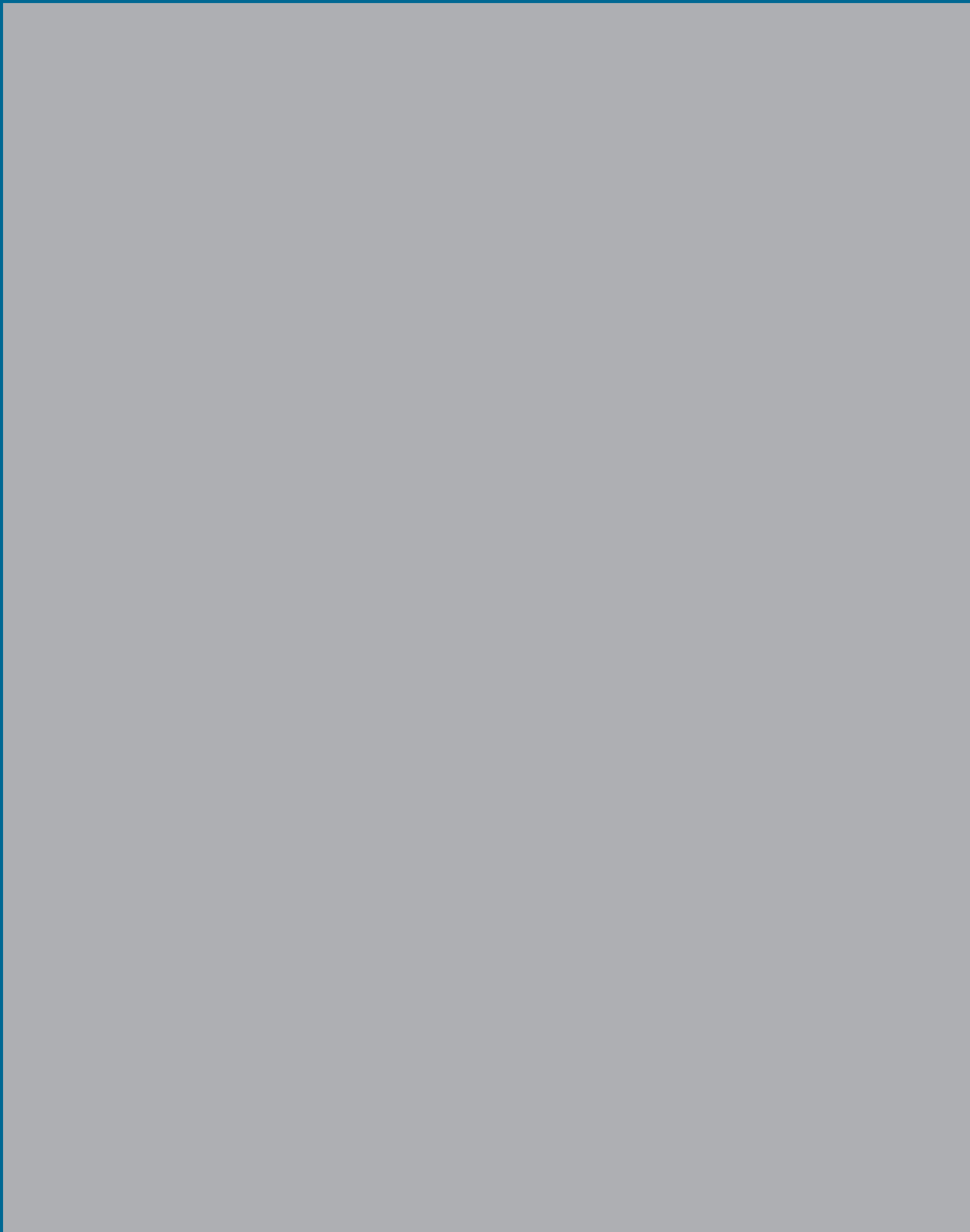


SaskEnergy

MANAGEMENT'S DISCUSSION AND ANALYSIS 2004
CONSOLIDATED FINANCIAL STATEMENTS 2004

A photograph of a worker in a blue jacket and white hard hat, using a tool to work on a large, light-colored pipe. The worker is wearing safety glasses and is focused on the task. The background is a clear blue sky. A yellow arrow-shaped banner is overlaid on the image, containing the text 'MEETING THE CHALLENGE'.

MEETING THE CHALLENGE



MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (MD&A) highlights the primary factors that impacted the operations and financial results of SaskEnergy Incorporated (SaskEnergy or the Corporation) and its wholly owned subsidiaries for the year ended December 31, 2004. The MD&A provides a narrative explanation of the Corporation's past performance and a description of its future prospects. This enables readers to view SaskEnergy from the perspective of management. This MD&A, together with the 2004 audited consolidated financial statements of the Corporation and related notes contained in this booklet, forms the basis for financial reporting. Additional information about the Corporation can be obtained from the Annual Report and the Corporate Social Responsibility Report booklets that together with this MD&A comprise the SaskEnergy 2004 business reporting package.

This discussion contains certain forward-looking statements that are subject to inherent uncertainties and risks. Risks are outlined in the Risk Management section of this MD&A. Consequently, actual results and events may vary significantly from those included in, contemplated or implied by such statements.

To meet the readers' need to understand SaskEnergy's operations and financial results, information is organized as follows:

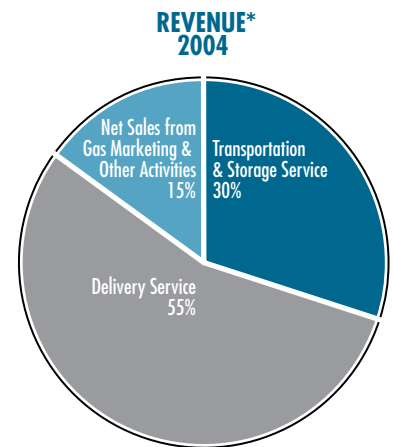
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Overview

SaskEnergy is a provincial Crown corporation and a subsidiary of Crown Investments Corporation of Saskatchewan (CIC), the holding company for Saskatchewan's commercial Crown corporations. The primary business of SaskEnergy and its wholly owned subsidiaries is the distribution, transportation and storage of natural gas within the Province of Saskatchewan. The Corporation owns assets of over \$1 billion that provide access to the North American natural gas transmission system. The expertise gained from the operation of these assets has been utilized for investment in natural gas transmission and distribution facilities in Manitoba, Nova Scotia, Chile, and Mexico. SaskEnergy is well-positioned to provide core business excellence for the Province and its residents. SaskEnergy's secondary business activities are conducted through its wholly owned subsidiaries to provide key support services and to compliment core business.



* Does not include Commodity Revenue

Delivery Service

Delivery service represents approximately 55 per cent of SaskEnergy's revenue at \$162 million for 2004. SaskEnergy and its wholly owned subsidiaries' activities related to delivery service include natural gas distribution service to:

- More than 327,000 customers within the Province of Saskatchewan,
- The Swan Valley area of Manitoba through Swan Valley Gas Corporation, and
- A distribution franchise in Nova Scotia, through SaskEnergy Nova Scotia Holdings Ltd.'s 50.1 per cent equity interest in Heritage Gas Limited.



Transportation and Storage Service

Transportation and storage service represents approximately 30 per cent of SaskEnergy's revenue at \$88 million for 2004. SaskEnergy's two wholly owned subsidiaries that operate transportation and storage facilities are:

- TransGas Limited (TransGas), which owns and operates the natural gas transmission pipeline system within the Province as well as a non-regulated natural gas storage business that is integral to the transmission operations, and
- Many Islands Pipe Lines (Canada) Limited which owns 11 transmission pipeline interconnections into Alberta, two into the United States, and one into Manitoba.



Net Sales from Gas Marketing, Support Businesses and Equity Investments

SaskEnergy's other natural gas related activities represent approximately 15 per cent of SaskEnergy's revenue at \$42 million for 2004. This revenue is generated primarily from natural gas sales by a wholly owned subsidiary, Bayhurst Gas Limited, as well as natural gas marketing activities by SaskEnergy. Royalty revenue is earned on properties also owned by Bayhurst Gas Limited. The remaining activities relate to SaskEnergy's core business expertise including services provided by SaskEnergy's wholly owned subsidiary, Saskatchewan First Call Corporation which operates an underground infrastructure facility inquiry location database in Saskatchewan, and SaskEnergy International Incorporated which holds two international equity investments in natural gas related businesses in Chile and Mexico.



Business Focus and Strengths



SaskEnergy's primary operations are conducted within Saskatchewan through two major business segments – natural gas distribution and transmission. As these two business segments are in a mature stage of development, SaskEnergy's primary business focus is to achieve core business excellence. As a result, the Corporation directs its efforts and uses its strengths to:

- Ensure the safe and reliable operation of the pipeline systems,
- Provide customer service excellence, and
- Offer fair and competitive rates.

Serving customers' needs through a safe and reliable system is paramount. The operations consist of over 80,000 kilometres of natural gas distribution and transmission pipelines, including some that were placed in service over fifty years ago. The management of these pipeline assets requires the use of innovative technologies to operate the system at the lowest possible cost and with the highest possible efficiency. System integrity is essential to the safe and reliable operation of the pipeline facilities. Accordingly, the Corporation has a long-term strategy which establishes annual priorities and provides technical solutions to lower the risks to its operations.



SaskEnergy has the capabilities and resources necessary to provide excellent service to new and existing customers. The Corporation's employees are trained to maintain high standards and possess exceptional service attitudes. The workforce is highly skilled, with expertise gained through many years of experience. In addition, customer service excellence is enhanced through the application of the latest technologies.

In September 2003, the Premier of the Province committed to provide Saskatchewan's residents with the lowest-cost bundle of basic utilities in Canada, which includes natural gas used for home heating purposes. Each year for the past decade, SaskEnergy's rates have been either the lowest or second lowest among major natural gas utilities in Canada, and were the second lowest in 2004. The last natural gas rate increase by SaskEnergy for delivery service within the Province occurred in 1997. Also, natural gas transportation rates charged by TransGas have decreased in each of the past two years. The Corporation works to achieve these results through a rate-setting process founded upon the continual pursuit of cost efficiencies.



While the Corporation focuses on prudent cost management and resource allocation to keep rates low, customers strive to minimize their own energy costs. Major technological advances in the efficiency of home, commercial and space heating have been beneficial. However, sustained high natural gas prices have necessitated a stronger approach to energy efficiency, so SaskEnergy seeks to increase customers' energy conservation awareness. The Corporation achieves its own operational efficiency through the use of new technologies and other cost-effective solutions.

SaskEnergy will continue to search for ways to store and transport natural gas safely and efficiently. The Corporation will also use new tools, technologies and processes to provide operational and customer service excellence. For example, since the late 1990s, the Corporation has used an in-line inspection tool to detect early signs of pipeline corrosion. Over the past two years, SaskEnergy has developed and refined My Account Online, providing a cost-effective and user-friendly alternative to mailing out bills. Through initiatives such as these, SaskEnergy will be well-positioned to meet the challenges of the future.

Financial and Operating Achievements

SaskEnergy's consolidated net earnings for 2004 were \$108 million, which was an increase of \$67 million from 2003 primarily due to the partial recovery of losses on commodity sales in previous years. SaskEnergy had losses on commodity sales to distribution utility customers of \$25 million and \$27 million in 2002 and 2003 respectively. During 2004, the Corporation partially recovered these commodity sales losses resulting in a commodity sales margin of \$38 million.

Net earnings from operations are comprised of net earnings from utility operations and net sales from gas marketing. Net earnings from utility operations were \$33 million in 2004 compared to \$31 million in 2003 primarily due to higher transportation receipts, partially offset by lower delivery revenue. Net sales from gas marketing were \$37 million, consistent with 2003.

Gain (Loss) from Commodity Sales

SaskEnergy's services to distribution utility customers include both natural gas delivery and commodity supply. The Corporation purchases natural gas for resale to the majority of these customers and over the long term neither earns a profit nor incurs a loss on the sale of commodity. However, a profit or a loss on commodity sales may occur during a fiscal period. In 2002 and 2003, the commodity rate charged by the distribution utility did not reflect the actual cost of natural gas purchased on behalf of its customers. SaskEnergy experienced commodity sales losses in these years which together totaled approximately \$52 million. Commodity rate changes were established to provide an offsetting recovery in subsequent periods. The commodity rate recommended by the Saskatchewan Rate Review Panel and approved by Cabinet effective August 1, 2003, remained in place in 2004 to support the recovery of the losses from commodity sales incurred in 2002 and 2003. Accordingly, during 2004 SaskEnergy partially recovered the commodity sales revenue shortfall from previous years earning a \$38 million commodity sales margin.

Net Earnings from Operations

Net Earnings from Utility Operations

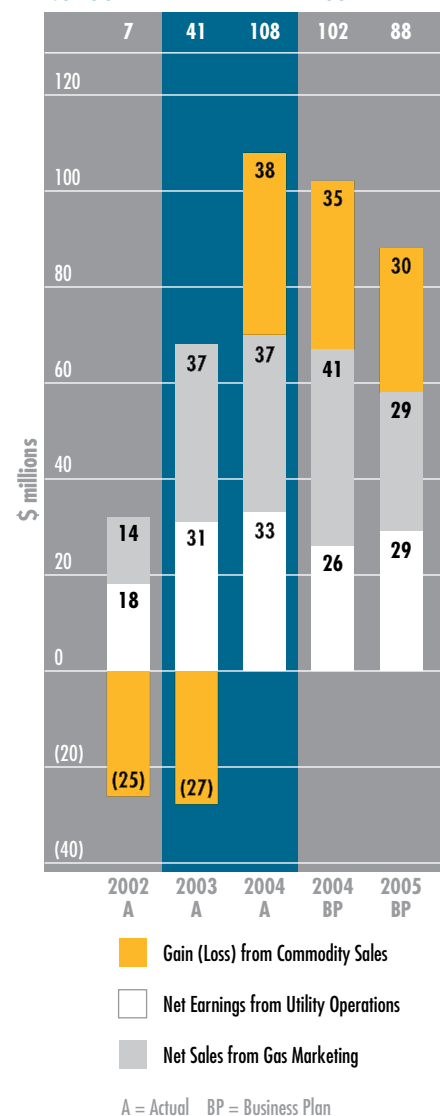
SaskEnergy has two major natural gas utility business segments: distribution and transmission (including natural gas storage operations). In 2004, utility operations generated earnings of \$33 million. Delivery revenue was \$162 million which was \$3 million lower than 2003 primarily due to warmer weather during the prime heating load season in 2004. Transportation and storage revenue was \$88 million, which was \$7 million higher than 2003 resulting from higher transportation revenue related to increased flows from a new natural gas reserve development area in the Province.

Net Sales from Gas Marketing

Net sales from gas marketing includes natural gas sales from underground storage fields and competitive gas sales. In 2004, as in 2003, these activities generated net earnings of \$37 million.

In 2004, SaskEnergy had strong financial results primarily due to the \$38 million positive margin earned on commodity sales and net earnings from operations of \$70 million. The annual dividend to CIC of \$70 million is 65 per cent of the 2004 consolidated net earnings of \$108 million.

CONSOLIDATED NET EARNINGS



Performance – Consolidated Results

| YEAR-OVER-YEAR PERFORMANCE | | |
|--|---------------------|---------------------|
| | 2003 | 2004 |
| Financial Achievements (\$ millions) | | |
| Consolidated net earnings | 41 | 108 |
| Total assets | 1,235 | 1,286 |
| Long-term debt | 663 | 676 |
| Operating Achievements | | |
| Distribution | | |
| Volumes distributed (Petajoules) | 137 | 135 |
| Weather compared to the thirty-year average | Two per cent colder | Two per cent colder |
| Average purchase price per Gigajoule of natural gas (\$) | 6.35 | 6.44 |
| Transmission | | |
| Volumes transported (Petajoules) | 354 | 358 |
| Peak day natural gas flows (Petajoules) | 1.46 | 1.48 |
| Date of peak day flow | January 22 | January 27 |

The earnings of a natural gas utility business in Saskatchewan are subject to seasonal fluctuations. The earnings are sensitive to variations in the weather, particularly in the first and fourth quarters as November to March is considered the prime heating load season. The following is a summary of 2004 consolidated quarterly performance:

| QUARTERLY PERFORMANCE | | | | | |
|--|------------------------|----------------------------|-----------------------------|---------------------------|------------------------|
| | Quarter ended March 31 | Quarter ended June 30 | Quarter ended September 30 | Quarter ended December 31 | Year ended December 31 |
| Financial Achievements (\$ millions) | | | | | |
| Consolidated net earnings | 45 | 12 | 8 | 43 | 108 |
| Total assets | 1,189 | 1,172 | 1,189 | 1,286 | 1,286 |
| Long-term debt | 662 | 641 | 639 | 676 | 676 |
| Operating Achievements | | | | | |
| Distribution | | | | | |
| Volumes distributed (Petajoules) | 50 | 25 | 20 | 40 | 135 |
| Weather compared to the thirty-year average | Normal | Twenty-two per cent colder | Thirty-four per cent colder | Seven per cent warmer | Two per cent colder |
| Average purchase price per Gigajoule of natural gas (\$) | 6.26 | 6.45 | 6.31 | 6.72 | 6.44 |
| Transmission | | | | | |
| Volumes transported (Petajoules) | 105 | 81 | 78 | 94 | 358 |

Performance – Measurement

Each year SaskEnergy's Management and Board of Directors review the corporate strategic direction. This review takes into account the required elements of the Crown Sector Strategic Plan which was developed jointly by CIC and its subsidiaries. SaskEnergy's strategic corporate direction review forms the foundation of the annual business plan for the Corporation and its wholly owned subsidiaries.

Financial performance is measured against the key success factors through a process known as the Balanced Scorecard. The financial targets in the Balanced Scorecard are based on comparable performance measures for regulated Canadian natural gas distribution and transmission utilities.

| DELIVERING SHAREHOLDER VALUE | | | | | | | | | | |
|---|--|-------------|--------------|-----------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Objectives | Measures | Actual 2002 | Actual 2003 | Actual 2004 | Target 2004 | Target 2005 | Target 2006 | Target 2007 | Target 2008 | Target 2009 |
| Ensure the financial integrity of the organization and increase enterprise value through prudent growth and capital investment. | ANNUAL RETURN TO THE SHAREHOLDER (\$ millions) | | | | | | | | | |
| | • Consolidated net earnings from operations | 32 | 68 | 70 | 67 | 58 | 58 | 56 | 58 | 57 |
| | • Dividend to Crown Investments Corporation | 5 | 27 | 70¹ | 66 | 57 | 38 | 36 | 41 | 51 |
| | • SaskEnergy | | | | | | | | | |
| | - Rate of return on equity (%) | 1.9 | 9.9 | 11.0 | 10.5 | 9.1 | 9.5 | 9.5 | 9.5 | 9.5 |
| | - Rate of return on rate base (%) | 4.9 | 7.8 | 8.0 | 7.8 | 6.8 | 7.0 | 6.8 | 6.6 | 6.7 |
| | • TransGas | | | | | | | | | |
| | - Rate of return on equity (%) | 12.3 | 14.4 | 15.2 | 11.0 | 11.0 | 10.5 | 10.5 | 10.5 | 10.5 |
| | - Rate of return on rate base (%) | 9.5 | 10.4 | 10.6 | 9.3 | 9.1 | 8.4 | 8.3 | 8.1 | 8.0 |
| | FINANCIAL INTEGRITY | | | | | | | | | |
| • Consolidated debt-to-equity ratio | 73/27 | 72/28 | 68/32 | 72/28 | 68/32 | 68/32 | 67/33 | 65/35 | 64/36 | |

¹ Dividends paid to Crown Investments Corporation take into account the margin on commodity sales. 2004 net earnings (which include this margin) were \$107.8 million, generating a dividend of \$70 million.

The Corporation has set targets to provide a fair return on investment to the owner in consideration of the risks of operating natural gas utilities in Saskatchewan. By setting appropriate targets for consolidated net earnings, the Corporation is able to provide industry-comparable returns measured as a rate of return on equity and a rate of return on rate base. This return is ultimately provided to CIC in the form of dividends. The dividend policy established by CIC requires dividends to be paid at a rate of 65 per cent of consolidated net earnings. The Corporation's long-term capital structure target for the consolidated entity is 65 per cent debt and 35 per cent equity.

For discussion of actual year-over-year performance, associated targets and plans for achieving these performance targets refer to the statement of earnings analysis.

Statement of Earnings Analysis

The following is an analysis of the 2004 financial results:

Revenue

Delivery Revenue

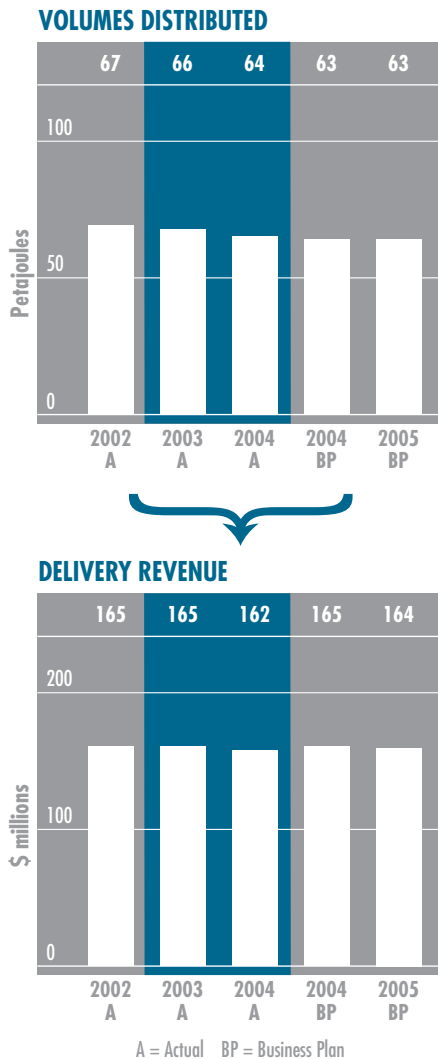
Delivery revenue is primarily driven by the volume of natural gas delivered to residential, farm, commercial and industrial customers in Saskatchewan. The majority of SaskEnergy's distribution customers consume natural gas for heating purposes. As a result the volume of natural gas distributed is sensitive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

Delivery revenue totalled \$162 million for 2004, which was \$3 million less than 2003. Weather, as measured by heating degree days over the 2004 prime heating load season, averaged four per cent warmer than normal. Weather over the prime heating load season in 2003 was five per cent colder than normal. As a result, the year-over-year change in average heating load season temperatures negatively impacted the volume of natural gas delivered in 2004.

Factors which favourably impacted 2004 revenue include the addition of new customers and incremental revenue from service fees designed to recover costs incurred in providing services to specific customers. Lower than expected delivery rates caused revenue to fall below the 2004 Business Plan projections.

In 2004, 2,082 new customers (net of service retirements) were added contributing \$1 million in incremental delivery revenue. These new customers consisted largely of new residences and businesses in Regina and Saskatoon.

Continued installation of energy-efficient furnaces and improved levels of building insulation are 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 increased consumer interest in the purchase and installation of non-traditional appliances and higher industrial use.



Natural gas remains a critical energy source in this mature residential, commercial and industrial marketplace. At SaskEnergy, we are committed to providing solutions to meet customers' energy needs.

Transportation and Storage Revenue

During 2004, combined transportation and storage revenue was \$88 million, compared to \$81 million in 2003, primarily due to increased transportation of natural gas from new natural gas production areas.

Transportation revenue is determined mainly by the capacity contracted by shippers for natural gas receipts and deliveries. Transportation revenue for 2004 was \$82 million, an increase of \$7 million over 2003. The nine per cent increase was primarily attributable to incremental volumes from the recent natural gas development in the Shackleton area in the south-west region of the Province.

Natural gas well drilling in Saskatchewan continued at a strong pace during the year. There were 1,884 natural gas wells drilled in 2004 which was the second highest in the Province's history. This compares to the all-time record of 2,294 natural gas wells drilled in 2003. Much of the 2004 drilling activity in the Province focused in the southwest, primarily in the Hatton and Shackleton areas. However, increased drilling activity also occurred in the Kindersley and Lloydminster regions. As a result, Saskatchewan receipt volumes increased by approximately 15 Petajoules over 2003 levels. The majority of this increase was attributable to Shackleton receipt system volumes, which continue to flow at the rate of approximately 120 Terajoules per day (TJ/day). An additional Shackleton receipt system expansion became operational on October 12, 2004 and will accommodate further incremental volumes from this area.

On April 9, 2004, the amount of Saskatchewan natural gas transported onto TransGas' transmission pipeline hit a new daily record of 772 TJ/day. The Saskatchewan natural gas transported on that day was enough to heat nearly 6,000 homes for an entire year. This surpasses the previous record of 766 TJ/day set on December 23, 2003.

End-use customer demand in Saskatchewan increased by seven per cent from 2003, primarily due to capital expansion projects of large-scale industrial customers which were completed in 2003 and fully operational for all of 2004.

Storage revenue was \$6 million in 2004. This was consistent with 2003, as storage capacity was fully contracted in both years.

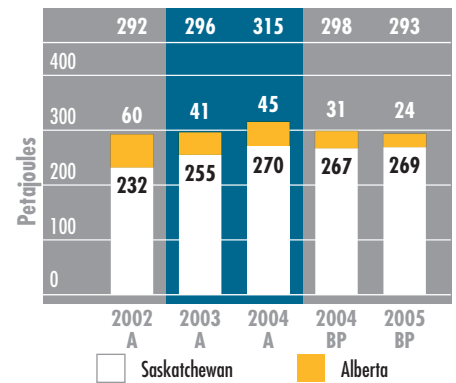
Higher receipt volumes in each of 2003 and 2004 resulted in a decrease in transportation and storage service rates commencing January 1, 2004 (two per cent), and an additional reduction effective November 1, 2004 (3.4 per cent).

TransGas forecasts strong transportation revenue in 2005 as receipt volumes continue to flow from new natural gas producing areas. Storage revenue is expected to increase during 2005 as two of the four new storage caverns near Asquith, under development at December 31, 2004, become operational.

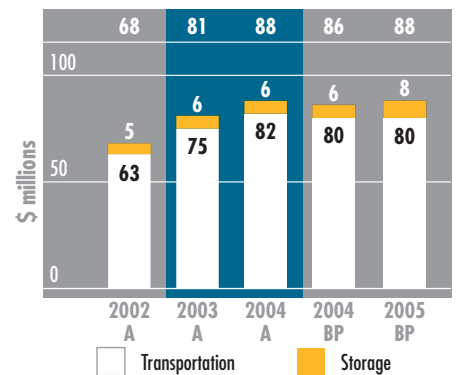


Each year, TransGas extends its network to connect new natural gas-producing areas and to maintain a highly reliable service to natural gas producers.

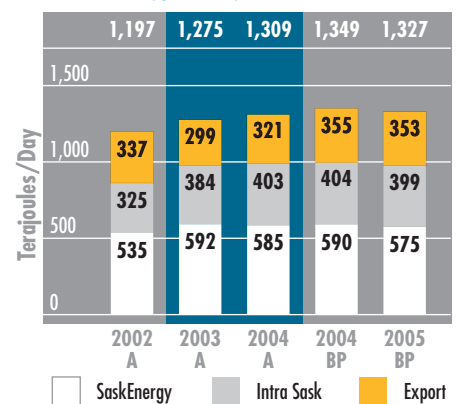
RECEIPTS FROM SASKATCHEWAN AND ALBERTA



TRANSPORTATION AND STORAGE REVENUE



DELIVERY CONTRACT DEMAND



A = Actual BP = Business Plan

Net Sales from Gas Marketing

The revenue earned and classified as net sales from gas marketing is generated from the following two activities:

Natural gas sales from storage fields

Natural gas is produced for sale from certain natural gas storage fields in Saskatchewan which are no longer used in commercial storage operations. In addition, the Corporation leverages its existing storage capacity to take advantage of opportunities that arise in the open market.

Competitive gas sales

Gas marketing activities are designed to maximize use of the natural gas distribution utility's transmission and storage capacity during off-peak periods. To fully utilize this contracted capacity, the distribution utility may purchase and sell natural gas in the open market to earn a margin. SaskEnergy also offers contracts to supply natural gas to large end-use customers in Saskatchewan through a competitive bidding process.

During 2004, as in 2003, net sales from gas marketing were \$37 million.

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 in 2004 was \$24 million, consistent with 2003.

Other Revenue

The Corporation owns a gross overriding royalty on approximately 450 natural gas producing properties located in Saskatchewan and Alberta whereby it receives payments in accordance with the terms and conditions of the royalty interest. The 2004 royalty earnings were \$5 million compared to \$6 million in 2003.

Expenses

Operating and Maintenance

Operating and maintenance expenses were \$118 million in 2004 compared to \$113 million in 2003.

The natural gas distribution and transmission pipeline systems require substantial monitoring and maintenance. This is especially challenging given their extensive dispersion throughout the Province. As a result, labour costs comprise approximately 61 per cent of the annual operating and maintenance expenses. The need for additional maintenance and the demands placed on the systems by the exceptionally cold weather experienced in January 2004 increased labour costs by approximately \$1 million over 2003 levels.

The natural gas systems are also aging, with some of the infrastructure having been in service for 50 years. To meet customers' reliability expectations and achieve high standards for safety, additional maintenance costs were incurred for the replacement of existing components and upgrades to the systems. As a result, maintenance costs were approximately \$1 million higher than the prior year.

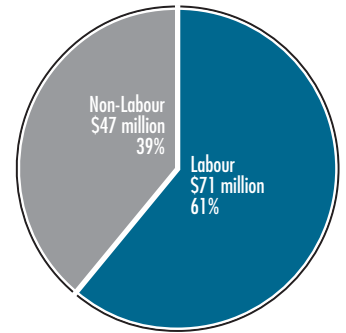
The cold weather impact in January 2004, as noted above, also required natural gas to be transported into Saskatchewan from Alberta. These additional natural gas volumes increased pipeline transportation costs paid to third parties by approximately \$1 million compared to 2003.

In 2004, the natural gas from certain production areas of Saskatchewan required heating value enhancement to meet transmission pipeline standards. As a result, an additional \$1 million was spent to ensure these natural gas volumes met specification.

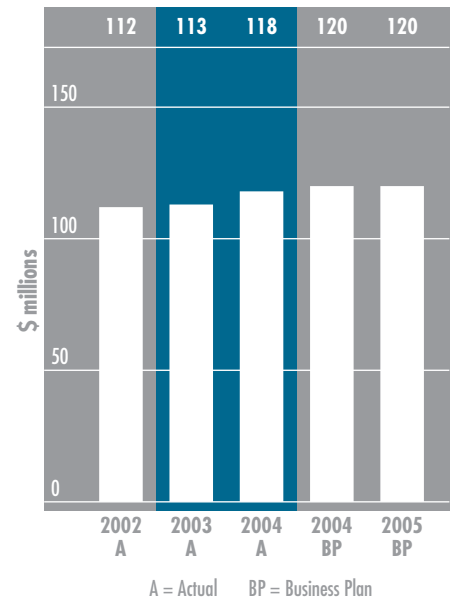
As the market price of natural gas has increased substantially in recent years, customers have experienced some additional difficulty in paying their bills. Although SaskEnergy assists customers in dealing with these challenges, the magnitude of the increase in the market price has caused the Corporation's bad debt provision to rise over 2003 levels by approximately \$1 million.

Other operating and maintenance increases include higher vehicle maintenance and fuel costs. In addition, efforts to promote energy conservation led SaskEnergy to extend the Energy Star® Loan Event which helps customers secure prime rate loans to purchase energy-efficient heating equipment. These increases were partially offset by a decrease in the amount of energy consumed in operations.

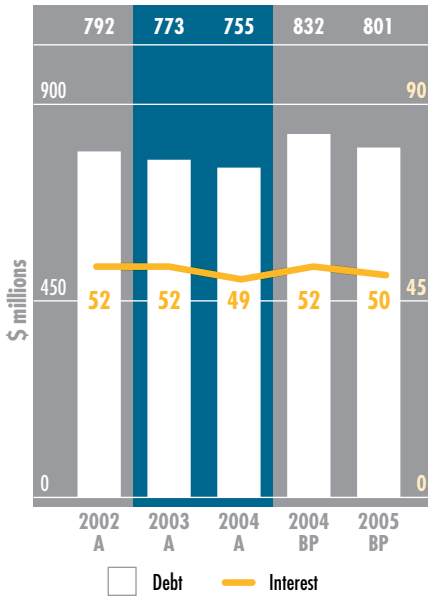
OPERATING AND MAINTENANCE 2004



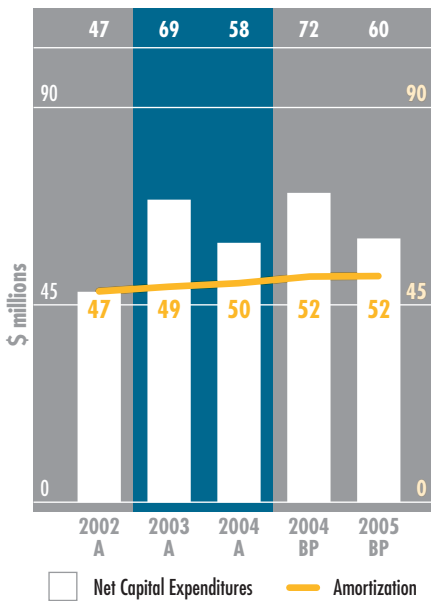
OPERATING AND MAINTENANCE



DEBT AND INTEREST



CAPITAL EXPENDITURES (Net of Customer Capital Contributions) AND AMORTIZATION



A = Actual BP = Business Plan

Interest

Interest of \$49 million was \$3 million lower than 2003 primarily as a result of lower debt balances. During 2004 short-term debt balances averaged \$53 million compared to \$96 million in 2003, essentially due to the partial recovery of losses incurred on commodity sales in 2002 and 2003. In addition, SaskEnergy realized a reduction of \$1 million in long-term debt costs largely due to the repayment of approximately \$35 million of long-term debt which had an average interest rate of 12.1 per cent. This debt was replaced in December 2004 with a ten-year debenture having an effective interest rate of 4.7 per cent.

Amortization

Amortization of \$50 million was \$1 million higher than 2003 as certain multi-year capital projects were completed and placed into service in 2004. These projects included the completion of the second phase of capital expansion at the Shackleton discovery area, the OneWorld single software solution project and the TransGas Supervisory Control and Data Acquisition (SCADA) software upgrade project.

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. Payments to municipalities include grants in lieu of property taxes and payments based on the value of natural gas transported on customers' behalf. The payments to municipalities in 2004 were \$24 million, consistent with 2003.

Saskatchewan Taxes

The Corporation makes payments to the Province in the form of corporate capital taxes on capital employed. Payments also include mitigation payments and property taxes. The combined amount of these Saskatchewan taxes was \$6 million which is comparable to 2003.

Gain (Loss) from Commodity Sales

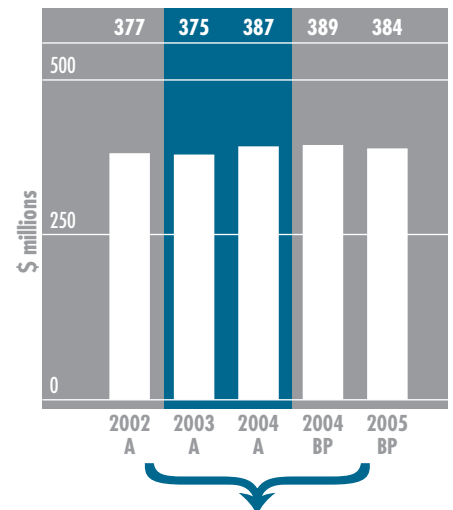
SaskEnergy is the supplier of natural gas to the vast majority of its more than 327,000 delivery customers in the Province. Similar to practices in other regulated Canadian jurisdictions, SaskEnergy's commodity rates are designed to ensure that, in the long term, the Corporation neither profits from 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 review by the Saskatchewan Rate Review Panel and are regulated by Cabinet.

The commodity rate of \$6.97 per Gigajoule effective August 1, 2003 was in place throughout 2004. During 2004, a positive commodity margin of \$38 million was earned, which resulted in SaskEnergy recovering a portion of the commodity sales losses that occurred in both 2002 and 2003.

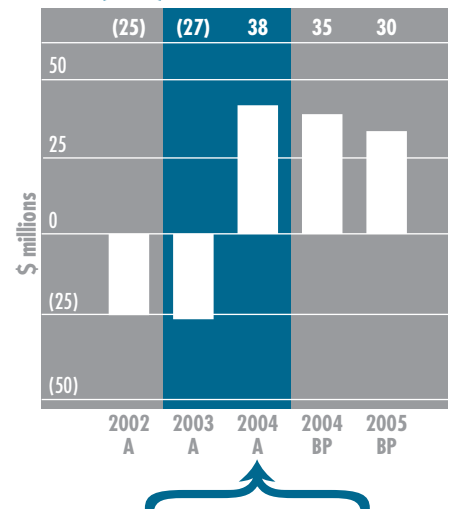


Using natural gas efficiently can help you lower costs in every area of your home, save energy and contribute to a cleaner environment.

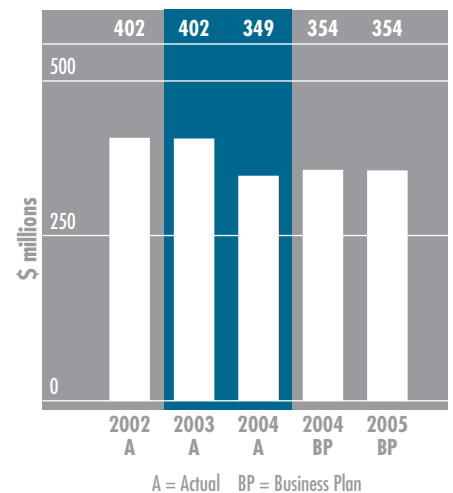
COMMODITY SALES REVENUE



GAIN (LOSS) FROM COMMODITY SALES



COMMODITY COST OF GAS



A = Actual BP = Business Plan

Wholly Owned Subsidiaries

Bayhurst Gas Limited (Bayhurst)

Bayhurst owns, produces and sells natural gas from storage-related assets and holds natural gas royalty interests. Net revenue from natural gas sales related to the operation of the storage-related assets in 2004 was \$27 million, \$4 million lower than 2003 due to a decrease in volumes sold. In 2004, Bayhurst also had earnings from royalty interests of \$5 million compared to \$6 million in 2003.

Many Islands Pipe Lines (Canada) Limited (MIPL(C)L)

MIPL(C)L owns and operates 14 natural gas transmission pipelines which interconnect with other pipeline facilities into Alberta, the United States and Manitoba. In 2004, MIPL(C)L was in a break-even position which was \$0.2 million lower than 2003.

Swan Valley Gas Corporation (SVGC)

SVGC was formed in 2000 to own and operate a natural gas distribution utility in the Swan Valley area of western Manitoba. New customer connections have not occurred as expected resulting in lower revenue than originally anticipated. SVGC achieved a break-even position in 2004 compared to a loss of \$0.5 million for 2003. Through cost reduction efforts and increased revenue from existing customers, SVGC is expected to reach profitability by 2006.

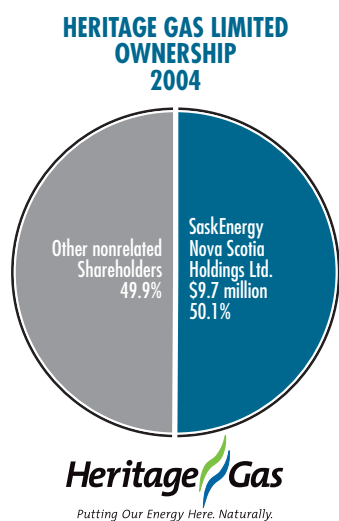
SaskEnergy Nova Scotia Holdings Ltd.

SaskEnergy Nova Scotia Holdings Ltd. holds the Corporation's 50.1 per cent investment in Heritage Gas Limited (Heritage Gas).

In 2002, Heritage Gas applied for a full regulation class natural gas distribution franchise for a specific area in Nova Scotia pursuant to *The Gas Distribution Act (Nova Scotia)*. On February 7, 2003, 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, which Heritage Gas accepted on June 3, 2003. The franchise term is 25 years. A licence to operate was issued to Heritage Gas by the NSUARB on December 19, 2003.

Heritage Gas has acquired and constructed natural gas distribution facilities and undertaken those activities necessary to establish an operational natural gas distribution utility. Operations commenced in January 2004 and during the year, Heritage Gas flowed 14,000 Gigajoules of natural gas to over 100 customers.

Since 2003, the three shareholders of Heritage Gas have advanced \$19.3 million in proportion to their interest. As at December 31, 2004 SaskEnergy had invested \$9.7 million consisting of an 8.75 per cent shareholder loan amounting to \$5.6 million and an equity investment of \$4.1 million with a regulated rate of return on equity of 13 per cent. SaskEnergy's share of Heritage Gas' 2004 net earnings was \$0.6 million compared to \$0.1 million in 2003.



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

Sask 1st Call was formed in 2003 to establish a database for the location of certain oil, natural gas and other underground systems and utility facilities located in Saskatchewan. Functioning 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 underground facilities of the 20 member companies. *Sask 1st Call* provides this service to its participating companies more efficiently than could be done themselves and is intended to recover all operational costs on an ongoing basis. During 2004 *Sask 1st Call* issued in excess of 97,000 line locates. *Sask 1st Call* had net earnings of \$0.1 million in 2004 compared to a loss of \$0.1 million in 2003.



SaskEnergy International Incorporated (SEII)

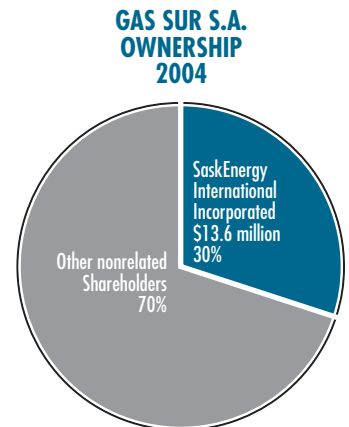
SEII holds a 30 per cent equity interest in a natural gas distribution company in Chile and a 40.1 per cent equity interest in a natural gas transmission company in Mexico. SEII's revenue is derived from investment earnings in these two companies. Overall, SEII's loss of \$0.1 million in 2004 was an improvement over a loss of \$0.5 million in 2003.



As of December 31, 2004 SEII's two equity investments were as follows:

Gas Sur S.A. (Gas Sur)

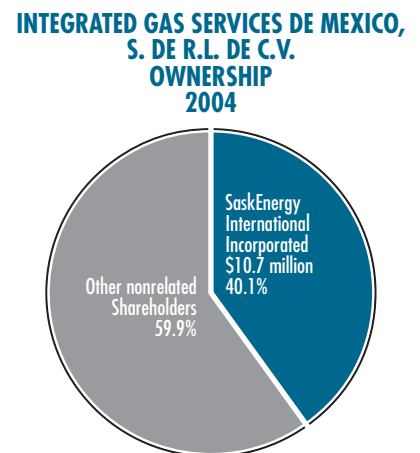
SEII holds a 30 per cent equity interest in Gas Sur, a natural gas distribution company in Chile. Gas Sur was formed in 1999 to capitalize on the introduction of natural gas to the Chilean marketplace. Natural gas is an energy alternative that is safer, more convenient and more economical than propane, which was the preferred energy source prior to the introduction of natural gas. Natural gas continues to have a competitive price advantage over propane.



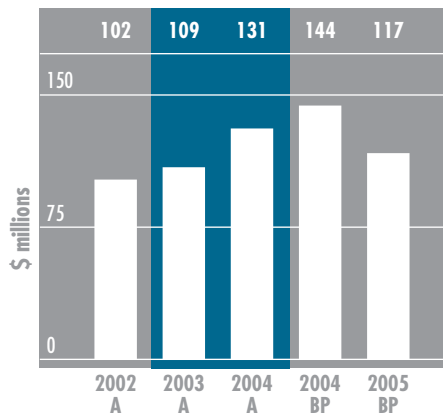
Gas Sur had its best year in 2004, both in terms of profitability and new customer connections with net earnings of \$1.3 million and over 4,500 new customer connections. In 2004, Gas Sur flowed close to 850,000 Gigajoules of natural gas to its 26,800 customers. Gas Sur will continue to capture market share and increase its customer base in 2005.

Integrated Gas Services de Mexico, S. de R.L. de C.V. (Igasamex)

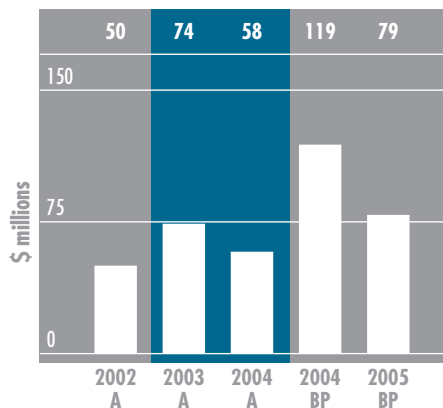
SEII holds a 40.1 per cent equity interest in Igasamex which is a growing Mexico City based company which provides natural gas transmission services to Mexico's industrial sector. Igasamex flows natural gas on 20 pipeline laterals and serves over 70 industrial customers across a wide range of industries, including the textile, automotive, food processing, pulp and paper and consumer products sectors. In 2004, Igasamex had net earnings of \$0.4 million and added three new pipeline laterals. In 2005, Igasamex will continue to expand its natural gas service to Mexico's industrial sector.



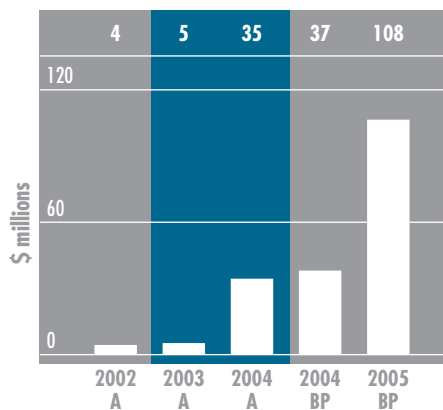
CASH FROM OPERATIONS



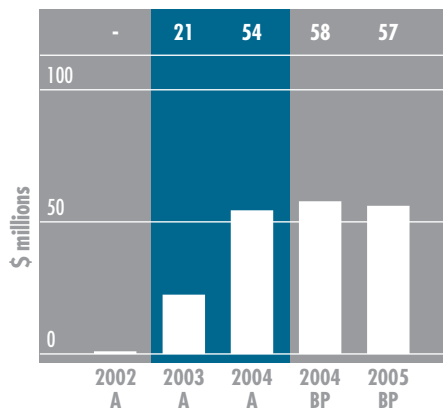
INVESTING ACTIVITIES



LONG-TERM DEBT REPAYMENTS



CASH DIVIDENDS TO CIC



A = Actual BP = Business Plan

Liquidity and Capital Resources

In 2004, SaskEnergy generated approximately \$131 million in cash from operations. This level of cash flow represents a substantial improvement from 2002 and 2003 largely due to a positive margin on commodity sales which provided cash flow of \$27 million. This resulted from SaskEnergy recovering a portion of the commodity sales losses incurred in both 2002 and 2003. Cash from core operations of natural gas distribution, transportation and storage services generated approximately \$82 million while other non-core activities, which includes gas marketing, generated a further \$22 million.

SaskEnergy applies the cash it generates from operations towards the replacement and expansion of pipeline infrastructure, capital investments for growth, debt reduction, and dividends to CIC. In 2004, SaskEnergy utilized \$53 million of its cash from operations to expand and sustain its pipeline infrastructure and \$5 million on capital investments for growth. Debt reduction required an additional \$19 million and the remaining \$54 million was paid to CIC as a dividend.

SaskEnergy invested approximately \$65 million of capital within the Province, including capital contributions from customers. The largest portion of capital spending was directed toward the development of a four-cavern natural gas storage facility near Asquith. In addition, SaskEnergy invested \$5 million in its joint venture, Heritage Gas, a new natural gas distribution utility in Nova Scotia.

Debt reduction in 2004 consisted of the repayment of \$35 million of long-term debt having an average interest rate of 12.1 per cent, as well as a \$32 million reduction in bank and short-term indebtedness. In addition to applying \$19 million of cash from operations towards debt reduction, SaskEnergy also issued a \$50 million ten-year debenture, through the Province of Saskatchewan at an effective interest rate of 4.7 per cent.

SaskEnergy pays 65 per cent of its annual consolidated net earnings to CIC as a dividend. The dividend is paid in quarterly instalments. In 2004, SaskEnergy paid cash dividends totaling \$54 million.

Risk Management






The transmission, storage, distribution and sale of natural gas presents a range of business and financial risks. SaskEnergy's strategy 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.

| Risk type | What is it? | Examples | When is risk high? | How is it managed? |
|---|--|--|--|---|
| Price risk | Risk of natural gas purchase prices rising above the rate at which the natural gas is sold to customers. | SaskEnergy's exposure to natural gas price risk occurs primarily when the purchase price of natural gas exceeds the commodity rate at which SaskEnergy sells natural gas to its customers. | The price SaskEnergy's customers pay is relatively stable but SaskEnergy's exposure to price volatility is continuous. | The risk of natural gas purchase prices rising above the commodity rate at which the natural gas is sold to customers can be mitigated through a natural gas price hedging program. Also, Cabinet may set rates which allow for losses to be recovered in future periods. |
| | The risk that prices of natural gas may affect the profitability of SaskEnergy's gas marketing activities. | SaskEnergy may buy and sell natural gas on the open market to optimize system utilization and generate additional margin. | Failure to effectively manage the price risk associated with this activity may result in financial losses. | The natural gas marketing activities are subject to the Natural Gas Marketing Risk Management Policy, which sets limits for the amount of exposure to price volatility and establishes a program to measure, monitor and report on natural gas price risk daily so that mitigating action can be taken. |
| Interest rate risk | Risk that higher interest rates will increase interest expense. | Similar to other natural gas distribution and transmission utilities, SaskEnergy has a significant capital investment in physical assets. Much of that investment is financed by issuing debt. The interest paid on debt used to finance purchase and construction of assets is a significant component of SaskEnergy's cost structure. | Interest rate risk is highest when SaskEnergy has large amounts of debt maturing or is making significant new investments in infrastructure. | 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 hedge interest rates. |
| Winter weather | Warmer than normal weather reduces delivery revenue. | In Saskatchewan, variability in winter weather temperature has a direct impact on natural gas consumption. | When winter weather is warmer than normal. | SaskEnergy's operating plan provides some flexibility to mitigate the impact of warmer than normal winters. In addition, during warmer than normal winters, variable operating costs can be marginally lower. |
| Provincial economic and market factors | Economic growth affects the number of new customer connections. | SaskEnergy currently serves more than 90 per cent of all communities in Saskatchewan. It is becoming increasingly more difficult to economically expand service to areas not currently receiving natural gas distribution service. Opportunities to expand service depend upon continued economic growth in large urban areas and development of new commercial and industrial projects. | Times of economic downturns. | To ensure that existing customers are not adversely affected by the addition of new customers, service is only extended where the anticipated incremental revenue is sufficient to recover the incremental cost of service. |
| | Population dispersion. | Population is in decline in certain rural service areas and the growth of urban centres has placed added demand pressure on urban distribution systems. | During periods of sustained low agricultural commodity prices. | SaskEnergy continues to look for innovative and cost-effective ways to serve and expand service in rural and urban areas. |
| | Declining natural gas reserve life. | The age and declining reserve life of the Western Canadian Sedimentary Basin present the risk that throughput on the transmission system will decline. | When production declines and fewer new natural gas wells are drilled. | TransGas sponsors an annual, one-day Saskatchewan Natural Gas Workshop in Calgary designed to lead individuals through every step of the natural gas industry in Saskatchewan and help encourage future exploration and development of natural gas reserves in the Province. |
| | Declining use per customer. | As average use per customer declines, the average cost of service per unit of consumption increases. | When natural gas prices are above historical levels. | SaskEnergy incorporates an assumption for declining use per customer in its revenue forecasts and rate-setting process. Conversely, SaskEnergy promotes the conservation efforts of its customers through the Energy Star Loan Event. |

| Risk type | What is it? | Examples | When is risk high? | How is it managed? |
|-------------------------------|---|---|---|---|
| Operational risk | Risks commonly associated with operating a natural gas distribution, transmission and storage utility. | Unusual or unexpected operating, environmental and weather conditions. Handling of hazardous materials. Concern for employee and public safety. | During extreme weather conditions, the summer construction period and normal operations. | SaskEnergy mitigates its operational risks through public awareness programs, employee and operator training, standard operating manuals and procedures, and safety programs to minimize disruption of service to its customers. In addition, the financial impact of these risks is mitigated, where possible, through the purchase of insurance. Primarily for safety reasons SaskEnergy and TransGas, as well as other member companies, utilize the services provided by <i>Sask 1st Call</i> to determine the location of their underground facilities. |
| | | Natural gas is a flammable substance that is distributed throughout the province through a vast network of steel and plastic pipelines. Explosive mixtures are formed when natural gas escapes into the atmosphere and mixes with oxygen. | During unexpected adverse events. | Although natural gas is flammable, it is lighter than air and tends to dissipate quickly when accidentally released into the atmosphere, which reduces the risk of explosion relative to other volatile hydrocarbons. Operational procedures described above mitigate the risk of inadvertent release of natural gas. |
| | | Acts of civil disobedience or disruptions which could result in personal injury, loss of life or damage to property. | | SaskEnergy has developed a Business Continuity Plan to manage events that may precipitate the disruption of operations and service to customers. |
| | | SaskEnergy and TransGas operate one of the largest natural gas pipeline and storage systems in North America. Customers are dependent upon the safe and reliable supply of natural gas. | | The Corporation's approach to system integrity combines sophisticated technology, visual inspection, hands-on maintenance and proactive public awareness initiatives to ensure the safe and reliable operation of the pipeline systems. |
| Credit risk | Risk of loss due to financial difficulties of customers and other contractual counterparties. | Bankruptcy or insolvency of counterparties or customers who have received services. Failure of customers to pay for service in a timely manner. | Periods of economic difficulty and historically high natural gas prices. | SaskEnergy mitigates credit risk by: requiring certain customers to provide security 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 continuing to monitor 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 | Uncertainty presented by operating within a regulated environment and when decisions are made by regulators that directly affect financial results. | In July 2000, the Government of Saskatchewan introduced the Saskatchewan Rate Review Panel. The Panel functions as an advisor to the Minister of CIC. The Panel's mandate is to conduct reviews of rate change requests from specific Crown corporations, including SaskEnergy. | When the difference between the interests of SaskEnergy and the interests of its customers are most divergent. | SaskEnergy follows standard accepted regulatory principles in designing rates. The decisions made by the Panel are subject to final approval by Cabinet. |
| Environmental and safety risk | Safety and environmental risks resulting from the operation of pipeline systems. | The use of certain chemicals and materials which are considered hazardous and require special handling procedures. These products can affect soil, water, and air quality as well as the health of species that live in these environments. | During normal operations. | The safety and environmental risks presented by natural gas and the use of chemicals and materials are mitigated by proper handling and containment procedures, corporate safety and environmental standards, employee training, and support from first responders. |
| | | Release of compounds that contribute to climate change (greenhouse gases). | Risks may occur during uncontrolled natural gas releases into the atmosphere. When hazardous substances are released into the environment or workplace in quantities that may jeopardize the health and safety of employees. | Canada's commitment to reduce greenhouse gas emissions, as outlined in the Kyoto Agreement, will have an operational and financial impact on the Corporation. The Canadian Gas Association (CGA) and the Canadian Energy Pipeline Association (CEPA) have taken the lead role on behalf of the natural gas industry. CGA and CEPA have offered alternative greenhouse gas management options. Through discussions with Natural Resources Canada, industry has come closer to accepting an equitable combination of regulatory measures and emissions trading and credit options. There is some uncertainty as a result of a proposed change in approach by the federal government to place the control of greenhouse gas emissions under the Canadian Environmental Protection Act. Additional measures will have to be developed to manage the risk presented by this proposed change. |

Financial Results and Factors Affecting Performance

SaskEnergy's financial results are sensitive to changes to key factors which include:

| Description of the risk | Factor | Sensitivity | Impact on net earnings |
|--|---|---|---|
| Natural gas prices fluctuate in the market and can affect earnings if there is a change in the market price per Gigajoule with no accompanying change to SaskEnergy's commodity rates. The risk is mitigated by a natural gas price hedging program. | Natural gas prices | \$0.10 change per Gigajoule | (5.5)  5.5 |
| Foreign exchange can affect earnings as a change in value of Canadian currency relative to United States currency impacts natural gas prices in Canada. This in turn may affect commodity purchase costs incurred by SaskEnergy. | Foreign exchange impact on natural gas prices | \$0.01 change to foreign exchange rates | (4.4)  4.4 |
| Winter weather fluctuations can affect earnings. Revenue forecasts are based on the assumption of normal winter weather defined as the average weather experienced over the last thirty years. | Winter weather | One per cent change in winter weather | (0.7)  0.7 |
| TransGas receipt contracted volumes are affected by the capacity contracted by shippers for the transportation of their natural gas. | TransGas receipt contracted volumes | One per cent change to contracted levels | (0.6)  0.6 |
| Short-term interest rates affect the cost of short term borrowing. | Short-term interest rates | 0.25 per cent change in short-term interest rates | (0.2)  0.2 |

(7.0) (3.5) 0.0 3.5 7.0
\$ millions

The above sensitivities are intended to be illustrative of the relationship between the factors and financial performance and are not intended to reflect the likelihood of this variability.

Outlook

SaskEnergy's Business Plan forecasts strong earnings in 2005 with consolidated net earnings from operations of \$58 million and a positive commodity margin of \$30 million. This will result in forecasted consolidated net earnings of \$88 million. Over the planning horizon, SaskEnergy anticipates stable consolidated net earnings from operations in the range of \$60 million per year.

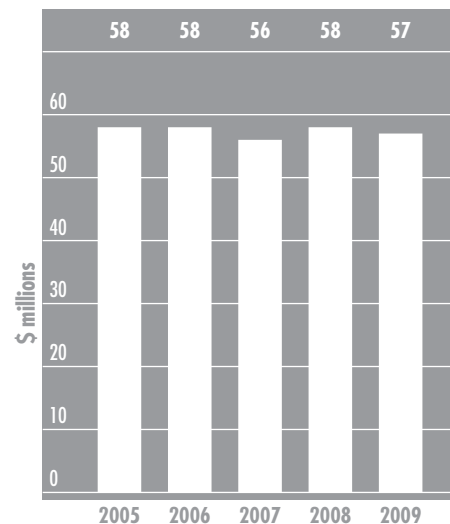
Enterprise Value

SaskEnergy strives to create enterprise value for the owner by generating industry-comparable return levels, paying dividends based on 65 per cent of consolidated net earnings, protecting financial condition and maintaining a prudent capital structure. In 2005, SaskEnergy anticipates dividend payments to CIC of \$57 million based on 65 per cent of the projected consolidated net earnings of \$88 million. The capital structure in 2005 is anticipated to be maintained at 68 per cent debt and 32 per cent equity.

Operations

SaskEnergy has a strong commitment to providing cost-effective operation and value-added service to its customers. This commitment is reflected through programs to control costs and by applying innovative practices to improve the efficiency of service delivery. SaskEnergy has identified approximately \$9 million in operating and maintenance cost savings over the 2001 to 2005 period through a program specifically designed to identify and capture cost-reduction opportunities. The savings from these programs have favourably impacted the rates charged for providing service to both TransGas and SaskEnergy customers.

CONSOLIDATED NET EARNINGS FROM OPERATIONS FIVE YEAR FORECAST



For the second consecutive year, TransGas offered its customers a transportation and storage service rate reduction. Flows on the TransGas system increased during this time and costs have been effectively managed, which translated into savings for customers. In 2003, TransGas was able to reduce its rates by two per cent. Customers received an additional reduction of 3.4 per cent effective November 1, 2004 which will remain in place throughout 2005. These reductions, made possible by increased throughput and cost savings, ensure that TransGas rates will remain stable and competitive in 2005.

Similar to TransGas, SaskEnergy has managed to contain costs to ensure stable delivery rates for its customers. SaskEnergy does not plan to increase delivery rates in 2005, which would become the eighth consecutive year without a delivery rate increase. There has been only one delivery rate increase since 1994. The ability to maintain these service rates is made possible through efforts to reduce borrowing costs and operating and maintenance expenses. Cost savings are also made possible by natural gas transportation rate decreases implemented by TransGas.

Capital Program

As SaskEnergy serves a mature Saskatchewan market through an extensive pipeline infrastructure throughout the Province, ensuring safe and reliable service is a major priority. To do this SaskEnergy has committed over 30 per cent of the capital budget in 2005 to sustaining and improving existing transmission and distribution related facilities and infrastructure. SaskEnergy develops its capital program consistent with the Corporation's objectives. Individual projects are carefully prioritized in accordance with the urgency of the need as well as the relative costs and benefits that will result.

The 2005 capital program has identified net capital expenditure requirements of approximately \$60 million to support the growth and maintenance of the distribution and transmission pipeline systems. Transmission system capital requirements in 2005 are expected to be driven by natural gas reserve development and producer activities, the continuation of work on a natural gas storage facility near Asquith, and the continued focus on ensuring the safety and reliability of the high pressure pipeline infrastructure. The distribution system has a stable capital program reflecting the requirements associated with connecting new customers and sustaining the distribution infrastructure.

Capital Investments

SEII's two investments, Gas Sur and Igasamex, are both developing consistent with their targets in terms of new customer connections and market presence. In the coming year, SEII will work closely with its investment partners in both Chile and Mexico to continue to grow these investments. Neither investment is expected to require any significant capital injection from the shareholder in 2005.

At December 31, 2004, SaskEnergy had an accumulated investment of approximately \$10 million in Heritage Gas. SaskEnergy anticipates further investment in 2005 as it continues to expand the natural gas distribution system in Nova Scotia.

SaskEnergy's strategic financial direction is focused on ensuring the achievement of strong financial results. Prudent and efficient management of resources, together with increased transportation receipts and retail natural gas distribution volumes, is expected throughout the planning horizon. SaskEnergy is meeting the challenges of today so it can deliver both value and service to its customers, its owner and the people of Saskatchewan, and is confident it can meet the challenges of tomorrow.

Accounting Policies and Estimates

The Corporation prepares its financial statements in accordance with Canadian generally accepted accounting principles 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 significant accounting policies are disclosed in Note 2 to the accompanying Consolidated Financial Statements. Certain of the significant accounting policies and estimates are summarized as follows:

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. 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 purchase price (or, in some instances, the selling price) is established initially but the corresponding selling price (or purchase price) is not determined until a later date. During the period between the purchase or sale of the natural gas and the final settlement date, the profit or loss is determined by comparing the purchase price (or selling 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 fluctuations in purchase 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 revenues are 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 natural 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.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

As at December 31

The management of SaskEnergy Incorporated is responsible for the integrity of the accompanying consolidated financial statements and all other information contained in the Corporation's 2004 business reporting package consisting of the Management's Discussion and Analysis, the Annual Report, and the Corporate Social Responsibility 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 the 2004 business reporting package 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 and meets regularly with management, internal audit services 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 both the consolidated 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 Crown Investments Corporation of Saskatchewan. The Auditors' Report expresses their opinion on the fairness of the financial statements prepared by management.



Doug Kelln
President
and Chief Executive Officer
February 8, 2005



Greg Mrazek
Vice-President, Finance
and Chief Financial Officer

SASKENERGY INCORPORATED
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, 2004 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, 2004 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 8, 2005

CONSOLIDATED STATEMENT OF FINANCIAL POSITIONAs at December 31
(thousands of dollars)

| | 2004 | 2003 (Restated) |
|---|--------------|--------------------|
| Assets | | |
| Current assets | | |
| Cash | \$ 3,637 | \$ - |
| Accounts receivable | 173,726 | 144,524 |
| Natural gas in storage held for resale | 95,966 | 82,102 |
| Inventories of supplies | 6,843 | 6,458 |
| | 280,172 | 233,084 |
| Property, plant and equipment (Note 5) | 949,461 | 941,569 |
| Investments and other assets (Note 6) | 31,755 | 34,789 |
| Natural gas in storage held for resale and operations | 25,053 | 25,766 |
| | \$ 1,286,441 | \$ 1,235,208 |
| Liabilities and Province's Equity | | |
| Current liabilities | | |
| Bank indebtedness | \$ - | \$ 1,295 |
| Short-term debt (Note 7) | 78,900 | 110,000 |
| Accounts payable | 159,422 | 141,436 |
| Dividend payable | 26,500 | 10,560 |
| Current portion of long-term debt (Note 7) | 106,235 | 34,997 |
| | 371,057 | 298,288 |
| Long-term debt (Note 7) | 569,348 | 627,884 |
| | 940,405 | 926,172 |
| Province of Saskatchewan's equity | | |
| Equity advances (Note 8) | 71,531 | 71,531 |
| Retained earnings (Note 3) | 276,431 | 238,589 |
| Foreign currency translation adjustment (Note 6) | (1,926) | (1,084) |
| | 346,036 | 309,036 |
| | \$ 1,286,441 | \$ 1,235,208 |

Commitments and contingencies (Note 9)

(See accompanying notes)

On behalf of the Board:



Director



Director

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGSYears ended December 31
(thousands of dollars)

| | 2004 | 2003 (Restated) |
|---|-----------------------------------|-----------------------------------|
| Revenue | | |
| Delivery | \$ 162,246 | \$ 164,825 |
| Transportation and storage | 88,436 | 80,983 |
| Net sales from gas marketing (Note 10) | 36,535 | 36,508 |
| Revenue collected for municipalities (Note 11) | 24,270 | 24,432 |
| Other | 5,932 | 6,115 |
| | 317,419 | 312,863 |
| Expenses | | |
| Operating and maintenance | 117,743 | 113,327 |
| Interest (Note 7) | 49,462 | 52,075 |
| Amortization (Note 5) | 49,608 | 49,019 |
| Payment to municipalities (Note 11) | 24,270 | 24,432 |
| Saskatchewan taxes (Note 12) | 6,256 | 5,779 |
| | 247,339 | 244,632 |
| Net earnings from operations before the following | 70,080 | 68,231 |
| Commodity revenue | 387,042 | 374,658 |
| Cost of gas sold | 349,280 | 401,985 |
| Gain (loss) from commodity sales (Note 4) | 37,762 | (27,327) |
| Net earnings | 107,842 | 40,904 |
| Retained earnings, beginning of year | | |
| As previously reported | 237,738 | 223,373 |
| Change in accounting policy (Note 3) | 851 | 972 |
| As restated | 238,589 | 224,345 |
| Dividends | 346,431 (70,000) | 265,249 (26,660) |
| Retained earnings, end of year | \$ 276,431 | \$ 238,589 |

(See accompanying notes)

CONSOLIDATED STATEMENT OF CASH FLOWS

Years ended December 31
(thousands of dollars)

| | 2004 | 2003 (Restated) |
|--|------------|--------------------|
| Operating Activities | | |
| Net earnings | \$ 107,842 | \$ 40,904 |
| Add (deduct) items not requiring an outlay of cash | | |
| Amortization | 49,608 | 49,019 |
| Other non-cash items | (1,141) | 1,281 |
| | 156,309 | 91,204 |
| Net change in non-cash working capital related to operations (Note 13) | (25,465) | 17,769 |
| Cash provided by operating activities | 130,844 | 108,973 |
| Investing Activities | | |
| Additions to property, plant, and equipment | (67,825) | (79,132) |
| Additions to investments and other assets | (937) | (6,685) |
| Customer capital contributions received | 10,325 | 9,723 |
| Decrease in natural gas in storage (non-current) | 713 | 2,574 |
| Cash used in investing activities | (57,724) | (73,520) |
| Financing Activities | | |
| Decrease in short-term debt | (31,100) | (63,200) |
| Sinking fund instalments | (4,540) | (4,540) |
| Increase (decrease) in deferred charges | 1,969 | (279) |
| Proceeds from long-term debt | 50,000 | 50,000 |
| Repayments of long-term debt | (30,457) | - |
| Dividends paid | (54,060) | (20,560) |
| Cash used in financing activities | (68,188) | (38,579) |
| Increase (decrease) in cash during the year | 4,932 | (3,126) |
| Cash position, beginning of year | (1,295) | 1,831 |
| Cash position, end of year | \$ 3,637 | \$ (1,295) |

Cash position consists of cash less bank indebtedness

(See accompanying notes)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004

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 estimates. 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, 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., SaskEnergy Nova Scotia 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

i. 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 2005 with the remainder classified as non-current.

ii. 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 underground natural gas 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. Asset retirement obligation

In accordance with the new Canadian Institute of Chartered Accountants accounting standard for asset retirement obligations, the Corporation now records the costs associated with the future decommissioning of certain natural gas storage facilities. When a reasonable estimate is known, the fair value of these future costs is determined based on the period of decommissioning and on reclamation standards that meet or exceed regulatory requirements. This estimate is recorded as part of the related asset along with a related obligation.

Annually until decommissioning, the asset is depreciated over the estimated useful life of the related asset, and the obligation is increased using an interest-rate method and risk-free rate of return. In the year of decommissioning, the asset will be fully depreciated and the obligation will have increased to an amount equal to the estimated cost of decommissioning.

Due to the long-term nature of the assumptions made in the cost estimates, there could be a material adjustment to earnings in future reporting periods. Therefore, revisions will be made periodically to reflect more accurate estimates.

g. 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.

h. 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, commodity revenue is recognized in the financial statements upon completion of the delivery of natural gas to the customer.

Royalty revenue, included in other 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.

i. 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.

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. Derivative instruments

The Corporation uses various derivative 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 derivative 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 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.

i. Natural gas price risk management

The Corporation may hedge the purchase price and sale price of natural gas. The purchase or sale price of the natural gas may be fixed within the contract, or referenced to a floating index price. When the price is referenced to a floating index price, derivative instruments may be used as a hedge to fix the settlement amount. The types of 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.

Derivative instruments that do not qualify for hedge accounting are recorded at fair value on a gross basis in the statement of financial position in accounts receivable or accounts payable as applicable. Gains and losses resulting from changes in fair value are recorded in the statement of earnings in the cost of gas.

ii. Foreign currency exchange and interest rate risk management

The Corporation uses 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.

I. 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 for current services. When made, these contributions are charged to expenses.

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 and premiums 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. Changes in Accounting Policies

a. Asset retirement obligations

Until December 31, 2003, the Corporation recognized its responsibility for the estimated future costs associated with the permanent decommissioning of the Corporation's property, plant and equipment in accordance with the existing standards. The estimated cost of retiring these assets was being amortized on a straight-line basis over the expected useful life of the related assets. As at December 31, 2003, the Corporation had recorded a total provision of \$1,950 thousand for the future decommissioning of certain natural gas storage fields.

Effective January 1, 2004 the Corporation adopted the new Canadian Institute of Chartered Accountants accounting standard for asset retirement obligations which was required to be applied retroactively. The decommissioning costs referred to above are now recognized in accordance with this new standard. The Corporation is required to record this accounting change retroactively with a restatement of prior periods to show what the effect would have been if the new policy had been followed. The impact of the accounting policy change was a \$121 thousand decrease in net earnings for 2003.

The impact of this accounting change is as follows:

| (thousands) | Year ended December 31, 2003 |
|--|------------------------------|
| Amortization | \$ 260 |
| Operating and maintenance expense | (139) |
| Net earnings | (121) |
| Property, plant and equipment, net | 1,302 |
| Accounts payable | 451 |
| Retained earnings, beginning of period | 972 |
| Retained earnings, end of period | 851 |

b. Hedge accounting

Effective, January 1, 2004, the Corporation commenced application of the new Canadian Institute of Chartered Accountants Accounting Guideline 13. The guideline requires identification, designation, documentation and effectiveness of hedging relationships be established at the inception of each hedge in order to apply hedge accounting. 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 and retained 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. For those derivative instruments that existed at January 1, 2004, there was no material impact on these financial statements as a result of the adoption of Accounting Guideline 13. For those derivative instruments entered into during 2004 that did not qualify for hedge accounting under Accounting Guideline 13, a mark-to-market gain of \$11,321 thousand was recognized in income. The mark-to-market gain relates to unexpired derivative instruments for the period January 1, 2005 to October 31, 2005.

4. Saskatchewan Rate Review Panel

a. 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.

b. 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 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.

The GCVA is required by Cabinet to be audited annually by the Provincial Auditor. The Provincial Auditor's audit report on the GCVA is provided to the Saskatchewan Rate Review Panel.

The \$37,762 thousand gain from commodity sales includes \$26,441 thousand from natural gas sales to consumers plus an \$11,321 thousand mark-to-market gain on unexpired derivative instruments that do not qualify for hedge accounting. The mark-to-market gain relates to unexpired derivative instruments for the period January 1, 2005 to October 31, 2005.

5. Property, Plant and Equipment

| (thousands) | 2004 | | | 2003 | | |
|--|--------------|--------------------------|----------------|--------------|--------------------------|----------------|
| | Cost | Accumulated Amortization | Net Book Value | Cost | Accumulated Amortization | Net Book Value |
| Transmission and storage | \$ 607,993 | \$ 173,419 | \$ 434,574 | \$ 591,079 | \$ 157,804 | \$ 433,275 |
| Distribution | 609,371 | 173,770 | 435,601 | 588,076 | 157,801 | 430,275 |
| Gathering, treatment and compression | 152,648 | 60,448 | 92,200 | 151,993 | 55,199 | 96,794 |
| Vehicles, equipment and other | 162,983 | 90,908 | 72,075 | 145,427 | 78,224 | 67,203 |
| Franchise acquisition costs | 1,668 | 67 | 1,601 | 1,668 | - | 1,668 |
| Royalty interest | 6,509 | 6,509 | - | 6,509 | 6,509 | - |
| Construction in progress | 31,285 | - | 31,285 | 23,298 | - | 23,298 |
| | \$ 1,572,457 | \$ 505,121 | 1,067,336 | \$ 1,508,050 | \$ 455,537 | 1,052,513 |
| Less: | | | | | | |
| Unamortized customer capital contributions | | | 117,875 | | | 110,944 |
| | | | \$ 949,461 | | | \$ 941,569 |

Property, plant and equipment includes \$9,048 thousand (2003 - \$4,565 thousand) which represents the Corporation's 50.1 per cent proportionate interest in the assets of Heritage Gas Limited.

Franchise acquisition costs relate to the costs required to acquire the franchise distribution of natural gas in the Province of Nova Scotia in 2003.

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.

| (thousands) | 2004 | 2003 |
|----------------------------|------------|------------|
| Balance, beginning of year | \$ 110,944 | \$ 104,087 |
| Contributions received | 10,325 | 9,723 |
| Contributions amortized | (3,394) | (2,866) |
| Balance, end of year | \$ 117,875 | \$ 110,944 |

b. Amortization

| (thousands) | 2004 | 2003 |
|--|-----------|-----------|
| Amortization of property, plant and equipment | \$ 53,002 | \$ 51,885 |
| Amortization of customer capital contributions | (3,394) | (2,866) |
| | \$ 49,608 | \$ 49,019 |

The composite rate of amortization (excluding the effect of customer capital contributions amortization) was 3.44 per cent during 2004 (3.50 per cent during 2003).

6. Investments and Other Assets

Investments and other assets are as follows:

| | 2004 | | 2003 | |
|--------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | Amount (thousands) | Per cent Ownership | Amount (thousands) | Per cent Ownership |
| a. Equity investments | | | | |
| i. Gas Sur S.A. | \$ 13,511 | 30.0 | \$ 13,214 | 30.0 |
| ii. Igasamex USA Ltd. | 9,926 | 40.1 | 10,554 | 40.1 |
| | 23,437 | | 23,768 | |
| b. Other receivables | 1,059 | | 122 | |
| c. Deferred charges | | | | |
| Unamortized deferred financing costs | 4,076 | | 7,080 | |
| Unamortized past service costs | 3,183 | | 3,819 | |
| | 7,259 | | 10,899 | |
| | \$ 31,755 | | \$ 34,789 | |

Equity investments:

i. Gas Sur S.A.

The Corporation invested \$13,784 thousand to purchase a 30 per cent equity interest in Gas Sur S.A., a Chilean natural gas distribution company.

The Corporation's share of the foreign currency translation adjustment for 2004 resulted in an \$84 thousand reduction in the balance of the investment in Gas Sur S.A. (2003 - \$66 thousand increase). The Corporation's 30 per cent share of Gas Sur S.A.'s 2004 net earnings was \$381 thousand (2003 - \$118 thousand).

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 (2003 - \$5,100 thousand).

ii. Igasamex USA Ltd.

The Corporation invested \$10,880 thousand to purchase a 40.1 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.

The Corporation's share of the foreign currency translation adjustment related to the investment in Igasamex for 2004 resulted in a \$759 thousand reduction in the balance of the investment in Igasamex USA Ltd. (2003 - \$410 thousand reduction). The Corporation's 40.1 per cent share of Igasamex USA Ltd.'s 2004 net earnings was \$131 thousand (2003 - \$84 thousand).

The cost of the investment exceeds the Corporation's underlying share of the net book value of Igasamex USA Ltd. by approximately \$5,200 thousand (2003 - \$5,240 thousand).

7. Long-Term Debt

| Years to Maturity | 2004 | | 2003 | |
|---------------------------------|-----------------------------------|--|-----------------------------------|--|
| | Principal Outstanding (thousands) | Average Fixed Interest Rate (per cent) | Principal Outstanding (thousands) | Average Fixed Interest Rate (per cent) |
| Province of Saskatchewan | | | | |
| 1 – 5 | \$ 329,758 | 8.2 | \$ 321,079 | 8.4 |
| 6 – 10 | 180,000 | 5.7 | 169,136 | 6.7 |
| 16 – 30 | 193,971 | 7.3 | 193,971 | 7.3 |
| | 703,729 | | 684,186 | |
| Less sinking fund equity | (32,962) | | (26,121) | |
| Less due within one year | (106,235) | | (34,997) | |
| Due to Province of Saskatchewan | 564,532 | | 623,068 | |
| Other | 4,816 | 13.5 | 4,816 | 13.5 |
| | \$ 569,348 | | \$ 627,884 | |

a. Sinking funds

Under conditions attached to certain advances from the Province of Saskatchewan's General Revenue Fund, SaskEnergy is required (on an annual basis) to invest an amount equal to one per cent of the related outstanding debt. This investment is referred to as a sinking fund. These sinking funds are administered by 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 6.82 per cent for 2004 (5.20 per cent for 2003).

b. Maturity dates

Maturity dates are equivalent to interest rate repricing dates.

c. Principal repayments

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

| (thousands) | 2005 | 2006 | 2007 | 2008 | 2009 |
|--------------------------|------------|-----------|-----------|-----------|-----------|
| Principal | \$ 101,195 | \$ 66,597 | \$ 47,705 | \$ 75,126 | \$ 39,136 |
| Sinking fund instalments | 5,040 | 4,290 | 4,290 | 3,990 | 3,740 |
| | \$ 106,235 | \$ 70,887 | \$ 51,995 | \$ 79,116 | \$ 42,876 |

d. Short-term debt

During 2004, 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 (2003 - 2.9 per cent).

Short-term debt at December 31, 2004 consists of \$78,900 thousand (2003 - \$110,000 thousand) that was due to the Province of Saskatchewan's General Revenue Fund with an interest rate of 2.5 per cent (2003 - 2.7 per cent).

e. **Interest expense**

Interest expense was as follows:

| (thousands) | 2004 | 2003 |
|--|------------------|------------------|
| Interest expense on long-term debt | \$ 51,535 | \$ 52,876 |
| Interest expense on short-term debt | 1,668 | 3,050 |
| Amortization of deferred financing costs | 1,322 | 1,053 |
| Sinking fund earnings | (2,301) | (1,173) |
| Interest on cost of gas sold | (2,209) | (3,527) |
| Interest capitalized | (553) | (204) |
| | \$ 49,462 | \$ 52,075 |

Cash interest paid during 2004 on long-term debt was \$51,904 thousand (2003 -\$53,091 thousand).

8. 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.

9. 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:

| (thousands) | 2004 | | 2003 | |
|---------------------------|-----------------|------------|-----------------|------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Long-term debt | \$ 708,545 | \$ 814,123 | \$ 689,002 | \$ 790,799 |
| Sinking fund equity | 32,962 | 34,692 | 26,121 | 27,536 |
| Natural gas price hedges | | | | |
| owed to (by) SaskEnergy | | | | |
| - swaps | - | 5,682 | - | (13,986) |
| - options | 11,302 | (11,824) | 412 | 751 |
| Interest rate hedges | | | | |
| owed to (by) SaskEnergy | | | | |
| - forward rate agreements | - | - | (6) | (145) |

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. Swap contracts have been entered into for the period January, 2005 to October, 2006.
- iv. Natural gas price options - The relevant index price in effect as at year end. Option contracts have been entered into for the period January to October, 2005.
- 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, dividend payable and short-term debt) approximate fair value due to their relatively short-term nature.

- b. The Corporation has entered into forward purchase agreements to purchase 1.6 petajoules of natural gas during 2005.
- c. The Corporation has entered into natural gas price swaps with counterparties, to fix the purchase price for a total of 2.1 petajoules in 2005 and 2006. The natural gas will be held for operations.
- d. The Corporation has entered into natural gas price swaps, to fix the final selling price for the 4.8 petajoules committed for sale during 2005 and 2006.

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 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.

g. Letters of credit

- i. The Corporation has posted a \$4,008 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 USA Ltd. 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 (SIR). A letter of credit is required by SIR for all remitters of natural gas royalties.

Leases

The base lease payments are as follows:

| (thousands) | 2005 | 2006 | 2007 | 2008 | 2009 | Thereafter | Total |
|-------------|----------|----------|----------|----------|----------|------------|-----------|
| | \$ 1,819 | \$ 1,724 | \$ 1,629 | \$ 1,625 | \$ 1,582 | \$ 2,500 | \$ 10,879 |

10. Net Sales From Gas Marketing

Net sales from gas marketing include the following:

| (thousands) | 2004 | 2003 |
|-----------------------|------------|------------|
| Competitive gas sales | \$ 327,018 | \$ 271,651 |
| Cost of gas | 290,483 | 235,143 |
| Margin | \$ 36,535 | \$ 36,508 |

Of the \$327,018 thousand (2003 - \$271,651 thousand) in gross revenue from natural gas sales noted above, \$27,093 thousand (2003 - \$21,658 thousand) was generated from natural gas purchased from an affiliate at nil cost. The consideration was equal to the affiliate's carrying value.

11. Revenue Collected For and Paid to Municipalities

a. Natural gas distribution

In accordance with the provisions of *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 consolidated statement of earnings and retained earnings. In 2004, revenue collected and paid to municipalities was \$20,885 thousand (2003 - \$19,149 thousand).

b. Natural gas transmission

In accordance with the provisions of *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 consolidated statement of earnings and retained earnings. In 2004, revenue collected and paid to municipalities was \$3,385 thousand (2003 - \$5,283 thousand).

12. Saskatchewan Taxes

Saskatchewan taxes include the following:

| (thousands) | 2004 | 2003 |
|--|----------|----------|
| Corporate capital tax | \$ 5,086 | \$ 4,615 |
| Mitigation payments and property taxes | 1,170 | 1,164 |
| | \$ 6,256 | \$ 5,779 |

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

13. Net Change in Non-Cash Working Capital

| (thousands) | 2004 | 2003 |
|--|-------------|-------------|
| Accounts receivable | \$ (29,202) | \$ (25,017) |
| Natural gas in storage held for resale | (13,864) | 23,516 |
| Inventories of supplies | (385) | (1,129) |
| Accounts payable | 17,986 | 20,399 |
| | \$ (25,465) | \$ 17,769 |

14. 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:

| (thousands) | 2004 | 2003 |
|--------------------------------|-----------|-----------|
| Revenue | \$ 38,654 | \$ 42,090 |
| Operating expenses | 27,463 | 27,577 |
| Customer capital contributions | 4,320 | 3,345 |
| Accounts receivable | 1,362 | 1,505 |
| Accounts payable | 341 | 704 |
| Natural gas held for resale | 401 | - |

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Province of Saskatchewan's Department of Finance on all of 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.

15. 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 \$2,824 thousand (2003 - \$2,819 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:

| (thousands) | 2004 | 2003 |
|-------------------------------|-----------|-----------|
| Accrued benefit liability | \$ 12,239 | \$ 10,868 |
| Benefits paid during the year | 494 | 800 |
| Net expense | 2,502 | 2,295 |

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

| | 2004 | 2003 |
|---|---------------|---------------|
| Discount rate | 4.50 per cent | 5.00 per cent |
| Inflation rate | 3.00 per cent | 3.00 per cent |
| Average remaining employee service life | 8.4 years | 8.6 years |

16. Heritage Gas Limited

a. Joint venture interest

On February 7, 2003 Heritage Gas Limited (Heritage Gas) received regulatory approval for the franchise to distribute natural gas to all or part of six counties in the Province of Nova Scotia. The Corporation owns 50.1 per cent of Heritage Gas.

The Corporation's 50.1 per cent proportionate interest in the Heritage Gas joint venture is as follows:

i. Consolidated statement of financial position

| (thousands) | 2004 | 2003 |
|-------------------------------|-----------|----------|
| Current assets | \$ 831 | \$ 845 |
| Property, plant and equipment | 9,048 | 4,565 |
| Regulatory receivable | 1,059 | 122 |
| Deferred charges | 203 | 44 |
| Current liabilities | (902) | (945) |
| Net investment | \$ 10,239 | \$ 4,631 |

ii. Consolidated statement of earnings

| (thousands) | 2004 | 2003 |
|--------------|----------|--------|
| Revenue | \$ 1,182 | \$ 210 |
| Expenses | (407) | (9) |
| Net earnings | \$ 775 | \$ 201 |

iii. Consolidated statement of cash flows

| (thousands) | 2004 | 2003 |
|---|------------|------------|
| Cash (used in) provided by operating activities | \$ (568) | \$ 376 |
| Cash (used in) investing activities | (4,645) | (4,609) |
| Decrease in cash | \$ (5,213) | \$ (4,233) |

b. Effect of regulation

Heritage Gas is engaged in the distribution and sale of natural gas in the Province of Nova Scotia and is regulated by the Nova Scotia Utility and Review Board (NSUARB). The regulations cover such matters as tariffs, rates, construction, operations, financing, and accounting. Heritage Gas's accounting policies conform to generally accepted accounting principles for rate regulated utilities and reflect the policies established from time to time by the NSUARB. Rate regulation creates differences between the manner in which Heritage Gas accounts for transactions or events and how they would be accounted for if Heritage Gas was not regulated. The following is a description of the effects of regulation on Heritage Gas as they relate to the Corporation's 50.1 per cent interest:

i. Revenue deficiency account (RDA)

Heritage Gas has approval from the NSUARB to use a Revenue Deficiency Account (RDA). The RDA changes based on the difference between the actual revenue billed and the revenue required to earn the rates of return approved by the NSUARB. In Heritage Gas' customer development stage, it is expected that the actual revenue billed will be less than the revenue required to earn the approved rates of return and therefore an RDA asset will accumulate.

As the distribution network matures, the actual revenue billed is expected to exceed the revenue required to earn the approved rates of return and, the RDA will be drawn down. The recovery of any residual balance in the RDA at December 31, 2008 is subject to approval by the NSUARB.

The RDA as at December 31, 2004 was \$1,059 thousand (December 31, 2003 - \$122 thousand). The effect of the RDA accumulation was to increase revenue in 2004 by \$937 thousand (2003 - \$122 thousand).

ii. Allowance for funds used during construction (AFUDC)

Heritage Gas capitalizes an imputed carrying cost on assets under construction. The amount capitalized is disclosed on the income statement as AFUDC. The calculation method and rate of AFUDC have been approved by the NSUARB.

iii. Operating expenses

The NSUARB has approved the capitalization of operating and maintenance expenses. If Heritage Gas was not subject to rate regulation, certain of these amounts would not be capitalized.

iv. Income and other taxes

Heritage Gas follows the taxes payable method of accounting for income taxes. Provision is only made for those income taxes currently payable and no future tax is recorded on timing differences between accounting and taxable income.

17. 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.

Statement of Earnings

| (\$ millions) | Distribution | | Transportation | | Other ¹ | | Intercompany ² | | Total | |
|---|--------------|--------|----------------|-------|--------------------|-------|---------------------------|--------|-------|--------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| Revenue | | | | | | | | | | |
| Delivery revenue | 167.9 | 171.4 | - | - | 1.8 | 0.6 | (7.4) | (7.2) | 162.3 | 164.8 |
| Transportation and storage | - | - | 136.2 | 134.3 | 3.5 | 3.6 | (51.3) | (56.9) | 88.4 | 81.0 |
| Net sales from gas marketing | - | - | - | - | 26.9 | 30.6 | 9.6 | 5.9 | 36.5 | 36.5 |
| Revenue collected for municipalities | 20.9 | 19.1 | 3.4 | 5.3 | - | - | - | - | 24.3 | 24.4 |
| Other | 8.3 | 5.7 | - | - | 7.0 | 7.5 | (9.4) | (7.1) | 5.9 | 6.1 |
| | 197.1 | 196.2 | 139.6 | 139.6 | 39.2 | 42.3 | (58.5) | (65.3) | 317.4 | 312.8 |
| Expenses | | | | | | | | | | |
| Operating and maintenance | 111.5 | 113.6 | 56.4 | 54.9 | 5.1 | 6.2 | (55.3) | (61.3) | 117.7 | 113.4 |
| Interest | 16.7 | 17.9 | 26.7 | 27.9 | 2.2 | 1.7 | 3.9 | 4.6 | 49.5 | 52.1 |
| Amortization | 23.8 | 23.5 | 23.9 | 23.1 | 1.0 | 2.2 | 0.9 | - | 49.6 | 48.8 |
| Payments to municipalities | 20.9 | 19.1 | 3.4 | 5.3 | - | - | - | - | 24.3 | 24.4 |
| Saskatchewan taxes | 3.2 | 2.9 | 2.4 | 2.2 | 0.6 | 0.7 | - | - | 6.2 | 5.8 |
| | 176.1 | 177.0 | 112.8 | 113.4 | 8.9 | 10.8 | (50.5) | (56.7) | 247.3 | 244.5 |
| Net earnings from operations before the following | 21.0 | 19.2 | 26.8 | 26.2 | 30.3 | 31.5 | (8.0) | (8.6) | 70.1 | 68.3 |
| Commodity revenue | 386.4 | 374.4 | - | - | 0.6 | 0.4 | - | (0.1) | 387.0 | 374.7 |
| Cost of gas sold | 351.5 | 405.6 | - | - | 0.7 | 0.7 | (2.9) | (4.3) | 349.3 | 402.0 |
| Gain (loss) from commodity sales | 34.9 | (31.2) | - | - | (0.1) | (0.3) | 2.9 | 4.2 | 37.7 | (27.3) |
| Net earnings (loss) | 55.9 | (12.0) | 26.8 | 26.2 | 30.2 | 31.2 | (5.1) | (4.4) | 107.8 | 41.0 |

Statement of Financial Position

| (\$ millions) | Distribution | | Transportation | | Other ¹ | | Intercompany ² | | Total | |
|--|--------------|--------------|----------------|--------------|--------------------|-------------|---------------------------|---------------|----------------|----------------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| Assets | | | | | | | | | | |
| Current assets | 268.3 | 228.3 | 13.7 | 42.9 | 4.2 | 7.8 | (6.1) | (45.9) | 280.1 | 233.1 |
| Property, plant & equipment, & natural gas in storage | 407.0 | 404.4 | 525.6 | 522.5 | 42.2 | 40.4 | (0.3) | - | 974.5 | 967.3 |
| Investments & other assets | 6.3 | 7.1 | 3.8 | 4.5 | 24.7 | 24.0 | (3.0) | (0.8) | 31.8 | 34.8 |
| | 681.6 | 639.8 | 543.1 | 569.9 | 71.1 | 72.2 | (9.4) | (46.7) | 1,286.4 | 1,235.2 |
| Liabilities and Equity | | | | | | | | | | |
| Current liabilities | 222.2 | 175.9 | 148.0 | 78.5 | 18.8 | 25.4 | (17.9) | 18.5 | 371.1 | 298.3 |
| Long-term debt | 240.2 | 251.6 | 220.6 | 314.5 | 16.1 | 15.5 | 92.4 | 46.3 | 569.3 | 627.9 |
| | 462.4 | 427.5 | 368.6 | 393.0 | 34.9 | 40.9 | 74.5 | 64.8 | 940.4 | 926.2 |
| Equity | 219.2 | 212.3 | 174.5 | 176.9 | 36.2 | 31.3 | (83.9) | (111.5) | 346.0 | 309.0 |
| | 681.6 | 639.8 | 543.1 | 569.9 | 71.1 | 72.2 | (9.4) | (46.7) | 1,286.4 | 1,235.2 |

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

²The 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 made 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.

18. Comparative Figures

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

FIVE-YEAR FINANCIAL SUMMARY

| (\$ millions) | Distribution | | | | | Transportation | | | | |
|---|--------------|--------------|--------------|--------------|--------------|----------------|--------------|--------------|--------------|--------------|
| | 2004 | 2003 | 2002 | 2001 | 2000 | 2004 | 2003 | 2002 | 2001 | 2000 |
| Statement of Earnings | | | | | | | | | | |
| Revenue | | | | | | | | | | |
| Delivery revenue | 167.9 | 171.4 | 169.8 | 158.1 | 170.5 | - | - | - | - | - |
| Transportation and storage | - | - | - | - | - | 136.2 | 134.3 | 123.3 | 125.1 | 132.6 |
| Net sales from gas marketing | - | - | - | - | - | - | - | 28.3 | 35.0 | 15.4 |
| Revenue collected for municipalities | 20.9 | 19.1 | 18.6 | 16.3 | 13.3 | 3.4 | 5.3 | 4.0 | 5.8 | 4.8 |
| Other | 8.3 | 5.7 | (2.0) | 2.7 | 1.8 | - | - | - | - | - |
| | 197.1 | 196.2 | 186.4 | 177.1 | 185.6 | 139.6 | 139.6 | 155.6 | 165.9 | 152.8 |
| Expenses | | | | | | | | | | |
| Operating and maintenance | 111.5 | 113.6 | 118.2 | 116.8 | 114.4 | 56.4 | 54.9 | 51.2 | 49.8 | 45.7 |
| Interest | 16.7 | 17.9 | 18.9 | 17.7 | 26.4 | 26.7 | 27.9 | 28.8 | 29.6 | 39.2 |
| Amortization | 23.8 | 23.5 | 22.9 | 22.0 | 21.1 | 23.9 | 23.1 | 24.0 | 23.7 | 22.1 |
| Payments to municipalities | 20.9 | 19.1 | 18.6 | 16.3 | 13.3 | 3.4 | 5.3 | 4.0 | 5.8 | 4.8 |
| Saskatchewan taxes | 3.2 | 2.9 | 4.0 | 3.0 | 2.4 | 2.4 | 2.2 | 4.3 | 7.2 | 7.2 |
| | 176.1 | 177.0 | 182.6 | 175.8 | 177.6 | 112.8 | 113.4 | 112.3 | 116.1 | 119.0 |
| Net earnings from operations before the following | 21.0 | 19.2 | 3.8 | 1.3 | 8.0 | 26.8 | 26.2 | 43.3 | 49.8 | 33.8 |
| Commodity revenue | 386.4 | 374.4 | 377.3 | 310.4 | 238.0 | - | - | - | - | - |
| Cost of gas sold | 351.5 | 405.6 | 418.5 | 376.7 | 239.5 | - | - | - | - | - |
| Gain (loss) from commodity sales | 34.9 | (31.2) | (41.2) | (66.3) | (1.5) | - | - | - | - | - |
| Net earnings (loss) | 55.9 | (12.0) | (37.4) | (65.0) | 6.5 | 26.8 | 26.2 | 43.3 | 49.8 | 33.8 |
| Statement of Financial Position | | | | | | | | | | |
| Assets | | | | | | | | | | |
| Current assets | 268.3 | 228.3 | 202.5 | 280.5 | 211.1 | 13.7 | 42.9 | 54.6 | 58.5 | 68.8 |
| Property, plant & equipment, & natural gas in storage | 407.0 | 404.4 | 400.1 | 396.5 | 386.6 | 525.6 | 522.5 | 529.1 | 533.8 | 542.4 |
| Investments & other assets | 6.3 | 7.1 | 7.8 | 8.5 | 5.4 | 3.8 | 4.5 | 5.2 | 5.9 | 2.4 |
| | 681.6 | 639.8 | 610.4 | 685.5 | 603.1 | 543.1 | 569.9 | 588.9 | 598.2 | 613.6 |
| Liabilities and Equity | | | | | | | | | | |
| Current liabilities | 222.2 | 175.9 | 151.6 | 218.4 | 199.9 | 148.0 | 78.5 | 61.6 | 67.9 | 57.0 |
| Long-term debt | 240.2 | 251.6 | 266.1 | 268.0 | 215.0 | 220.6 | 314.5 | 335.1 | 338.1 | 366.3 |
| | 462.4 | 427.5 | 417.7 | 486.4 | 414.9 | 368.6 | 393.0 | 396.7 | 406.0 | 423.3 |
| Equity | 219.2 | 212.3 | 192.7 | 199.1 | 188.2 | 174.5 | 176.9 | 192.2 | 192.2 | 190.3 |
| | 681.6 | 639.8 | 610.4 | 685.5 | 603.1 | 543.1 | 569.9 | 588.9 | 598.2 | 613.6 |

¹ - The Other category includes Bayhurst Gas Limited, Many Islands Pipe Lines (Canada) 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.

| Other ¹ | | | | | Intercompany ² | | | | | Consolidated Entity | | | | |
|--------------------|-------|------|------|------|---------------------------|---------|---------|---------|--------|---------------------|---------|---------|---------|---------|
| 2004 | 2003 | 2002 | 2001 | 2000 | 2004 | 2003 | 2002 | 2001 | 2000 | 2004 | 2003 | 2002 | 2001 | 2000 |
| 1.8 | 0.6 | 0.6 | 0.5 | - | (7.4) | (7.2) | (5.3) | (3.5) | (4.0) | 162.3 | 164.8 | 165.1 | 155.1 | 166.5 |
| 3.5 | 3.6 | 3.6 | 3.6 | 4.1 | (51.3) | (56.9) | (59.3) | (59.9) | (64.0) | 88.4 | 81.0 | 67.6 | 68.8 | 72.7 |
| 26.9 | 30.6 | - | - | - | 9.6 | 5.9 | (13.7) | 3.5 | 2.1 | 36.5 | 36.5 | 14.6 | 38.5 | 17.5 |
| - | - | - | - | - | - | - | - | - | - | 24.3 | 24.4 | 22.6 | 22.1 | 18.1 |
| 7.0 | 7.5 | 4.6 | 6.1 | 4.3 | (9.4) | (7.1) | 2.1 | (4.4) | (3.5) | 5.9 | 6.1 | 4.7 | 4.4 | 2.6 |
| 39.2 | 42.3 | 8.8 | 10.2 | 8.4 | (58.5) | (65.3) | (76.2) | (64.3) | (69.4) | 317.4 | 312.8 | 274.6 | 288.9 | 277.4 |
| 5.1 | 6.2 | 2.5 | 2.3 | 2.0 | (55.3) | (61.3) | (60.1) | (59.3) | (62.5) | 117.7 | 113.4 | 111.8 | 109.6 | 99.6 |
| 2.2 | 1.7 | 1.0 | 1.3 | 1.1 | 3.9 | 4.6 | 3.4 | 4.6 | (0.1) | 49.5 | 52.1 | 52.1 | 53.2 | 66.6 |
| 1.0 | 2.2 | 0.7 | 1.5 | 1.4 | 0.9 | - | - | - | (0.1) | 49.6 | 48.8 | 47.6 | 47.2 | 44.5 |
| - | - | - | - | - | - | - | - | - | - | 24.3 | 24.4 | 22.6 | 22.1 | 18.1 |
| 0.6 | 0.7 | 0.7 | 0.6 | 0.5 | - | - | - | - | - | 6.2 | 5.8 | 9.0 | 10.8 | 10.1 |
| 8.9 | 10.8 | 4.9 | 5.7 | 5.0 | (50.5) | (56.7) | (56.7) | (54.7) | (62.7) | 247.3 | 244.5 | 243.1 | 242.9 | 238.9 |
| 30.3 | 31.5 | 3.9 | 4.5 | 3.4 | (8.0) | (8.6) | (19.5) | (9.6) | (6.7) | 70.1 | 68.3 | 31.5 | 46.0 | 38.5 |
| 0.6 | 0.4 | 0.3 | 0.1 | - | - | (0.1) | (0.3) | - | - | 387.0 | 374.7 | 377.3 | 310.5 | 238.0 |
| 0.7 | 0.7 | 0.3 | 0.1 | - | (2.9) | (4.3) | (16.9) | (4.9) | (7.4) | 349.3 | 402.0 | 401.9 | 371.9 | 232.1 |
| (0.1) | (0.3) | - | - | - | 2.9 | 4.2 | 16.6 | 4.9 | 7.4 | 37.7 | (27.3) | (24.6) | (61.4) | 5.9 |
| 30.2 | 31.2 | 3.9 | 4.5 | 3.4 | (5.1) | (4.4) | (2.9) | (4.7) | 0.7 | 107.8 | 41.0 | 6.9 | (15.4) | 44.4 |
| 4.2 | 7.8 | 5.4 | 5.2 | 4.2 | (6.1) | (45.9) | (30.2) | (58.9) | (62.4) | 280.1 | 233.1 | 232.3 | 285.3 | 221.7 |
| 42.2 | 40.4 | 20.3 | 20.6 | 19.3 | (0.3) | - | - | 1.2 | (0.3) | 974.5 | 967.3 | 949.5 | 952.1 | 948.0 |
| 24.7 | 24.0 | 15.8 | 12.9 | 7.4 | (3.0) | (0.8) | 0.8 | (0.5) | 0.1 | 31.8 | 34.8 | 29.6 | 26.8 | 15.3 |
| 71.1 | 72.2 | 41.5 | 38.7 | 30.9 | (9.4) | (46.7) | (29.4) | (58.2) | (62.6) | 1,286.4 | 1,235.2 | 1,211.4 | 1,264.2 | 1,185.0 |
| 18.8 | 25.4 | 10.3 | 9.2 | 13.0 | (17.9) | 18.5 | 79.2 | 56.6 | (60.3) | 371.1 | 298.3 | 302.7 | 352.1 | 209.6 |
| 16.1 | 15.5 | 13.6 | 13.7 | 6.7 | 92.4 | 46.3 | (0.3) | (0.2) | 79.5 | 569.3 | 627.9 | 614.5 | 619.6 | 667.5 |
| 34.9 | 40.9 | 23.9 | 22.9 | 19.7 | 74.5 | 64.8 | 78.9 | 56.4 | 19.2 | 940.4 | 926.2 | 917.2 | 971.7 | 877.1 |
| 36.2 | 31.3 | 17.6 | 15.8 | 11.2 | (83.9) | (111.5) | (108.3) | (114.6) | (81.8) | 346.0 | 309.0 | 294.2 | 292.5 | 307.9 |
| 71.1 | 72.2 | 41.5 | 38.7 | 30.9 | (9.4) | (46.7) | (29.4) | (58.2) | (62.6) | 1,286.4 | 1,235.2 | 1,211.4 | 1,264.2 | 1,185.0 |

Authority

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

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*.

Board Composition

SaskEnergy's Board 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.

Committees

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

- **Audit and Finance Committee**

Chair: Mike Chorlton

The Audit and Finance Committee mandate is to assist the Board 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: Heather Heavin

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: Ralph Hesje

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: Eldon Lindgren

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.

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 TSX Guidelines in the following Governance Scorecard.

| TSX Corporate Governance Committee's Guidelines | SaskEnergy's Corporate Governance Practices | Consistent with TSX Guidelines? |
|---|---|---------------------------------|
| <p>1. The board should explicitly assume responsibility for the stewardship of the corporation, specifically for:</p> <p>(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:</p> | <p>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.</p> <p>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.</p> <p>In addition, the Board conducts an annual 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.</p> | Yes |
| <p>(b) The identification of the principal risks of the corporation's business and ensuring the implementation of appropriate systems to manage these risks:</p> | <p>The Board identifies the principal risks of the Corporation 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.</p> | Yes |
| <p>(c) Succession planning, including appointing, training and monitoring senior management:</p> | <p>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.</p> | Yes |
| <p>(d) A communications policy for the corporation:</p> | <p>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. Furthermore, the Corporation complies with certain communication requirements set by the shareholder and by statute.</p> | Yes |
| <p>(e) The integrity of the corporation's internal control and management information systems:</p> | <p>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.</p> | Yes |
| <p>2. (a) The board of directors of every corporation should be constituted with a majority of individuals who qualify as unrelated directors:</p> | <p>There are nine individuals on the SaskEnergy Board. Jean Weimer, Assistant to the President of CEP Union, Local 649, is the only related Board member.</p> | Yes |
| <p>(b) Disclosure of significant shareholders (ability to exercise a majority of votes to elect directors):</p> | <p>SaskEnergy is a statutory Crown corporation and does not have any share capital.</p> | Not applicable |
| <p>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:</p> | <p>Tim Gitzel, Chair: UNRELATED- President and CEO of COGEMA Resources (resigned from the Board effective July 31, 2004)</p> <p>Mervyn J. Simon, Chair: UNRELATED- Independent Industry Business Person (Chair effective March 30, 2004)</p> <p>Heather Heavin, Vice Chair: UNRELATED- Assistant Professor of Law, University of Saskatchewan (appointed as a Board member March 30, 2004)</p> <p>Geoffrey W. Bartlam: UNRELATED - Independent Business Person (ceased being a Board member effective March 30, 2004)</p> <p>Michael W. Chorlton: UNRELATED - Vice President, Renessen LLC, Chicago, Illinois</p> <p>Ralph Hesje: UNRELATED - President, Wilbros MSI Canada Inc.</p> <p>George E. Lafond: UNRELATED - Special Advisor to the President of the University of Saskatchewan</p> <p>Emmet Reidy: UNRELATED - Independent Business Person (ceased being a Board member effective March 30, 2004)</p> <p>Jean Weimer: RELATED - Assistant to the President of CEP Union, Local 649 (company employee on leave for Union business)</p> <p>Nadine Krenosky: UNRELATED - Vice President, Greystone Managed Investments Inc. (appointed as a Board member March 30, 2004)</p> <p>Florence Linantud: UNRELATED - Communications, Protection & Control Development Engineer I, SaskPower (appointed as a Board member March 30, 2004)</p> <p>Eldon Lindgren: UNRELATED - Lawyer, Lindgren, Blais, Frank and Illingworth (appointed as a Board member March 30, 2004)</p> | |

| TSX Corporate Governance Committee's Guidelines | SaskEnergy's Corporate Governance Practices | Consistent with TSX Guidelines? |
|---|---|---------------------------------|
| | For the unrelated Directors, none of them, or their "associates," have worked with or for the Corporation by material contracts or have 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 Company 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. It carries out the function of a nomination committee. This Committee is also responsible for the ongoing assessment of Directors. All of the Governance Committee members are outside, unrelated Directors. | Yes |
| 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, each Committee, the Chair and individual Directors. The Committee surveys Directors to provide feedback on the effectiveness of the Board. The results are summarized and reported to the Board, as well as to the Crown Investments Corporation of Saskatchewan (CIC) Board of Directors. For 2004, the process will consist of the individual Board members completing evaluation surveys on the effectiveness and performance of the Board Committees. Each of the survey results will be summarized and reported to the Board and to the CIC Board of Directors. The 2004 process will be conducted internally by the Corporate Secretary under the guidance of the Governance Committee. In addition, for 2004 the Board will also complete individual Director peer evaluations. An external consultant will assist Board members in completing the peer evaluations and the individual Director will be supplied with his or her results. A summary report is provided to the Governance Committee and the CIC Board of Directors. | 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, CIC has facilitated additional training sessions for Board members in 2004. | Yes |
| 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 CIC for approval any proposed adjustments to compensation levels. CIC 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: <ul style="list-style-type: none"> • 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 |
| 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 |

| TSX Corporate Governance Committee's Guidelines | SaskEnergy's Corporate Governance Practices | Consistent with TSX Guidelines? |
|---|--|---------------------------------|
| 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 has developed the Board's Terms of Reference which outline the responsibilities for the Board and management. The Board 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 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 are 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 are excused from the meeting. | Yes |
| 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. | <p>All members of the SaskEnergy Audit and Finance Committee are outside Directors.</p> <p>SaskEnergy's Audit and Finance Committee's Terms of Reference states that the Committee has a mandate to, among other things:</p> <ul style="list-style-type: none"> • Review with management and the external auditor, 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 Corporation's interim (quarterly) financial statements. • Review annually the results of the external auditor's review of the Corporation's financial record. • 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 auditor and recommend the appointment or reappointment of an external auditor. The Committee has sole authority for the relationship with the external auditor, 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 report of material outstanding litigation. • Review and approve the plans of the Corporation's internal auditor. • Review financial forecasts. • Review annually the efficacy of the Corporation's policies relating to execution of documents, derivatives, and expenditure. • 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. | Yes |
| 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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Management's Discussion and Analysis 2004 and Corporate Social Responsibility Report 2004.

