related parties and the terms of settlement are described separately in these financial statements and the notes thereto.

14. EMPLOYEES' FUTURE BENEFITS

a. Pension plans

Substantially all employees of the Corporation are members of either a defined contribution or a defined benefit pension plan. During the year, the Corporation contributed $2,819 thousand (2002 - $2,705 thousand) on behalf of employees for current services.

b. Retiring allowance plan

The defined benefit retiring allowance plan for management employees and members of the Communications, Energy and Paperworkers Union, Local 649 is as follows:

	2003	2002
	(thousands)	
Accrued benefit liability	$ 10,868	$ 9,828
Benefits paid during the year	800	672
Net expense	2,295	1,219

The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit liability at December 31 are:

	2003	2002
Discount rate	5.00 per cent	5.25 per cent
Inflation rate	3.00 per cent	3.00 per cent
Average remaining employee service life (years)	8.6	8.6

15. SEGMENTED INFORMATION

SaskEnergy operates predominantly in the following two industry segments:

Distribution (Distribution Division of SaskEnergy) provides natural gas distribution services to the Province of Saskatchewan.

Transportation (TransGas Limited) operates the major natural gas transmission pipeline system within Saskatchewan providing open access transmission services including gathering, compression and natural gas processing to end use customers, marketers and export producers. This company also provides natural gas storage services.

A) Statement of Earnings (millions of dollars)

	Distribution		Transportation		Other[1]		Intercompany[2]		Total	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002
REVENUE										
Delivery revenue	**171.4**	169.8	**-**	-	**0.6**	0.6	**(7.2)**	(5.3)	**164.8**	165.1
Transportation and storage	**-**	-	**134.3**	123.3	**3.6**	3.6	**(56.9)**	(59.3)	**81.0**	67.6
Net sales from gas marketing	**-**	-	**-**	28.3	**35.3**	-	**5.9**	(13.7)	**41.2**	14.6
Revenue collected for municipalities	**19.1**	18.6	**5.3**	4.0	**-**	-	**-**	-	**24.4**	22.6
Other	**5.7**	(2.0)	**-**	-	**7.5**	4.6	**(7.1)**	2.1	**6.1**	4.7
Revenue	**196.2**	186.4	**139.6**	155.6	**47.0**	8.8	**(65.3)**	(76.2)	**317.5**	274.6
EXPENSES										
Operating and maintenance	**113.6**	118.2	**54.9**	51.2	**7.5**	2.5	**(61.3)**	(60.1)	**114.7**	111.8
Interest	**17.9**	18.9	**27.9**	28.8	**1.7**	1.0	**4.6**	3.4	**52.1**	52.1
Amortization of capital assets	**23.5**	22.9	**23.1**	24.0	**2.2**	0.7	**-**	-	**48.8**	47.6
Payments to municipalities	**19.1**	18.6	**5.3**	4.0	**-**	-	**-**	-	**24.4**	22.6
Saskatchewan taxes and royalties	**2.9**	4.0	**2.2**	4.3	**4.1**	0.7	**-**	-	**9.2**	9.0
Expenses	**177.0**	182.6	**113.4**	112.3	**15.5**	4.9	**(56.7)**	(56.7)	**249.2**	243.1
Net earnings from operations before the following	**19.2**	3.8	**26.2**	43.3	**31.5**	3.9	**(8.6)**	(19.5)	**68.3**	31.5
Commodity revenue	**374.4**	377.3	**-**	-	**0.4**	0.3	**(0.1)**	(0.3)	**374.7**	377.3
Cost of gas sold	**405.6**	418.5	**-**	-	**0.7**	0.3	**(4.3)**	(16.9)	**402.0**	401.9
Net revenue (loss) from commodity sales	**(31.2)**	(41.2)	**-**	-	**(0.3)**	-	**4.2**	16.6	**(27.3)**	(24.6)
Net earnings (loss)	**(12.0)**	(37.4)	**26.2**	43.3	**31.2**	3.9	**(4.4)**	(2.9)	**41.0**	6.9

B) Statement of Financial Position (millions of dollars)

	Distribution		Transportation		Other[1]		Intercompany[2]		Total	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002
Current assets	**228.3**	202.5	**42.9**	54.6	**7.8**	5.4	**(45.9)**	(30.2)	**233.1**	232.3
Property, plant & equipment, & natural gas in storage	**404.4**	400.1	**522.5**	529.1	**39.1**	20.3	**-**	-	**966.0**	949.5
Investments & other assets	**7.1**	7.8	**4.5**	5.2	**24.0**	15.8	**(0.8)**	0.8	**34.8**	29.6
Total assets	**639.8**	610.4	**569.9**	588.9	**70.9**	41.5	**(46.7)**	(29.4)	**1,233.9**	1,211.4
Current liabilities	**175.9**	151.6	**79.5**	61.6	**23.9**	10.3	**18.5**	79.2	**297.8**	302.7
Long-term debt	**251.6**	266.1	**314.5**	335.1	**15.5**	13.6	**46.3**	(0.3)	**627.9**	614.5
Total liabilities	**427.5**	417.7	**394.0**	396.7	**39.4**	23.9	**64.8**	78.9	**925.7**	917.2
Total equity	**212.3**	192.7	**175.9**	192.2	**31.5**	17.6	**(111.5)**	(108.3)	**308.2**	294.2
Total liabilities and equity	**639.8**	610.4	**569.9**	588.9	**70.9**	41.5	**(46.7)**	(29.4)	**1,233.9**	1,211.4

[1] The Other category includes Many Islands Pipelines (Canada) Limited, Bayhurst Gas Limited, Saskatchewan First Call Corporation, SaskEnergy International Incorporated, Swan Valley Gas Corporation, and SaskEnergy Nova Scotia Holdings Ltd.

[2] The Intercompany category includes general corporate assets, liabilities, revenue and expenses, and also reflects the elimination of intercompany transactions required upon consolidation.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Corporation accounts for intercompany sales as if the sales were to third parties at current market prices.

The reportable segments are the major strategic business units of the Corporation. Each business unit is managed separately as it provides products and services requiring different business, technology and marketing strategies.

16. SASKATCHEWAN RATE REVIEW PANEL

During 2000, the Saskatchewan Rate Review Panel was established by Minister's Order. The Panel was established to conduct a review of the Corporation's request for a change in rates charged for natural gas commodity sales and delivery service. The review of proposed rate changes considers the interests of the consumer, the Corporation and the public.

17. COMPARATIVE FIGURES

Certain of the prior year amounts have been reclassified to conform to the current year's presentation.

FIVE-YEAR FINANCIAL SUMMARY

	Distribution					Transportation				
millions of dollars	2003	2002	2001	2000	1999	2003	2002	2001	2000	1999
A. Statement of Earnings										
REVENUE										
Delivery revenue	171.4	169.8	158.1	170.5	171.9	-	-	-	-	-
Transportation and storage	-	-	-	-	-	134.3	123.3	125.1	132.6	139.5
Net sales from gas marketing	-	-	-	-	-	-	28.3	35.0	15.4	7.3
Revenue collected from municipalities	19.1	18.6	16.3	13.3	-	5.3	4.0	5.8	4.8	-
Other	5.7	(2.0)	2.7	1.8	4.7	-	-	-	-	-
Revenue	196.2	186.4	177.1	185.6	176.6	139.6	155.6	165.9	152.8	146.8
EXPENSES										
Operating and maintenance	113.6	118.2	116.8	114.4	109.2	54.9	51.2	49.8	45.7	44.9
Interest	17.9	18.9	17.7	26.4	25.2	27.9	28.8	29.6	39.2	40.5
Amortization of capital assets	23.5	22.9	22.0	21.1	20.1	23.1	24.0	23.7	22.1	21.7
Payments to municipalities	19.1	18.6	16.3	13.3	10.9	5.3	4.0	5.8	4.8	3.3
Saskatchewan taxes and royalties	2.9	4.0	3.0	2.4	2.5	2.2	4.3	7.2	7.2	5.4
Expenses	177.0	182.6	175.8	177.6	167.9	113.4	112.3	116.1	119.0	115.8
Net earnings from operations before the following	19.2	3.8	1.3	8.0	8.7	26.2	43.3	49.8	33.8	31.0
Commodity revenue	374.4	377.3	310.4	238.0	150.5	-	-	-	-	-
Cost of gas sold	405.6	418.5	376.7	239.5	153.4	-	-	-	-	-
Net revenue (loss) from commodity sales	(31.2)	(41.2)	(66.3)	(1.5)	(2.9)	-	-	-	-	-
Net earnings (loss)	(12.0)	(37.4)	(65.0)	6.5	5.8	26.2	43.3	49.8	33.8	31.0
B. Statement of Financial Position										
Current assets	228.3	202.5	280.5	211.1	134.3	42.9	54.6	58.5	68.8	38.2
Property, plant & equipment, & natural gas in storage	404.4	400.1	396.5	386.6	378.0	522.5	529.1	533.8	542.4	559.5
Investments & other assets	7.1	7.8	8.5	5.4	1.5	4.5	5.2	5.9	2.4	1.0
Total assets	639.8	610.4	685.5	603.1	513.8	569.9	588.9	598.2	613.6	598.7
Current liabilities	175.9	151.6	218.4	199.9	116.5	79.5	61.6	67.9	57.0	23.8
Long-term debt	251.6	266.1	268.0	215.0	284.4	314.5	335.1	338.1	366.3	399.8
Total liabilities	427.5	417.7	486.4	414.9	400.9	394.0	396.7	406.0	423.3	423.6
Total equity	212.3	192.7	199.1	188.2	112.9	175.9	192.2	192.2	190.3	175.1
Total liabilities and equity	639.8	610.4	685.5	603.1	513.8	569.9	588.9	598.2	613.6	598.7

1 - The Other category includes Many Islands Pipelines (Canada) Limited, Bayhurst Gas Limited, Saskatchewan First Call Corporation, SaskEnergy International Incorporated and Swan Valley Gas Corporation, and SaskEnergy Nova Scotia Holdings Ltd.

2 - The Intercompany category includes general corporate assets, liabilities, revenue and expenses, and also reflects the elimination of intercompany transactions required upon consolidation.

Other [1]					Intercompany [2]					Consolidated Entity				
2003	2002	2001	2000	1999	2003	2002	2001	2000	1999	2003	2002	2001	2000	1999
0.6	0.6	0.5	-	-	(7.2)	(5.3)	(3.5)	(4.0)	-	164.8	165.1	155.1	166.5	171.9
3.6	3.6	3.6	4.1	3.9	(56.9)	(59.3)	(59.9)	(64.0)	(68.1)	81.0	67.6	68.8	72.7	75.3
35.3	-	-	-	-	5.9	(13.7)	3.5	2.1	5.5	41.2	14.6	38.5	17.5	12.8
-	-	-	-	-	-	-	-	-	-	24.4	22.6	22.1	18.1	-
7.5	4.6	6.1	4.3	3.0	(7.1)	2.1	(4.4)	(3.5)	(2.4)	6.1	4.7	4.4	2.6	5.3
47.0	8.8	10.2	8.4	6.9	(65.3)	(76.2)	(64.3)	(69.4)	(65.0)	317.5	274.6	288.9	277.4	265.3
7.5	2.5	2.3	2.0	1.7	(61.3)	(60.1)	(59.3)	(62.5)	(60.8)	114.7	111.8	109.6	99.6	95.0
1.7	1.0	1.3	1.1	1.0	4.6	3.4	4.6	(0.1)	0.2	52.1	52.1	53.2	66.6	66.9
2.2	0.7	1.5	1.4	1.5	-	-	-	(0.1)	-	48.8	47.6	47.2	44.5	43.3
-	-	-	-	-	-	-	-	-	-	24.4	22.6	22.1	18.1	14.2
4.1	0.7	0.6	0.5	0.5	-	-	-	-	(0.1)	9.2	9.0	10.8	10.1	8.3
15.5	4.9	5.7	5.0	4.7	(56.7)	(56.7)	(54.7)	(62.7)	(60.7)	249.2	243.1	242.9	238.9	227.7
31.5	3.9	4.5	3.4	2.2	(8.6)	(19.5)	(9.6)	(6.7)	(4.3)	68.3	31.5	46.0	38.5	37.6
0.4	0.3	0.1	-	-	(0.1)	(0.3)	-	-	(4.0)	374.7	377.3	310.5	238.0	146.5
0.7	0.3	0.1	-	-	(4.3)	(16.9)	(4.9)	(7.4)	(5.9)	402.0	401.9	371.9	232.1	147.5
(0.3)	-	-	-	-	4.2	16.6	4.9	7.4	1.9	(27.3)	(24.6)	(61.4)	5.9	(1.0)
31.2	3.9	4.5	3.4	2.2	(4.4)	(2.9)	(4.7)	0.7	(2.4)	41.0	6.9	(15.4)	44.4	36.6
7.8	5.4	5.2	4.2	1.8	(45.9)	(30.2)	(58.9)	(62.4)	(31.3)	233.1	232.3	285.3	221.7	143.0
39.1	20.3	20.6	19.3	16.1	-	-	1.2	(0.3)	(0.1)	966.0	949.5	952.1	948.0	953.5
24.0	15.8	12.9	7.4	5.0	(0.8)	0.8	(0.5)	0.1	(0.1)	34.8	29.6	26.8	15.3	7.4
70.9	41.5	38.7	30.9	22.9	(46.7)	(29.4)	(58.2)	(62.6)	(31.5)	1,233.9	1,211.4	1,264.2	1,185.0	1,103.9
23.9	10.3	9.2	13.0	6.3	18.5	79.2	56.6	(60.3)	(22.4)	297.8	302.7	352.1	209.6	124.2
15.5	13.6	13.7	6.7	7.6	46.3	(0.3)	(0.2)	79.5	-	627.9	614.5	619.6	667.5	691.8
39.4	23.9	22.9	19.7	13.9	64.8	78.9	56.4	19.2	(22.4)	925.7	917.2	971.7	877.1	816.0
31.5	17.6	15.8	11.2	9.0	(111.5)	(108.3)	(114.6)	(81.8)	(9.1)	308.2	294.2	292.5	307.9	287.9
70.9	41.5	38.7	30.9	22.9	(46.7)	(29.4)	(58.2)	(62.6)	(31.5)	1,233.9	1,211.4	1,264.2	1,185.0	1,103.9

CORPORATE GOVERNANCE

A. Authority

SaskEnergy is a statutory Crown corporation governed by *The SaskEnergy Act* and *The SaskEnergy Regulations*. The Board of Directors oversees the management of the Corporation and holds management accountable for the Corporation's performance. Through the Chair, the Board of Directors is accountable to the Minister Responsible for SaskEnergy, who functions as a link between the Corporation and Cabinet, as well as the Provincial Legislature.

B. Board Responsibilities

The Board is responsible for the stewardship of the Corporation. In carrying out this responsibility, the Board participates in the Corporation's strategic planning process each year and approves the strategic direction and corporate plan. The Board also exercises its responsibility to oversee and ensure adherence to *The SaskEnergy Act*.

C. Board Composition

SaskEnergy's Board of Directors is representative of Saskatchewan community and industry. The Lieutenant Governor in Council, pursuant to *The SaskEnergy Act*, appoints Board members. Members possess a variety of significant attributes, including industry expertise, strategic leadership, entrepreneurial and communication skills, integrity, flexibility, sound judgment and initiative. Board members are committed to serving the Corporation, and in so doing, serving Saskatchewan people through emphasis on client service, productivity, profitability, co-operation and sound environmental stewardship.

D. Committees

The Board established the following four committees to assist in discharging specific areas of Board responsibility:

- Audit and Finance Committee
- Governance Committee
- Human Resources/Compensation Committee
- Safety, Health and Environment Committee

Audit and Finance Committee

Chair: Mervyn Simon

The Audit and Finance Committee mandate is to assist the Board of Directors in meeting their responsibilities with respect to financial reporting, internal control and accountability. In addition, it ensures that the Board is provided with financial plans and proposals consistent with the Corporation's overall strategic plan and public policy objectives.

Governance Committee

Chair: Tim Gitzel

The Governance Committee is responsible for the development and maintenance of SaskEnergy's corporate governance practices. Among other things, its duties include evaluating the performance of the Board and establishing appropriate Board and Board committee structure, composition and mandate.

Human Resources/Compensation Committee

Chair: Michael Chorlton

The Human Resources/Compensation Committee mandate is to oversee SaskEnergy's human resource strategies, programs and practices to ensure that SaskEnergy is a corporate leader in the development and implementation of proactive human resource strategies.

Safety, Health and Environment Committee

Chair: George E. Lafond

The Safety, Health and Environment Committee mandate is to ensure the Corporation is proactively addressing safety, health and environmental issues and is in compliance with all statutory requirements.

E. Governance Practices

SaskEnergy's approach to corporate governance practices is substantially consistent with the guidelines set forth in the *Canadian Institute of Chartered Accountants (CICA) Handbook* (sections entitled *Guidance for Directors* and *Governance Processes for Control*). These guidelines, which were adopted by the Board of Governors of the Toronto Stock Exchange (TSX), address the key areas of responsibility for effective corporate governance, including responsibility for stewardship of the Corporation, the Board's role in working with management and the functioning of the Board. SaskEnergy's corporate governance practices are benchmarked against the Toronto Stock Exchange Guidelines in the following Governance Scorecard.

CORPORATE GOVERNANCE

TSX Corporate Governance Committee's Guidelines	SaskEnergy's Corporate Governance Practices	Consistent with TSX Guidelines?
1. The board should explicitly assume responsibility for the stewardship of the corporation, specifically for:		
(a) Adoption of a strategic planning process and approval of a strategic plan which takes into account, among other things, the opportunities and risks of the business:	The Board of Directors has a formal mandate with responsibility to function as stewards of the Corporation, and has the obligation to manage the affairs and business of the Corporation. While the fundamental objective of the Board is to act in the best interests of the Corporation, the Board has a responsibility to ensure congruence between shareholder expectations, corporate plans and management performance. The Board acts in accordance with the governing legislation, the Corporation's Code of Conduct and the Board's Terms of Reference. One of the Board's principal duties is to provide leadership in setting the Corporation's long-range strategic direction and to approve the Corporation's overall strategic plan. The Corporation's comprehensive strategic planning process results in the annual review and approval by the Board of the Corporation's Strategic Plan, Annual Operating and Capital Budget and Financial Plan. In addition, the Board conducts an annual two-day comprehensive strategy session with senior management, at which the Board reviews and assesses the performance of the Corporation and its subsidiaries, reviews business plans, reviews the opportunities and risks of the Corporation's business, and reviews short-term and long-term objectives for the Corporation, including discussing and approving strategies to meet these objectives. Management must seek the Board's approval for any transaction that would have a significant impact on the Strategic Plan.	Yes
(b) The identification of the principal risks of the corporation's business and ensuring the implementation of appropriate systems to manage these risks:	The Board identifies the principal risks of the Corporation on an annual basis and through the Audit and Finance Committee, monitors the Corporation's risk management programs, in addition to overseeing the implementation of appropriate systems to manage those risks. The Audit and Finance Committee meets regularly to review reports and discuss significant risk areas with the internal and external auditors.	Yes

TSX Corporate Governance Committee's Guidelines	SaskEnergy's Corporate Governance Practices	Consistent with TSX Guidelines?
(c) Succession planning, including appointing, training and monitoring senior management:	The Human Resources/Compensation Committee of the Board annually reviews the adequacy of the Corporation's succession planning strategy, performance targets, and the performance evaluations of the executive officers of the Corporation. The Board supports management's commitment to training and development of all employees.	Yes
(d) A communications policy for the corporation:	Although there is no formal written policy, SaskEnergy is committed to the principles of transparency, openness and timeliness in communications with its shareholder, employees, stakeholders and the public.	Yes
(e) The integrity of the corporation's internal control and management information systems:	The Audit and Finance Committee is responsible for the financial reporting, internal control and accountability of the Corporation. This Committee reviews the integrity of the internal control processes and financial management information systems in conjunction with the internal and external auditors.	Yes
2. (a) The board of directors of every corporation should be constituted with a majority of individuals who qualify as unrelated directors:	There are ten individuals on the SaskEnergy Board of Directors. Ronald S. Clark, President and CEO, and Jean Weimer, Assistant to the President of CEP Union, Local 649, are the only related Board members.	Yes
(b) Disclosure of significant shareholders (ability to exercise a majority of votes to elect directors):	SaskEnergy is a statutory Crown corporation and does not have any share capital.	Not applicable
3. The board is required to disclose on an annual basis the analysis of the application of the principles supporting the conclusion of whether the director is related or an unrelated director:	Frank Proto, Chair: UNRELATED - Independent Industry Business Person (resigned from the Board effective Aug. 15, 2003) Tim Gitzel, Vice Chair: UNRELATED - President and CEO of COGEMA Resources (appointed Chair of the Board effective Dec. 19, 2003) Geoffrey W. Bartlam: UNRELATED - Independent Business Person	Yes

CORPORATE GOVERNANCE

TSX Corporate Governance Committee's Guidelines	*SaskEnergy's Corporate Governance Practices*	*Consistent with TSX Guidelines?*
	Michael W. Chorlton: UNRELATED - Vice President, Renessen LLC, Chicago, Ill. (appointed Vice Chair of the Board effective Dec. 19, 2003) Ronald S. Clark: RELATED - President and Chief Executive Officer of SaskEnergy (ceased being a member of the Board effective Dec. 19, 2003) Ralph Hesje: UNRELATED - President, Wilbros MSI Canada Inc. George E. Lafond: UNRELATED - Special Advisor to the President of the University of Saskatchewan Emmet Reidy: UNRELATED - Independent Business Person Mervyn J. Simon: UNRELATED - Independent Industry Business Person Jean Weimer: RELATED - Assistant to the President of CEP Union, Local 649 (company employee on leave for Union business) For the unrelated Directors, none of them, or their "associates," have worked with or for the Corporation by material contracts or has received remuneration from the Corporation in excess of fees and compensation as Directors and Committee members or as Directors of subsidiaries of the Corporation.	
4. *The board of directors of every corporation should appoint a committee of directors composed exclusively of outside directors, a majority of whom are unrelated directors, with responsibility for proposing to the full board new nominees to the board and for assessing directors on an ongoing basis:*	The Corporation does not have a nominating Committee. The Governance Committee has responsibility to make recommendations to the Board on the size, composition and required qualifications of the Board of Directors. This Committee is also responsible for the ongoing assessment of Directors. All of the Governance Committee members are outside, unrelated Directors.	Yes

TSX Corporate Governance Committee's Guidelines	SaskEnergy's Corporate Governance Practices	Consistent with TSX Guidelines?
5. *Every board of directors should implement a process to be carried out by the nominating committee or other appropriate committee, for assessing the effectiveness of the board as a whole, the committees of the board and the contribution of individual directors:*	The Governance Committee is responsible for implementation of performance evaluations of the Board of Directors, each Committee, the Chair and individual Directors. The Committee surveys Directors to provide feedback on the effectiveness of the Board. The process is conducted by an outside third party consultant to ensure confidentiality. The results are summarized and reported to the Board of Directors, as well as the Crown Investments Corporation Board of Directors. For 2003, the process will consist of the individual Board members completing evaluation surveys on the effectiveness and performance of the Board and of the Chair. Each of the survey results will be summarized and reported to the Board of Directors and to the Crown Investments Corporation Board of Directors. The 2003 process will be conducted internally under the guidance of the Governance Committee. In accordance with shareholder requirements, the individual Board member and Committee evaluations are scheduled to be conducted in 2004, and every second year thereafter.	Yes
6. *Every corporation, as an integral element of the process for appointing new directors, should provide an orientation and education program for new recruits to the board:*	The SaskEnergy Board has approved a Board of Directors Training Policy which outlines the Corporation's commitment to the orientation and training of its incoming Board members and the ongoing training and industry education for current Board members. This policy outlines the comprehensive orientation material to be provided to incoming Board members. As part of the ongoing training for Board members, Crown Investments Corporation of Saskatchewan has facilitated additional training sessions for Board members in 2003. In addition, the Directors were provided a tour of one aspect of the Corporation's business operations.	Yes

CORPORATE GOVERNANCE

TSX Corporate Governance Committee's Guidelines	SaskEnergy's Corporate Governance Practices	Consistent with TSX Guidelines?
7. *Every board of directors should examine its size and undertake, where appropriate, a program to reduce the number of directors to a number which facilitates more effective decision-making:*	SaskEnergy's present Board size of nine members brings the necessary skills and experience to Board decision making to form an effective decision-making body. SaskEnergy's Governance Committee is responsible for annually assessing the size, composition and required qualifications of the Board to determine whether it has all the necessary constituents for effective decision-making.	Yes
8. *The board of directors should review the adequacy and form of the compensation of directors and ensure the compensation realistically reflects the responsibilities and risk involved in being a director:*	The Human Resources/Compensation Committee is responsible for annually reviewing the compensation for the Board members and the Chair, and recommending to Crown Investments Corporation of Saskatchewan for approval any proposed adjustments to compensation levels. Crown Investments Corporation of Saskatchewan is mandated by legislation to fix the remuneration and rate of reimbursement for expenses of directors.	Yes
9. *(a) Subject to guideline 13, committees should be generally composed of outside directors:*	The Board has appointed four Committees: • Audit and Finance Committee • Governance Committee • Human Resources/Compensation Committee • Safety, Health and Environment Committee Committees are comprised solely of non-management members, except the Human Resources/Compensation Committee and the Safety, Health and Environment Committee, where Jean Weimer, a unionized employee on leave from the Corporation, is a member.	Yes
(b) The majority of committee members should be unrelated:	The majority of Committee members are unrelated.	Yes

TSX Corporate Governance Committee's Guidelines	SaskEnergy's Corporate Governance Practices	Consistent with TSX Guidelines?
10. Every board of directors should expressly assume responsibility for, or assign to a committee of directors the general responsibility for developing the corporation's approach to governance issues. This committee would, among other things, be responsible for the corporation's response to these governance guidelines:	The Governance Committee is mandated to be responsible to the Board for governance of SaskEnergy, including issues related to governance and conflict of interest involving Directors and Senior Executives. The Governance Committee has reviewed and approved this report.	Yes
11. (a) The board of directors, together with the CEO, should develop position descriptions for the board and for the CEO, involving the definition of the limits to management's responsibilities:	The Board of Directors has developed the Board's Terms of Reference which outline the responsibilities for the Board and management. The Board of Directors has approved policies for the execution of documents and expenditure authorities for the CEO and Senior Management. These policies clearly outline the limits to Senior Management's authorities and the levels for which matters must receive Board of Directors approval.	Yes
(b) The board should approve or develop the corporate objectives which the CEO is responsible for meeting and assess the CEO against these objectives:	The Human Resources/Compensation Committee annually reviews with the CEO the performance targets and performance evaluation of the CEO and the Executive Officers. The CEO's performance is assessed against the Corporation's annual objectives. The results of the CEO's performance is reported to the full Board.	Yes
12. Every board of directors should have in place appropriate structures and procedures which ensure that the board can function independently of management:	The Board structure at SaskEnergy is such that the Chair of the Board is unrelated. The Board meeting procedures are such that at each meeting the Board conducts an in-camera session whereby Management, including the President and CEO who is a Board member, are excused from the meeting.	Yes

CORPORATE GOVERNANCE

TSX Corporate Governance Committee's Guidelines	*SaskEnergy's Corporate Governance Practices*	*Consistent with TSX Guidelines?*
13. The audit committee of every board of directors should be composed only of outside directors. The roles and responsibilities of the audit committee should be specifically defined so as to provide appropriate guidance to audit committee members as to their duties. The audit committee should have direct communication channels with the internal and external auditors to discuss and review specific issues, as appropriate. The audit committee's duties should include oversight responsibility for management reporting on internal control. While it is management's responsibility to design and implement an effective system of internal control, it is the responsibility of the audit committee to ensure that management has done so.	All members of the SaskEnergy Audit and Finance Committee are outside Directors. SaskEnergy's Audit and Finance Committee's Terms of Reference states that the Committee has a mandate to, among other things: • Review with management and the external auditors, and recommend to the Board for approval, the Annual Audited Financial Statements of the Corporation and its wholly owned subsidiaries. • Review and recommend for approval of the Board the Management's Discussion and Analysis (MD&A) section of the Annual Report, as well as any other disclosure documents containing financial statements or financial information of the Corporation. • Review the semi-annual financial statements. • Review annually the results of the external auditors' review of the Corporation's financial records. • Review the results of the reports of the internal and external auditors with respect to the state of the Corporation's internal control systems. • Review the quality of service and the performance of the external auditors and recommend the appointment or reappointment of the external auditors. The Committee has sole authority for the relationship with the external auditors, including recommending the terms of their audit engagement and related fees. • Review internal audit costs, external audit fees, directors' expenses, senior management's expenses and the material outstanding litigation report. • Review and approve the plans of the Corporation's internal auditor.	Yes

TSX Corporate Governance Committee's Guidelines	SaskEnergy's Corporate Governance Practices	Consistent with TSX Guidelines?
	• Review financial forecasts. • Review annually the efficacy of the Corporation's policies relating to execution of documents, derivatives, and expenditures. • Review annually the objectives, goals and basic principles in use of financial derivatives to manage interest rates, gas price and foreign currency risk, and the Gas Marketing Business Plan. • Review quarterly the performance and execution of the Gas Price Hedging Strategy, Corporate Debt Strategy and Foreign Exchange Hedging Strategy as contained in the Corporate Derivatives Policy. • Review annually the borrowing and new venture financing of the Corporation. • Review annually the insurable risks and insurance coverage, the Corporate Credit Risk Management Policy and the procedures for commodity risk management. • Monitor management's process for identifying, controlling and reporting those financial risks that could have a material impact on the Corporation's financial reporting.	
14. The board of directors should implement a system which enables an individual director to engage an outside advisor at the expense of the Corporation in appropriate circumstances. The engagement of an outside advisor should be subject to the approval of an appropriate committee of the board:	The Board or any Committee of the Board may obtain the advice and counsel of external advisors if, in the opinion of the Board or Committee, it is necessary in order to properly discharge their function, duties and responsibilities that such advisor be engaged.	Yes

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This is part of a three-book set consisting of the Annual Report 2003, Management's Discussion and Analysis 2003 and Corporate Social Responsibilty Report 2003.