Our Philosophy

We are all stewards of the earth. We are all our brother’s keeper.

These truths apply to all of us as individuals.

Sooner, rather than later, they will also apply to every responsible company operating anywhere.

Natural gas is why we do business. Corporate social responsibility is how.

Our philosophy is far more than just a token commitment to do better. It runs through the culture of our organization, a belief that empowers our every action. We set measurable goals, we consciously work toward them, and we track our progress.

Come share our dream to build a better future for everyone in our province.

For these stories belong to you as much as they belong to us.
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Our Employees…

Our Heart

Employees Don Robinson and Murray Hobbs endured a day of rain while keeping participants in the SaskEnergy Torch Run fed at the 1999 Western Canada Summer Games in Prince Albert.

Our business is energy…

We practice it with passion, every day of the year — whether you find one of us on a service call to your home on a blustery February night, or volunteering to coach your local softball club.

Many companies focus on helping community and charitable activities in their business area. It is the right thing to do and we salute their commitment. Though financial support is important, our efforts extend much further than simply writing cheques.

It’s something almost intangible. Something that’s felt in the smile of an excited child turned-on to learning at a regional science fair or in the hearts of the hundreds of volunteers from across Saskatchewan who show up each fall to gather, sort and distribute sweaters for less fortunate families.

It’s a special spirit — a feeling of responsibility — a responsibility we proudly bare.
The giving spirit that's been cultivated and nurtured at SaskEnergy over many years didn’t start only at the top of the company.

It also started at the bottom, given form and shape by dozens of employees who believed that together, we could achieve more than we could alone.

This idea sprouted legs in small ways at first, through modest initiatives and pockets of employees who quietly and humbly gave of their own time. But it wasn’t long before our collective “energy” found an outlet in a program designed to provide winter clothing to less fortunate families.

In the fall of 1994, the SaskEnergy Sweater Recycling Program was born. Backed by a core of dedicated employees, the United Way, and a small handful of community partners, almost 20,000 sweaters were provided to less fortunate families in Regina.

Year by year, slowly but steadily, the program gained momentum and new participants, as it moved from community to community. In 1998, we expanded the program province-wide, involving schools, businesses and community organizations like the Girl Guides in collecting and distributing sweaters.

Like most of us at SaskEnergy, Katelyn Perry, daughter of SaskEnergy employee Darla Perry, was overwhelmed by the 63,000 donated sweaters in 1999.
With more than 100 new partners on board, located in communities ranging from Abbey to Zenon Park, the program blossomed beyond even our wildest expectations.

More than 60,000 sweaters, triple the previous high, were collected. Though more than 200 employees volunteered – over one-quarter of our entire workforce – the most gratifying outcome was seeing how our efforts empowered the province as a whole.

The results attracted Canada-wide attention, with a feature on the front page of a special National Post supplement, and as well, international attention, winning a prestigious award from International Association of Business Communicators (IABC), the largest communications organization in the world.

Dozens of letters arrived from thankful local charities and from those who wanted to be involved the following year. Though support was overwhelming, the need was so great that waiting lists developed.

It showed us the amazing synergy possible when you martial the efforts of Saskatchewan residents, the most generous and caring people in the world. And it pushed us to expand our efforts to become leaders in strengthening our community, perhaps in ways even we never considered possible.

Pioneering a new approach to giving...
Members of Girl Guides Unit #19 in Regina were among the many volunteers that made the 1999 Sweater Recycling Campaign such a provincial success.

Becoming a part of our vision …

As we enter a new millennium, our commitment to corporate social responsibility has risen to the top of our organization.

It’s part of who we are. And it’s part of our strategic vision to be Canada’s leading energy company.

Leadership means making a financial commitment to the community. That’s why we have joined Canada’s “Imagine” companies, investing about 1.5% of our projected annual profits into community and charitable initiatives. We focus our giving in the areas of youth, education, community-based initiatives, and those which demonstrate “Saskatchewan Pride”.

But leadership also means “partnership” with that same community. It’s about more than just giving money. It’s about investing time, and harnessing the power of our employees and the community as a whole.
Finding a community-based approach...

SaskEnergy Ambassador and Saskatchewan Roughrider Don Narcisse spoke to over 500 children across Saskatchewan in 1999 about the benefits of setting goals and following dreams, signing countless autographs along the way.

When SaskEnergy wanted to help less fortunate children experience the life-lifting power of participating in team sports, we turned to Saskatchewan Roughrider Don Narcisse. His sure hall-of-fame abilities on the field are matched only by his long-time contributions to the community.

The SaskEnergy/Don Narcisse “Catch for Kids” program began in 1998 with SaskEnergy contributing $100 for each on-field Narcisse catch to KidSport Saskatchewan, a provincial children’s charity. In 1999, to get the public more involved, a special limited edition “Catch for Kids” playing card was created for each $10 donation to the fund. Over 500 donations were received, and in two years, more than $40,000 was raised.
While Don has spent many a Saturday on the field, dozens of our employees have spent that day in the classroom — acting as tutors and role models for Aboriginal youth.

As part of the “Super Saturdays” science camp initiative, in partnership with the Saskatoon Tribal Council, and the University of Saskatchewan, children learn hands-on what it is like to detect a natural gas leak, fuse together plastic pipe or learn about the properties of natural gas in our special combustion chamber.

When it comes to community initiatives, we truly leave no idea “uncovered.”

During our own record-setting United Way employee campaign which raised more than $62,000 across Saskatchewan, members of our executive team gallantly stripped down (to their t-shirts) as part of a fund-raising employee luncheon.
Unleashing the potential of our children today …

Anyone watching a young person eagerly surf the Internet or master a computer application comes away believing that the next generation will change the world beyond our comprehension.

But what if there were no computers? Or worse, no adults to show them the way to make the leap between the classroom and the business world.

SaskEnergy believes that the best way to guide our youth to an exciting tomorrow is to give them a roadmap today. That’s why we’re committed to education.

At Thom Collegiate in Regina, for instance, we’ve built a unique partnership, founded upon the principles of cooperation and mutual support.

Our company has provided tools, technology and training for the teachers and students, brought students to our offices for day-long work experience sessions, and supported Thom’s community events. In return, Thom’s young adults have pitched in with our Sweater Recycling program and United Way campaigns and provided in-kind work using their new technology skills among other achievements. In April 1999, this powerful partnership won a special award from the Conference Board of Canada.
Though we’re striving to make a difference in the classroom, we know students sometimes fall through the cracks of our education system.

That’s where facilities like the Adult Learning Centre and the Cornwall Alternative School come in, allowing young adults and adolescents to get back on track and realize their dreams. Through our financial support and good old-fashioned sweat equity (SaskEnergy volunteers helped build Cornwall’s appropriately titled “energy” room), these organizations continue to win the battle, one success story at a time.

Ron Clark, President and CEO, SaskEnergy, shown here planting a tree, joined over 50 other SaskEnergy and TransGas employees working on various United Way “Day of Caring” Projects.
Over 2,200 students participated in SaskEnergy-sponsored science fairs across the province.

We focus a good portion of our efforts on supporting the sciences, an area where some of the biggest growth in future jobs and opportunities will be. Each spring we sponsor a series of regional science fairs throughout the province, and we provided a major investment of $75,000 in the new “Discovery Junction” energy exhibit at the Saskatchewan Science Centre.

Meanwhile, in Eastend, Saskatchewan, we’re playing a lead role in supporting the T-Rex Interpretive Centre, giving thousands of children a taste of a time when dinosaurs ruled the prairies.

Students from Eastend School dig up their own piece of history. SaskEnergy is playing a lead role in developing the T-Rex Centre.
Saskatchewan’s pride is showing …

There’s something special about an event held in Saskatchewan. Whether it’s the Western Canada Summer Games in Prince Albert, the Saskatchewan Indian Summer Games in Big River, the Back to Batoche celebrations, or the Junior Achievement program across the province, we’re proud to support Saskatchewan’s rich cultural heritage. And when Saskatchewan gets a chance to compete on a national stage, such as with the National Aboriginal Achievement Awards last March or the successful bid for the 2001 Memorial Cup of hockey in Regina, a tradition of excellence is continued.

By working together, we’re seeing goals become reality.

As part of our new partnership with the Saskatchewan Junior Hockey League, each SJHL team held a special game where they collected clothing for our Sweater Recycling program. Furthermore, some 240 children who collected sweaters at seven rural schools attended live plays as part of our Globe Theatre for Youth Program in Regina.

Our projects are fun, but they often stress an important message.

In Saskatoon, an International Peace Day Picnic highlighted our ongoing sponsorship of the Peace Pole in Meewasin Park, where more than 600 children gathered in the spirit of peace, good will and hope for the future.
Unfortunately, we’re unable to financially support every request that comes into our offices. Passing up projects is the most difficult part of our work.

However, as we looked toward the future, we knew there was more we could do to best use our resources. More to bring forward grass-roots community projects. More to involve communities outside our head office in Regina. And more to involve our employees…the people working in your hometowns…in selecting the projects we become involved in.

That’s how the “Share the Warmth Fund” was born and launched. It’s meant to belong to customers and shareholders of SaskEnergy — the people of Saskatchewan.

So if you or your organization has an idea that supports youth, education, highlights a community-based initiative or showcases Saskatchewan pride, why not find out how we might help?

Check the resource guide at the back of this booklet and you’ll see how to contact us to receive information about our “Share the Warmth Fund”.

This student from St. Philip Elementary School proudly displays his written pledge for peace at the International Peace Day Picnic in September.
1999 Sponsorships
Area Distribution
(Total Expenditures $881,389)

Breakdown of number of community relations investments by area.

1999 Community Investment
We know that corporate social responsibility is about more than lending a hand in the community.

Corporate social responsibility is about integrity. It’s about compassion. It’s about caring. It’s about doing business the right way.

We’re proud to contribute to Saskatchewan’s social fabric and we look forward to setting a new standard of excellence.

We are a company of men and women dedicated to leading the way in such areas as Aboriginal relations, employee development, environmental protection and supporting Saskatchewan business.

Though we’re proud of what we’ve accomplished, we realize there is still much work to be done.

Here’s a glance at some of our efforts to lead the way this year…
Building Success Together – SaskEnergy and the Aboriginal Community

As a major stakeholder in the economy of tomorrow, Saskatchewan’s Aboriginal community is a major part of our strategies for success.

Since the formation of our Aboriginal Relations department in 1996, we have built our policies around a holistic view of the Aboriginal employee, customer and community.

We are integrating Aboriginal initiatives into every aspect of our business planning processes, with a focus on education and training, employment, and business development. The timing couldn’t be more critical.

Aboriginal youth such as this “Super Saturday” participant are major stakeholders in Saskatchewan’s economy of tomorrow.
Our Strategies for Success

At SaskEnergy, we’ve witnessed first hand the positive results of working with Saskatchewan’s Aboriginal community for our mutual betterment. We call it strategies for success, and it focuses on…

**Education and Training**
Contributing our fair share toward the advancement of education, skills development and cultural promotion at SaskEnergy and in Saskatchewan.

**Employment**
Building a representative workforce, an open and accepting work environment and equal access to career opportunities in our company and our province.

**Business Development**
Stimulating and promoting economic wealth and well-being for Aboriginal families and businesses through business networking and alliances.

In 1997, the Federation of Saskatchewan Indian Nations (FSIN) released a landmark demographic study, *Saskatchewan and Aboriginal Peoples in the 21st Century*, sending a clear “call to action” to the people of this province.

Unless we start closing the economic, employment and education gaps that exist between Saskatchewan’s Aboriginal and non-Aboriginal populations, our province faces an uncertain future.

In early 1999, SaskEnergy President Ron Clark joined FSIN Chief Perry Bellegarde as co-chairs of the FSIN Corporate Circle, a historic initiative bringing together 40 major Saskatchewan corporations and businesses in an effort to address the challenges identified by the study.

Together, we can turn good will into action…and vision into success.
FSIN summer science campers locate natural gas lines with the help of SaskEnergy and TransGas volunteers. Since 1993, hundreds of Saskatchewan youth have enjoyed the day-long sessions with us.

Cultural change starts from within, which is why we focus on ongoing education with our employees...and tomorrow’s potential employees.

We’ve established an innovative and effective Aboriginal education program, which more than 85 per cent of employees have voluntarily attended.

We’ve also partnered with Aboriginal educational institutions such as the Saskatchewan Indian Federated College, the Saskatchewan Indian Institute of Technology and Gabriel Dumont Institute to encourage greater skill development for future workforce needs.

Similarly, we continue to support the FSIN Summer Science Camp and Saskatchewan Tribal Council’s Super Saturdays youth education programs, as two of more than 50 Aboriginal sponsorships we undertook in 1999.
Developing Aboriginal youth requires more than providing a formal learning environment. It will require positive role models that prove goals are attainable and dreams are never out of reach. That’s why we are proud to support Alika Lafontaine as SaskEnergy’s Aboriginal Youth Ambassador. As Saskatchewan’s Aboriginal population continues to grow, positive peer role models are more critical than ever to stress the value of a good education. Alika’s passionate message, work and life ethics will encourage Saskatchewan’s Aboriginal children to stay in school.

As we examine our workforce representation, we see some successes and other areas where more work needs to be done. In 1999, about six per cent of our workforce was Aboriginal, a figure we’re committed to growing. And one-quarter of our summer student employees this past year were Aboriginal youth... an encouraging sign.

Partnership agreements with First Nation institutions and tribal councils also give us an opportunity to jointly build understanding and capacity with the Aboriginal community. In 1999, we renewed a successful working partnership with the Saskatoon Tribal Council for a five-year period that will continue to build capacity and produce results... for First Nations, for Saskatchewan, and for SaskEnergy.
SaskEnergy also supports institutions which preserve and promote Saskatchewan’s heritage and history. For example, our four-year $375,000 investment in Wanuskewin Heritage Park will support its core cultural programming and a campaign to herald “The Return of the Bison.” Partners include FSIN, Meewasin Valley Authority, City of Saskatoon, University of Saskatchewan and others committed to building tourism and protecting First Nations archeological sites.

Our emphasis on developing strategic alliances with Aboriginal businesses has proven successful, with 23 of our 35 major contracts this year having significant Aboriginal content, contributing $1.9 million to the provincial economy. We’ve also established an Aboriginal Business Registry containing profiles of nearly 350 Aboriginal businesses and suppliers, bridging an information gap that will strengthen our business partnerships.

Chief Darcy Bear of Whitecap Dakota/Sioux First Nations shows his approval for the SaskEnergy/Saskatoon Tribal Council five-year Partnership Agreement.
In 1999, SaskEnergy played a significant role in introducing and ultimately partnering a Saskatchewan First Nation business – Tron Power Inc. with Midland Vegetation Management Inc.

Thanks to the vision of SaskEnergy’s Purchasing and Supplier Development department, the two Saskatchewan companies came together to form Boreal Forest Services, a vegetation management services company.

In May, Boreal Forestry Services and TransAlta, an Alberta electrical utility, agreed on a significant three-year contract.
Building Employee Skills

As committed as we are to leading the way in Aboriginal business development, we know that our programs are only as successful as the people who implement them.

That’s why we continue to develop the collective skills and knowledge of our greatest asset: our employees.

Among our human resources achievements in 1999 was the progression of our second group of Leadership Development Program participants. Launched in 1998, the 18-month program is designed to develop the leadership skills of SaskEnergy employees at all levels.

We also revamped our trades and marketing training programs in 1999, ensuring our employees are equipped with the most up-to-date technology training and have the most current information available to them.

Members of the Leadership Development Program and SaskEnergy Executive take a break from classroom training in June. “It’s a shame everyone can’t go through the course,” said Neil Henneberg, LDP participant.
Towards a better working environment…

At SaskEnergy, we believe a safe working environment is a healthy one, which led to a health and safety audit that was completed in late 1999.

We monitored such areas as joint occupational health and safety, management and resource commitment, and communication and training. Moreover we consulted with all players in the health and safety arena, achieving an open and honest discussion of challenges facing the health and welfare of our employees.

Programs aimed at developing a better work environment have also been successful thanks to our ongoing partnership with the Communications, Energy and Paperworkers (CEP) Union, Local 649.

By working together in the spirit of mutual trust and cooperation, we re-established the Joint Dialogue Committee. This committee has been entrusted to ensure the security and developmental needs of all employees in a fiscally responsible way.

By working together, both in-scope and management employees will now enter the millennium poised to meet the challenges of a dynamic, changing, and more competitive energy industry.
Protecting Saskatchewan’s Environment

A busy year of construction allowed us to demonstrate our company-wide commitment to protecting the environment.

When a pipeline project crossed into Prince Albert National Park, we worked with our Federal partners at the Canadian Environmental Assessment Agency to minimize tree clearing, prevent habitat loss and protect our endangered species.

When construction through Cypress Hills Provincial Park was necessary, we employed steps to ensure native grassland vegetation, creeks, and critical wildlife habitat were protected, while maintaining the site’s Aboriginal significance.

Projects such as AEC Cypress Hills demonstrated our commitment to environmentally-sound business practices with detailed habitat studies and ongoing monitoring of construction areas.
Cutting greenhouse gases
As simple as ABC…

As 3,800 new customers received the benefits of the world’s cleanest-burning fuel, we continued our leadership efforts to reduce greenhouse gas emissions.

We joined 14 other caring Canadian companies and the Energy Council of Canada in the national Action By Canadians (ABC) pilot project. The campaign is rooted in a series of workplace-based training sessions designed to motivate industry employees to lead the way in reducing greenhouse gases.

By working with all Canadians we can learn about the implications of our environment, our health and lifestyles, and take meaningful actions at home and at work to reduce greenhouse gas emissions.

SaskEnergy and TransGas
Greenhouse Gas Emissions Reductions
Closer to home, our 1999 Climate Change Action Plan received a Gold Champion rating by Canada’s Climate Change Voluntary Challenge Registry (VCR) Inc.

VCR Inc. is a not-for-profit corporation dedicated to encouraging private and public sector organizations to voluntarily limit their net greenhouse gas emissions, as a step towards meeting Canada’s climate change goals.

Over 640 Action Plans were registered at VCR Inc., but only 41 received Gold Championship ratings. This rating recognizes SaskEnergy’s commitment to reducing greenhouse gas emissions on a voluntary and systematic basis. Our actions to reduce greenhouse gas emissions have not only produced environmental benefits, but they have also reduced our operating costs.

SaskEnergy President Ron Clark (c.) accepts a national award for SaskEnergy’s 1999 Climate Change Action Plan from the Honourable Ralph Goodale, Minister of Natural Resources Canada (l.) and the Honourable David Anderson, Minister of the Environment (r.).
Supporting Saskatchewan Business

We believe a healthy environment and a healthy economy go hand-in-hand.

Since 1993 our Purchasing and Supplier Development departments have worked to support Saskatchewan business. It’s an active commitment to support Saskatchewan distributors, manufacturers, contractors, and other service and product suppliers.

But it doesn’t stop there. We use our knowledge and contacts to develop new businesses inside and outside our borders. We’ve set up a formal network with other Saskatchewan Crown corporations and private businesses to ensure we are part of the solution, helping local entrepreneurs grow and prosper, creating a stronger province for all Saskatchewan people.

In 1999, we spent about $35 million on goods and services, and $29 million of that, or about 82 per cent, was spent in our province. Saskatchewan is also the main source for our natural gas supply, with approximately $150 million purchased from provincial producers.

Our partnership approach with industry is very much visible through initiatives like the SaskEnergy Network and the TransGas Customer Dialogue Process. This demonstrates that when confronted with new business demands, we start our search right here in Saskatchewan.

For example, recent changes in occupational health and safety regulations have increased awareness of industrial noise emissions. TransGas implemented a program to address noise emissions associated with emergency shutdowns and venting gas at compressor stations. We worked jointly with Industrial Process Products and Saskatoon Boiler, a Saskatchewan manufacturer, to fabricate the shell and assemble the silencer right here in our province, rather than elsewhere, decreasing costs while increasing employment opportunities here at home.

The silencers will soon be installed at compressor stations in Melville, Hatton, Melfort, Loreburn, North Battleford, Paynton, Landis, Regina, and Bayhurst.
The Road Home…

You can find Saskatchewan very easily on any map.

But you can’t find the heart of our province without knowing where to look.

Inside classrooms. On local curling rinks. In community halls. Down Main Street. And inside the companies that call Saskatchewan home.

If you travel there, you’ll find the real highways that bind us together.

Thank you for taking the time to let us share our dreams with you. We feel privileged to play a small part in so many wonderful stories.

But it is your passion and your energy that really makes it all possible.

We look forward to ideas and partnerships that will take us down even more new roads.

Why not call us and find out more.
Aboriginal Relations  
1100 - 1945 Hamilton Street  
Regina, SK  S4P 2C7  
Phone: 777-9441  
Fax: 777-9894  

Environmental Affairs  
1500 - 1945 Hamilton Street  
Regina, SK  S4P 2C7  
Phone: 777-9136  
Fax: 525-3422  

General Inquiries  
1945 Hamilton Street  
Regina, SK  S4P 2C7  
Phone: 777-9966  
Fax: 777-9561  

Human Resources  
900 - 1945 Hamilton Street  
Regina, SK  S4P 2C7  
Phone: 777-9091  
Fax: 781-7050  

Saskatchewan Supplier Development  
700 - 1945 Hamilton Street  
Regina, SK  S4P 2C7  
Phone: 777-9174  
Fax: 522-2177  

SaskEnergy “Share the Warmth” Fund  
1100 - 1945 Hamilton Street  
Regina, SK  S4P 2C7  
Phone: 777-9378  
Fax: 352-4438
Vision

SaskEnergy will be Canada’s leading energy company by anticipating our customers’ changing needs and providing innovative and responsive solutions.

We believe our values reflect our culture, and our commitment to our vision.

Values

Employee Development
We have a commitment to continuous employee development.

Individual Contribution
We enable individuals to be responsible and accountable for providing excellent customer service.

Trust and Teamwork
We have relationships that are based on trust, cooperation and teamwork.

Safety, Health and Environment
We provide a safe, healthy workplace and high environmental and public standards.

Union Equality
We recognize and respect our partnership with the union.

Partnerships
We will develop partnerships that will enhance the economic well-being of Saskatchewan.

Community Involvement
We encourage corporate and individual involvement in community activities.

Recognition
We recognize the contribution of individuals and teams.

Respect
We respect one another and the importance of family.

Customers
We are committed to providing consumers and gas producers with reliable, cost-effective service.

Open Communication
We have open communication, open dialogue and participatory management.
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March 31, 2000

To Her Honour
The Honourable L. M. Haverstock
Lieutenant Governor of the
Province of Saskatchewan

Dear Madam:

I have the honour to submit herewith the Annual Report of SaskEnergy Incorporated for the year ended December 31, 1999 in accordance with The SaskEnergy Act. The Financial Statements are in the form approved by the Treasury Board and have been reported on by the Corporation’s auditors.

I have the honour to be, Madam,

Your Obedient Servant,

John T. Nilson, Q.C.
Minister Responsible for Crown Investments Corporation of Saskatchewan
This was the second full year of our Board’s stewardship of SaskEnergy on behalf of the people of Saskatchewan.

The entire Board continues to be motivated by a belief that we can use our expertise to help SaskEnergy continually improve and sharpen its business practices. Whether a company is publicly-held like SaskEnergy or privately-held like most within our industry, the traits defining true excellence are the same, encompassing an agenda which extends beyond just business.

We continue to be strongly encouraged by SaskEnergy’s leading position within the natural gas industry, which is complemented by its efforts to be an important vehicle in strengthening social policy in Saskatchewan. It is a company populated by a group of highly-skilled employees who strongly believe these goals are mutually-compatible, and who are committed to both innovation and practical decision-making on a day-to-day basis.
For example, SaskEnergy’s Year 2000 preparedness and Business Continuity Programs stood as models for other utilities to emulate. Few companies, if any, met this significant challenge so professionally and so thoroughly. SaskEnergy’s gas hedging program again resulted in Saskatchewan customers receiving the lowest pure commodity costs in Canada. Similarly, TransGas’ bold foray into the Alberta market promises to deliver lower transportation costs, while increasing revenue streams for the Corporation. The many highlights include one exceptional achievement which merits specific mention. TransGas had no lost-time incidents in 1999, a very commendable accomplishment.

The social agenda was not neglected while these business goals were being pursued.

SaskEnergy is one of the largest employers in our province and an important engine of our economy. As such, it has a responsibility to proactively search for ways to work with local businesses, to find more opportunities for non-traditional suppliers and employees, including our Aboriginal population, and partner with communities throughout the province.

While much remains to be done, these directions send an important signal to Saskatchewan people in all walks of life and all backgrounds that SaskEnergy sees the future as inclusive.

I am encouraged by management’s commitment to sharpen its strategic focus to reach the company’s vision to become “Canada’s leading energy company.” Exceptional companies can define success very precisely – they have a succinct vision and a roadmap that tells them where they should be…not just one year from now, but 10 years from now.

Ensuring the management team can continue their strategies to grow their business in a prudent and financially-sustainable way will continue to be a critical part of our counsel. Successfully executing these directions will give the company a firm footing for the 21st century.

I want to thank the fellow members of our Board for their active, engaging and participatory support of SaskEnergy – your wisdom and breadth of experience has made my role very enjoyable. To the employees, be certain that your work is noticed and recognized. Your skill set and your enthusiasm is infectious, and can be found in every nook and cranny of the corporation.

Last, but not least, thank you to the 317,000 customers of SaskEnergy and TransGas. Each one of you has contributed to building these world-class businesses, and I thank you for taking the time to read this 1999 annual report. Hopefully, as you do, you too will catch a small part of the “passion” we feel for them.

Frank Proto
Chairman of SaskEnergy’s Board of Directors
The new millenium will increasingly demonstrate that what separates the extraordinary company from the ordinary company isn’t found only on the balance sheet.

During the last decade of the 20th century, and in particular the last few years, we have witnessed the most spectacular wealth creation boom in history. Both globally, and across most sectors of the economy, the prospects for continued growth are very good. We see this optimism reflected by the dramatic upturn in well drilling in our province, the record price gas is commanding on the open market, and the increasing penetration of natural gas into new markets, whether in the Maritimes or halfway across the world in Chile.

But at the same time that people are reaping these benefits as employees, investors, suppliers or customers, they are increasingly holding to a higher standard the very companies responsible for creating this growth.

They are looking for businesses to be involved and engaged with their lives. That means supporting the causes that they too would support, playing an active role in building a better future for their families and children, and proving that your success starts with their success.

Our focus is energy. We pursue it with passion, not only in our workplaces, but also in our communities. That is why we’ve chosen this as the theme for this year’s annual report.

From a business perspective, 1999 will be remembered as a year when we took several important steps towards achieving our goal to be Canada’s leading energy company.

As the North American natural gas market matures, with the dramatic expansion of pipeline capacity into the Midwestern American market, our success will depend on leveraging our strategically-located Saskatchewan transmission assets. That’s why I am particularly optimistic about the prospects for the
Filling the Pipes

A straight-forward challenge. An extraordinary opportunity. The vision to make it happen.

That’s what “Filling the Pipes” is all about.

Rarely have the business indicators for TransGas been so positively aligned. Natural gas prices have recovered strongly, hitting record levels. An all-time high of more than 1,000 new wells were drilled in the province in 1999. Finally, a tremendous potential has been created by the vibrant natural gas market emerging in the American Midwest, stimulated by pipeline expansion and supported by our province’s undeniably strategic location in the supply chain.

For example, a Northern Alberta customer moving 50 million cubic feet (mmcf) per day on a five-year contract through the TransGas system could realize $12.5 million in total savings.

These attractive savings for producers are matched by the opportunity to provide lasting rate stability to customers and long-term revenue streams to our shareholders, the people of Saskatchewan. The transmission company stands on the threshold of capitalizing on its investment in pipeline infrastructure to link into the Northern Alberta market. It also stands to build on the momentum which producer drilling created in 1999.

Devone Sandvold, TransGas employee
HIGHLIGHTS:

• TransGas’ net income for 1999 was $31.0 million, an increase of $4.1 million over 1998.

• TransGas announced a rate freeze for 2000 and 2001.

• “Saskatchewan Connection” marketing initiative unveiled.

• 1,021 wells drilled in Saskatchewan, an all-time high.

• $6 million Christopher Lake to Timber Cove expansion completed.

• 11 new receipt points and 10 new delivery points added in 1999.

• 307 bcf moved on the pipeline system.
More than 200 producers, marketers and end-use consumers, including SaskEnergy’s distribution utility, relied on TransGas’ transportation services in 1999. They represent many critical sectors of Saskatchewan’s economy, and include electrical generation, potash, pulp, paper, fertilizer, oil, manufacturing and processing customers.

Nourishing the current healthy state of the industry is key to ensuring that TransGas effectively “fills the pipes”. In 1999, that relationship meant the addition of 11 new receipt points or about 66 mmcf/day to our transmission system. Ten new delivery points were also added to supply about 30 mmcf/day to customers in Saskatchewan.

Renaissance Energy Ltd. and AEC Marketing, near Wymark, Saskatchewan, added one of these new receipt points. Working with these customers, TransGas installed 11 kilometres of six-inch steel transmission pipeline and a meter station. By adding about 12 mmcf/day of new gas to the transmission system, the project increases Saskatchewan gas sales revenue, provincial royalties, and transport revenue.

The shared benefits of a current vibrant natural gas industry have been further nurtured through the close relationship developed with customers. Initiatives like the ongoing TransGas Dialogue Process and the partnership to reduce pipeline pressure at the Coleville gas field aptly illustrate the wisdom of working together.

Coleville’s 45-year-old gas field, which was becoming less viable due to age, was revitalized through the efforts of TransGas planning and engineering staff, as well as local field personnel. As a result of the revitalization effort, the capability for compression service rose dramatically for customers, reaching a daily maximum of 49 mmcf. Coleville’s gas plant throughput rose to an all-time high of 16 billion cubic feet (bcf), 30% higher than 1998.
Quick decision-making has long been a hallmark of the natural gas producer community. This is why TransGas fully expects the Internet to continue revolutionizing the business relationship with its customers.

As in other industries, paper-based time intensive processes are being replaced with instantaneous information exchange – a seamless and more competitive way to do business. For example, TransGasNet, our transmission customer information system, already allows our customers access to static services such as Posted Heating Value (PHV).

The near future will bring a whole suite of interactive services, reducing time spent on administrative processes and allowing producers to focus on core business issues. Part of that commitment will be the introduction of real-time gas nominations via the Internet and customer access to daily receipt and delivery information at various metering locations. Our customers also will soon have the ability to monitor our operational status at any time of the day or night.

TransGas employee David Wark says the Internet has helped meet customer needs.
An entrepreneurial spirit of innovation and leadership brought to reality a project some said would never be realized in 100 years.

Bringing natural gas service north of Prince Albert to resort communities along Highway #2 was fraught with challenges. A large distance had to be covered to serve a relatively small number of customers. Environmental concerns needed to be addressed to protect a thriving natural habitat. Last but hardly least, technical challenges were presented by the terrain, and a never-tested method to bury the 51-kilometre pipeline in the existing highway-right-of-way.

Completed on time and on budget, the $6 million Christopher Lake to Timber Cove expansion was inaugurated in late September, a feat of engineering excellence bringing together the skills of dozens of TransGas and SaskEnergy employees.

To minimize tree and habitat loss, and to protect endangered species, the decision to use the highway right-of-way meant contending with highway traffic, as well as buried phone and fiber optic cables. It also meant dealing with overhead power lines which triggered the additional hazard of an induced voltage on the gas pipeline. Engineers and construction crews perservered, installing a non-standard protective pipeline in an operating corridor which was as little as three meters wide.

The project was completed without incident, creating more than 3,500 person days of employment, with many opportunities for local Aboriginal people.

For the new customers of Christopher Lake, Anglin Lake, Waskesiu Lake, McPhee Lake and Montreal Lake, it meant the realization of a long-held dream and the first winter with the cost-saving benefits of natural gas. It is hoped that industrial developments and customer demand will trigger the expansion of the pipeline further north to La Ronge.
For more than 45 years, pipelines have been a key business focus, from the time of their installation to our ongoing commitment to ensuring they operate safely and reliably. Some of the most advanced pipeline integrity programs are found in Saskatchewan, with new safety techniques often pioneered here.

High levels of well-drilling put an increased emphasis on “in-service producer tie-ins”, whereby branch connections are welded on the existing network without interrupting service. As a world leader in this practice, the Pipeline Research Committee International (PRCI) chose TransGas in 1999 for its never-before attempted tests on thin-wall pipelines. During the three-day testing period at the Saskatoon Town Border Station #3, data was gathered from approximately 80 successful welds completed on pipelines with wall thicknesses of less than four millimeters. Such precision work is critical to the industry’s ongoing understanding of burnthrough factors and safe welding techniques.

Preventative work, such as in-line inspection, remains similarly critical to our efforts. Evaluating the condition of a 65-kilometre section of pipeline linking Parkbeg to Belle Plaine was a major project in 1999. Through a process commonly known as “smart pigging”, a nine-foot long electronic device wound its way through the pipeline, gathering information on metal loss and “hard spots.” Information was then gathered from a computer on-board the “smart pig” and analyzed to diagnose any pipeline anomalies.

The data was reviewed by international specialists which found no immediate safety or integrity concerns.

TransGas’ comprehensive awareness and visitation program meant over 1,000 Saskatchewan residents owning land bordering on TransGas pipelines were visited this year. Here, Gerry Aldag (l.) speaks to a Saskatchewan landowner.
Our dedication to ensuring pipeline safety and reliability shone through when we relocated aging pipelines crossing the South Saskatchewan River near Outlook.

With a 13,000 kilometre network of pipelines, some as much as 45-years-old, projects of this type are part of a much more comprehensive annual focus on pipeline integrity and safety. Our program extends to educating landowners through a comprehensive awareness and visitation program whereby all rural customers whose properties border our pipelines are contacted on a four-year rotating basis.

This emphasis on safety also extends to how our staff works on the job, with zero TransGas employee lost-time incidents recorded in 1999.

These successes show that we can “fill the pipes” and grow our business prudently, without compromising safety.
A **legend leaves . . .**

A remarkable era ended on June 30.

When Jullian Olenick, the Executive Vice President of TransGas, officially ended his 35-year career, he left an unforgettable mark as a central figure in developing and expanding the natural gas industry in Saskatchewan.

Very appropriately, Jullian received a framed system map from President Ron Clark as one parting gift to begin a life which he says will now focus on “camping, fishing, golfing and travelling.”

Known for his friendly, unassuming demeanor and his reputation for integrity, Jullian thanked his colleagues and all the “wonderful people” he has worked with. The President added that his quiet leadership and wise counsel will be “profoundly missed.”

*Jullian Olenick proudly displays a framed system map at his retirement.*
Connecting with our Customers

Few years have been filled with the same sense of anticipation as 1999.

Across the world, people were busy with professional and personal preparations, and in some cases, celebrations, for the new millennium. SaskEnergy was also busy – bringing an ever-widening suite of services to meet our customers’ needs.

Many dreamed of natural gas for their beach homes and cabins and we delivered it. Others longed to upgrade aging home appliances and we provided the financing. Soon, many more will call on us and our partners to ensure their furnaces and all their natural gas appliances are working to maximum efficiency.

It’s all about choice. And it’s all about talking to our customers about how to increase home energy efficiency while enjoying the comfort, security and reliability of natural gas, even during the most frigid stretch of winter.

In 1999, we unveiled a new marketing initiative – “Connecting With Our Customers” – to capture the spirit of our efforts to even better serve our customers.

Through tireless efforts, Alice Tataryn and the Anglin Lake – La Ronge Natural Gas Committee worked with SaskEnergy to bring natural gas where many thought it couldn’t go. Though she now enjoys natural gas at her home in Anglin Lake, Alice remains chairperson of a committee dedicated to extending natural gas service to the La Ronge area.
HIGHLIGHTS:

• Distribution utility net income was $5.8 million, $2.1 million less than 1998, primarily due to warmer than normal weather.

• SaskEnergy serviced 15 new communities, adding 3,794 customers to its network.

• 350 farm customers were added, bringing the total to 22,320.

• 37 grain drying, 13 industrial hog and two poultry operations were added in 1999.

• In only two years, SaskEnergy has assisted 600 residential and commercial customers with $1.6 million of gas line financing.

• SaskEnergy now has 85 Network Members throughout the province.

• SaskEnergy’s provincial rates were among the lowest in Canada in 1999.

• SaskEnergy introduced two new provincial toll-free numbers this year – a customer service line, 1 800-567-8899, and a 24-hour emergency safety line, 1 888-7000 GAS (0427).
Partnership has always been the essence of our made-in-Saskatchewan solution to expanding our natural gas network. Knowing is the key to growing. When customers told us they needed help with gas line installation and financing costs, SaskEnergy Customer Financing was born. In two short years, this program has assisted nearly 600 customers by financing $1.6 million in gas line projects.

Our approach is also to work with private natural gas retailers and contractors to share knowledge and expertise. That’s why the SaskEnergy Network has increased to more than 80 partners and is continuing to grow.

Together, we successfully piloted two new services focussed on indoor air quality and preventative furnace maintenance in Moose Jaw, Assiniboia, and Gravelbourg late in 1999. Performed by qualified technicians, the SaskEnergy Home Check-Up and the Network Home Heating Tune-Up, are easy ways to be proactive about all natural gas services in the home, with convenient payment options on your SaskEnergy bill. Plans are in the works to introduce these new services on a provincial basis, early in 2000.

SaskEnergy employee Christy Sasyniuk is part of the team working to deliver the SaskEnergy Home Check-Up and the Network Home Heating Tune-Up to our customers.
Working with our Partners

Service and dependability were year-long watchwords in 1999.

In March, SaskEnergy amalgamated 13 toll-free numbers into two, making it easier for our customers to contact us, and introduced a new toll-free safety number. In June, we opened a new Yorkton office, which will act as a central hub for service technicians in 15 communities to serve the 24,000 people living in the area. Finally, in August, SaskEnergy partnered with SaskTel on a joint bill payment option campaign promoting payments and Express-Link options.

But working with our partners wasn’t confined to joint payment options. The transition to the Year 2000 posed significant global challenges. At SaskEnergy, we worked with SaskPower and SaskTel as well as our natural gas industry partners to ensure a smooth Y2K transition.

We also led the Canadian Gas Association’s Y2K initiative and were involved with the Canadian Association of Petroleum Producers, sharing information that ensured dependable service to our customers. SaskEnergy’s corporate Business Continuity Program was enhanced to include Y2K contingencies and became a world class product, helping us to minimize future risk.

Technology tools remain at the forefront of our efforts to become more efficient. In Weyburn, we tested a remote monitoring technology that could potentially allow us to dispatch service personnel to certain field stations once a month instead of once a week. We also implemented a new cashiering system to provide better access to information and help us manage customer relationships. Furthermore, in 1999 we began redesigning our web site to offer more on-line customer options.

From systems upgrades to roll-over planning, George Barnhart, Janelle Mayes, Ron Englot, and Twyla Pateman oversaw SaskEnergy’s Y2K preparations.

Natural gas lines run this deep

Call before you dig. 1-888-7000-GAS (427)
From on-line work to pipeline work, the involvement of local communities and local leaders is critical to our growth. All told, almost 3,800 customers in 15 communities were added to our system in 1999.

The Last Mountain Lake East Resorts project, near Silton, was a highlight of another intense year of gasification projects. SaskEnergy benefited from strong community leadership and a unique project awareness program to service nearly 200 customers in nine resort communities.

The agricultural sector continued to play a critical role in the growth of both the provincial economy and SaskEnergy in 1999. Nearly 350 new farm customers were added to the SaskEnergy network bringing the total number to 22,320.

Farmers continued exploring various natural gas options and products as economical solutions for their agricultural operations. An innovative partnership between SaskEnergy, SaskPower and the Department of Agriculture encouraged farmers to plan for and consider options for grain dryers, including using large centralized grain-drying facilities. In all, 37 new grain-drying operations were added in 1999, bringing Saskatchewan’s total to 667.

With the significant overall competitive advantage enjoyed by our province for industrial agricultural customers, 13 industrial hog and two poultry operations chose to locate in Saskatchewan and were added to SaskEnergy’s network in 1999.

Laurent Thibault’s Red Coat Ventures Ltd. was one of 13 new industrial hog operations added to our natural gas network in 1999.
A Tradition of Low-Cost Energy Service

Rates that are among the lowest in Canada are part of our ongoing customer commitment.

We buy natural gas on the open market and provide it to our customers at cost. Although record-high market prices affected more than four million natural gas customers across Canada in 1999, SaskEnergy’s strategy of fixing future prices protected our customers from the summer rate increases that hit consumers in other provinces.

With the start of the new natural gas year in November 1999, Saskatchewan was no longer immune to these market forces and we applied to the Government of Saskatchewan for a rate adjustment. This year marked a change in rate-setting procedures for SaskEnergy. The Saskatchewan Interim Rate Review Panel (SIRRP) replaced the previous 45-day rate review process. The Panel analyzed SaskEnergy’s rate application and forwarded a report to the Minister for Crown Investments Corporation of Saskatchewan.

SIRRP recommended that SaskEnergy increase its gas consumption charge effective December 15th. Annually, the average residential customer’s bill will increase by about $63 or 9.1 per cent, given normal weather conditions. Even with this adjustment, SaskEnergy’s provincial rates will remain among the lowest in Canada.

Though the new panel thanked SaskEnergy for its cooperation and assistance in analyzing the application, its recommendations differed from SaskEnergy’s application in two areas. First, SIRRP felt the Corporation should not pursue the purchase of insurance options at this time. The insurance options would have allowed our customers to enjoy lower rates had natural gas prices fallen in 2000. Second, SaskEnergy should not allocate a portion of its carrying charges to the natural gas commodity charge until it brings forward an application for a cost of service adjustment.

SaskEnergy opened the residential and small business market to gas supply competition on November 1, 1998 and continues to welcome the potential arrival of private gas suppliers. While several competitors have indicated their interest to serve Saskatchewan, none have yet chosen to start marketing to residential customers.

*James Keller, a SaskEnergy natural gas buyer, works to ensure customer rates are as low as possible.*

(opposite page) *Dave Moscaliuk, a resort customer at Sorenson Beach, spreads the word about the convenience of natural gas.*
As resort residents increasingly turn their summer getaways into year-round homes, they are warming to the idea of natural gas service.

Working with local sign-up committees, who came up with the yellow signs shown here, SaskEnergy combined innovative system designs and community leadership to connect nearly 200 customers in nine resort communities surrounding Last Mountain Lake.

Some 45 kilometres of main line pipe, 180 service lines and two upgraded regulator stations were installed during construction. Nevertheless the project wouldn’t have happened without the community’s unique project awareness program.
Skill. Innovation. Dedication. And good old-fashioned hard work. The qualities that SaskEnergy has used over more than four decades to build one of North America’s largest natural gas networks are the same ones that world-class companies are using today to successfully expand their operations all over the world.

It’s why we believe we can “go the distance” to build a thriving, diversified natural gas company with its head office right here in Saskatchewan. Prudently executed, this philosophy can lead us to projects right next door or halfway around the world that can grow our business and create jobs for Saskatchewan people.

While our promising “Saskatchewan Connection” marketing strategy could enhance our financial picture dramatically, we are already capitalizing on both our transmission and distribution expertise to serve the area of Swan River, Manitoba.

In addition, while we withdrew our bid to secure the natural gas distribution franchise in Nova Scotia in 1998, we’re continuing to build on that experience to find new opportunities. In 1999, we signed a $450,000 consulting contract with Sempra Atlantic Gas, the distribution company that will bring natural gas to Nova Scotians.

( opposite page) Ron Clark, President & CEO, SaskEnergy, and Oscar Landerretche, Chilean Minister of Energy, helped inaugurate this Gas Sur S.A. facility in March.
HIGHLIGHTS:

• SaskEnergy International made its first equity investment of $7.4 million (Canadian) in Gas Sur S.A., a Chilean natural gas distribution company.

• TransGas received a $450,000 consulting contract from Sempra Atlantic Gas.

• The Swan River, Manitoba project will bring natural gas to up to 1,800 new customers.
That consulting contract has afforded many of our employees the unique opportunity of sharing their world-class expertise in the development of the natural gas distribution system with Sempra Atlantic Gas.

In January, SaskEnergy International Incorporated (SEII) made its first international investment in Gas Sur S.A., a natural gas distribution company serving an area with over one million people, including the cities of Concepcion and Talcahuano, Chile. Through a related consulting contract, SEII assists Gas Sur with geographic information systems, strategic marketing, and distribution engineering design. In July, Gas Sur officials traveled to Saskatchewan to witness SaskEnergy facilities first hand.

Latin America is one of the world’s fastest growing natural gas markets. SEII will continue to explore and carefully research both consulting and equity opportunities in Latin America, focusing on niche prospects where SaskEnergy and TransGas can use their core expertise in natural gas transmission, distribution and storage.

We’ve built our knowledge within Saskatchewan. Now we’re taking our experience outside our borders. That’s how we plan to make the world our “home.”
Through the consulting arrangement between SaskEnergy and Sempra Atlantic Gas, employees like Derwin Zelinski, Manager, Construction North, will ensure that many Nova Scotians will experience the benefits of natural gas in 2000.

Zelinski and a number of SaskEnergy employees have shared their expert advice with Sempra Atlantic Gas representatives in pipeline route selection, construction techniques and equipment selection.

“The industry-leading expertise SaskEnergy has cultivated right here in Saskatchewan will help Sempra Atlantic Gas build a world-class natural gas system which will meet Canada’s regulatory and climatic requirements,” Zelinski said.
This section of the Annual Report provides management’s discussion and analysis of the financial performance and financial condition of SaskEnergy Incorporated as at December 31, 1999. The analysis focuses on business strategies and financial results and is organized around a number of primary measures used to monitor overall financial performance and condition. The analysis should be read in conjunction with the audited financial statements and the accompanying notes.

I. STRATEGIC FINANCIAL DIRECTION

- Competitive Rates
- Shareholder Value
- Investing for Growth
- Safe & Reliable System
- Customer Service Excellence
- Employee Well-Being
- Strengthening Community

SaskEnergy/TransGas
Canada's Leading Energy Company
SaskEnergy continues to embrace the changing marketplace. Thus, the 1999 Business Plan focused on core business excellence for the two primary business units – the Transmission Business and the Distribution Utility, as well as pursuing emerging opportunities within Saskatchewan and outside the borders of the province. In order for SaskEnergy to continue its pursuit of becoming “Canada’s leading energy company”, the financial perspective in 1999 focused on three of the seven key success factors noted below that specifically related to the financial aspects of the business.

<table>
<thead>
<tr>
<th>KEY SUCCESS FACTORS</th>
<th>OBJECTIVES</th>
<th>STRATEGIES</th>
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<tbody>
<tr>
<td>1. Competitive Rates</td>
<td>To achieve core business excellence by providing competitive rates to both distribution and transmission customers.</td>
<td><strong>Distribution Utility</strong>&lt;br&gt;• Achieve lowest or second-lowest rates among provincial utilities in Canada.&lt;br&gt;<strong>Transmission Business</strong>&lt;br&gt;• Implement 2.9 per cent rate increase for 1999 and freeze rates for 2000 and 2001.</td>
</tr>
<tr>
<td>2. Shareholder Value</td>
<td>To provide fair returns to the Province of Saskatchewan.</td>
<td>• Target a consolidated net income of $46.8 million in 1999.&lt;br&gt;• Pay a dividend to Crown Investments Corporation equal to 55 per cent of consolidated net income.</td>
</tr>
<tr>
<td>3. Investing For Growth</td>
<td>To grow the corporation by seeking new alliances along with extra-provincial and international investments that are closely linked to core expertise.</td>
<td><strong>Distribution Utility</strong>&lt;br&gt;• Provide incremental financial returns through innovative customer connection policies.&lt;br&gt;• Generate new revenue through new service offerings.&lt;br&gt;<strong>Transmission Business</strong>&lt;br&gt;• Enhance the competitive position of the transmission business by increasing volume throughput.&lt;br&gt;<strong>SaskEnergy International</strong>&lt;br&gt;• Purchase 15 per cent equity interest in Gas Sur S.A.</td>
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“Financial viability cannot be achieved by any one individual in the Corporation. Successful organizations require the commitment of every employee working as a team. Each of us plays a vital role.”

- Greg Mrazek, Vice President, Finance & Administration
1. Competitive rates

Distribution Utility

At SaskEnergy, providing customers with safe, reliable and cost-effective natural gas service is an ongoing commitment. The corporate objective is to maintain the lowest or second-lowest rates among the provinces. SaskEnergy’s 1999 rates were among the lowest in Canada, achieved through the effective use of gas procurement practices and the company’s gas price hedging program.

Transmission Business (TransGas Limited)

The issue of competitive rates has a two-fold impact on TransGas Limited (TransGas). First, the amount of industry investment in Saskatchewan’s upstream natural gas industry is affected by the relative economics of natural gas reserve developments in this province versus other jurisdictions. Transportation rates are one of the key variables in this competitive environment. Second, the ability of TransGas to maintain current flows and attract additional volumes of natural gas onto its system at its 11 Alberta border crossing points is related to the competitive rates offered by TransGas.

A historical comparison of TransGas’ rates with the export rates of TransCanada PipeLines’ (TCPL) Alberta System (formerly Nova) shows that over the last 11 years, TransGas has improved its competitive position. This trend is expected to continue into the future and the favourable gap between TCPL and TransGas export rates should become larger. TCPL has announced a 13 per cent rate increase for 2000, while TransGas has announced a two-year rate freeze for 2000 and 2001.

In 1998, a fundamental shift occurred in the natural gas marketplace. Increased pipeline capacity from Western Canada to Eastern Canadian and US markets fulfilled market demand and led to a substantial increase in the price of natural gas in Canada. While this was good news for natural gas producers, it did result in significant rate increases for over four million natural gas consumers across Canada during 1999.
2. Shareholder value

SaskEnergy’s objectives are to provide fair returns to its owner and to maintain the financial integrity of the Corporation by achieving an appropriate debt-to-equity ratio.

a) Return on Rate Base

SaskEnergy Incorporated follows standard Canadian rate-making principles and methodology in establishing its rates as well as for determining its target level of returns.

Return on Rate Base (RORB) is a performance measure used in regulated natural gas distribution and transmission businesses in Canada. In other jurisdictions, the regulatory body determines a RORB that provides for the recovery of expected interest costs, and sets the level of return-on-equity for the owner. A similar methodology is employed by SaskEnergy to set appropriate RORB projections in Saskatchewan, factoring in local conditions such as the comparatively higher risk posed by Saskatchewan weather patterns and the Corporation’s debt-to-equity structure. The 1999 RORB was 7.40 per cent for its Distribution Utility and 12.50 per cent for its Transmission Business. The 1999 RORB for the Distribution Utility was adversely affected by the warmer than normal weather.

b) Dividends to Crown Investments Corporation

As a Crown corporation, SaskEnergy financially supports the Province’s health care, education and social programs through an annual dividend paid to the Crown Investments Corporation. The dividend for 1999 at 55 per cent of net earnings of $36.6 million was $20.1 million (1998 - $19.9 million).

c) Debt-to-Equity Ratio

When SaskEnergy was formed in 1988, it began operations with virtually all its capital structure consisting of long-term debt. This high degree of financial leverage was a major concern for SaskEnergy, given the potential volatility of earnings, and as a result became a targeted area for improvement. Over the past decade, SaskEnergy has achieved significant reductions in its debt-to-equity ratio, and currently has a capital structure of 29 per cent equity and 71 per cent debt.

SaskEnergy intends to continue its efforts towards strengthening this ratio with a consolidated target of 65 per cent debt and 35 per cent equity by 2002. Individually, the Distribution Utility has a target of 60 per cent debt and 40 per cent equity, and the Transmission Business has a target of 65 per cent debt and 35 per cent equity. Both these targets are commensurate with levels maintained by their respective peers in the industry.
3. Investing for growth

a) New Customers

Despite a market that is relatively saturated with more than 90 per cent of communities already served, the Distribution Utility continues to experience strong customer connection growth. In 1999, this growth was equivalent to about a one per cent increase in the customer base. This was a result of new urban and rural connections plus major resort projects, northern expansion and new connections to First Nations’ reserves and businesses. The Distribution Utility achieved 3,794 new customer connections in 1999. A portion of these new connections can be attributed to the innovative and flexible connection financing services available to customers throughout the province.

b) SaskEnergy International Incorporated (SEII)

SaskEnergy International’s mandate is to seek new business opportunities which complement SaskEnergy/TransGas’ core business, provide new revenue streams for SaskEnergy as well as provide challenging career opportunities for SaskEnergy employees. SaskEnergy’s use of technology and operational expertise related to natural gas storage, transmission and distribution has proven to be attractive for SEII’s clients. These clients have afforded SaskEnergy employees the opportunity to work on a number of different assignments in various countries. During 1999, SEII provided consulting services to firms in Canada, Argentina and Chile.

In early 1999, SEII partnered with TransCanada Pipelines Ltd. and GASCO, a Chilean energy company with over 140 years of experience in Chile, to form Gas Sur S.A. Gas Sur S.A. is a Chilean natural gas distribution company which will serve an area of about one million people, including the cities of Concepcion and Talcahuano. SEII purchased a 15 per cent interest in Gas Sur S.A. for $4.8 million (US) to be paid in three equal installments. The first two installment payments of $1.6 million (US) were made on January 14 and July 30, 1999. The final installment will be made on July 30, 2000.

In 1999, Gas Sur S.A. focused on the conversion of an existing propane/air distribution system to natural gas. This conversion was completed in December helping approximately 12,000 customers benefit from the use of natural gas. Gas Sur S.A. is expanding the natural gas distribution network which will result in increased customers and natural gas sales.
II. FINANCIAL CONDITION

1. Consolidated Financial Measurements

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<th>1998</th>
<th>1999</th>
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<td>Net Income (millions)</td>
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<tr>
<td>Return on Rate Base (per cent)</td>
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<tr>
<td>Debt-to-Equity Ratio</td>
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2. Financial Measurements – Distribution & Transmission

<table>
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<th>Distribution Utility</th>
<th>Transmission Business</th>
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<tbody>
<tr>
<td></td>
<td>1998</td>
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<td>Net Income (millions)</td>
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<tr>
<td>Return on Rate Base (per cent)</td>
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<td>Debt-to-Equity Ratio</td>
<td>74/26</td>
<td>75/25</td>
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</table>

3. Factors Affecting Financial Performance

a) Distribution Utility

Winter Weather

The Distribution Utility’s customers use natural gas primarily for heating their premises. Variations in winter weather significantly affect volumes distributed.

Winter weather in 1999 was 11 per cent warmer than normal (i.e. than the 30-year average). As a result, the warmer weather in 1999 adversely affected volumes sold. In relative terms, 1999 was the fifth-warmest year in the last 50 years in Saskatchewan. In fact, the last three years have been warmer than average as displayed at left.
Volumes Sold

Volumes sold are affected by winter weather, new customer connections and use per customer. The volumes sold in 1999 were 60.7 petajoules (PJs), 3.4 PJs higher than 1998, due to new customer connections and other factors affecting volume changes.

Some of the main drivers for energy transported by TransGas include:

1. The level of natural gas production in Saskatchewan,
2. The strength of natural gas prices in Saskatchewan versus Alberta,
3. The competitiveness of pipeline tolls in Saskatchewan versus Alberta,
4. Royalty structures and winter weather, and
5. Overall demand for natural gas by consumers in Saskatchewan.

A record 1,021 wells were drilled in Saskatchewan in 1999. Higher natural gas prices, along with a reduction in Saskatchewan royalty rates for new wells drilled during 1998, contributed to the high drilling activity. In addition, the overall demand for natural gas continued to be strong in 1999.

The benefits of the strong drilling in 1999 should translate into higher transportation levels in 2000. There is a delay between natural gas drilling and gas flowing on the pipeline system. Also, Saskatchewan and Alberta natural gas prices have converged, leading to increased use of Saskatchewan natural gas by the intra-Saskatchewan market. As a result of less gas being imported from Alberta, there was less gas available in Saskatchewan for export.

TransGas transports natural gas for a variety of customers to ultimate destinations both within and outside the province. The customers are classified into three main categories:

1. Export (out-of-province) – Mainly gas producers and brokers transporting natural gas to Eastern Canadian and American markets.
2. Intra-Saskatchewan – Large volume end-use customers within the province.
The primary source of the natural gas transportation revenue received by TransGas is based on the amount of transportation capacity (i.e. contracted firm demand) contracted by customers on the system.

The overall level of contracted firm demand held by TransGas customers declined slightly from 1998 to 1999. This decrease was due to lower contracted export sales, which was the direct result of less Alberta gas moving into the TransGas system for consumption in Saskatchewan. However, TransGas has a relatively stable delivery demand within the Saskatchewan market.

III. RESULTS OF OPERATIONS

Consolidated net income of $36.6 million for the year ended December 31, 1999 was slightly higher than 1998’s net income of $36.3 million. The following is a review and analysis of the performance of the operations.

Distribution revenue in 1999 was $36 million higher than in 1998, primarily due to $30 million in additional revenue from the rate increases of 12.8 per cent on November 1, 1998 and 9.1 per cent on December 15, 1999. The December 15, 1999 rate adjustment was reviewed by the Saskatchewan Interim Rate Review Panel (see Section VI of Management’s Discussion and Analysis). Larger distribution volumes in 1999 compared to 1998, and the addition of new customer connections, also contributed to the increase in distribution revenue.
The transmission and storage revenue of $76 million was $2 million lower than last year’s $78 million. The rate increase of 2.9 per cent implemented on January 1, 1999 resulted in $1.8 million of additional revenue. As well, gathering, compression and processing revenue was $0.8 million higher. These increases were offset by a $4.6 million decrease in transport revenue primarily in the export sector.

There are three components under this category:

a. The Corporation purchases and sells natural gas with a variety of producers, marketers and end-users.

b. Production from TransGas’ former storage fields in West Central Saskatchewan.

c. Competitive bidding for natural gas sales to large volume end-use customers in Saskatchewan.

Cost of gas is the largest single expenditure for the Corporation and it is also subject to the greatest variability. The 1999 cost of gas was higher than 1998 primarily due to rising natural gas commodity prices ($32 million) combined with the increased sales volume in 1999 over 1998 ($7 million).

The Corporation sets its rates based on the principle that natural gas should be sold to customers at cost and there should be no margin on the sale of the commodity. The cost of gas from January 1 to October 31, 1999, averaged $2.49 per gigajoule compared to the forecasted cost of $2.43 per gigajoule. This resulted in a loss on the sale of commodity of $3.0 million. The cost of gas for November and December 1999 equaled the forecast for the period.
Operating and maintenance expenses in 1999 were $2 million lower than 1998 due to certain non-recurring expenditures which occurred in 1998.

Interest expense of $67 million in 1999 was $2 million lower than 1998. SaskEnergy is required by the Province to invest funds for the purpose of assisting in repaying debt principal. These invested funds are referred to as sinking funds. During 1999, earnings on sinking funds, which effectively reduce interest expense, were $0.7 million more than 1998.

In addition, the allocation of interest costs associated with natural gas in storage to cost of gas reduced interest expense by $1.6 million.

The increase in depreciation expense of $3 million reflects the effects of an increase in the asset base in both 1998 and 1999. Capital asset additions amounted to $61 million during 1999 ($59 million in 1998) consisting of new customer connections, system expansions, system improvements and supporting infrastructure.

Saskatchewan taxes for 1999 were $8 million, $7 million less than 1998. Royalties paid by TransGas on production from its storage fields in West Central Saskatchewan in 1999 were less than 1998, due to lower volumes produced, partially offset by higher natural gas selling prices.

As a result of rate unbundling on September 1, 1998, franchise fees are no longer accounted for as an expense but rather are collected from customers and then paid directly to urban municipalities. This resulted in SaskEnergy not including franchise fees as an expense in 1999.
a. Distribution Utility

Capital expenditures of $32 million for the installation of distribution facilities during 1999 reflects 3,794 new customer additions and distribution system improvements. While the number of new customer additions was down slightly from 1998, the incremental cost per new service installation was higher due to the distance the new customers were located from existing distribution facilities.

b. Transmission and Storage

Decreased storage development in 1999, as compared to 1998, was offset by system expansion to the area of Waskesiu National Park, resulting in the same level of capital expenditures as 1998.

c. Corporate Infrastructure

Corporate infrastructure capital expenditures of $13 million in 1999 reflect continued investment in information systems, building improvements, vehicles and equipment required by the Transmission and Distribution systems.

IV. SUBSIDIARIES

In addition to TransGas Limited, SaskEnergy also owns three other wholly-owned subsidiaries as follows:

1. Many Islands Pipe Lines (Canada) Limited (MIPL)

MIPL owns and operates 11 interconnecting pipelines between Alberta and Saskatchewan. In addition, MIPL owns a pipeline which transports natural gas from the United States border to an interconnecting point with TransCanada Pipelines at Herbert, Saskatchewan. MIPL also transports natural gas to the United States through a pipeline in Southeastern Saskatchewan. MIPL’s net income was $1.0 million in 1999 (1998’s net income was $1.3 million) on revenues of $3.8 million (1998’s revenue was $4.1 million).

2. SaskEnergy International Incorporated (SEII)

SaskEnergy International Incorporated was created in 1996 to market SaskEnergy’s world-class expertise and investigate niche market equity opportunities.

SEII’s primary focus is Latin America, one of the fastest growing natural gas markets in the world. In addition to the consulting activities, SEII holds a 15 per cent equity investment in Gas Sur S.A., a natural gas distribution company in Chile.

During 1999, SEII incurred a loss of $0.7 million (1998 loss of $0.5 million) on revenues of $0.1 million (1998 revenue of $0.1 million).

3. Bayhurst Gas Limited (Bayhurst)

Bayhurst owns a gross overriding royalty on properties located in Saskatchewan and Alberta. The amount of revenue received is directly related to the sales prices and volumes of natural gas produced from these properties.

Bayhurst’s net income was $1.9 million in 1999 (net income of $0.7 million in 1998) on revenues of $2.9 million ($1.7 million revenue for 1998).
V. RISK MANAGEMENT

SaskEnergy uses financial instruments to manage its exposure to changes in natural gas prices, the exchange rate on the United States dollar, and interest rates on short-term and long-term debt. The use of these financial instruments, commonly called derivatives, is governed by a Corporate Derivatives Policy which stipulates the controls and procedures that must be followed when using derivatives. The purpose of the policy is to improve managerial control over derivative use by requiring:

1. Documentation of the procedures and purpose for using derivatives;
2. Board of Directors’ approval prior to the use of derivatives;
3. Senior management involvement; and
4. Regular reporting to the Audit and Finance Committee of the Board of Directors.

Under this policy SaskEnergy has undertaken to use these financial instruments as follows:

**Natural Gas Price Management**

SaskEnergy purchases natural gas from about 70 suppliers for delivery to its customers. The price that SaskEnergy pays for the majority of its volume of natural gas is based on a monthly market index. However, SaskEnergy sells natural gas to its customers at a one-year fixed price. In order to ensure that the cost of gas purchased does not exceed the related revenue it realizes for the sale of gas, SaskEnergy uses financial instruments such as natural gas price swaps, options and futures contracts as hedge tools to fix the purchase price. The use of these financial derivatives is implemented through a hedging strategy designed to provide price stability, while also providing natural gas to customers at a competitive cost.

**Interest Rate Risk Management**

As at December 31, 1999, SaskEnergy had approximately $733 million of long-term debt owing to the Province of Saskatchewan’s General Revenue Fund. This debt consists of 26 individual loans each with an interest rate fixed for the term of the loan. As each loan matures the associated fixed interest rate expires, and SaskEnergy is subject to the current interest rate on any debt being reissued. Therefore the future profitability of SaskEnergy can be affected by changes in the interest rates at which SaskEnergy reissues its long-term debt.

In order to manage the impact of interest rate changes, SaskEnergy has implemented an interest rate hedging strategy designed to manage the exposure to interest rates from year to year. This strategy utilizes financial derivatives such as interest rate swaps, forward rate agreements and interest rate options to hedge the rate on new borrowings in advance of their actual issue.

**Foreign Exchange Risk Management**

SaskEnergy is presented with an exposure to changes in the value of the Canadian dollar relative to the value of the United States dollar for the procurement of natural gas and capital equipment denominated in United States dollars. To manage the impact of changes in the rate of exchange, SaskEnergy has implemented a policy to hedge its exposure to foreign exchange through the use of financial instruments such as forward contracts and currency options.
Financing Activities

On March 23, 1999, SaskEnergy issued a $25 million Medium Term Note through the General Revenue Fund of the Province of Saskatchewan at an effective interest rate of 5.18 per cent over seven years. At the end of seven years the holder of the debt has the option to extend the note for an additional 23 years at a rate of 5.6 per cent. The proceeds from the loan were used to reduce the amount of outstanding short-term debt.

VI. REGULATION

The Saskatchewan Interim Rate Review Panel was established in October, 1999. The Panel reviewed SaskEnergy’s rate application related to recovery of an increase in commodity costs for the period November 1, 1999 to October 31, 2000.

A natural gas commodity rate was recommended by the Panel, whereby SaskEnergy would recover its natural gas cost increases for the 1999/2000 gas year (i.e. November 1, 1999 to October 31, 2000) over the period December 15, 1999 to October 31, 2000. On December 14, 1999, Cabinet approved the commodity rate as recommended by the Panel.

VII. YEAR 2000

The Year 2000 posed a significant global challenge. SaskEnergy recognized the importance of Year 2000 issues from both a technological and a corporate business perspective. Therefore, the Year 2000 Program was a high priority for 1999. Year 2000 project work commenced in 1991 with the objective of minimizing risks that may have resulted from Year 2000 issues. The focus in 1999 was to ensure important programs and critical pipeline systems were rolled forward and tested in a Year 2000 environment. Additionally, the plan was to ensure that the Business Continuity Plans were integrated with the Year 2000 Plan.

SaskEnergy formed a cross-functional team to develop and implement a three-phase Year 2000 Program. The three phases were as follows:

1. Internal Remediation Project – ensured testing of systems and programs was timely, cost effective and of high quality. The objective was also to develop a plan to repair, retire and replace non-compliant systems. Processes were established to ensure non-compliant software was not reintroduced into the completed systems.

2. Stakeholder Project (Supply Chain) – by working closely with the industry through the Canadian Gas Association, Canadian Association of Petroleum Producers, provincial utilities and key business partners, SaskEnergy obtained an understanding of the preparedness of the gas industry and the overall supply chain. This also enhanced SaskEnergy’s provincial and national image, minimized risks and leveraged limited resources. A communication strategy was developed and implemented to inform internal and external stakeholders of our progress.

3. Business Continuity Program (Year 2000 Contingency Plan) – SaskEnergy/TransGas enhanced its corporate Business Continuity Program to include Year 2000 contingencies. The Business Continuity Program was successfully exercised at the work group level, at a provincial level for emergency preparedness, and at a national level with the Canadian Gas Association and the Canadian Association of Petroleum Producers. SaskEnergy worked with SaskPower and SaskTel, improving linkages and services to support one another in an emergency.
SaskEnergy also formed a Joint Utility Forum with SaskPower and SaskTel, working cooperatively, to share Year 2000 information and progress, conduct joint communication strategies, and achieve solutions for reliable and continued service.

The Year 2000 rollover transition successfully occurred in Saskatchewan. SaskEnergy’s internal systems were reviewed, no problems were detected and SaskEnergy reported an uneventful transition. Effective noon on January 4, 2000, the Corporation announced the return to normal business operations.

VIII. OUTLOOK

SaskEnergy’s long-term objectives are to increase shareholder value through growth opportunities, provide excellent customer service, and focus on core business. SaskEnergy is considered to be well-positioned to achieve these objectives as it has a highly skilled and knowledgeable labour force, committed to the success of the company and its customers.

There will continue to be strong demand for natural gas well into the new millennium. As a result, SaskEnergy should continue to experience a strong demand for both its distribution and transmission services. Growth opportunities outside of Saskatchewan will be pursued where these opportunities are related to core business functions and expertise.

Although customer service can be defined in various ways, SaskEnergy’s customers expect competitive rates. The Distribution Utility’s objective is to provide the lowest or second lowest rates among the provincial utilities in Canada. It has consistently achieved this objective and is therefore well positioned to continue to do so in the future.

Competitive rates are equally important to TransGas’ transmission system. An important strategic objective for TransGas was to announce a rate freeze for 2000 and 2001. This will give TransGas a competitive advantage over comparable Alberta rates.

To expand SaskEnergy’s services to meet the consumers’ changing needs is part of the strategy for growing the business. SaskEnergy will work with the SaskEnergy Network to introduce two new services in 2000: the Home Check-Up and the Home Heating Tune-Up. The Corporation will also continue to offer both natural gas line and natural gas appliance financing, to make converting to natural gas affordable and convenient. SaskEnergy is committed to providing consumers and producers with reliable, cost-effective service.

From a financial perspective, the Corporation is confident that it can consistently provide value to the Province through a steady stream of dividends. In terms of financial condition, the Corporation has improved its debt-to-equity ratio and forecasts to continue this improvement during the five-year planning horizon. The Transmission Business is expected to achieve its optimum debt-to-equity structure of 65 per cent debt and 35 per cent equity by 2002. Further, the Corporation has a significant amount of long-term debt, to be refinanced in 2001 at a substantially lower interest rate than the current rate.

Considering the value of its product, strength of its people, strong and stable financial condition, the Corporation looks forward with optimism to the challenges of the future.
IX. Crown Sector Performance Management

SaskEnergy is a subsidiary of Crown Investments Corporation of Saskatchewan (CIC), the holding company for Saskatchewan’s commercial Crown Corporations. In 1999, CIC and its subsidiaries developed a Crown Sector Strategic Plan to provide long-term direction to the Crown sector and facilitate long-term planning. The plan includes a consistent vision statement for the Crown sector, its primary business purposes, common business values and strategic business objectives. Each commercial Crown, including SaskEnergy, has developed its corporate Business Plan to support CIC’s overall five strategic objectives, namely: Customer Service Excellence, Financial Health, Mandate & Role, Public Purpose, and Human Resources.

The Corporation has also introduced a process called the Balanced Scorecard to measure its performance and results. The objectives of the Scorecard are to: 1) provide a balanced evaluation of the Corporation’s activities, processes, financial results and public policy achievements, and 2) focus on SaskEnergy’s long-term operating and financial success as well as short-term results.

The Balanced Scorecard measures SaskEnergy’s performance with regards to its strategic objectives, such as customer satisfaction, public policy targets, human resource development, operations performance, as well as financial performance. These strategic objectives are aligned with CIC’s overall strategic objectives.
SaskEnergy Incorporated

Consolidated Financial Statements

December 31, 1999
Management’s Responsibility for Financial Statements

The management of SaskEnergy Incorporated is responsible for the integrity of the accompanying consolidated financial statements and all other information contained in this annual report. The financial statements have been prepared in accordance with generally accepted accounting principles in Canada, and are applied on a consistent basis. Preparation of financial statements necessarily includes the use of estimates as certain transactions are dependent upon future events. These estimates have been subjected to careful consideration by management.

The Corporation’s Board of Directors is responsible for overseeing the business and affairs of the Corporation and for approving the annual financial statements. The Board of Directors has delegated certain responsibilities to its Audit and Finance Committee, including the responsibility for reviewing the annual financial statements and meeting with management, internal auditors and external auditors on matters relating to the financial reporting process.

Management maintains a system of internal controls to ensure the integrity of information that forms the basis of the financial statements. The internal control systems provide reasonable assurance that transactions are executed in accordance with proper authorization, that assets are properly guarded against unauthorized use and that reliable records are maintained.

The consolidated financial statements have been audited by Ernst & Young LLP, Chartered Accountants as appointed by the Lieutenant Governor in Council and approved by the Crown Investments Corporation of Saskatchewan. The Auditors’ Report, which appears on the next page, expresses their opinion on the fairness of the financial statements prepared by management.

Ronald S. Clark
President & Chief Executive Officer

Greg Mrazek
Vice President, Finance & Administration
Auditors’ Report

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the consolidated statement of financial position of SaskEnergy Incorporated as at December 31, 1999, and the consolidated statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1999, and the results of its operations and its cash flows for the year then ended, in accordance with accounting principles generally accepted in Canada.

Regina, Canada
February 4, 2000

Ernst & Young LLP
Chartered Accountants
Consolidated Statement of Financial Position  
As at December 31

<table>
<thead>
<tr>
<th>Note</th>
<th>1999 (thousands)</th>
<th>1998 (thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>CURRENT ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>$722</td>
<td>$722</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>86,954</td>
<td>82,333</td>
</tr>
<tr>
<td>Natural gas in storage</td>
<td>49,684</td>
<td>44,154</td>
</tr>
<tr>
<td>Inventories of supplies</td>
<td>6,403</td>
<td>5,493</td>
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<tr>
<td><strong>NATURAL GAS IN STORAGE</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>38,781</td>
<td>44,069</td>
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<td><strong>CAPITAL ASSETS</strong></td>
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<tr>
<td>4</td>
<td>1,002,524</td>
<td>987,623</td>
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<tr>
<td><strong>LONG-TERM INVESTMENT</strong></td>
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<td></td>
</tr>
<tr>
<td>5</td>
<td>5,027</td>
<td>-</td>
</tr>
<tr>
<td><strong>LIABILITIES AND PROVINCE’S EQUITY</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>CURRENT LIABILITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank indebtedness</td>
<td>$2,020</td>
<td>-</td>
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<tr>
<td>Short-term indebtedness</td>
<td>38,800</td>
<td>56,800</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>75,885</td>
<td>80,451</td>
</tr>
<tr>
<td>Dividend payable</td>
<td>7,474</td>
<td>4,943</td>
</tr>
<tr>
<td><strong>CUSTOMER CAPITAL CONTRIBUTIONS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>85,509</td>
<td>75,823</td>
</tr>
<tr>
<td><strong>LONG-TERM DEBT</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>691,832</td>
<td>674,993</td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>901,520</td>
<td>893,010</td>
</tr>
<tr>
<td><strong>PROVINCE OF SASKATCHEWAN’S EQUITY</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity advances</td>
<td>71,531</td>
<td>71,531</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>216,322</td>
<td>199,853</td>
</tr>
<tr>
<td><strong>COMMITSMENTS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(See accompanying notes)</td>
<td>9</td>
<td></td>
</tr>
</tbody>
</table>

On behalf of the Board:

Director

Director
## Consolidated Statement of Earnings and Retained Earnings

For the year ended December 31

<table>
<thead>
<tr>
<th>Note</th>
<th>1999</th>
<th>1998</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Distribution</td>
<td>$307,493</td>
<td>$271,113</td>
</tr>
<tr>
<td>Cost of gas sold</td>
<td>147,512</td>
<td>108,379</td>
</tr>
<tr>
<td>Distribution margin</td>
<td>159,981</td>
<td>162,734</td>
</tr>
<tr>
<td>Transportation and storage</td>
<td>75,915</td>
<td>77,853</td>
</tr>
<tr>
<td>Net sales from gas marketing</td>
<td>12,830</td>
<td>16,286</td>
</tr>
<tr>
<td>Other</td>
<td>3,352</td>
<td>1,791</td>
</tr>
<tr>
<td><strong>Net revenue</strong></td>
<td>252,078</td>
<td>258,664</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Expenses</strong></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating and maintenance</td>
<td>95,042</td>
<td>96,615</td>
</tr>
<tr>
<td>Interest</td>
<td>66,911</td>
<td>69,027</td>
</tr>
<tr>
<td>Amortization of capital assets</td>
<td>45,271</td>
<td>42,161</td>
</tr>
<tr>
<td>Saskatchewan taxes and royalties</td>
<td>8,256</td>
<td>14,519</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td>215,480</td>
<td>222,322</td>
</tr>
<tr>
<td><strong>Net earnings</strong></td>
<td>36,598</td>
<td>36,342</td>
</tr>
<tr>
<td><strong>Retained earnings, beginning of year</strong></td>
<td>199,853</td>
<td>183,454</td>
</tr>
<tr>
<td><strong>Dividend</strong></td>
<td>(20,129)</td>
<td>(19,943)</td>
</tr>
<tr>
<td><strong>Retained earnings, end of year</strong></td>
<td>$216,322</td>
<td>$199,853</td>
</tr>
</tbody>
</table>

(See accompanying notes)
## Consolidated Statement of Cash Flows
For the year ended December 31

<table>
<thead>
<tr>
<th>Note</th>
<th>1999 (thousands)</th>
<th>1998 (thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>OPERATING ACTIVITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net earnings</td>
<td>$36,598</td>
<td>$36,342</td>
</tr>
<tr>
<td>Add (deduct) items not requiring an outlay of cash</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amortization of capital assets</td>
<td>45,271</td>
<td>42,161</td>
</tr>
<tr>
<td>Amortization of customer capital contributions</td>
<td>(2,023)</td>
<td>(2,122)</td>
</tr>
<tr>
<td>Other non-cash items</td>
<td>1,086</td>
<td>2,000</td>
</tr>
<tr>
<td></td>
<td>80,932</td>
<td>78,381</td>
</tr>
<tr>
<td>Net change in non-cash working capital related to operations</td>
<td>11</td>
<td>(15,628)</td>
</tr>
<tr>
<td>Cash provided by operating activities</td>
<td>65,304</td>
<td>52,441</td>
</tr>
</tbody>
</table>

| **INVESTING ACTIVITIES** | | |
| Additions to capital assets | (61,257) | (59,340) |
| Customer capital contributions received | 11,709 | 12,065 |
| Decrease in natural gas in storage (non-current) | 5,288 | 3,852 |
| Long-term investment | (5,027) | - |
| Cash used in investing activities | (49,287) | (43,423) |

| **FINANCING ACTIVITIES** | | |
| (Decrease) increase in short-term indebtedness | (18,000) | 36,900 |
| (Decrease) increase in long-term debt | 16,839 | (7,207) |
| Dividend paid | (17,598) | (36,700) |
| Cash used in financing activities | (18,759) | (7,007) |

| **INCREASE (DECREASE) IN CASH** during year | (2,742) | 2,011 |

| **CASH POSITION** | beginning of year | 722 | (1,289) |

| **CASH POSITION**, end of year | $ (2,020) | $ 722 |

Cash position consists of cash less bank indebtedness.

(See accompanying notes)
1. Status of the Corporation


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

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

2. Summary of Significant Accounting Policies

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

a. Principles of consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries, TransGas Limited, Bayhurst Gas Limited, Many Islands Pipe Lines (Canada) Limited, SaskEnergy International Incorporated, SaskEnergy Chilean Holdings I Ltd. and SaskEnergy Chilean Holdings II Ltd. In addition, the accounts also include the Corporation’s 100 per cent ownership interest in SaskEnergy Chilean Holdings Limitada – a Chilean limited partnership. Separate audited financial statements are prepared for each of these entities.

b. Inventories of supplies

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

c. Natural gas in storage

Natural gas in storage is stated at the lower of cost or net realizable value.
d. Capital assets

Capital assets are stated at cost and include all direct costs plus overhead charges and an allowance for interest costs related to financing construction of the related assets.

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

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

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

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

- Transmission and storage: 2.5 to 2.6
- Distribution: 2.5 to 3.5
- Gathering, treatment and compression: 2.5 to 3.5
- Vehicles, equipment and other: 2.5 to 33.3

The royalty interest in certain natural gas wells is amortized on the unit of production method.

e. Customer capital contributions

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

f. Revenue recognition

Distribution revenue is recognized when natural gas is delivered to customers. An estimate of gas delivered, but not billed, is included in revenue.

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

g. Long-term investment

The corporation accounts for its investment in Gas Sur S.A. by the cost method.

3. Natural Gas In Storage

a. Natural gas in storage, classified as a current asset, has been purchased for the purpose of resale.

b. Natural gas in storage, classified as a non-current asset, is located within the Corporation’s various storage facilities and is required for the ongoing operations of the storage facilities.

c. The Corporation has natural gas reserves that are fully amortized. A portion of these reserves were sold in 1998.
4. Capital Assets

<table>
<thead>
<tr>
<th></th>
<th>1999</th>
<th>1998</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cost</td>
<td>Accumulated Amortization</td>
<td>Net Book Value</td>
<td>Cost</td>
</tr>
<tr>
<td>Transmission and storage</td>
<td>$ 533,257</td>
<td>$ 102,670</td>
<td>$ 430,587</td>
<td>$ 520,029</td>
</tr>
<tr>
<td>Distribution</td>
<td>497,369</td>
<td>97,807</td>
<td>399,562</td>
<td>466,830</td>
</tr>
<tr>
<td>Gathering, treatment and compression</td>
<td>145,281</td>
<td>37,640</td>
<td>107,641</td>
<td>141,998</td>
</tr>
<tr>
<td>Vehicles, equipment and other</td>
<td>101,935</td>
<td>42,507</td>
<td>59,428</td>
<td>101,606</td>
</tr>
<tr>
<td>Royalty interest</td>
<td>6,831</td>
<td>5,005</td>
<td>1,826</td>
<td>6,831</td>
</tr>
<tr>
<td>Construction in progress</td>
<td>3,480</td>
<td>-</td>
<td>3,480</td>
<td>4,427</td>
</tr>
<tr>
<td></td>
<td>$ 1,288,153</td>
<td>$ 285,629</td>
<td>$ 1,002,524</td>
<td>$ 1,241,721</td>
</tr>
</tbody>
</table>

The composite amortization rate was 3.6 per cent during 1999 (3.5 per cent during 1998).

5. Long-Term Investment

By Order-In-Council 735/1998 dated December 9, 1998, the Corporation received approval to proceed with an investment in Gas Sur S.A., a natural gas distribution company in Chile. To facilitate this investment, the Corporation created two wholly-owned Canadian subsidiaries and a Chilean limited partnership.

The Corporation, through SaskEnergy International Incorporated, the two Canadian subsidiaries, and the Chilean limited partnership, agreed to purchase a 15 per cent ownership interest (452 shares) in Gas Sur S.A. for $4,800 thousand US.

By virtue of the Shareholders Agreement of Gas Sur S.A., the Corporation committed to make the investment through three equal advances of $1,600 thousand US on January 14, 1999, July 30, 1999 and July 30, 2000. The Canadian dollar equivalent of the investment to date is $5.027 thousand.

In addition, the Corporation has entered into a Technical Advisors' Agreement whereby it will provide technical consulting services to Gas Sur S.A. on a fee-for-service basis.

In conjunction with the investment, the Corporation has granted a guarantee for the specific purpose of underwriting the subscription payment obligation of the Chilean limited partnership. The guarantee is expressly limited to $5,000 thousand US.
### 6. Long-Term Debt

<table>
<thead>
<tr>
<th>Years to Maturity</th>
<th>Principal Outstanding (thousands)</th>
<th>Average Fixed Interest Rate (per cent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Province of Saskatchewan</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 - 5</td>
<td>$303,391</td>
<td>12.0</td>
</tr>
<tr>
<td>6 - 10</td>
<td>329,758</td>
<td>8.2</td>
</tr>
<tr>
<td>11 - 15</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>16 - 30</td>
<td>100,000</td>
<td>8.0</td>
</tr>
<tr>
<td></td>
<td>733,149</td>
<td></td>
</tr>
<tr>
<td>Less sinking fund equity</td>
<td>(46,133)</td>
<td></td>
</tr>
<tr>
<td>Less due within one year</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Due to Province of Saskatchewan</td>
<td>687,016</td>
<td>13.5</td>
</tr>
<tr>
<td>Other</td>
<td>4,816</td>
<td>13.5</td>
</tr>
<tr>
<td>Total long-term debt</td>
<td>$691,832</td>
<td></td>
</tr>
</tbody>
</table>

#### 1998

<table>
<thead>
<tr>
<th>Years to Maturity</th>
<th>Principal Outstanding (thousands)</th>
<th>Average Fixed Interest Rate (per cent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Province of Saskatchewan</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 - 5</td>
<td>$272,934</td>
<td>12.0</td>
</tr>
<tr>
<td>6 - 10</td>
<td>296,079</td>
<td>8.7</td>
</tr>
<tr>
<td>11 - 15</td>
<td>39,136</td>
<td>9.7</td>
</tr>
<tr>
<td>16 - 30</td>
<td>100,000</td>
<td>8.0</td>
</tr>
<tr>
<td></td>
<td>708,149</td>
<td></td>
</tr>
<tr>
<td>Less sinking fund equity</td>
<td>(37,972)</td>
<td></td>
</tr>
<tr>
<td>Less due within one year</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Due to Province of Saskatchewan</td>
<td>670,177</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>4,816</td>
<td>13.5</td>
</tr>
<tr>
<td>Total long-term debt</td>
<td>$674,993</td>
<td></td>
</tr>
</tbody>
</table>

#### a. Sinking funds

Under conditions attached to certain advances from the Province of Saskatchewan's General Revenue Fund, SaskEnergy is required to pay annual installments equal to one per cent of outstanding debt into sinking funds. These sinking funds are administered by the Province of Saskatchewan’s Department of Finance. The investments held in these sinking funds are primarily Province of Saskatchewan debt instruments. The yield on these investments was 9.1 per cent for 1999 (9.1 per cent 1998).

#### b. Maturity dates

Maturity dates are equivalent to interest rate repricing dates.

#### c. Short-term indebtedness

During 1999, the Corporation borrowed funds on a short-term basis from the Province of Saskatchewan’s General Revenue Fund at an average interest rate of 4.9 per cent.

Included in short-term indebtedness at December 31, 1999 is an amount of $38,800 thousand (1998 - $56,800 thousand) that was due to the Province of Saskatchewan’s General Revenue Fund with an interest rate of 4.8 per cent fixed to March 31, 2000.
d. Principal repayments

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

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principal repayments</td>
<td>$ -</td>
<td>$ 50,000</td>
<td>$ -</td>
<td>$222,934</td>
<td>$ 30,457</td>
</tr>
<tr>
<td>Sinking fund installments</td>
<td>4,529</td>
<td>4,529</td>
<td>4,529</td>
<td>2,300</td>
<td>2,300</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 4,529</strong></td>
<td><strong>$ 54,529</strong></td>
<td><strong>$ 4,529</strong></td>
<td><strong>$225,234</strong></td>
<td><strong>$ 32,757</strong></td>
</tr>
</tbody>
</table>

e. Interest expense

Interest expense was as follows:

<table>
<thead>
<tr>
<th></th>
<th>1999</th>
<th>1998</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest on long-term debt</td>
<td>$ 72,265</td>
<td>$ 71,942</td>
</tr>
<tr>
<td>Interest on bank indebtedness</td>
<td>382</td>
<td>747</td>
</tr>
<tr>
<td>Interest capitalized</td>
<td>(1,856)</td>
<td>(484)</td>
</tr>
<tr>
<td>Sinking fund earnings</td>
<td>(3,880)</td>
<td>(3,178)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 66,911</strong></td>
<td><strong>$ 69,027</strong></td>
</tr>
</tbody>
</table>

Cash interest paid during 1999 on long-term debt was $71,970 thousand.

7. Customer Capital Contributions

Contributions are received from customers to aid in construction of customer specific facilities in accordance with established business policies.

<table>
<thead>
<tr>
<th></th>
<th>1999</th>
<th>1998</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance, beginning of year</td>
<td>$ 75,823</td>
<td>$ 65,880</td>
</tr>
<tr>
<td>Contributions received during the year</td>
<td>11,709</td>
<td>12,065</td>
</tr>
<tr>
<td>Contributions amortized during the year</td>
<td>(2,023)</td>
<td>(2,122)</td>
</tr>
<tr>
<td>Balance, end of year</td>
<td>$ 85,509</td>
<td>$ 75,823</td>
</tr>
</tbody>
</table>

8. Equity Advances

The Corporation does not have share capital. However, the Corporation has received advances from Crown Investments Corporation of Saskatchewan (CIC) to form its equity capitalization. The advances reflect an equity investment in the Corporation by CIC.
9. Commitments

➢ Financial Instruments

The Corporation engages in hedging activities through the use of financial derivatives. A Corporate Derivatives Policy and specific hedging strategies establish the guidelines within which derivatives may be used by the Corporation. The Corporation utilizes a variety of off-balance sheet financial instruments to manage its exposure to interest rate, foreign exchange rate and gas price risk. These instruments are only used to hedge underlying assets, liabilities or anticipated future transactions.

a. Hedging transactions

The Corporation purchases natural gas for the purpose of resale. Approximately 68 per cent (1998 - 74 per cent) of annual purchases are made under long-term contracts with natural gas suppliers. These contracts are subject to annual price renegotiation. Prices may be fixed for a one-year period or referenced to a floating index price. In order to manage price volatility, hedges are used to fix gas prices with respect to underlying physical gas supply contracts. Natural gas purchase prices are hedged by using financial instruments.

As at December 31, the Corporation has entered into natural gas price swap contracts with counterparties to effectively manage an annually predetermined portion of its forecast system gas supply. The Corporation’s hedging tools also include option and basis contracts with counterparties and futures contracts traded on the New York Mercantile Exchange. For those hedges denominated in United States dollars, the Corporation hedges against its foreign exchange risk through the use of forward contracts.

Amounts received or paid resulting from settlement of gas price hedging transactions are recognized as a component of the cost of gas sold.

The Corporation is exposed to possible credit losses in the event of non-performance by counterparties to natural gas price swap and option contracts. The Corporation mitigates this credit risk by:

i. utilizing only counterparties with an A credit rating or better for at least 75 per cent of notional volumes purchased and Baa-rated counterparties to hedge up to 25 per cent of gas purchase volumes provided such hedges do not extend beyond 9 months from the transaction date; and

ii. limiting the notional gas volumes hedged to a maximum of 25 per cent with any one counterparty.

During 1999, the Corporation entered into transactions with 13 different counterparties. The Corporation expects all swap and option obligations to be met.

The Corporation has entered into a number of forward start interest rate swaps to hedge its exposure to interest rate repricing on debt maturing between 2001 and 2003. The weighted average interest rate on these swaps is 6.76 per cent on a notional principal of $130 million. The interest rate on this debt was 12.25 per cent in 1999 (12.25 per cent - 1998).
b. Fair value of financial instruments

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

<table>
<thead>
<tr>
<th></th>
<th>1999</th>
<th></th>
<th>1998</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Carrying Amount</td>
<td>Fair Value</td>
<td>Carrying Amount</td>
<td>Fair Value</td>
</tr>
<tr>
<td>Long-term debt</td>
<td>$737,965</td>
<td>$812,619</td>
<td>$712,965</td>
<td>$866,269</td>
</tr>
<tr>
<td>Sinking fund equity</td>
<td>46,133</td>
<td>45,780</td>
<td>37,972</td>
<td>42,674</td>
</tr>
<tr>
<td>Natural gas price hedges:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- swaps</td>
<td>-</td>
<td>(6,606)</td>
<td>-</td>
<td>(2,991)</td>
</tr>
<tr>
<td>- options</td>
<td>(1,423)</td>
<td>1,087</td>
<td>404</td>
<td>(2,572)</td>
</tr>
<tr>
<td>- futures</td>
<td>(1,025)</td>
<td>(59)</td>
<td>(443)</td>
<td>623</td>
</tr>
<tr>
<td>Foreign exchange - forward contracts</td>
<td>-</td>
<td>(1,045)</td>
<td>-</td>
<td>1,221</td>
</tr>
<tr>
<td>Interest rate hedges - delayed swaps</td>
<td>-</td>
<td>1,600</td>
<td>-</td>
<td>(8,600)</td>
</tr>
</tbody>
</table>

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

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

ii. **Sinking fund equity** - The market value of the investments held in the sinking fund as at December 31, 1999.

iii. **Natural gas price swaps** - The relevant index price in effect on December 31, 1999.

iv. **Natural gas price options** - The relevant index price in effect on December 31, 1999.


vi. **Foreign exchange forward contracts** - The Bank of Canada exchange rate on December 31, 1999.

vii. **Interest rate hedges** - Closing quotations from the counterparty as to the amount to settle the contract on December 31, 1999.

The carrying values of other financial instruments (cash, accounts receivable, accounts payable, short term indebtedness and bank indebtedness) approximate fair value.

c. Credit risk

The Corporation provides credit to its customers in the normal course of business. The Corporation has over 317,000 customers and does not have a significant credit exposure to any individual customer. For 1999, credit losses were one third of one per cent of total revenue.

확률

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

<table>
<thead>
<tr>
<th>Year</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>Thereafter</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>(thousands)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$449</td>
<td>$495</td>
<td>$542</td>
<td>$556</td>
<td>$570</td>
<td>$4,064</td>
<td>$6,676</td>
</tr>
</tbody>
</table>
10. Saskatchewan Taxes and Royalties

Saskatchewan taxes and royalties include the following:

<table>
<thead>
<tr>
<th></th>
<th>1999 (thousands)</th>
<th>1998 (thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate capital tax</td>
<td>$ 4,677</td>
<td>$ 4,135</td>
</tr>
<tr>
<td>Royalties</td>
<td>2,759</td>
<td>3,587</td>
</tr>
<tr>
<td>Mitigation payments and property taxes</td>
<td>820</td>
<td>844</td>
</tr>
<tr>
<td>Franchise fees to municipalities</td>
<td>-</td>
<td>5,953</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 8,256</strong></td>
<td><strong>$ 14,519</strong></td>
</tr>
</tbody>
</table>

The above amounts do not include Saskatchewan Education and Health Tax payments.

11. Net Change in Non-Cash Working Capital

<table>
<thead>
<tr>
<th></th>
<th>1999 (thousands)</th>
<th>1998 (thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventories of supplies</td>
<td>$(910)</td>
<td>$(753)</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>$(4,567)</td>
<td>4,647</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>$(4,621)</td>
<td>$(9,564)</td>
</tr>
<tr>
<td>Natural gas in storage – current</td>
<td>$(5,530)</td>
<td>$(20,270)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$(15,628)</strong></td>
<td><strong>$(25,940)</strong></td>
</tr>
</tbody>
</table>

12. Related Party Transactions

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

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

<table>
<thead>
<tr>
<th></th>
<th>1999 (thousands)</th>
<th>1998 (thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts receivable</td>
<td>$ 3,336</td>
<td>$ 2,953</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>1,440</td>
<td>530</td>
</tr>
<tr>
<td>Revenue</td>
<td>25,694</td>
<td>23,435</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>23,306</td>
<td>25,071</td>
</tr>
<tr>
<td>Customer capital contributions</td>
<td>2,748</td>
<td>2,662</td>
</tr>
</tbody>
</table>

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

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

Substantially all employees of the corporations included in these consolidated financial statements are members of either a defined contribution or a defined benefit pension plan.

In accordance with the terms of the defined contribution plan (Public Employees' Pension Plan) and the defined benefit pension plan (Power Corporation Superannuation Plan), the Corporation's obligations are limited to making regular payments to the plans to match contributions made by the employees for current services.

14. **Supplemental Financial Information**

The Corporation operates predominantly in two industry segments, being natural gas distribution and natural gas transportation. The following table provides supplemental information relating to the 1999 operating results for each major category of business.

<table>
<thead>
<tr>
<th></th>
<th>Transportation</th>
<th>Distribution</th>
<th>Subsidiaries</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUE</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Distribution</td>
<td>$ -</td>
<td>$ -</td>
<td>$ 315,065</td>
</tr>
<tr>
<td>Cost of gas sold</td>
<td>$ 192,094</td>
<td>$ 153,431</td>
<td></td>
</tr>
<tr>
<td>Distribution margin</td>
<td>$ 122,971</td>
<td>$ 125,635</td>
<td></td>
</tr>
<tr>
<td>Transportation and</td>
<td>$ 136,746</td>
<td>$ 136,454</td>
<td>$ 3,843</td>
</tr>
<tr>
<td>storage</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net sales from gas</td>
<td>$ 7,280</td>
<td>$ 8,277</td>
<td>$ 2,648</td>
</tr>
<tr>
<td>marketing</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>$ 3,020</td>
<td>$ 1,791</td>
<td></td>
</tr>
<tr>
<td><strong>Net revenue</strong></td>
<td>$ 144,026</td>
<td>$ 144,731</td>
<td>$ 125,619</td>
</tr>
<tr>
<td></td>
<td>(thousands)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>EXPENSES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating and</td>
<td>$ 44,928</td>
<td>$ 48,085</td>
<td>$ 70,515</td>
</tr>
<tr>
<td>maintenance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest</td>
<td>$ 40,481</td>
<td>$ 42,355</td>
<td>$ 25,236</td>
</tr>
<tr>
<td>Amortization of</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>capital assets</td>
<td>$ 22,321</td>
<td>$ 21,302</td>
<td>$ 21,530</td>
</tr>
<tr>
<td>Saskatchewan</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>taxes and royalties</td>
<td>$ 5,276</td>
<td>$ 6,057</td>
<td>$ 2,510</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td>$ 113,006</td>
<td>$ 117,799</td>
<td>$ 119,791</td>
</tr>
<tr>
<td><strong>Net earnings</strong></td>
<td>$ 31,020</td>
<td>$ 26,932</td>
<td>$ 5,828</td>
</tr>
</tbody>
</table>

The above amounts are before intercompany eliminations.

Cost of gas sold noted above does not include intercompany transportation and storage of $2,418 thousand. This amount was eliminated on consolidation.
Below is a summarized statement of financial position by business unit.

<table>
<thead>
<tr>
<th></th>
<th>Transportation</th>
<th>Distribution</th>
<th>Subsidiaries</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current</td>
<td>$38,285</td>
<td>$25,614</td>
<td>$129,159</td>
</tr>
<tr>
<td>Natural gas in storage</td>
<td>38,781</td>
<td>44,069</td>
<td>-</td>
</tr>
<tr>
<td>Capital assets and investment</td>
<td>549,462</td>
<td>552,320</td>
<td>439,149</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$626,528</td>
<td>$622,003</td>
<td>$568,308</td>
</tr>
</tbody>
</table>

The above amounts are before intercompany eliminations.

The above noted columns of “Subsidiaries” combine the amounts for Many Islands Pipe Lines (Canada) Limited, SaskEnergy International Incorporated, and Bayhurst Gas Limited.

15. **Year 2000 Issue Readiness**

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the entity, including those related to customers, suppliers, or other third parties, have been fully resolved.

16. **Saskatchewan Interim Rate Review Panel**

During 1999, The Saskatchewan Interim Rate Review Panel was established by Minister’s Order. The Panel was established to conduct a review of the Corporation’s request for an increase in its gas consumption charge for the term November 1, 1999 to October 31, 2000. The review of the proposed rate change considered the interests of the consumer, the Corporation and the public. In its deliberations, the Panel considered the cost, supply and contractual terms of natural gas purchased by the Corporation. The Panel made a rate recommendation which was implemented effective December 15, 1999.
### Five-Year Operating Summary — Distribution Utility

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales in million cubic metres ($10^6m^3$)</td>
<td>2,899</td>
<td>3,293</td>
<td>3,325</td>
<td>3,259</td>
<td>2,812</td>
</tr>
<tr>
<td>Residential annual average usage (cubic metres)</td>
<td>3,316</td>
<td>3,255</td>
<td>3,504</td>
<td>4,328</td>
<td>3,804</td>
</tr>
<tr>
<td>Degree days*+</td>
<td>5,343</td>
<td>5,338</td>
<td>5,665</td>
<td>6,761</td>
<td>5,929</td>
</tr>
<tr>
<td>Customers at year end*</td>
<td>317,219</td>
<td>313,425</td>
<td>309,171</td>
<td>304,575</td>
<td>301,020</td>
</tr>
<tr>
<td>Pipelines - in kilometres (km)</td>
<td>64,169</td>
<td>63,063</td>
<td>61,831</td>
<td>60,746</td>
<td>60,046</td>
</tr>
</tbody>
</table>

+ A unit measuring the extent to which the temperature falls below 18º Celsius.
   (In a normal year the degree days are 5,806).

* Number of Active Services.

† Retail and brokerage and contract industrial.

### Five-Year Operating Summary — Transmission

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<tr>
<td>Pipelines (kilometres)</td>
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<td>TransGas</td>
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<td>Peak Day Gas Flows (Winter Season) Billion Cubic Feet</td>
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<td>Date</td>
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<td>Feb. 1</td>
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SaskEnergy is a statutory Crown corporation which is governed by The SaskEnergy Act, The SaskEnergy Regulations and the Crown Corporations Act, 1993. The Board of Directors oversees the management of the Corporation and holds management accountable for the Corporation’s performance. Through the Chair, the Board of Directors is accountable to the Minister Responsible for SaskEnergy, who functions as a link between the Corporation and Cabinet, as well as the Provincial Legislature.

SaskEnergy’s approach to corporate governance practices is substantially consistent with the guidelines set forth in the Canadian Institute of Chartered Accountants (CICA) handbook – *Guidance for Directors, Governance Processes for Control*, whose guidelines were adopted by the Board of Governors of the Toronto Stock Exchange. These guidelines address the key areas of responsibility for effective corporate governance, including responsibility for stewardship of the Corporation, the Board’s role in working with management, and the functioning of the Board.

During this fiscal year, the newly formed Governance Committee met six times during which the Committee completed a number of initiatives, including:

- Received a presentation from external legal counsel on Corporate Governance. This presentation included the background, origin and elements of corporate governance and its applicability to the SaskEnergy Board.
- Developed Terms of Reference for the SaskEnergy Board and for the Governance Committee.
- Reviewed and provided suggested revisions for the Terms of Reference for each of the other Board Committees.
- Reviewed and standardized the By-laws for each of SaskEnergy’s subsidiaries.
- Reviewed, revised and improved the evaluation process for the Board of Directors, Chair and Committees.
- Directed the compilation of a comprehensive Corporate Governance Binder for the Committee members, to assist them in performing their duties. This binder includes copies of the governing legislation, Terms of Reference for the SaskEnergy Board and each of the Board Committees, subsidiary By-laws and Articles of Incorporation, and the current Expenditure and Execution of Documents Resolutions for SaskEnergy and each of its subsidiaries.
Board Responsibilities

The Board is responsible for the stewardship of the Corporation. In carrying out this responsibility, the Board participates in the Corporation’s strategic planning process each year and approves the strategic direction and corporate plan. The Board also exercises its responsibility to oversee and ensure adherence to The SaskEnergy Act. The Board met eight times during fiscal 1999.

Board Composition

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

Board Orientation and Training

Upon their appointment, Board members receive a briefing package of pertinent materials and orientation to the Corporation, in addition to governance-related materials. As part of the ongoing education and training, Crown Investments Corporation of Saskatchewan, through the Business Advisory Services Division of the University of Saskatchewan, College of Commerce, provided a comprehensive Board of Directors’ training program in 1998, where the Board received information and presentations from outside experts on matters such as governance, derivatives and risk management policies. As part of the ongoing training for Board members, Crown Investments Corporation of Saskatchewan facilitated additional training sessions for Board members in 1999.

Board Independence

The Chair and Directors are unrelated to and independent from management, with the exception of the President & Chief Executive Officer, who is a member of the Board.

SaskEnergy’s Board of Directors is sensitive to the requirement that it has and exhibits an ability to exercise fair and impartial judgement in the best interest of the Corporation, while taking into account the public policy and business objectives of the Corporation.

Board and President & Chief Executive Officer

As part of the relationship between the Board and management, the assessment and evaluation of the President & Chief Executive Officer is integral to effective governance. The Board works with the President & Chief Executive Officer to develop a position description, to outline the limits of management’s authority, and develop and approve corporate objectives for which the President & Chief Executive Officer is accountable. The Human Resources/Compensation Committee of the Board has the responsibility to evaluate the President & Chief Executive Officer’s performance against established duties and objectives.
Committees

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

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

Audit and Finance Committee
Chairperson: Susan Milburn

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

Governance Committee
Chairperson: Tim Gitzel

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

Human Resources/Compensation Committee
Chairperson: Michael Chorlton

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

Safety, Health and Environment Committee
Chairperson: Florence Banda

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

Board of Directors

Board Members are as follows:

Frank W. Proto, Chair
Susan Milburn, Vice Chair
Florence Banda
Michael W. Chorlton
Tim Gitzel
George E. Lafond
Tom Ryberg
Mervyn J. Simon
Ronald S. Clark, President & Chief Executive Officer

Back row l. to r. Tom Ryberg, Mervyn Simon, Ron Clark, Frank Proto. Seated l. to r. George Lafond, Florence Banda, Susan Milburn, Mike Chorlton. Missing from photo, Tim Gitzel
## Executive Committee

Ronald S. Clark  
President & Chief Executive Officer  

Mark Guilet  
General Counsel & Corporate Secretary  

Jullian Olenick  
Executive Vice President, TransGas Limited  
* retired June 30, 1999  

Robert Haynes  
Vice President, Human Resources  

George Barnhart  
Vice President, Information Systems  

Doug Kelln  
Vice President, Distribution Utility  

Larry Braun  
President, Communications, Energy & Paperworkers (CEP) Union, Local 649  

Greg Mrazek  
Vice President, Finance & Administration  

David Easton  
Vice President, SaskEnergy International  

Ron Podbielski  
Director, Corporate Affairs (Acting)  

Ken From  
Vice President, Gas Supply  

Dean Reeve  
Vice President, Business Development & Market Services  

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S4P 2C7  
www.saskenergy.com  

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Fax: (306) 352-4438  

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