



2011 THIRD QUARTER REPORT SEPTEMBER 30, 2011

TABLE OF CONTENTS

Corporate Profile	2
Management's Discussion and Analysis.....	3
Consolidated Statement of Financial Position.....	11
Consolidated Statement of Comprehensive Income	12
Consolidated Statement of Changes in Equity	14
Consolidated Statement of Cash Flows	15
Notes to the Consolidated Financial Statements	16

Corporate Profile

SaskEnergy Incorporated (SaskEnergy or the Corporation) is a Saskatchewan Crown corporation governed by *The SaskEnergy Act*. It is a designated subsidiary of Crown Investments Corporation of Saskatchewan (CIC), which is also a Crown corporation that effectively operates as the Province's holding company for commercial Crown corporations and various commercial investments.

SaskEnergy has the exclusive legislated franchise to distribute natural gas within Saskatchewan. The distribution system delivers natural gas to over 352,000 residential, farm, commercial and industrial customers over a 67,000 kilometre pipeline distribution system. SaskEnergy has six wholly owned subsidiaries:

- TransGas Limited – owns and operates the transmission system and has the exclusive legislated franchise to transport natural gas within Saskatchewan. It also owns and operates a natural gas storage business as well as gathering and processing facilities, which are integrated with the transmission system;
- Many Islands Pipe Lines (Canada) Limited – transports natural gas to and from other jurisdictions and is regulated by the National Energy Board;
- Bayhurst Gas Limited – owns, produces and sells natural gas from storage-related assets and holds natural gas royalty interests. Bayhurst Gas Limited has two wholly owned subsidiaries: Bayhurst Energy Services Corporation, an energy services company, and BG Storage Inc., a natural gas storage company;
- SaskEnergy International Incorporated – formerly held international equity investments;
- Swan Valley Gas Corporation – owns a natural gas distribution utility in the Swan Valley area of western Manitoba;
- Saskatchewan First Call Corporation – operates an underground infrastructure facility database through which subscribing companies are alerted of the need to perform line locates for landowners or contractors planning to excavate in Saskatchewan.

Vision

We create superior value through innovative energy solutions.

Mission

Our team of dedicated employees and business partners develops and delivers safe, reliable natural gas solutions that benefit our customers and Saskatchewan.

Values

Safety: We never compromise the safety of our employees and the public.

Community: We are leaders in developing a diverse workforce, supporting our communities and environmental stewardship.

Recognition: We take time to recognize the individual and team contributions of our employees.

Accountability: We are accountable for our decisions, our actions and the results.

Spirit: We create a positive, welcoming and enjoyable work environment that supports employees in achieving their career goals and life balance.

Communications: We have open, honest and respectful communication that builds strong relationships.

Integrity: We are honest, respectful and apply high ethical standards.

Management's Discussion and Analysis

The Management's Discussion and Analysis (MD&A) highlights the primary factors that affected SaskEnergy's consolidated financial condition and results of operations for the nine month period ended September 30, 2011. Using financial and operating results as its basis, the MD&A describes the Corporation's past performance and future prospects, enabling readers to view SaskEnergy from the perspective of management. For additional information related to the Corporation, refer to SaskEnergy's Annual Report for the year ended December 31, 2010.

This MD&A is as at November 14, 2011 and should be read in conjunction with the consolidated interim financial statements and accompanying notes, which have been prepared in accordance with International Financial Reporting Standards (IFRS). The Corporation's consolidated financial statements were previously prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP). All comparative figures included in these consolidated financial statements have been restated in accordance with IFRS. Reconciliations and descriptions of the impact of the transition from Canadian GAAP to IFRS on the Corporation's consolidated financial statements are included in this MD&A as well as in the consolidated financial statements and accompanying notes.

The following discussion contains certain forward-looking statements that are subject to inherent uncertainties and risks. The significant uncertainties and risks of the Corporation include natural gas price and winter weather. All forward-looking statements reflect the Corporation's best estimates at the time the statements were made. However, actual results and events may vary significantly from those included in, contemplated or implied by such statements.

The volume of natural gas distributed is sensitive to variations in the weather, particularly through the prime heating season of November to March. Additionally, changes in the fair value of financial and derivative instruments may cause significant fluctuations in net income given the volatility of natural gas prices. Therefore, the consolidated interim financial results should not be taken as indicative of the performance to be expected for the full year.

The Corporation uses cost of gas sold, a non-IFRS term, when referring to natural gas purchases. In addition, the Corporation uses the following measures: net income from operations, realized margin on commodity sales and realized margin on gas marketing sales in order to compare financial performance from period to period. Each measure removes the impact of fair value adjustments and the revaluation of natural gas in storage as these market value adjustments are unrealized and subject to considerable variation. These are non-IFRS measures as there is no standardized meaning, and they may not be comparable to similar measures presented by other entities.

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Financial Highlights				
(\$ millions)				
Net income from operations ^{1, 2}	\$ 13	\$ (5)	\$ 58	\$ 36
Consolidated net income	15	(24)	60	20
Dividends	10	-	30	27
Capital expenditures	49	38	106	84
Total assets			1,824	1,797
Long-term debt			715	715
Debt ratio ²			57%	58%
Operating Highlights				
Distribution				
Volumes distributed (Petajoules)	21	19	105	93
Weather (compared to the 30-year average)			8% colder	1% warmer
Transmission				
Volumes transported (Petajoules)	42	47	167	170
Peak day natural gas flows (Petajoules)			1.10	1.07
Date of peak flow			January 31	January 7

¹ Refer to non-IFRS measures

² Refer to impact of IFRS

SaskEnergy Incorporated

2011 Third Quarter Report

September 30, 2011

Consolidated Net Income

(millions)	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Net income from operations ¹	\$ 13	\$ (5)	\$ 58	\$ 36
Impact of fair value adjustments	(5)	(12)	(6)	3
Revaluation of natural gas in storage	7	(7)	8	(19)
Consolidated net income	\$ 15	\$ (24)	\$ 60	\$ 20

¹ Refer to non-IFRS measures

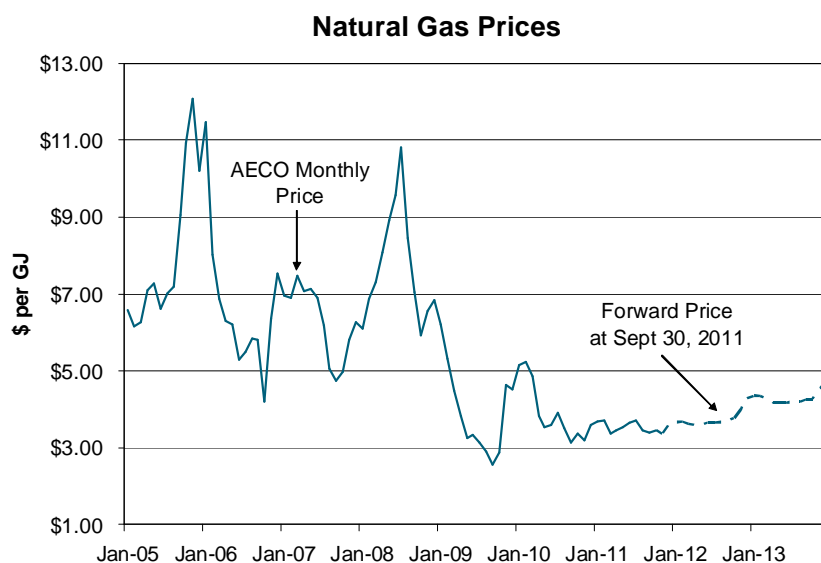
For the nine months ended September 30, 2011 net income from operations was \$58 million, an improvement of \$22 million from the same period in 2010. Colder than normal weather and completion of some large customer-specific service connections had significant impacts on the Corporation's financial results for the first nine months of 2011, leading toward higher delivery revenue, higher realized margins on commodity sales, and higher customer capital contribution revenue. These positive variances were somewhat offset by a net \$9 million loss on the sale of the Corporation's investments in Gas Sur, S.A (Gas Sur), a natural gas distribution company in Chile, and IGASAMEX, a natural gas transmission company in Mexico. Market value adjustments increased net income by \$2 million during the period, compared to the unfavorable adjustment of \$16 million in 2011. As a result, consolidated net income of \$60 million for the first nine months of 2011 was \$40 million above the first nine months of 2010.

The Corporation realized \$13 million of net income from operations during the third quarter of 2011, an \$18 million improvement from the third quarter of 2010. The Corporation realized higher customer capital contribution revenue, and the \$2 million gain on the sale of IGASAMEX during the quarter. However, this was partially offset by higher operating expenses of \$5 million.

Natural Gas Prices

Natural gas prices in Saskatchewan generally follow natural gas prices throughout North America. Despite record summer heat demand for natural gas through gas fired power generation, the North American natural gas system remains relatively oversupplied as strong production of shale gas continues to outpace demand.

The following is a chart of AECO natural gas prices. AECO is the major natural gas hub in Canada and is located in Alberta. Natural gas in Saskatchewan is priced at a differential to the AECO price and is usually about \$0.05 per Gigajoule (GJ) to \$0.20 per GJ higher than AECO.



SaskEnergy's exposure to natural gas price risk occurs primarily because the Corporation purchases natural gas at variable market prices and resells it to utility customers at fixed rates. The risk of natural gas costs rising above the rate at which the natural gas is sold to utility customers is mitigated through the use of storage and a natural gas price risk management program. For rate-setting purposes, SaskEnergy accumulates differences between the cost of natural gas sold and its commodity rate in a Gas Cost Variance Account (GCVA). The balance in the GCVA, which is not recorded in the Corporation's financial statements, may be recovered from or refunded to customers in subsequent periods.

SaskEnergy Incorporated
2011 Third Quarter Report
September 30, 2011

SaskEnergy's commodity rate of \$4.55 per GJ has been effective since November 1, 2010. The commodity rate reflects the balance of the GCVA as well as the cost of natural gas in storage, existing natural gas contracts and the anticipated forward market prices.

Natural Gas Margin

The natural gas margin includes the margins for both commodity and gas marketing activities as indicated in Note 22 of the consolidated financial statements. As the Corporation manages each activity distinctly, the MD&A discussion for natural gas margin has been broken into these separate components.

Natural Gas Margin – Commodity Margin

(millions)	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Realized commodity sales	\$ 28	\$ 22	\$ 207	\$ 183
Realized commodity cost of gas sold ¹	(34)	(33)	(201)	(188)
Realized margin on commodity sales ¹	(6)	(11)	6	(5)
Impact of fair value adjustments	-	(22)	8	(40)
Margin on commodity sales	\$ (6)	\$ (33)	\$ 14	\$ (45)

¹ Refer to non-IFRS measures

SaskEnergy sells natural gas to distribution customers at a commodity rate approved by Provincial Cabinet based on recommendations of the Saskatchewan Rate Review Panel (SRRP). SaskEnergy's commodity rate is designed to ensure that, in the long term, the Corporation neither earns a profit nor incurs a loss on the sale of natural gas. However, as natural gas is acquired in the open market, purchase prices fluctuate throughout the year. As discussed previously, SaskEnergy accumulates differences between the commodity revenue earned and the cost of natural gas sold in the GCVA for rate-setting purposes and utilizes a natural gas price risk management strategy to assist in managing the impact of natural gas purchase price volatility. The natural gas price risk management strategy and the GCVA are key tools used by the Corporation in its effort to deliver stable and competitive commodity rates to its customers.

In order to ensure a secure supply of natural gas, SaskEnergy may enter into derivative forward contracts for the physical delivery of natural gas. The purchase price contained in these forward contracts is typically based on a floating index price. The natural gas supply has been secured, but the price in the forward contract will be determined by the price of natural gas in the future. SaskEnergy may use other natural gas derivative contracts, primarily natural gas price swaps and options, to manage the future purchase price of natural gas. As derivative instruments, these natural gas contracts are recorded at fair value until the date of settlement. Changes in fair value, which will vary depending on the difference between the contract prices and the future natural gas market prices, are recorded in commodity cost of gas sold. Upon settlement of the natural gas contract, the actual amount paid or received by SaskEnergy is recorded in the commodity cost of gas sold.

During the period ended September 30, 2011, these fair value adjustments decreased the commodity cost of gas sold by \$8 million, as the \$44 million unfavourable fair value as at September 30, 2011 was an improvement from the \$52 million recorded at the end of 2010. The \$44 million unfavourable fair value at the end of September 2011 was primarily due to natural gas price swaps with an average purchase price of \$4.46 per GJ valued at a market price of \$3.83 per GJ. These unrealized fair value adjustments do not represent the amount paid or received upon settlement.

The realized margin on commodity sales removes the unrealized fair value adjustments, as these adjustments can vary significantly and do not necessarily represent the amount that will be paid upon settlement of the related natural gas contract, which is generally at maturity. On a realized basis, the Corporation's margin on commodity sales for the first nine months of 2011 was \$6 million, \$11 million above the first nine months of 2010 as colder weather led to increased volumes sold. In addition, the average revenue generated from commodity sales in 2011 was \$4.47 per GJ while the average cost of natural gas sold was \$4.31 per GJ. The average cost of gas sold for regulatory purposes was \$4.48 per GJ for the first nine months of 2011. For 2010, the average revenue generated from commodity sales was \$5.15 per GJ and the average cost of gas sold was \$5.31 per GJ.

On a quarterly basis, the Corporation's \$6 million realized loss on commodity sales was almost half of the \$11 million loss realized in the same period of 2010. The improvement in 2011 is a result of a lower cost of settling hedge contracts as compared to the prior year.

SaskEnergy Incorporated
2011 Third Quarter Report
September 30, 2011

Natural Gas Margin – Gas Marketing Margin

(millions)	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Realized gas marketing sales	\$ 63	\$ 145	\$ 206	\$ 305
Realized gas marketing cost of gas sold ¹	(53)	(129)	(176)	(269)
Realized margin on gas marketing sales ¹	10	16	30	36
Impact of fair value adjustments	(7)	9	(16)	41
Revaluation of natural gas in storage	7	(7)	8	(19)
Margin on gas marketing sales	\$ 10	\$ 18	\$ 22	\$ 58

¹ Refer to non-IFRS measures

A major component of SaskEnergy's gas marketing activity is the sale of natural gas from its storage facility in west central Saskatchewan. In recent years, relatively low-priced natural gas has been injected into this storage facility and subsequently sold to earn a margin. The Corporation also optimizes its contracted transmission and storage capacity during off-peak periods by purchasing and selling natural gas in the open market to provide customer-rate benefits and generate additional margins. In addition, SaskEnergy provides a natural gas supply option to larger end-use customers in Saskatchewan through non-regulated contract sales.

Given the volatility of market prices, gas marketing transactions are subject to natural gas price risk. As per the discussion on the commodity margin, the Corporation may enter into various natural gas contracts in order to manage natural gas price risk for its natural gas marketing activities. These natural gas contracts are derivative instruments and, as such, are recorded at fair value until the date of settlement. Changes in fair value are recorded in either gas marketing sales or gas marketing cost of gas sold, depending on the specific natural gas contract. Once settled, the amount paid or received for the contract is recorded in gas marketing sales or gas marketing cost of gas sold, as appropriate. During the first nine months of 2011, fair value adjustments decreased the margin on gas marketing sales by \$16 million. The favourable fair value as at September 30, 2011 was \$52 million, which declined from the \$68 million recorded at the end of 2010. The \$52 million favourable fair value adjustment as at September 30, 2011 was primarily due to natural gas price swaps with an average selling price of \$6.23 per GJ compared to a market price of \$3.94 per GJ.

With the decline in forward prices, the net realizable value for gas marketing natural gas in storage has fallen below cost. If natural gas prices rise in the future, SaskEnergy will record an upward revaluation to recognize the increase in net realizable value, up to a maximum of the original cost. Otherwise, the inventory revaluation will result in improved margins in the future as contracts are settled by virtue of the lower carrying value of natural gas in storage. As at December 31, 2010, forward prices were below cost resulting in a downward revaluation of \$21 million. The revaluation of gas marketing gas in storage at September 30, 2011 has decreased to \$13 million, an improvement of \$8 million, due mostly to improvement of forward prices at the end of the period as compared to December 31, 2010.

The realized margin on gas marketing sales, which removes the impact of fair value adjustments on derivative instruments and the revaluation of natural gas in storage, was \$30 million. This was comparable to the targets set in the Corporation's budget, however it was below the \$36 million realized in 2010 as there was significantly less activity compared to last year when there were more favorable price differentials available.

During the third quarter of 2011, the Corporation realized \$10 million on gas marketing activities, \$6 million below the prior year due to significantly lower volumes.

Delivery Revenue

Delivery revenue of \$133 million for the nine months ended September 30, 2011 was \$7 million above the same period in 2010. As most of the natural gas delivered is used for space heating purposes, the volume of natural gas delivered is directly impacted by the weather during the winter months. The weather for the first nine months of 2011 was approximately 9 per cent colder than the same period in 2010, contributing to a 3 PJ period-over-period increase in the volume of natural gas delivered. In addition, the Corporation experienced a strong period for customer growth. When comparing September 30, 2010 to September 30, 2011, the distribution system's residential, business and industrial customers have increased by over 5,100 or 1.5 per cent.

For the third quarter of 2011, delivery revenue was \$26 million, comparable to the 2010 third quarter results.

Transportation and Storage Revenue

Transportation and storage revenue was comparable to the same period in 2010 at \$58 million. Deliveries by the transmission system to customers within Saskatchewan, or to points where natural gas is subsequently exported, are based on the volume of receipts onto the system as well as withdrawals from storage. Low natural gas prices have led to a steady decline in natural gas drilling in Western Canadian conventional gas reservoirs, including Saskatchewan, over recent years. Lower natural gas prices also resulted in less natural gas being withdrawn from storage. These factors, combined with a decline in production from existing natural gas wells, have resulted in declines in both receipt and export volumes. Offsetting these declines was an increase in contracted capacity for deliveries within Saskatchewan as there was increased demand from key sectors, such as potash and natural gas-fired electrical generation.

Storage revenue was slightly higher during the first nine months of 2011 as contracted storage capacity increased. Given an increased interest in storage service, the Corporation has several storage expansion projects underway, which are expected to increase storage capacity by 9 PJ by 2012.

On a quarterly basis, transportation and storage revenue was \$20 million for 2011 compared to \$19 million in 2010. Export volumes were lower during the third quarter of 2011; however, the decline was offset by higher deliveries and storage revenue.

Customer Capital Contribution Revenue

SaskEnergy receives customer capital contributions from customers related to the construction of new, customer-specific service connections. Recognition of customer capital contributions as revenue considers when the related property, plant and equipment becomes available for use, the existence of any refunds available to the customer, and expiration of the refund period. Consequently, customer capital contribution revenue can vary significantly period over period. Two significant capital projects were completed during the third quarter of 2011 which resulted in the \$25 million increase in customer capital contribution revenue over the same period in 2010. For the nine month period ended September 30, 2011, customer capital contribution revenue was \$35 million, an increase of \$24 million over 2010.

Other Revenue

Other revenue, which includes royalty revenue and natural gas and liquid sales, increased by \$2 million compared to the first nine months of 2010. Revenue from natural gas processing operations was \$2 million higher than the same period in 2010. Expansion of the Kisbey Gas Plant during the first quarter of 2010, which has increased the volume of natural gas being processed, and higher natural gas liquid prices are responsible for the increase.

On a quarterly basis, other revenue was \$4 million in 2011, comparable to 2010.

Other Expenses

SaskEnergy's employees are dedicated to building, maintaining and operating the distribution and transmission systems that provide safe and reliable service to all of SaskEnergy's customers throughout the Province. Employee benefits of \$61 million for the first nine months of 2011 were consistent with 2010.

Operating and maintenance expense was \$58 million for the nine months ended September 30, 2011, which was \$10 million higher than the same period in 2010. The increased operating and maintenance expenses were mainly attributable to higher levels of service work and higher rates on transportation services provided to the Corporation by third-party pipeline companies, primarily TransCanada Corporation. In addition, there were higher gas processing costs as the Kisbey Gas Plant was shutdown during the first quarter of 2010 to accommodate plant expansion.

Amortization and depreciation and Saskatchewan taxes of \$50 million and \$8 million respectively for the first nine months of 2011 were comparable to the same period in 2010. Net finance expense of \$25 million was \$3 million below 2010, primarily due to lower interest on long-term debt partially offset by higher interest on short-term debt. During 2010 and 2011, SaskEnergy made a strategic decision to temporarily reduce its long-term debt and rely on shorter term financing in order to take advantage of the differential between short- and long-term interest rates.

For the third quarter of 2011, other expenses were \$61 million, which was \$9 million higher than the \$52 million in other expenses for the third quarter of 2010 due to the increased service work and higher third party transportation costs.

Sale of IGASAMEX

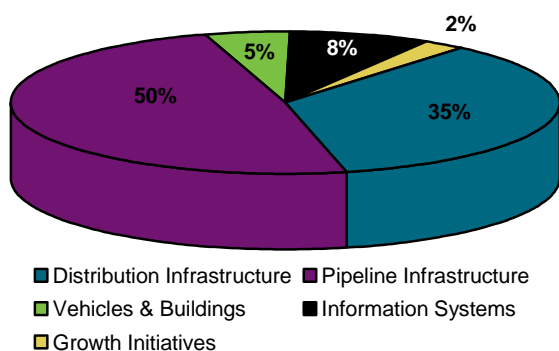
In September 2011 the Corporation sold its 40.1 per cent equity interest in IGASAMEX for \$17 million (United States dollars). The Corporation had invested \$7 million (United States dollars) in IGASAMEX between 2002 and 2003. Between 2002 and 2010, the carrying value of IGASAMEX increased by approximately \$8 million as the Corporation recorded its share of accumulated net income and foreign currency adjustments. Consequently, the gain realized on the sale was \$2 million.

Liquidity and Capital Resources

(millions)	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Cash provided by operating activities	\$ 12	\$ 24	\$ 169	\$ 132
Cash used in investing activities	(32)	(38)	(83)	(84)
Cash used in financing activities	22	13	(79)	(49)
Increase (decrease) in cash during the period	\$ 2	\$ (1)	\$ 7	\$ (1)

Cash from operations and debt borrowed from the Province of Saskatchewan's General Revenue Fund are the primary sources of liquidity and capital for SaskEnergy.

Cash provided by operating activities was \$169 million, which was \$37 million higher than the same period in 2010. Colder than normal weather and lower natural gas market prices during 2011 were significant factors in the increase in cash from operations. The Corporation generated additional cash through distribution system revenue and expended less cash on the purchase of natural gas in storage. Lower natural gas prices and inventory volumes led to a \$28 million decrease in the cost of natural gas in storage held for resale. The majority of this natural gas in storage was purchased for gas marketing activities and will be held for resale in subsequent periods to generate additional margins and cash flow for the Corporation.



During the first nine months of 2011, cash used in investing activities was \$83 million, which includes \$106 million capital investments less \$23 million proceeds on the sale of investments. The majority of the \$106 million capital investments were made to expand the capacity and maintain the integrity of SaskEnergy's extensive distribution and transmission systems. Capital investments were \$22 million above the first nine months of 2010 as SaskEnergy experienced significant growth in distribution system customers throughout the Province. In addition, the Corporation increased expenditures directed toward improving the safety and reliability of its distribution system. SaskEnergy also expanded its pipeline infrastructure in southeastern Saskatchewan's oil-rich Bakken region, which will transport natural gas associated with oil production that has been

captured and processed by oil companies in the region.

During the period ended September 30, 2011, \$79 million was used in financing activities, compared to \$49 million in the period ended September 30, 2010 as the Corporation reduced short-term debt balances. The Corporation also paid dividends to its parent, CIC, of \$42 million. SaskEnergy's debt to equity ratio was 57 per cent debt and 43 per cent equity, well below the target of 65 per cent debt and 35 per cent equity. This ratio has been significantly impacted by the adoption of IFRS and resultant increase in equity as outlined below.

Impact of IFRS

Effective January 1, 2011, publicly accountable Canadian entities, including Government Business Enterprises like SaskEnergy, were required to prepare financial information in accordance with IFRS. In addition, the Canadian Accounting Standards Board (AcSB) permitted qualifying entities with rate regulated activities to apply an optional deferral for the adoption of IFRS until January 1, 2012 as the use of regulatory accounting is currently being reviewed by the International Accounting Standards Board, and any changes may significantly affect the IFRS financial statements of rate regulated entities. While this includes many of the Corporation's peers in the natural gas distribution utility and pipeline industries, SaskEnergy does not qualify for this deferral as it is not considered an independently regulated utility.

SaskEnergy Incorporated
2011 Third Quarter Report
September 30, 2011

The Corporation's previous consolidated financial statements were prepared in accordance with Canadian GAAP. A detailed discussion of the transition to IFRS is included in Note 30 of the consolidated financial statements. The impact of the transition to IFRS on SaskEnergy's equity was as follows:

(millions)	As at January 1, 2010	As at September 30, 2010	As at December 31, 2010
Province's equity under Canadian GAAP	\$ 475	\$ 462	\$ 462
Customer capital contributions	159	167	174
Deemed cost	7	6	6
Major inspections	(3)	(4)	(4)
Decommissioning liabilities	(7)	(7)	(7)
Province's equity under IFRS	\$ 631	\$ 624	\$ 631

For SaskEnergy, the main difference between Canadian GAAP and IFRS relates to the treatment of customer capital contributions. Under Canadian GAAP, the Corporation netted customer capital contributions against property, plant and equipment and amortized these contributions on a straight-line basis over the estimated useful life of the related asset. Under IFRS, customer capital contributions are recognized as revenue, either immediately or over a specified period. If only one service is identified, the entity recognizes the revenue when the service is performed. If an ongoing service is identified, the revenue is recognized over the period specified by the agreement. If the agreement does not specify a period, the revenue is recognized over a period no longer than the useful life of the related asset. Customer capital contributions received by SaskEnergy relate to the initial connection to the Corporation's distribution and transmission systems and are recognized as revenue once the related property, plant and equipment is available for use. On transition, this change increased property, plant and equipment by \$179 million, decreased accounts payable by \$14 million, increased deferred revenue by \$34 million and increased retained earnings by \$159 million.

As part of SaskEnergy's Strategic Plan, the Corporation monitors its financial health based on several key success measures and reports these results annually as part of its annual report. The following provides a comparison of these key success measures as determined under both Canadian GAAP and IFRS for the year ended December 31, 2010:

Strategic Measure	Target	Canadian GAAP Actual	IFRS Actual
Financial Health			
Debt to equity ratio	68/32	66/34	59/41
Rate of return on equity	12.9%	11.8%	10.8%
Net income from operations (millions) ¹	\$58	\$55	\$68
Capital investment (millions)	\$103	\$109	\$145

¹ Refer to non-IFRS measures

Under IFRS, the 2010 net income from operations improved \$13 million when compared to Canadian GAAP, largely due to the recognition of \$20 million in customer capital contributions as revenue. The adoption of IFRS will introduce a certain level of volatility to the Corporation's operating results, particularly given the treatment of customer capital contributions. As at December 31, 2010, the transition to IFRS increased the Corporation's equity \$169 million, which resulted in a significant improvement in the debt ratio. Conversely, the increase in equity decreased the rate of return on equity from 11.8 per cent under Canadian GAAP to 10.8 per cent under IFRS. Capital investment has increased \$36 million as under IFRS the Corporation no longer reports this measure net of customer capital contributions.

As a result of the impacts of the transition to IFRS the Corporation has adjusted its debt ratio target to 57 per cent for 2011.

Outlook

SaskEnergy's financial health is dependent upon the Corporation maintaining an appropriate capital structure while providing both reasonable financial returns to CIC and competitive rates to customers. The Corporation works hard to balance the interests of both CIC and its customers – focusing on annual profitability and long-term sustainability.

With a solid financial position and a positive outlook for the future, the Corporation anticipates strong financial returns with a forecasted net income from operations of \$87 million for 2011. This has increased significantly from the 2011 target of

\$60 million as that target did not contemplate a change in the treatment of customer capital contributions. As the Saskatchewan economy continues to grow, SaskEnergy expects continued strong demand for natural gas services. As the cleanest burning fossil fuel, the business and environmental benefits of natural gas will continue to make it the energy source of choice for many consumers. This expanding demand for natural gas is expected to result in continued growth for the well established distribution and transmission utilities. Opportunities beyond the Corporation's regulated utilities will further expand SaskEnergy's business within Saskatchewan and many of these opportunities, such as waste heat recovery, possess an environmental up-side as well. The Corporation anticipates additional margins from gas marketing activities as market opportunities become available.

At the end of September 2011, the Corporation anticipates total capital investment of \$173 million for 2011. This represents a significant increase from recent years, driven primarily by customer demand and initiatives related to future cost containment. Capital investment is necessary to maintain SaskEnergy's commitment to safety and high standards of customer service, honour customer commitments and minimize future incremental operating costs using the most cost-effective capital investment strategy.

SaskEnergy will continue to deliver stable financial returns through prudent financial management, highlighted by a focus on efficiency and productivity gains throughout the Corporation. Efficiency efforts and resource management will counter such cost drivers as continued customer growth, labour costs and non-controllable cost increases from third parties. All internal costs are closely managed in an effort to minimize future rate adjustments. The Corporation's operations will continue to focus on maintaining safe, reliable systems and high levels of customer service.

SaskEnergy Incorporated
Consolidated Statement of Financial Position
Unaudited

(millions)	Notes	As at September 30, 2011	As at December 31, 2010	As at January 1, 2010
Assets				
Current assets				
Cash		\$ 8	\$ 1	\$ -
Trade and other receivables	5	47	113	128
Natural gas in storage held for resale	6	255	247	258
Inventory of supplies	7	10	8	9
Debt retirement funds	8	-	-	9
Fair value of derivative instruments	10	57	79	52
		377	448	456
Intangible assets	11	26	21	15
Property, plant and equipment	12	1,353	1,302	1,232
Debt retirement funds	8	68	59	48
Investments in associates	9	-	29	30
		\$ 1,824	\$ 1,859	\$ 1,781
Liabilities and Province's equity				
Current liabilities				
Bank indebtedness		\$ -	\$ -	\$ 1
Short-term debt	13	235	239	108
Trade and other payables	14	80	100	113
Dividends payable		10	22	21
Current portion of long-term debt	15	-	-	80
Deferred revenue	16	34	49	34
Fair value of derivative instruments	10	49	63	38
		408	473	395
Employee future benefits	17	13	14	14
Provisions	18	17	17	16
Deferred revenue	16	9	9	10
Long-term debt	15	715	715	715
		1,162	1,228	1,150
Province's equity				
Equity advances	19	72	72	72
Retained earnings		590	559	558
Other components of equity		-	-	1
		662	631	631
		\$ 1,824	\$ 1,859	\$ 1,781

Commitments and contingencies 20

(See accompanying notes)

SaskEnergy Incorporated
Consolidated Statement of Comprehensive Income
Unaudited

(millions)	Notes	For the Three Months Ended September 30, 2011			For the Three Months Ended September 30, 2010		
		Income before Market Value Adjustments	Market Value Adjustments (Note 21)	Total	Income before Market Value Adjustments	Market Value Adjustments (Note 21)	Total
Revenue							
Natural gas sales	22	\$ 91	\$ (7)	\$ 84	\$ 167	\$ 11	\$ 178
Delivery		26	-	26	27	-	27
Transportation and storage		20	-	20	19	-	19
Customer capital contributions		27	-	27	2	-	2
Other	23	4	-	4	4	-	4
Gain on assets held for sale	9	2	-	2	-	-	-
		170	(7)	163	219	11	230
Expenses							
Natural gas purchases (net of change in inventory)	22	87	(7)	80	162	31	193
Employee benefits		18	-	18	19	-	19
Operating and maintenance		22	-	22	14	-	14
Depreciation and amortization	25	17	-	17	16	-	16
Saskatchewan taxes	26	4	-	4	3	-	3
		148	(7)	141	214	31	245
Results from operations		22	-	22	5	(20)	(15)
Finance income	27	1	2	3	1	1	2
Finance expenses	27	(10)	-	(10)	(11)	-	(11)
Net finance expenses	27	(9)	2	(7)	(10)	1	(9)
Net income (loss)		13	2	15	(5)	(19)	(24)
Foreign currency translation adjustments		-	-	-	1	-	1
Comprehensive income (loss)		\$ 13	\$ 2	\$ 15	\$ (4)	\$ (19)	\$ (23)

(See accompanying notes)

SaskEnergy Incorporated
Consolidated Statement of Comprehensive Income
Unaudited

		For the Nine Months Ended September 30, 2011			For the Nine Months Ended September 30, 2010		
(millions)	Notes	Income before Market Value Adjustments	Market Value Adjustments (Note 21)	Total	Income before Market Value Adjustments	Market Value Adjustments (Note 21)	Total
Revenue							
Natural gas sales	22	\$ 413	\$ (21)	\$ 392	\$ 488	\$ 40	\$ 528
Delivery		133	-	133	126	-	126
Transportation and storage		58	-	58	58	-	58
Customer capital contributions	16	35	-	35	11	-	11
Other	23	9	-	9	7	-	7
		648	(21)	627	690	40	730
Expenses							
Natural gas purchases (net of change in inventory)	22	377	(21)	356	457	58	515
Employee benefits		61	-	61	62	-	62
Operating and maintenance		58	-	58	48	-	48
Depreciation and amortization	25	50	-	50	50	-	50
Saskatchewan taxes	26	8	-	8	7	-	7
Loss on assets held for sale	9	9	-	9	-	-	-
		563	(21)	542	624	58	682
Results from operations		85	-	85	66	(18)	48
Finance income	27	3	2	5	3	2	5
Finance expenses	27	(30)	-	(30)	(33)	-	(33)
Net finance expenses	27	(27)	2	(25)	(30)	2	(28)
Net income		58	2	60	36	(16)	20
Foreign currency translation adjustments		-	-	-	-	-	-
Comprehensive income		\$ 58	\$ 2	\$ 60	\$ 36	\$ (16)	\$ 20

(See accompanying notes)

SaskEnergy Incorporated
Consolidated Statement of Changes in Equity
Unaudited

(millions)	Notes	Retained Earnings	Equity Advances	Other Components of Equity	Total
Balance as at January 1, 2010	30	\$ 558	\$ 72	\$ 1	\$ 631
Comprehensive income		20	-	-	20
Dividends		(27)	-	-	(27)
Balance as at September 30, 2010		\$ 551	\$ 72	\$ 1	\$ 624
Balance as at January 1, 2011		\$ 559	\$ 72	\$ -	\$ 631
Comprehensive income		60	-	-	60
Dividends		(29)	-	-	(29)
Balance as at September 30, 2011		\$ 590	\$ 72	\$ -	\$ 662

(See accompanying notes)

SaskEnergy Incorporated
Consolidated Statement of Cash Flows
Unaudited

(millions)	Notes	For the Nine Months Ended September 30	
		2011	2010
Operating activities			
Net income		\$ 60	\$ 20
Add (deduct) items not requiring an outlay of cash			
Loss on assets held for sale	9	9	-
Net change in fair value of derivative instrument assets and liabilities	10	8	(1)
Change in revaluation of natural gas in storage to net realizable value	21	(8)	19
Depreciation and amortization	25	50	50
Net finance expenses	27	25	28
Other non-cash items		1	-
		145	116
Net change in non-cash working capital related to operations	28	24	16
Cash provided by operating activities		169	132
Investing activities			
Proceeds on assets held for sale	9	23	-
Additions to intangible assets	11	(8)	(5)
Additions to property, plant and equipment	12	(98)	(79)
Cash used in investing activities		(83)	(84)
Financing activities			
(Decrease) increase in short-term debt		(4)	106
Debt retirement funds installments	8	(5)	(5)
Interest paid		(28)	(32)
Dividends paid		(42)	(48)
Debt retirement funds redemptions		-	10
Repayment of long-term debt		-	(80)
Cash used in financing activities		(79)	(49)
Increase in cash and cash equivalents		7	(1)
Cash and cash equivalents, beginning of period		1	(1)
Cash and cash equivalents, end of period	28	\$ 8	\$ (2)

(See accompanying notes)

SaskEnergy Incorporated

Notes to the Consolidated Financial Statements

Unaudited

1. General information

SaskEnergy Incorporated (SaskEnergy or the Corporation) is a Saskatchewan provincial Crown corporation operating under authority of *The SaskEnergy Act*. The address of SaskEnergy's registered office and principal place of business is 1777 Victoria Avenue, Regina, Saskatchewan, Canada S4P 4K5.

The Corporation owns and operates natural gas-related businesses located both within and outside Saskatchewan. The consolidated interim financial statements should not be taken as indicative of the performance to be expected for the full year due to the seasonal nature of the natural gas business.

By virtue of *The Crown Corporations Act, 1993*, SaskEnergy has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC), a Saskatchewan 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. Basis of preparation

a. Statement of compliance

The Corporation's consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting* using accounting policies consistent with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). As these consolidated financial statements represent the Corporation's initial presentation of its income, financial position and cash flows under IFRS, they were prepared in accordance with IFRS 1 *First-time Adoption of IFRS*.

The Corporation's consolidated financial statements were previously prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP), which differs in some areas from IFRS. In preparing the consolidated financial statements, management has amended certain accounting policies previously applied under Canadian GAAP to comply with IFRS. The comparative figures for 2010 have been restated to reflect these adjustments. Certain information that is considered material to the understanding of the Corporation's consolidated financial statements, along with reconciliations and descriptions of the impact of the transition from Canadian GAAP to IFRS on the Corporation's financial position, financial performance and cash flows, are included in Note 30.

The consolidated financial statements were authorized for issue by the Board of Directors on November 14, 2011.

b. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except where otherwise noted.

c. Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, the Corporation's functional currency, unless otherwise stated. All financial information presented in Canadian dollars has been rounded to the nearest million.

d. Use of estimates and judgments

In the application of the Corporation's accounting policies, which are described in Note 3, management is required to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Actual results may differ from these estimates.

The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised as well as any future periods affected.

Information about critical judgments in applying accounting policies that have a significant effect on the amounts recognized in the consolidated financial statements is included in Note 3 as well as the following notes:

- Revenue recognition related to unbilled revenue (Note 5)
- Existence of decommissioning liabilities (Note 18)

2. Basis of preparation (continued)

Information about significant management estimates and assumptions that have a significant risk of resulting in a material adjustment within the next financial period is included in Note 3 as well as the following notes:

- Estimated unbilled revenue (Note 5)
- Net realizable value of natural gas in storage held for resale (Note 6)
- Fair value less costs to sell of assets held for sale (Note 9)
- Fair value of financial and derivative instruments (Note 10)
- Useful lives and amortization rates for intangible assets (Note 11)
- Useful lives and depreciation rates for property, plant and equipment (Note 12)
- Estimated refunds of customer capital contributions (Note 16)
- Employee future benefits and underlying actuarial assumptions (Note 17)
- Estimated future cost of decommissioning liabilities (Note 18)

3. Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements and in preparing the opening IFRS consolidated statement of financial position as at January 1, 2010 for the purpose of the transition to IFRS, unless otherwise indicated.

a. Basis of consolidation

Subsidiaries are entities controlled by SaskEnergy. The financial statements of subsidiaries are included in the consolidated financial statements from the date control commences until the date control ceases. All intra-group balances and transactions are eliminated in preparing the consolidated financial statements.

The Corporation's consolidated financial statements include the accounts of SaskEnergy and its direct and indirect wholly owned subsidiaries: Bayhurst Gas Limited, Bayhurst Energy Services Corporation, BG Storage Inc., Many Islands Pipe Lines (Canada) Limited, Saskatchewan First Call Corporation, SaskEnergy International Incorporated, SaskEnergy Chilean Holdings I Ltd., SaskEnergy Chilean Holdings II Ltd., SaskEnergy Mexican Holdings Ltd., Swan Valley Gas Corporation and TransGas Limited. The accounts also include the Corporation's 100 per cent ownership interest in SaskEnergy Chilean Holdings Limitada, a Chilean limited partnership.

b. Investments in associates

Associates are those entities in which the Corporation has significant influence, but not control, over the financial and operating policies. Associates are accounted for using the equity method and are recognized initially at cost. The consolidated financial statements include the Corporation's share of the net income and equity movements of associates, after adjustments to align the accounting policies with those of the Corporation, from the date significant influence commences until the investments became held for sale on January 1, 2011.

c. Interest in joint ventures

The Corporation's interests in joint ventures are in the form of jointly controlled assets, which involves the joint control of one or more assets acquired for and dedicated to the purpose of a joint venture. The consolidated financial statements include the Corporation's share of the jointly controlled assets, incurred liabilities, revenue and expenses as well as any liabilities and expenses that the Corporation has incurred directly in respect of its 50 per cent interests in the Kisbey Gas Gathering and Processing Facility and the Totnes Natural Gas Storage Facility.

d. Cash and cash equivalents

Bank indebtedness forms a part of the Corporation's cash management and is included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

e. Natural gas in storage

Natural gas in storage is stated at the lower of weighted average cost and net realizable value. Net realizable value is determined using natural gas market prices based on anticipated delivery dates.

3. Summary of significant accounting policies (continued)

f. Inventories of supplies

Inventories of supplies consist primarily of pipe and general stock for construction and maintenance and are stated at the lower of weighted average cost and net realizable value. Replacement value is used as management's best estimate of net realizable value.

g. Debt retirement funds

Under conditions attached to certain advances from the Province of Saskatchewan's General Revenue Fund, the Corporation is required, on an annual basis, to invest an amount equal to one per cent of the related outstanding debt. These investments are referred to as debt retirement funds and are administered by Saskatchewan's Ministry of Finance. Debt retirement funds are designated as at fair value through profit or loss and are recorded at fair value on the consolidated statement of financial position. The investment is returned to the Corporation upon maturity of the related debt.

h. Assets held for sale

Assets that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Assets held for sale are measured at the lower of their carrying amount and fair value less cost to sell, with any resulting impairment loss recognized in net income.

i. Financial and derivative instruments

The Corporation classifies its financial instruments into one of the following categories: financial assets and financial liabilities at fair value through profit or loss, held-to-maturity, loans and receivables, available-for-sale and other liabilities.

All financial instruments are measured at fair value on initial recognition. Transaction costs are included in the initial carrying amount of financial instruments, except for financial assets and financial liabilities at fair value through profit or loss, in which case the transaction costs are expensed as incurred. Measurement in subsequent periods depends on the classification of the financial instrument.

i. Financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities are classified as at fair value through profit or loss if they are held for trading or designated as such upon initial recognition. A financial asset or financial liability is classified as held for trading if it has been acquired with the intention of generating profits in the near term or is part of a portfolio of financial instruments that are managed together where there is evidence of a recent pattern of short-term profit taking. A financial asset or financial liability is designated as at fair value through profit or loss if the Corporation manages such instruments and makes decisions based on their fair value in accordance with the Corporation's documented risk management or investment strategy. Subsequent to initial recognition, financial assets and financial liabilities at fair value through profit or loss are measured at fair value with any revaluation gains and losses recognized in net income.

ii. Held-to-maturity financial assets

Financial assets classified as held-to-maturity have fixed or determinable payments and a fixed maturity, and the Corporation has the positive intention and ability to hold these financial assets to maturity. These financial assets are accounted for at amortized cost using the effective interest rate method. Amortized premiums or discounts and losses due to impairment are included in net income.

iii. Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. These financial assets are accounted for at amortized cost using the effective interest rate method.

3. Summary of significant accounting policies (continued)

iv. Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and are not classified in any of the previous categories. In cases where financial assets are classified as available-for-sale and carried at fair value, revaluation gains and losses related to changes in fair value are recorded in other comprehensive income until the asset is disposed of, at which time those gains and losses are recognized in net income.

v. Other liabilities

Other liabilities are non-derivative financial liabilities that are not designated as at fair value through profit or loss. These financial liabilities are accounted for at amortized cost using the effective interest rate method.

vi. Derivative instruments

The Corporation utilizes a variety of derivative instruments to manage its exposure to natural gas price risk. Derivative instruments are recorded at fair value within current assets or current liabilities, as applicable, commencing on the trade date. The change in the fair value is recorded in net income and classified within the revenue or expense category to which it relates.

Derivatives may be embedded in other host instruments. Embedded derivatives are treated as separate derivatives when the economic characteristics and risks are not closely related to those of the host instrument, the embedded derivative has the same terms as those of a stand-alone derivative and the combined contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with subsequent changes recognized in net income. The Corporation utilizes natural gas sales contracts with embedded derivatives for non-regulated contract sales to large end-use customers.

vii. Fair value of financial and derivative instruments

In measuring fair value, the Corporation classifies its financial and derivative instruments according to the following fair value hierarchy based on the amount of observable inputs:

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as at the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 - Pricing inputs are other than quoted prices included within Level 1. Prices in Level 2 are either directly or indirectly observable as at the reported date. Level 2 valuations are based on inputs, including quoted forward market prices, time value, volatility factors and broker quotations, which can be substantially observed or corroborated in the marketplace.

Level 3 - Valuations in this level are those with inputs that are less observable, unavailable or where the observable data does not support the majority of the instrument's fair value.

For derivative instruments, the fair value is discounted to present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the instrument. The fair values also include adjustments to account for the credit risk of the Corporation and counterparty when appropriate.

j. Intangible assets

Intangible assets are recorded at cost less accumulated amortization and any accumulated impairment losses. Intangible assets are capitalized if it is probable that the asset acquired or developed will generate future economic benefits. The costs incurred to establish technological feasibility or to maintain existing levels of performance are recognized in net income as incurred.

Cost includes expenditures that are directly attributable to the acquisition or development of the asset. The cost of self-developed assets includes materials, services, direct labour and directly attributable overheads. Borrowing costs associated with major projects are capitalized during the development period. Major projects (or qualifying assets) are those projects that are under development for a period greater than six months. Assets under development are recorded as in progress until they are available for use.

3. Summary of significant accounting policies (continued)

Amortization is based on the cost of the asset less its residual value and is calculated using the straight-line method over the estimated useful life of the asset from the date the asset is available for use. The amortization rates range from 10.0 to 20.0 per cent annually. The estimated useful lives, residual values and method of amortization are reviewed annually for reasonableness.

k. Property, plant and equipment

Property, plant and equipment is recorded at cost less accumulated depreciation and any accumulated impairment losses. The cost of certain items of property, plant and equipment was deemed to be its fair value as at the date of transition to IFRS (Note 30).

Cost includes expenditures that are directly attributable to the acquisition or construction of the asset. The cost of self-constructed assets includes materials, services, direct labour and directly attributable overheads. Borrowing costs associated with major projects are capitalized during the construction period. Major projects (or qualifying assets) are those projects that are under construction for a period greater than six months. Assets under construction are recorded as in progress until they are available for use.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment. The cost of major inspections or overhauls is capitalized. The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the specific item if it is probable that the part will generate future economic benefits, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The cost of the day-to-day servicing of property, plant and equipment is recognized in net income as incurred.

When property, plant and equipment is disposed of or retired, the related cost, accumulated depreciation and any accumulated impairment losses are eliminated. Any resulting gains or losses are reflected in net income in the period the asset is disposed of or retired.

Depreciation is based on the cost of the asset less its residual value and is calculated using the straight-line method over the estimated useful life of the asset from the date the asset is available for use at the following annual rates (per cent):

Distribution	2.1 to 4.0
Transmission and storage	2.5 to 9.0
Gathering, treatment and compression	2.5 to 12.2
Vehicles, equipment and other	2.5 to 16.4
Computer hardware	20.0 to 33.3

The estimated useful lives, residual values and method of depreciation are based on depreciation studies with annual reviews for reasonableness.

l. Impairment

i. Financial assets

Financial assets, other than those classified as at fair value through profit or loss, are reviewed at each reporting date to determine whether there is any indication of impairment. Financial assets are impaired when there is objective evidence that the estimated future cash flows have been affected. Objective evidence of impairment could include significant financial difficulty, default or delinquency or indication of bankruptcy or financial reorganization of a counterparty.

The Corporation considers evidence of impairment for trade and other receivables on both an individual and a collective basis. In assessing collective impairment, the Corporation uses historical trends of the likelihood of default, timing of recoveries and the amount of losses incurred, adjusted for management's judgment as to the impact of current economic and credit conditions.

The carrying amount of trade and other receivables is reduced through the use of an allowance account. Once reasonable collection efforts have been exhausted, and a trade and other receivable balance is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized immediately in net income.

3. Summary of significant accounting policies (continued)

ii. Non-financial assets

At each reporting date, the Corporation reviews the carrying amount of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated. The carrying amount of an investment in an associate is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired. Assets that cannot be tested individually, including corporate assets, are grouped together into cash-generating units (CGUs), the smallest group of assets that generates cash inflow from continuing use.

The recoverable amount of an asset or CGU is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount, and an impairment loss is recognized immediately in net income.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the carrying amount of the asset or CGU does not exceed the carrying amount that would have been determined, net of amortization or depreciation, if no impairment loss had been recognized.

m. Government grants

Government grants are recognized initially as deferred revenue when there is reasonable assurance that the Corporation will comply with the relevant conditions of the grant and the grant will be received. Grants that compensate the Corporation for expenses incurred are recognized in net income in the same period the related expenses are recognized. Grants that compensate the Corporation for the cost of an asset are recognized in the net income on a straight-line basis over the estimated useful life of the asset.

n. Employee benefits

i. Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

ii. Pension plans

The Corporation provides pension plans for all eligible employees through its participation in both a multi-employer defined contribution and a group administration defined benefit plan. For the defined benefit plan, a contractual agreement is in place stating that the Corporation's future contributions to the plan will not take into account any plan surplus or deficiency, as the Corporation does not have any rights to plan surpluses or obligations for plan deficits. As a result, under both plans the Corporation's obligations are limited to making regular payments to the plans for current service. When made, these contributions are recognized in net income.

iii. Retiring allowance plan

Certain employees of the Corporation are members of a retiring allowance plan. The Corporation's obligation is the amount of future benefit that employees have earned in return for their service in the current and prior periods. At each year end, the future benefit is actuarially determined using the projected benefit method. Any actuarial gains or losses are recognized in net income.

o. Provisions

Provisions are recognized when the Corporation has a present obligation, legal or constructive, as a result of a past event, it is probable that the Corporation will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

3. Summary of significant accounting policies (continued)

The Corporation's provisions are decommissioning liabilities. A decommissioning liability is a legal or constructive obligation associated with the decommissioning of certain natural gas facilities. The Corporation recognizes a decommissioning liability, with a corresponding increase to property, plant and equipment, in the period the facility is commissioned, provided a reasonable estimate of fair value can be determined. The estimated fair value of a decommissioning liability is based on detailed studies that take into account various assumptions regarding the anticipated future cash flows, including the method and timing of decommissioning. The unwinding of the discount on provisions is recognized in net income as finance expense over the estimated time period until settlement of the obligation. The corresponding increase to property, plant and equipment is depreciated on a straight-line basis over the estimated useful life of the related asset. At each reporting date, the estimated fair value of a decommissioning liability is reviewed with any changes recognized in the consolidated financial statements.

p. Revenue

Revenue is measured at the fair value of the consideration received or receivable.

i. Natural gas sales and delivery

Revenue is recognized when natural gas is delivered to the customer. An estimate of natural gas delivered but not billed is included in revenue.

ii. Transportation and storage

Revenue is recognized when transportation, storage and related services are provided to the customer. An estimate of transportation, storage and related services rendered but not billed is included in revenue.

iii. Customer capital contributions

The Corporation obtains customer capital contributions related to the construction of new service connections. Customer capital contributions are recognized initially as deferred revenue and are recognized as revenue once the related property, plant and equipment is available for use. The Corporation's customer capital contributions are often subject to refunds over a specified period. An estimate of these refunds remains in deferred revenue until the eligible refund period expires.

iv. Revenue collected for municipalities

In accordance with *The SaskEnergy Act*, the Corporation is required to collect amounts on behalf of certain municipalities. The Corporation acts in the capacity of an agent rather than as the principal in the collection of these amounts. Therefore, the revenue collected for and paid to municipalities is recognized on a net basis in net income.

v. Other

Royalty revenue is recognized when natural gas from wells subject to royalty agreements is delivered to the customer. Natural gas and liquid sales is recognized when natural gas and natural gas liquids are delivered to the customer.

q. Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or development of a qualifying asset are added to the cost of that asset, until it is available for use. Qualifying assets are those assets that take a substantial period of time to get ready for their intended use. As the Corporation borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Corporation capitalizes borrowing costs by applying its weighted average cost of debt. All other borrowing costs are recognized in net income in the period in which they are incurred.

r. Leased assets

The Corporation's leased assets are under operating leases. As the Corporation does not assume all risks and rewards of ownership, the leased assets are not recognized in the Corporation's consolidated statement of financial position. Lease payments are recognized in net income in the period in which they are incurred.

SaskEnergy Incorporated

Notes to the Consolidated Financial Statements

Unaudited

3. Summary of significant accounting policies (continued)

s. New standards and interpretations not yet adopted

A number of new standards, and amendments to standards and interpretations, are not yet effective and have not been applied in preparing these consolidated financial statements. In particular, the following new and amended standards become effective for annual periods beginning on or after January 1, 2013:

IFRS 9 *Financial Instruments*
 IFRS 10 *Consolidated Financial Statements*
 IFRS 11 *Joint Arrangements*
 IFRS 12 *Disclosure of Interests in Other Entities*
 IFRS 13 *Fair Value Measurement*
 IAS 19 *Employee Benefits*

The extent of the impact on adoption of these standards is not known at this time.

4. Capital management

The Corporation's objective when managing its capital is to maintain financial stability through the effective management of liquidity and capital structure. Ensuring financial stability is critical to providing safe, reliable service to Saskatchewan residents, businesses and industries.

The Corporation finances its capital requirements through internally generated funds and injections of capital from the Province of Saskatchewan's General Revenue Fund, typically in the form of debt. Under *The SaskEnergy Act*, the Corporation may borrow up to \$1,700 million of debt upon approval of the Lieutenant Governor in Council (December 31, 2010 - \$1,700 million). At the end of the period, the Corporation had \$950 million of debt outstanding (December 31, 2010 - \$954 million) and authority to borrow an additional \$165 million of temporary loans (December 31, 2010 - \$161 million), including a \$35 million uncommitted line of credit with Toronto-Dominion Bank (December 31, 2010 - \$35 million).

The Corporation borrows all its capital, with the exception of occasional overnight loans from the Toronto-Dominion Bank, from the Province of Saskatchewan (the Province). The Corporation's borrowing requirements constitute a minor portion of the Province's total borrowings, and given the Province's strong credit rating, the Corporation was able to acquire all its funding requirements during the period.

The Corporation monitors capital on the basis of the debt ratio. The purpose of this strategy is to ensure the Corporation's debt is self supporting and does not adversely affect the Province's access to capital markets. The per cent debt ratio was calculated as net debt divided by total capital at the end of the period as follows:

(millions)	As at September 30, 2011	As at December 31, 2010	As at January 1, 2010
Long-term debt	\$ 715	\$ 715	\$ 795
Short-term debt	235	239	108
Bank indebtedness	-	-	1
Debt retirement funds	(68)	(59)	(57)
Cash	(8)	(1)	-
Total net debt	874	894	847
Equity advances	72	72	72
Retained earnings	590	559	558
Total capital	\$ 1,536	\$ 1,525	\$ 1,477
	56.9%	58.6%	57.3%

The Corporation's objectives, policies and processes for managing its capital were consistent with the prior period, except the debt ratio target which has been adjusted to 57% given the impact of IFRS on the Corporation's retained earnings. The Corporation complied with all externally imposed requirements on its capital for the period.

SaskEnergy Incorporated
Notes to the Consolidated Financial Statements
Unaudited

5. Trade and other receivables

(millions)	As at September 30, 2011	As at December 31, 2010	As at January 1, 2010
Trade receivables	\$ 18	\$ 50	\$ 47
Unbilled revenue	22	58	71
Other receivables	8	6	11
	48	114	129
Allowance for doubtful accounts	(1)	(1)	(1)
	\$ 47	\$ 113	\$ 128

6. Natural gas in storage held for resale

(millions)	As at September 30, 2011	As at December 31, 2010	As at January 1, 2010
Cost	\$ 268	\$ 268	\$ 258
Revaluation to net realizable value	(13)	(21)	-
	\$ 255	\$ 247	\$ 258

With the decline in natural gas market prices, the net realizable value of natural gas in storage at the end of the period has fallen \$13 million below cost (December 31, 2010 - \$21 million). During the period, the revaluation of natural gas in storage decreased \$8 million, of which, \$3 million resulted from the sale of natural gas in storage and \$5 million resulted from a reversal of the revaluation given an improvement in natural gas market prices.

7. Inventory of supplies

The cost of inventory of supplies recognized as operating and maintenance expense during the period was \$14 million (2010 - \$15 million). There was no revaluation of inventory of supplies and no reversal of any prior period revaluation during the period.

8. Debt retirement funds

Balance, January 1, 2010	\$ 57
Installments	7
Redemptions	(10)
Earnings	4
Change in fair value	1
Balance, December 31, 2010	59
Installments	5
Earnings	2
Change in fair value	2
Balance, September 30, 2011	\$ 68

SaskEnergy Incorporated
Notes to the Consolidated Financial Statements
Unaudited

8. Debt retirement funds (continued)

The investments held in debt retirement funds are primarily Federal and Provincial Government debt instruments. The yield on these investments was 6.2 per cent for the period (2010 - 5.5 per cent).

As at September 30, 2011 amounts required to be invested in debt retirement funds in each of the next five years were as follows:

(millions)	2012	2013	2014	2015	2016
Installments	\$ 7	\$ 7	\$ 6	\$ 6	\$ 5

9. Assets held for sale

Effective January 1, 2011, the Corporation classified its investments in associates, which include a 30.0 per cent ownership interest in Gas Sur S.A. and a 40.1 per cent ownership interest in IGASAMEX USA Ltd., as assets held for sale given the intention of the Corporation to sell these investments during the year. Accordingly, as at January 1, 2011, the Corporation ceased applying the equity method and began measuring its investments in associates at the lower of carrying amount and fair value less costs to sell.

On June 28, 2011 the Corporation sold its 30.0 per cent ownership interest in Gas Sur S.A. resulting in proceeds of \$6 million (United States dollars) and a loss on sale of \$11 million.

On September 28, 2011 the Corporation sold its 40.1 per cent ownership interest in IGASAMEX USA Ltd. resulting in proceeds of \$17 million (United States dollars) and a gain on sale of \$2 million.

SaskEnergy Incorporated
Notes to the Consolidated Financial Statements
Unaudited

10. Financial and derivative instruments and risk management

a. Financial instruments

(millions)	Classification	As at September 30, 2011		As at December 31, 2010		As at January 1, 2010	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets							
Cash	HFT	\$ 8	\$ 8	\$ 1	\$ 1	\$ -	\$ -
Trade and other receivables	LAR	47	47	113	113	128	128
Debt retirement funds	FVTPL	68	68	59	59	57	57
Financial liabilities							
Bank indebtedness	HFT	-	-	-	-	1	1
Short-term debt	OL	235	235	239	239	108	108
Trade and other payables	OL	80	80	100	100	113	113
Dividends payable	OL	10	10	22	22	21	21
Long-term debt	OL	715	880	715	839	795	889

Classification details:

HFT - held for trading

FVTPL - designated as at fair value through profit or loss

LAR - loans and receivables

OL - other liabilities

The fair value of the above instruments is based on the following:

- i. Debt retirement funds - The market value of the investments held in debt retirement funds as determined by Saskatchewan's Ministry of Finance using information provided by investment dealers. To the extent possible, valuations reflect indicative secondary pricing for these securities. In all other circumstances, valuations are determined with reference to similar actively traded instruments.
- ii. 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.
- iii. Other financial instruments - The fair value of other financial instruments, including cash, trade and other receivables, bank indebtedness, short-term debt, trade and other payables and dividends payable approximate their carrying amounts due to the short-term nature of these instruments.

b. Natural gas derivative instruments

All natural gas derivative instruments are recorded on the consolidated statement of financial position at fair value. The fair value of natural gas derivative instruments, with the exception of natural gas price options, is calculated daily and is based on quoted market prices. The Corporation obtains information from sources such as the New York Mercantile Exchange and the Natural Gas Exchange, independent price publications and over-the-counter broker quotes. The fair value of natural gas price options is determined using an industry-standard valuation model, which requires the use of various assumptions, including quoted market prices, interest rates and volatility estimates for forward natural gas prices that are based on external market sources.

Notional values are an approximation of future undiscounted net cash flows. For physical natural gas contracts, the notional value is based on contract price. For other derivative instruments, the notional value is the difference between the contract price and the market price. Where contract prices are referenced to an index price that has not yet been fixed, the market price is used to estimate the contract price.

SaskEnergy Incorporated
Notes to the Consolidated Financial Statements
Unaudited

10. Financial and derivative instruments and risk management (continued)

As at September 30, 2011 natural gas derivative instruments had the following fair values, notional values and maturities:

(millions)	2012	2013	2014	2015	2016	Total
Physical natural gas contracts						
Fair value	\$ 1	\$ 1	\$ 1	\$ -	\$ -	\$ 3
Notional value	26	16	19	16	4	81
Natural gas price swaps						
Fair value	(11)	11	4	1	-	5
Notional value	(11)	11	4	1	-	5
Total						
Fair value	\$ (10)	\$ 12	\$ 5	\$ 1	\$ -	\$ 8
Notional value	\$ 15	\$ 27	\$ 23	\$ 17	\$ 4	\$ 86

Fair value - increase (decrease) in net income

Notional value - estimated undiscounted net cash inflow (outflow)

The fair value of derivative instruments is presented on the consolidated statement of financial position as follows:

(millions)	As at September 30, 2011	As at December 31, 2010	As at January 1, 2010
Fair value of derivative instrument assets	\$ 57	\$ 79	\$ 52
Fair value of derivative instrument liabilities	(49)	(63)	(38)
	\$ 8	\$ 16	\$ 14

c. Fair value of financial and derivative instruments

As at September 30, 2011 the Corporation's fair value hierarchy for financial and derivative instruments, which was consistent with the prior year's classification, was as follows:

(millions)	Level 1	Level 2	Level 3	Total
Debt retirement funds	\$ -	\$ 68	\$ -	\$ 68
Fair value of derivative instrument assets	-	57	-	57
Fair value of derivative instrument liabilities	-	(49)	-	(49)

d. Risk management

Through the normal course of business, the Corporation has exposure to market risk (natural gas price risk, interest rate risk, market risk and foreign currency risk), liquidity risk and credit risk. The Board of Directors, through the Audit and Finance Committee, has the overall responsibility for the establishment and oversight of the Corporation's risk management efforts. The Corporation seeks to manage the financial impact of natural gas price risk by using derivative instruments to manage its exposure. The Corporate Derivatives Policy and other risk management policies and strategies, approved by the Board of Directors and reviewed regularly by the Audit and Finance Committee, provide the framework within which the Corporation may use derivative instruments to manage its risks. The objectives policies and processes for managing risk were consistent with the prior period.

10. Financial and derivative instruments and risk management (continued)

i. Natural gas price risk

The Corporation may manage the risk associated with the purchase and sale price of natural gas. The purchase or sale price of 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, natural gas derivative instruments may be used to fix the settlement amount. The types of natural gas derivative instruments the Corporation may use for price risk management include natural gas price swaps, options, swaptions and futures contracts.

Based on the Corporation's period end closing positions, an increase of \$1.00 per Gigajoule in natural gas prices would have increased net income, through an increase in the fair value of natural gas derivative instruments, by \$33 million (December 31, 2010 - \$29 million). Conversely, a decrease of \$1.00 per Gigajoule would have decreased net income, through a decrease in the fair value of natural gas derivative instruments, by \$33 million (December 31, 2010 - \$29 million).

ii. Interest rate risk

The Corporation's significant interest-bearing financial instruments are short- and long-term debts, which are fixed rate instruments. Consequently, the Corporation is subject to interest rate risk when issuing debt or refinancing maturities. At period end, the Corporation had \$235 million of short-term debt that may be refinanced and no long-term debt that will mature within the year. Based on these amounts, a one per cent change in interest rates would increase or decrease the annual finance expense by approximately \$2 million (December 31, 2010 - \$2 million).

iii. Market risk

The Corporation is subject to market risk related to debt retirement funds as the recorded fair value is driven by market prices. Fluctuations in fair value of debt retirement funds do not have a significant impact on the Corporation.

iv. Foreign currency risk

The Corporation is exposed to foreign currency risk primarily through the purchase of goods and services; however, fluctuations in foreign currency do not have a significant impact on the Corporation.

v. Liquidity risk

Liquidity risk is the risk that the Corporation is unable to meet its financial obligations as they become due. The Corporation has credit facilities available to refinance maturities in excess of anticipated operating cash flows. The contractual maturities of the Corporation's financial obligations, including interest payments and the impact of netting agreements, as at September 30, 2011 were as follows:

(millions)	Carrying Amount	Contractual Maturities				Total
		Less Than 1 Year	1 - 2 Years	3 - 5 Years	More Than 5 Years	
Short-term debt	\$ 235	\$ 235	\$ -	\$ -	\$ -	\$ 235
Trade and other payables	80	80	-	-	-	80
Dividends payable	10	10	-	-	-	10
Derivative instruments	49	-	-	-	-	-
Long-term debt	715	38	87	329	717	1,171
	\$ 1,089	\$ 363	\$ 87	\$ 329	\$ 717	\$ 1,496

At period end, the Corporation's borrowing capacity, together with relatively stable operating cash flows, provide sufficient liquidity to fund these contractual obligations.

SaskEnergy Incorporated
Notes to the Consolidated Financial Statements
Unaudited

10. Financial and derivative instruments and risk management (continued)

vi. Credit risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial or derivative instrument fails to meet its contractual obligations. The Corporation is exposed to credit risk through cash, trade and other receivables, debt retirement funds and derivative instrument assets. Credit risk related to cash and debt retirement funds is minimized by dealing with institutions that have strong credit ratings and holding highly-rated financial securities.

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 and derivative instruments. To reduce its credit risk, the Corporation has established policies and procedures to monitor and limit the amount of credit extended to its customers and counterparties and may require letters of credit and other forms of security. At period end, the maximum credit exposure to a single counterparty was \$15 million (December 31, 2010 - \$21 million).

The carrying amount of financial and derivative assets represents the maximum credit exposure as follows:

(millions)	As at September 30, 2011	As at December 31, 2010	As at January 1, 2010
Cash	\$ 8	\$ 1	\$ -
Trade and other receivables	47	113	128
Debt retirement funds	68	59	57
Fair value of derivative instrument assets	57	79	52
	\$ 180	\$ 252	\$ 237

The following reflects an aging summary of the Corporation's trade and other receivables:

(millions)	As at September 30, 2011	As at December 31, 2010	As at January 1, 2010
Current	\$ 43	\$ 107	\$ 124
30 - 59 days	3	5	3
60 - 89 days	1	1	1
Greater than 90 days	1	1	1
	48	114	129
Allowance for doubtful accounts	(1)	(1)	(1)
	\$ 47	\$ 113	\$ 128

SaskEnergy Incorporated
Notes to the Consolidated Financial Statements
Unaudited

10. Financial and derivative instruments and risk management (continued)

The change in the allowance for doubtful accounts in respect of trade and other receivables was as follows:

(millions)	
Balance, January 1, 2010	\$ 1
Recoveries	2
Write-offs	(2)
Balance, December 31, 2010	1
Provision	1
Write-offs	(1)
Balance, September 30, 2011	\$ 1

11. Intangible assets

(millions)	Computer Software	Mineral Rights and Prepaid Royalties	Under Development	Total
Cost				
Balance, January 1, 2010	\$ 49	\$ -	\$ 2	\$ 51
Additions	-	3	1	4
Additions through internal development	1	-	6	7
Balance, December 31, 2010	50	3	9	62
Additions through internal development	2	-	6	8
Balance, September 30, 2011	52	3	15	70
Amortization				
Balance, January 1, 2010	36	-	-	36
Amortization	5	-	-	5
Balance, December 31, 2010	41	-	-	41
Amortization	3	-	-	3
Balance, September 30, 2011	44	-	-	44
Carrying amounts				
Balance, January 1, 2010	\$ 13	\$ -	\$ 2	\$ 15
Balance, December 31, 2010	\$ 9	\$ 3	\$ 9	\$ 21
Balance, September 30, 2011	\$ 8	\$ 3	\$ 15	\$ 26

12. Property, plant and equipment

(millions)	Distribution	Transmission and Storage	Gathering, Treatment and Compression	Vehicles, Equipment and Other	Computer Hardware	Construction in Progress	Total
Cost							
Balance, January 1, 2010	\$ 749	\$ 781	\$ 191	\$ 119	\$ 14	\$ 52	\$ 1,906
Additions	48	38	28	8	2	8	132
Disposals	-	-	(1)	(5)	(1)	-	(7)
Balance, December 31, 2010	797	819	218	122	15	60	2,031
Additions	28	52	9	6	1	67	163
Disposals	-	-	-	(3)	(2)	(65)	(70)
Balance, September 30, 2011	825	871	227	125	14	62	2,124
Depreciation							
Balance, January 1, 2010	263	265	88	52	6	-	674
Depreciation	24	21	7	7	3	-	62
Disposals	(2)	-	-	(4)	(1)	-	(7)
Balance, December 31, 2010	285	286	95	55	8	-	729
Depreciation	17	17	5	6	2	-	47
Disposals	(1)	-	-	(2)	(2)	-	(5)
Balance, September 30, 2011	301	303	100	59	8	-	771
Carrying amounts							
Balance, January 1, 2010	\$ 486	\$ 516	\$ 103	\$ 67	\$ 8	\$ 52	\$ 1,232
Balance, December 31, 2010	\$ 512	\$ 533	\$ 123	\$ 67	\$ 7	\$ 60	\$ 1,302
Balance, September 30, 2011	\$ 524	\$ 568	\$ 127	\$ 66	\$ 6	\$ 62	\$ 1,353

Included in Transmission and Storage is a specified volume of natural gas which is integral to the operation of the Corporation's storage facilities. This asset is not subject to depreciation and holds a carrying value of \$34 million at September 30, 2011 (December 31, 2010 - \$33 million).

SaskEnergy Incorporated
Notes to the Consolidated Financial Statements
Unaudited

13. Short-term debt

The Corporation's short-term debt is unsecured. At period end, short-term debt of \$235 million (December 31, 2010 - \$239 million) was due to the Province of Saskatchewan's General Revenue Fund with an interest rate of 1.1 per cent (December 31, 2010 - 1.1 per cent).

14. Trade and other payables

(millions)	As at September 30, 2011	As at December 31, 2010	As at January 1, 2010
Trade payables	\$ 49	\$ 63	\$ 60
Interest payable	9	7	8
Other payables	22	30	45
	\$ 80	\$ 100	\$ 113

15. Long-term debt

	As at September 30, 2011		As at December 31, 2010		As at January 1, 2010	
	Principal Outstanding (millions)	Effective Interest Rate (per cent)	Principal Outstanding (millions)	Effective Interest Rate (per cent)	Principal Outstanding (millions)	Effective Interest Rate (per cent)
General Revenue Fund						
1 - 5 years	\$ 282	4.4	\$ 200	4.3	\$ 230	5.0
6 - 10 years	144	5.0	226	4.8	242	4.5
11 - 15 years	75	8.8	75	8.8	34	6.7
16 - 20 years	110	6.1	50	5.7	125	7.5
21 - 25 years	-		60	6.4	60	6.4
26 - 30 years	100	5.1	100	5.1	25	5.0
31 plus years	-		-		75	5.2
	711		711		791	
Unamortized debt premium/ discount and issue costs	(1)		(1)		(1)	
Less: Current portion of long-term debt	-		-		(80)	
	710		710		710	
Other long-term debt						
31 plus years	5	13.5	5	13.5	5	13.5
	\$ 715		\$ 715		\$ 715	

The Corporation's long-term debt is unsecured. As at September 30, 2011 principal repayments due in each of the next five years were as follows:

(millions)	2012	2013	2014	2015	2016
Principal repayments	\$ -	\$ 50	\$ 100	\$ -	\$ 132

SaskEnergy Incorporated
Notes to the Consolidated Financial Statements
Unaudited

16. Deferred revenue

(millions)	As at September 30, 2011	As at December 31, 2010	As at January 1, 2010
Current			
Unearned customer capital contributions	\$ 34	\$ 49	\$ 34
Non-current			
Unearned government grants	9	9	10
	\$ 43	\$ 58	\$ 44

a. Customer capital contributions

(millions)	
Balance, January 1, 2010	\$ 34
Additions	42
Refunds	(7)
Revenue	(20)
Balance, December 31, 2010	49
Additions	21
Refunds	(1)
Revenue	(35)
Balance, September 30, 2011	\$ 34

b. Government grants

(millions)	
Balance, January 1, 2010	\$ 10
Amortization	(1)
Balance, December 31, 2010	9
Amortization	-
Balance, September 30, 2011	\$ 9

Unearned government grants represent amounts received to compensate the Corporation for the cost of certain items of property, plant and equipment. There are no unfulfilled conditions or other contingencies attached to these government grants.

17. Employee future benefits

(millions)	As at September 30, 2011	As at December 31, 2010	As at January 1, 2010
Retiring allowance plan	\$ 13	\$ 14	\$ 14

SaskEnergy Incorporated
Notes to the Consolidated Financial Statements
Unaudited

17. Employee future benefits (continued)

a. Pension plans

Employees of the Corporation are members of either a multi-employer defined contribution (the Public Employees Pension Plan) or a group administration defined benefit pension plan (the Power Corporation Superannuation Plan). The financial position and performance of the Power Corporation Superannuation Plan is not calculated in a manner that allows the Corporation to utilize defined benefit accounting. Saskatchewan Power Corporation, a related Crown corporation, is responsible for any unfunded liabilities in the Power Corporation Superannuation Plan. As a result, the Corporation treats the defined benefit plan as a defined contribution plan.

During the period, the Corporation contributed \$3 million (2010 - \$3 million) to pension plans on behalf of employees for current services.

b. Retiring allowance plan

(millions)	
Balance, January 1, 2010	\$ 14
Benefits paid	(1)
Net expense	1
Balance, December 31, 2010	14
Benefits paid	(1)
Balance, September 30, 2011	\$ 13

The Corporation measures its accrued employee future benefits liability with an annual actuarial valuation as at December 31. The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit liability were as follows:

	As at September 30, 2011	As at December 31, 2010	As at January 1, 2010
Discount rate	4.2 per cent	4.2 per cent	5.2 per cent
Long-term rate of compensation increases	3.0 per cent	3.0 per cent	3.0 per cent
Average remaining employee service life	7.3 years	7.3 years	7.9 years

For employees who are members of the Communications, Energy & Paperworkers Union (CEP), the length of service earned for the purpose of the retiring allowance plan is equal to their service up to and including December 31, 2004 less service time converted to other employee benefits. Remaining entitlements, if any, under the retiring allowance plan will be paid out to CEP members upon retirement in accordance with the terms of the plan.

For management employees, the length of service earned for the purpose of the retiring allowance plan is equal to their service up to and including December 31, 2005. Entitlements under the retiring allowance plan will be paid out to management employees upon retirement in accordance with the terms of the plan.

For Executive, the length of service earned for the purpose of the retiring allowance plan is equal to their service up to the date of retirement. Entitlements under the retiring allowance plan will be paid out to Executive upon retirement in accordance with the terms of the plan.

SaskEnergy Incorporated
Notes to the Consolidated Financial Statements
Unaudited

18. Provisions

(millions)		
Balance, January 1, 2010	\$	16
Unwinding of the discount on provisions		1
Balance, December 31, 2010		17
Unwinding of the discount on provisions		-
Balance, September 30, 2011	\$	17

The Corporation has estimated the future cost of decommissioning certain natural gas facilities. For the purposes of estimating the fair value of these decommissioning obligations, it was assumed that these costs will be incurred between 2011 and 2110 for natural gas facilities. The undiscounted cash flows required to settle the obligations total \$53 million (December 31, 2010 - \$51 million). Discount rates between 2.8 per cent and 4.4 per cent were used to calculate the carrying amount of the obligation (December 31, 2010 - 2.8 per cent and 4.4 per cent). No funds have been set aside by the Corporation to settle these obligations.

19. Equity advances

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

20. Commitments and contingencies

a. Letters of credit

- i. The Corporation has posted a \$10 million letter of credit with NGX Financial Inc. (NGX) as security for natural gas purchases and sales conducted by the Corporation on the NGX natural gas exchange in Alberta. NGX may draw upon the letter of credit if the Corporation fails to make timely payment for, or delivery of, natural gas as per the related contract.
- ii. The Corporation has posted a \$6 million letter of credit with the City of Medicine Hat as security for natural gas purchases. The City of Medicine Hat may draw upon the letter of credit if the Corporation fails to make timely payment for natural gas as per the related natural gas contract.

b. Commitments

At period end, the Corporation forecasted to spend \$173 million (December 31, 2010 - \$156 million) on capital projects in 2011. Included in this total is a commitment of \$19 million to purchase the Corporate head office building.

c. Leases

As at September 30, 2011 future minimum lease payments for operating leases entered into by the Corporation, as lessee, were as follows:

(millions)	2012	2013	2014	2015	2016	Thereafter
Minimum lease payments	\$ 1	\$ -	\$ -	\$ -	\$ -	\$ 1

SaskEnergy Incorporated
Notes to the Consolidated Financial Statements
Unaudited

20. Commitments and contingencies (continued)

d. Contingencies

The Corporation has been named a defendant in a number of civil actions in relation to a natural gas explosion that occurred April 2008 in Nipawin, Saskatchewan. The Corporation has denied liability on all claims, which remain at an early stage, and does not expect the outcome to result in any material financial impact.

In June 2011 three statements of claim were filed against the Corporation in relation to a home explosion, a basement fire and a garage fire during the spring of 2011 in Regina, Saskatchewan. These claims remain at an early stage, statements of defence have not yet been filed and the Corporation does not expect the outcome to result in any material financial impact.

21. Market value adjustments

(millions)	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2011	2010	2011	2010
Change in fair value of debt retirement funds	\$ 2	\$ 1	\$ 2	\$ 2
Change in fair value of natural gas derivative instruments	(7)	(13)	(8)	1
Change in revaluation of natural gas in storage to net realizable value	7	(7)	8	(19)
	\$ 2	\$ (19)	\$ 2	\$ (16)

22. Natural gas sales and purchases

(millions)	For the Three Months Ended September 30					
	2011			2010		
	Commodity	Gas		Commodity	Gas	
		Marketing	Total		Marketing	Total
Natural gas sales						
Natural gas sales to commodity customers	\$ 28	\$ -	\$ 28	\$ 22	\$ -	\$ 22
Realized on natural gas derivative instruments	-	63	63	-	145	145
Change in fair value of natural gas derivative instruments	-	(7)	(7)	-	11	11
	28	56	84	22	156	178
Natural gas purchases						
Realized on natural gas derivative instruments	(34)	(53)	(87)	(33)	(129)	(162)
Change in fair value of natural gas derivative instruments	-	-	-	(22)	(2)	(24)
Change in revaluation of natural gas in storage to net realizable value	-	7	7	-	(7)	(7)
	(34)	(46)	(80)	(55)	(138)	(193)
	\$ (6)	\$ 10	\$ 4	\$ (33)	\$ 18	\$ (15)

SaskEnergy Incorporated
Notes to the Consolidated Financial Statements
Unaudited

22. Natural gas sales and purchases (continued)

(millions)	For the Nine Months Ended September 30					
	2011			2010		
	Commodity	Gas Marketing	Total	Commodity	Gas Marketing	Total
Natural gas sales						
Natural gas sales to commodity customers	\$ 207	\$ -	\$ 207	\$ 183	\$ -	\$ 183
Realized on natural gas derivative instruments	-	206	206	-	305	305
Change in fair value of natural gas derivative instruments	-	(21)	(21)	-	40	40
	207	185	392	183	345	528
Natural gas purchases						
Realized on natural gas derivative instruments	(201)	(176)	(377)	(188)	(269)	(457)
Change in fair value of natural gas derivative instruments	8	5	13	(40)	1	(39)
Change in revaluation of natural gas in storage to net realizable value	-	8	8	-	(19)	(19)
	(193)	(163)	(356)	(228)	(287)	(515)
	\$ 14	\$ 22	\$ 36	\$ (45)	\$ 58	\$ 13

23. Other revenue

(millions)	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2011	2010	2011	2010
	Royalty revenue	\$ -	\$ 1	\$ 1
Natural gas and liquid sales	4	3	8	5
	\$ 4	\$ 4	\$ 9	\$ 7

24. Revenue collected for and paid to municipalities

The Corporation is required to remit to 109 urban municipalities, in accordance with the provisions of *The SaskEnergy Act*, an amount calculated as either three per cent or five per cent of natural gas sales to customers within the respective municipality. These municipal payments are charged to customers and are then remitted to the respective municipalities. During the period, the amount collected for and paid to municipalities, which was recognized on a net basis in net income, was \$14 million (2010 - \$14 million).

In accordance with the provisions of *The SaskEnergy Act*, the Corporation is required to collect, from specific customers, an amount based on the value of natural gas transported on their behalf. The Corporation in turn pays the amount collected to those municipalities. During the period, the amount collected for and paid to municipalities, which was recognized on a net basis in net income, was \$1 million (2010 - \$1 million).

SaskEnergy Incorporated
Notes to the Consolidated Financial Statements
Unaudited

25. Depreciation and amortization

(millions)	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2011	2010	2011	2010
Depreciation of property, plant and equipment	\$ 16	\$ 15	\$ 47	\$ 46
Amortization of intangible assets	1	1	3	4
	\$ 17	\$ 16	\$ 50	\$ 50

The composite rate of depreciation was 3.1 per cent during the period (2010 - 3.4 per cent), and the composite rate of amortization was 6.9 per cent during the period (2010 - 10.3 per cent).

26. Saskatchewan taxes

(millions)	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2011	2010	2011	2010
Corporate capital tax	\$ 2	\$ 1	\$ 6	\$ 5
Property taxes and other	2	2	2	2
	\$ 4	\$ 3	\$ 8	\$ 7

27. Net finance expenses

(millions)	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2011	2010	2011	2010
Debt retirement funds earnings	1	\$ 1	3	\$ 3
Change in fair value of debt retirement funds	2	1	2	2
Finance income	3	2	5	5
Interest expense on short-term debt	(1)	(1)	(2)	(1)
Interest expense on long-term debt	(9)	(10)	(29)	(32)
Borrowing costs capitalized to qualifying assets	-	-	1	-
Finance expenses	(10)	(11)	(30)	(33)
Net finance expenses	\$ (7)	\$ (9)	\$ (25)	\$ (28)

Borrowing costs were capitalized to qualifying assets using the weighted average cost of debt of 4.1 per cent during the period (2010 - 4.3 per cent).

SaskEnergy Incorporated
Notes to the Consolidated Financial Statements
Unaudited

28. Consolidated statement of cash flows

a. Cash and cash equivalents

(millions)	As at September 30, 2011	As at September 30, 2010
Cash	\$ 8	\$ -
Bank indebtedness	-	(2)
	\$ 8	\$ (2)

b. Net change in non-cash working capital related to operations

(millions)	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2011	2010	2011	2010
Trade and other receivables	\$ 22	\$ (1)	\$ 66	\$ 71
Natural gas in storage held for resale	(37)	(9)	-	(37)
Inventory of supplies	-	(1)	(2)	-
Trade and other payables	9	11	(25)	(33)
Deferred revenue	(20)	4	(15)	15
	\$ (26)	\$ 4	\$ 24	\$ 16

29. Related party transactions

Balances and transactions between SaskEnergy and its wholly owned subsidiaries, which are related parties of SaskEnergy, have been eliminated upon consolidation and are not disclosed in this note. Details of transactions between the Corporation and other related parties are disclosed below.

a. Transactions with key management personnel

Key management personnel include directors and executive officers. The compensation paid to key management for employee services was as follows:

(millions)	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2011	2010	2011	2010
Short-term benefits	\$ 1	\$ 1	\$ 3	\$ 3
	\$ 1	\$ 1	\$ 3	\$ 3

b. Other related party transactions

As a Crown corporation, the Corporation is ultimately controlled by the Government of Saskatchewan. Included in the consolidated financial statements are transactions with various Saskatchewan Crown corporations, ministries, 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).

Government-related entities are exempt from providing disclosure about individual related party transactions, other than the transactions with key management personnel disclosed above. Instead, government-related entities are required to disclose the types and extent of individually or collectively significant transactions with related parties. In determining individually significant transactions, the Corporation considers the size, type and terms of the transaction.

29. Related party transactions (continued)

There were no individually or collectively significant transactions with related parties for the period and comparative period. All transactions with related parties are routine operating transactions that are settled at prevailing market prices under normal trade terms.

30. Transition to IFRS

As stated in Note 2, these are the Corporation's first consolidated financial statements prepared in accordance with IFRS.

The accounting policies set out in Note 3 have been applied consistently in preparing the consolidated financial statements for the period ended September 30, 2011, the comparative information and the opening IFRS consolidated statement of financial position as at January 1, 2010 (the Corporation's date of transition to IFRS).

In preparing its opening IFRS consolidated statement of financial position, the Corporation adjusted certain amounts reported previously in accordance with Canadian GAAP. An explanation of how the transition from Canadian GAAP to IFRS affected the Corporation's financial position, financial performance and cash flows is set out in the following reconciliations and accompanying notes.

30. Transition to IFRS (continued)

Reconciliation of financial position

(millions)	Notes	As at January 1, 2010				As at September 30, 2010			
		Canadian GAAP	IFRS Adjust- ments	IFRS Reclass- ifications	IFRS Balance	Canadian GAAP	IFRS Adjust- ments	IFRS Reclass- ifications	IFRS Balance
Assets									
Current assets									
Trade and other receivables		\$ 128	\$ -	\$ -	\$ 128	\$ 57	\$ -	\$ -	\$ 57
Natural gas in storage held for resale		258	-	-	258	277	-	-	277
Inventory of supplies		9	-	-	9	9	-	-	9
Debt retirement funds		9	-	-	9	-	-	-	-
Fair value of derivative instruments		52	-	-	52	87	-	-	87
		456	-	-	456	430	-	-	430
Intangible assets		15	-	-	15	16	-	-	16
Property, plant and equipment	b,c,d,e,f	1,038	194	-	1,232	1,059	205	-	1,264
Debt retirement funds		48	-	-	48	57	-	-	57
Investments in associates		30	-	-	30	30	-	-	30
		\$ 1,587	\$ 194	\$ -	\$ 1,781	\$ 1,592	\$ 205	\$ -	\$ 1,797

30. Transition to IFRS (continued)

Reconciliation of financial position (continued)

(millions)	Notes	As at January 1, 2010				As at September 30, 2010			
		Canadian GAAP	IFRS Adjustments	IFRS Reclassifications	IFRS Balance	Canadian GAAP	IFRS Adjustments	IFRS Reclassifications	IFRSs Balance
Liabilities and Province's equity									
Current liabilities									
Bank indebtedness		\$ 1	\$ -	\$ -	\$ 1	\$ 2	\$ -	\$ -	\$ 2
Short-term debt		108	-	-	108	215	-	-	215
Trade and other payables	b	141	(14)	(14)	113	118	(25)	(13)	80
Dividends payable		21	-	-	21	-	-	-	-
Current portion of long-term debt		80	-	-	80	-	-	-	-
Deferred revenue	b	-	34	-	34	-	50	-	50
Fair value of derivative instruments		38	-	-	38	72	-	-	72
		389	20	(14)	395	407	25	(13)	419
Employee future benefits		-	-	14	14	-	-	13	13
Provisions	f	8	8	-	16	8	8	-	16
Deferred revenue	c	-	10	-	10	-	10	-	10
Long-term debt		715	-	-	715	715	-	-	715
		1,112	38	-	1,150	1,130	43	-	1,173
Province's equity									
Equity advances		72	-	-	72	72	-	-	72
Retained earnings	b,d,e,f,g	406	152	-	558	393	158	-	551
Other components of equity	g	(3)	4	-	1	(3)	4	-	1
		475	156	-	631	462	162	-	624
		\$ 1,587	\$ 194	\$ -	\$ 1,781	\$ 1,592	\$ 205	\$ -	\$ 1,797

SaskEnergy Incorporated
Notes to the Consolidated Financial Statements
Unaudited

30. Transition to IFRS (continued)

Reconciliation of financial position (continued)

						As at December 31, 2010		
(millions)	Notes	Canadian GAAP	IFRS Adjust- ments	IFRS Reclass- ifications	IFRS Balance			
Assets								
Current assets								
Cash		\$ 1	\$ -	\$ -	\$ 1			
Trade and other receivables		113	-	-	113			
Natural gas in storage held for resale		247	-	-	247			
Inventory of supplies		8	-	-	8			
Fair value of derivative instruments		79	-	-	79			
		448	-	-	448			
Intangible assets								
Property, plant and equipment	b,c,d,e,f	1,090	215	(3)	1,302			
Debt retirement funds		59	-	-	59			
Investments in associates		29	-	-	29			
		\$ 1,644	\$ 215	\$ -	\$ 1,859			
Liabilities and Province's equity								
Current liabilities								
Short-term debt		\$ 239	\$ -	\$ -	\$ 239			
Trade and other payables	b	135	(21)	(14)	100			
Dividends payable		22	-	-	22			
Deferred revenue	b	-	49	-	49			
Fair value of derivative instruments		63	-	-	63			
		459	28	(14)	473			
Employee future benefits		-	-	14	14			
Provisions	f	8	9	-	17			
Deferred revenue	c	-	9	-	9			
Long-term debt		715	-	-	715			
		1,182	46	-	1,228			
Province's equity								
Equity advances		72	-	-	72			
Retained earnings	b,d,e,f,g	394	165	-	559			
Other components of equity	g	(4)	4	-	-			
		462	169	-	631			
		\$ 1,644	\$ 215	\$ -	\$ 1,859			

SaskEnergy Incorporated
Notes to the Consolidated Financial Statements
Unaudited

30. Transition to IFRS (continued)

Reconciliation of comprehensive income

(millions)		For the Three Months Ended September 30, 2010				
Canadian GAAP Accounts	Notes	Canadian GAAP Balance	IFRS Adjustments	IFRS Reclass- ifications	IFRS Balance	IFRS Accounts
Revenue						Revenue
Commodity sales		\$ 21	\$ -	\$ 157	\$ 178	Natural gas sales
Gas marketing sales		157	-	(157)	-	
Delivery		27	-	-	27	Delivery
Transportation and storage		19	-	-	19	Transportation and storage
Revenue collected for municipalities		2	-	(2)	-	
	b	-	2	-	2	Customer capital contributions
Other		4	-	-	4	Other
		230	2	(2)	230	
Expenses						Expenses
Commodity cost of gas sold		55	-	(55)	-	Natural gas purchases (net of change in inventory)
Gas marketing cost of gas sold		138	-	55	193	Employee benefits
		-	-	19	19	Operating and maintenance
Operating and maintenance	e	34	-	(20)	14	
Interest		8	-	(8)	-	
Amortization	b,d,e	14	2	-	16	Depreciation and amortization
Payments to municipalities		2	-	(2)	-	
Saskatchewan taxes		3	-	-	3	Saskatchewan taxes
		254	2	(11)	245	
Net income from operations		(24)	-	9	(15)	Results from operations
		-	-	2	2	Finance income
		-	-	(11)	(11)	Finance expenses
		-	-	(9)	(9)	Net finance expenses
Net income		(24)	-	-	(24)	Net income
Unrealized gains (losses) on translating financial statements of self-sustaining foreign operations		1	-	-	1	Foreign currency translation adjustments
Comprehensive income		\$ (23)	\$ -	\$ -	\$ (23)	Comprehensive income

SaskEnergy Incorporated
Notes to the Consolidated Financial Statements
Unaudited

30. Transition to IFRS (continued)

Reconciliation of comprehensive income

(millions)		For the Nine Months Ended September 30, 2010				
Canadian GAAP Accounts	Notes	Canadian GAAP Balance	IFRS Adjustments	IFRS Reclass- ifications	IFRS Balance	IFRS Accounts
Revenue						Revenue
Commodity sales		\$ 182	\$ -	\$ 346	\$ 528	Natural gas sales
Gas marketing sales		346	-	(346)	-	
Delivery		126	-	-	126	Delivery
Transportation and storage		58	-	-	58	Transportation and storage
Revenue collected for municipalities		14	-	(14)	-	
	b	-	11	-	11	Customer capital contributions
Other		7	-	-	7	Other
		733	11	(14)	730	
Expenses						Expenses
Commodity cost of gas sold		229	-	(229)	-	Natural gas purchases (net of change in inventory)
Gas marketing cost of gas sold		288	-	227	515	Employee benefits
		-	-	62	62	Operating and maintenance
Operating and maintenance	e	110	(1)	(61)	48	
Interest		27	-	(27)	-	Depreciation and amortization
Amortization	b,d,e	44	6	-	50	
Payments to municipalities		14	-	(14)	-	Saskatchewan taxes
Saskatchewan taxes		7	-	-	7	
		719	5	(42)	682	
Net income from operations		14	6	28	48	Results from operations
		-	-	5	5	Finance income
		-	-	(33)	(33)	Finance expenses
		-	-	(28)	(28)	Net finance expenses
Net income		14	6	-	20	Net income
Unrealized gains (losses) on translating financial statements of self-sustaining foreign operations		-	-	-	-	Foreign currency translation adjustments
Comprehensive income		\$ 14	\$ 6	\$ -	\$ 20	Comprehensive income

SaskEnergy Incorporated
Notes to the Consolidated Financial Statements
Unaudited

30. Transition to IFRS (continued)

Reconciliation of comprehensive income (continued)

(millions)		For the Year Ended December 31, 2010				
Canadian GAAP Accounts	Notes	Canadian GAAP Balance	IFRS Adjustments	IFRS Reclass- ifications	IFRS Balance	IFRS Accounts
Revenue						Revenue
Commodity sales		\$ 276	\$ -	\$ 386	\$ 662	Natural gas sales
Gas marketing sales		386	-	(386)	-	
Delivery		185	-	-	185	Delivery
Transportation and storage		77	-	-	77	Transportation and storage
Revenue collected for municipalities		19	-	(19)	-	
	b	-	20	-	20	Customer capital contributions
Other		9	-	-	9	Other
		952	20	(19)	953	
Expenses						Expenses
Commodity cost of gas sold		306	-	326	632	Natural gas purchases (net of change in inventory)
Gas marketing cost of gas sold		329	-	(329)	-	
		-	-	84	84	Employee benefits
Operating and maintenance	e	156	(1)	(82)	73	Operating and maintenance
Interest		37	-	(37)	-	
Amortization	b,d,e	59	8	-	67	Depreciation and amortization
Payments to municipalities		19	-	(19)	-	
Saskatchewan taxes		9	-	-	9	Saskatchewan taxes
		915	7	(57)	865	
Net income from operations		37	13	38	88	Results from operations
		-	-	5	5	Finance income
		-	-	(43)	(43)	Finance expenses
		-	-	(38)	(38)	Net finance expenses
Net income		37	13	-	50	Net income
Unrealized gains (losses) on translating financial statements of self-sustaining foreign operations		(1)	-	-	(1)	Foreign currency translation adjustments
Comprehensive income		\$ 36	\$ 13	\$ -	\$ 49	Comprehensive income

SaskEnergy Incorporated
Notes to the Consolidated Financial Statements
Unaudited

30. Transition to IFRS (continued)

Reconciliation of equity

(millions)	Notes	As at January 1, 2010	As at September 30, 2010	As at December 31, 2010
Province's equity under Canadian GAAP		\$ 475	\$ 462	\$ 462
Customer capital contributions	b	159	167	174
Deemed cost	d	7	6	6
Major inspections	e	(3)	(4)	(4)
Decommissioning liabilities	f	(7)	(7)	(7)
Adjustments to Province's equity		156	162	169
Province's equity under IFRS		\$ 631	\$ 624	\$ 631

Reconciliation of cash flows

Bank indebtedness was classified as financing cash flows under Canadian GAAP. These overdrafts were reclassified as cash and cash equivalents under IFRS as they are repayable on demand and form an integral part of the Corporation's cash management.

Under Canadian GAAP, the Corporation included interest paid as part of operating cash flows. Under IFRS, interest paid has been classified as part of financing cash flows.

Under Canadian GAAP, customer capital contributions and deposits received were included in investing cash flows. Under IFRS, customer capital contributions are included in operating cash flows.

There are no other material differences between the consolidated statement of cash flows presented under IFRS and the consolidated statement of cash flows presented under Canadian GAAP.

Notes to the reconciliations

The Corporation is required to determine its IFRS accounting policies and apply them retrospectively to establish its opening consolidated statement of financial position under IFRS. IFRS 1 *First-time Adoption of IFRS* provides a number of exemptions upon first-time adoption of IFRS. The exemptions the Corporation applied in preparing the January 1, 2010 consolidated statement of financial position are described below.

In preparing the consolidated financial statements, the Corporation reclassified amounts previously reported under Canadian GAAP to conform to presentation requirements of IFRS. These reclassifications are separately identified in the previous reconciliations and therefore have not been described below.

The adjustments to the consolidated financial statements resulting from transition to IFRS as well as the exemptions applied in preparing the opening consolidated statement of financial position were as follows:

a. Estimates

IFRS 1 prohibits retrospective application of some aspects of certain IFRS. Hindsight is not used to create or revise estimates. The estimates previously made by the Corporation under Canadian GAAP were not revised for application of IFRS except where necessary to reflect any difference in accounting policies.

b. Customer capital contributions

Under Canadian GAAP, the Corporation included customer capital contributions in property, plant and equipment and depreciated these contributions on a straight-line basis over the estimated useful life of the related asset.

Under IFRIC 18 *Transfer of Assets from Customers*, the Corporation recognizes customer capital contributions as revenue once the related property, plant and equipment is available for use and any related refund period has expired.

SaskEnergy Incorporated
Notes to the Consolidated Financial Statements
Unaudited

30. Transition to IFRS (continued)

The impact arising from the change is summarized as follows:

(millions)	As at January 1, 2010	As at September 30, 2010	As at December 31, 2010
Consolidated statement of financial position			
Property, plant and equipment	\$ 179	\$ 191	\$ 202
Trade and other payables	(14)	(25)	(21)
Deferred revenue	34	51	49
Adjustment to retained earnings	\$ 159	\$ 165	\$ 174

(millions)	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010	Year Ended December 31, 2010
Consolidated statement of comprehensive income			
Customer capital contributions	\$ 2	\$ 11	\$ 20
Depreciation and amortization	2	4	5
Adjustment to comprehensive income	\$ -	\$ 7	\$ 15

c. Government grants

The Corporation's government grants relate to the cost of specific items of property, plant and equipment. Under Canadian GAAP, the Corporation netted government grants with property, plant and equipment. Government grants were amortized on a straight-line basis over the estimated useful life of the related items of property, plant and equipment.

Under IFRS, the Corporation will continue to amortize government grants on a straight-line basis over the estimated useful life of the related items of property, plant and equipment. However, the unamortized portion of government grants is recognized as deferred revenue.

The impact arising from the change is summarized as follows:

(millions)	As at January 1, 2010	As at September 30, 2010	As at December 31, 2010
Consolidated statement of financial position			
Property, plant and equipment	\$ 10	\$ 10	\$ 9
Deferred revenue	10	10	9
Adjustment to retained earnings	\$ -	\$ -	\$ -

d. Deemed cost

IFRS 1 provides an optional exemption to use the fair value of an item of property, plant and equipment as at the date of transition to IFRS as its deemed cost. On transition to IFRS the Corporation elected to apply the optional exemption to certain items of property, plant and equipment. The fair value of these items of property, plant and equipment was based on market values as determined by an external, independent valuation company. The market values were determined using market evidence of transaction prices in an arm's length transaction for similar items as at the date of transition to IFRS.

SaskEnergy Incorporated
Notes to the Consolidated Financial Statements
Unaudited

30. Transition to IFRS (continued)

At the date of transition to IFRS, the aggregate fair value of these items of property, plant and equipment was \$11 million while the aggregate carrying amount reported under Canadian GAAP was \$4 million.

The impact arising from the change is summarized as follows:

(millions)	As at January 1, 2010	As at September 30, 2010	As at December 31, 2010
Consolidated statement of financial position			
Property, plant and equipment	\$ 7	\$ 6	\$ 6
Adjustment to retained earnings	\$ 7	\$ 6	\$ 6
	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010	Year Ended December 31, 2010
(millions)			
Consolidated statement of comprehensive income			
Depreciation and amortization	\$ 1	\$ 1	\$ 1
Adjustment to comprehensive income	\$ (1)	\$ (1)	\$ (1)

e. Major inspections

Under IAS 16 *Property, Plant and Equipment* the cost of all major inspections are recognized in the carrying amount of property, plant and equipment and depreciated over the period between inspections. The carrying amount of the previous inspection, if any, is derecognized.

Under Canadian GAAP, the Corporation capitalized the initial major inspection. The cost was depreciated over the life of the related asset rather than the period between inspections. Subsequent inspections were expensed as incurred.

The impact arising from the change is summarized as follows:

(millions)	As at January 1, 2010	As at September 30, 2010	As at December 31, 2010
Consolidated statement of financial position			
Property, plant and equipment	\$ (3)	\$ (4)	\$ (4)
Adjustment to retained earnings	\$ (3)	\$ (4)	\$ (4)
	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010	Year Ended December 31, 2010
(millions)			
Consolidated statement of comprehensive income			
Operating and maintenance	\$ -	\$ (1)	(1)
Depreciation and amortization	-	2	2
Adjustment to comprehensive income	\$ -	\$ (1)	\$ (1)

SaskEnergy Incorporated
Notes to the Consolidated Financial Statements
Unaudited

30. Transition to IFRS (continued)

f. Decommissioning liabilities

Under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* decommissioning liabilities are recognized when there is a legal or constructive obligation. Under Canadian GAAP the Corporation recognized an asset retirement obligation when a legal obligation existed, and any decommissioning costs related to constructive obligations were expensed as incurred. In accordance with IFRS and the Corporation's environmental policy, the Corporation has recognized both legal and constructive obligations related to the decommissioning of certain natural gas facilities on transition to IFRS.

IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* requires specified changes in a decommissioning, restoration or similar liability to be added or deducted from the cost of the asset to which it relates. The adjusted depreciable amount of the asset is then depreciated prospectively over its remaining useful life.

IFRS 1 provides an exemption from the retrospective application requirement of IFRIC 1. The exemption from full retrospective application means that the Corporation was not required to estimate the provision that would have been calculated at earlier reporting dates. Instead, the decommissioning liability was calculated at the date of transition to IFRS. It was then assumed that the same liability, adjusted only for the time value of money, existed when the asset was first acquired or constructed.

The impact arising from the change is summarized as follows:

(millions)	As at January 1, 2010	As at September 30, 2010	As at December 31, 2010
Consolidated statement of financial position			
Property, plant and equipment	\$ 1	\$ 2	\$ 2
Provisions	8	9	\$ 9
Adjustment to retained earnings	\$ (7)	\$ (7)	\$ (7)

g. Cumulative translation differences

On translation of a foreign operation in accordance with IAS 21 *The Effects of Changes in Foreign Exchange Rates* certain exchange differences are recognized as a separate component of equity. On subsequent disposal of the foreign operation, the accumulated translation differences related to the foreign operations are recognized in net income for the period as part of the gain or loss on disposal.

IFRS 1 permits the Corporation to not calculate the translation difference related to foreign operations retrospectively. Instead, the translation difference calculated under Canadian GAAP is reset to zero at the date of transition to IFRS. IAS 21 was applied prospectively from the date of transition to IFRS, and the gain or loss on any subsequent disposal of a foreign operation will only include foreign exchange differences that arose after the date of transition to IFRS.

The impact arising from the change is summarized as follows:

(millions)	As at January 1, 2010	As at September 30, 2010	As at December 31, 2010
Consolidated statement of financial position			
Other components of equity	\$ 4	\$ 4	\$ 4
Adjustment to retained earnings	\$ (4)	\$ (4)	\$ (4)

30. Transition to IFRS (continued)

h. Borrowing costs

IFRS 1 permits the Corporation to apply IAS 23 *Borrowing Costs* retrospectively or prospectively from the date of transition to IFRS. The Corporation has elected to apply IAS 23 prospectively on transition to IFRS, and as such, the Corporation will capitalize borrowing costs to qualifying assets in accordance with IAS 23 after the date of transition to IFRS.

i. Leases

IFRS 1 provides the option to a first-time adopter that under its previous GAAP has made an assessment as to whether an arrangement contains a lease at a date other than required by IFRIC 4, *Determining Whether an Arrangement Contains a Lease*. Under the exemption, a first-time adopter is not required to reassess its previous determination if the requirements under previous GAAP would result in the same outcome as under IFRIC 4. The Corporation utilized the IFRS exemption as the requirements under Canadian GAAP would have resulted in the same outcome as under IFRIC 4.

In addition, for arrangements not assessed under Canadian GAAP, the Corporation applied the exemption that permits the Corporation to apply IFRIC 4 to these arrangements at the date of transition to IFRS rather than at the inception date of the arrangement. There was no impact on the consolidated financial statements.

31. Comparative figures

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