



Management's Discussion and Analysis

This Discussion and Analysis is a review of the results of operations, and outlook for SaskEnergy Incorporated (SaskEnergy or the Corporation) and its subsidiaries for the three-month and nine-month periods ended September 30, 2004. This discussion should be read in conjunction with the consolidated interim financial statements and accompanying notes. For additional information relative to the operations and financial position, refer to the Corporation's Annual Report for the year ended December 31, 2003.

Corporate Profile

SaskEnergy has the legislated franchise for the distribution and transmission of natural gas within Saskatchewan. The distribution system provides natural gas service to over 325,000 residential, farm, commercial and industrial customers over a 65,000 kilometre pipeline distribution system. The transmission system provides open access transportation and storage service to the distribution system, natural gas producers, marketers and large volume end-use customers within Saskatchewan.

SaskEnergy has seven wholly-owned subsidiaries:

- TransGas Limited – owns a natural gas transportation and storage system;
- Many Islands Pipe Lines (Canada) Limited – transports natural gas to and from other jurisdictions;
- Bayhurst Gas Limited – owns, produces and sells natural gas from storage-related assets and holds natural gas royalty interests;
- SaskEnergy International Incorporated – holds international equity investments;
- Swan Valley Gas Corporation – owns a natural gas distribution utility in the Swan Valley area of Western Manitoba;
- Saskatchewan First Call Corporation – operates an underground infrastructure facility database through which subscribing companies are alerted of the need to perform line locates for landowners or contractors planning to excavate in Saskatchewan;
- SaskEnergy Nova Scotia Holdings Ltd. – holds SaskEnergy's interest in a natural gas distribution utility in Nova Scotia.

Financial and Operating Highlights

	Three Months Ended September 30		Nine Months Ended September 30	
	2004	2003	2004	2003
Financial Highlights				
Consolidated Net Earnings (millions)	\$8	\$7	\$65	\$10
Total Assets (millions)			\$1,189	\$1,173
Long-term Debt (millions)			\$639	\$666
Operating Highlights				
Distribution				
Volumes Distributed - Petajoules	5	5	42	44
Weather - Compared to the thirty year average	N/A	N/A	7% Colder	4% Colder
Average Purchase Price per Gigajoule of Natural Gas	\$6.38	\$6.44	\$6.39	\$6.95
Transmission				
Volumes Transported - Petajoules	63	58	222	211
Peak Day Natural Gas Flows (Winter Season) - Petajoules - Date of Peak Flow	N/A	N/A	1.49 January 27	1.46 January 22

Financial Results

Consolidated Net Earnings

The net earnings of \$64.7 million for the first nine months of 2004 was an increase of \$54.7 million from the same period in 2003, primarily due to the ongoing recovery in the Gas Cost Variance Account during the first nine months of 2004. Net earnings for the third quarter were \$7.7 million - an increase of \$1.2 million from the same quarter in 2003.

During the first nine months of 2003, SaskEnergy had a revenue shortfall of \$24.7 million on natural gas sales to distribution utility customers, whereas in the same period in 2004, the Corporation had a recovery of previous losses in the Gas Cost Variance Account (GCVA) of \$17.4 million (see note three attached to the consolidated interim financial statements). For the third quarter of 2004, the recovery was \$1.8 million (\$13.1 million in the third quarter of 2003).

The consolidated interim financial statements should not be taken as indicative of the performance to be expected for the full year, due to the seasonal nature of the natural gas utility business in Saskatchewan.

Delivery Revenue

Delivery revenue to September 30, 2004 was \$111.3 million, which was \$1.7 million lower than the same period in 2003. For the three month period ending September 30, 2004, delivery revenue was \$21.7 million which was \$1.6 million higher than the same quarter in 2003. The majority of SaskEnergy's distribution customers consume natural gas for space and heating purposes and, as a result, the volume of natural gas distributed is sensitive to variations in the weather, particularly through the November-to-March heating load season. The winter weather in 2004 was slightly warmer than the same period in 2003, resulting in somewhat lower delivery revenue.

Transportation and Storage Revenue

Transportation and storage revenue for the first nine months of 2004 was \$66.3 million, which was \$6.6 million higher than the same period in 2003. For the third quarter, transportation and storage revenue was \$22.3 million up \$1.8 million from the third quarter of 2003.

Higher market prices for natural gas have contributed to increased drilling activity in Saskatchewan over the past two years. The 1,568 natural gas wells drilled in the first nine months of 2004 plus the 1,766 for the same period in 2003 resulted in increased flows onto the transmission

pipeline system. In addition, significant natural gas reserves have been developed in the Shackleton area (near Swift Current). These additional flows lead to increased transportation revenue.

Storage revenue of \$4.7 million for the first nine months of 2004 was equal to the same period in 2003. Storage revenue for the third quarter of 2004 was \$1.7 million. As in prior periods, storage continues to be fully contracted.

Net Sales from Gas Marketing

In order to maximize the utilization of its assets during off-peak periods, SaskEnergy purchases and sells natural gas in the open market and earns a margin. SaskEnergy also supplies natural gas to large end-use customers in Saskatchewan through a competitive bidding process.

The Corporation owns underground natural gas storage fields that are no longer used in commercial storage operations. The natural gas from these fields is being removed and sold in the open market.

In the first nine months of 2004, net revenue from the foregoing activities was \$27.7 million compared with \$31.4 million for the same period in 2003, due to lower volumes sold in 2004. For the third quarter, revenue from these activities was \$12.6 million down \$5.0 million from the same period last year as a result of lower volumes sold.

Expenses

Total expenses for the first three quarters of the year were \$180.9 million, which was \$0.6 million higher than the same period in 2003. For the third quarter expenses were \$53.9 million or \$1.9 million less than the same period in 2003.

Operating and maintenance expense for the first nine months of 2004 was \$84.7 million compared to \$82.5 million for 2003. Increased third-party contractor costs (\$0.7 million), vehicle operating costs (\$0.5 million) and pipeline transportation costs paid to third parties (\$1.0 million) were the major contributors to the increase. Third quarter 2004 operating and maintenance costs of \$25.6 million were \$0.4 million less than third quarter of 2003 primarily due to lower labour costs.

Interest expense of \$37.5 million in the first three quarters of 2004 was lower by \$1.7 million compared to the same period in 2003, primarily as a result of lower short-term debt balances. During the third quarter interest expense of \$12.0 million was \$1.4 million less than the same period in 2003.

Amortization of property, plant and equipment, payments to municipalities and Saskatchewan taxes and royalties for the year to date and for the third quarter were relatively consistent with the same periods in 2003.

Gas Cost Variance Account

SaskEnergy uses a Gas Cost Variance Account (GCVA) to accumulate the difference between commodity sales revenue and the related cost of gas sold. The change in the balance of the GCVA is included as a component of the cost of gas sold. As a result, a profit or a loss on commodity sales may be reported during a fiscal period.

Net Revenue from Commodity Sales

The net revenue from commodity sales for the nine months ended September 30, 2004 was \$18.2 million. This compares with a loss on commodity sales of \$35.8 million for the same period in 2003. For the third quarter of 2004 the net revenue from commodity sales was \$0.3 million. For the three month period ended September 30, 2003 the net revenue for this activity was \$0.1 million. The lower volumes in the third quarter are due to reduced heating load requirements.

The recovery of the GCVA for the nine month period ended September 30, 2004 was \$17.4 million (see note three attached to the consolidated interim financial statements). The GCVA balance to be collected from customers as at September 30, 2004 was \$31.5 million compared to \$56.4 million at September 30, 2003. For additional information on the GCVA, refer to the notes to the 2003 consolidated financial statements.

Outlook

SaskEnergy anticipates operating income (excluding the recovery of the GCVA) to be comparable to 2003. Positive margins from natural gas marketing activities should result in a strong financial performance for SaskEnergy in 2004.

The forecast for delivery revenue assumes normal weather patterns for the remainder of the year. Transmission revenue is expected to benefit from increased transportation of natural gas volumes resulting from strong natural gas drilling programs by producers.

The volatility of natural gas prices is expected to continue throughout the remainder of 2004. The recovery of the GCVA is subject to the level of natural gas prices. Therefore, natural gas prices could have a significant impact on net earnings for the remainder of the year.

Subsequent Event

On October 15, 2004, TransGas Limited announced an average rate reduction of 3.4% effective November 1, 2004.

SaskEnergy Incorporated
Consolidated Statement of Financial Position
(thousands of dollars)

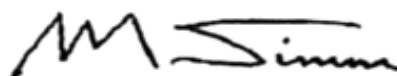
	<u>As at</u> <u>September 30, 2004</u> <i>(unaudited)</i>	<u>As at</u> <u>December 31, 2003</u> <i>(restated-note 2)</i>
Assets		
Current assets		
Cash	\$ 1,377	\$ -
Accounts receivable	71,981	144,524
Natural gas in storage held for resale	109,127	82,102
Inventories of supplies	7,463	6,458
	<u>189,948</u>	<u>233,084</u>
Property, plant and equipment (note 2)	938,808	941,569
Investments and other assets	34,692	34,789
Natural gas in storage held for resale and operations	25,706	25,766
	<u>\$ 1,189,154</u>	<u>\$ 1,235,208</u>
Liabilities and Province's Equity		
Current liabilities		
Bank indebtedness	\$ -	\$ 1,295
Short-term debt	77,400	110,000
Accounts payable	125,982	139,035
Dividend payable	15,500	10,560
Current portion of long-term debt	37,252	34,997
	<u>256,134</u>	<u>295,887</u>
Long-term debt	601,392	627,884
Asset retirement obligation (note 2)	2,360	2,401
	<u>859,886</u>	<u>926,172</u>
Province of Saskatchewan's equity		
Equity advances	71,531	71,531
Retained earnings	259,746	238,589
Foreign currency translation adjustment	(2,009)	(1,084)
	<u>329,268</u>	<u>309,036</u>
	<u>\$ 1,189,154</u>	<u>\$ 1,235,208</u>

(See accompanying notes)

On behalf of the Board:



Director



Director

SaskEnergy Incorporated

Consolidated Statement of Earnings and Retained Earnings

(thousands of dollars)

	Three months ended September 30		Nine months ended September 30	
	<u>2004</u> (unaudited)	<u>2003</u> (unaudited) (restated-note 2)	<u>2004</u> (unaudited)	<u>2003</u> (unaudited) (restated-note 2)
Revenue				
Delivery	\$ 21,682	\$ 20,113	\$ 111,284	\$ 112,983
Transportation and storage	22,256	20,417	66,343	59,678
Net sales from gas marketing	12,635	17,641	27,709	31,382
Revenue collected for municipalities	2,510	2,655	17,412	17,442
Other	2,294	1,331	4,619	4,591
	<u>61,377</u>	<u>62,157</u>	<u>227,367</u>	<u>226,076</u>
Expenses				
Operating and maintenance	25,577	26,028	84,744	82,491
Interest	12,033	13,422	37,472	39,216
Amortization of property, plant and equipment	11,970	11,999	36,721	36,271
Payments to municipalities	2,510	2,655	17,412	17,442
Saskatchewan taxes and royalties	1,816	1,649	4,548	4,863
	<u>53,906</u>	<u>55,753</u>	<u>180,897</u>	<u>180,283</u>
Earnings from operations before the following	<u>7,471</u>	<u>6,404</u>	<u>46,470</u>	<u>45,793</u>
Commodity revenue	33,656	31,291	257,479	233,580
Cost of gas sold	<u>33,397</u>	<u>31,144</u>	<u>239,292</u>	<u>269,391</u>
Net revenue (loss) from commodity sales	<u>259</u>	<u>147</u>	<u>18,187</u>	<u>(35,811)</u>
Net earnings	<u>7,730</u>	<u>6,551</u>	<u>64,657</u>	<u>9,982</u>
Retained earnings, beginning of period:				
As previously reported	267,165	224,764	237,738	223,373
Change in accounting policy (note 2)	<u>851</u>	<u>912</u>	<u>851</u>	<u>972</u>
As restated	<u>268,016</u>	<u>225,676</u>	<u>238,589</u>	<u>224,345</u>
Dividend	<u>(16,000)</u>	<u>(6,500)</u>	<u>(43,500)</u>	<u>(8,600)</u>
Retained earnings, end of period	<u>\$ 259,746</u>	<u>\$ 225,727</u>	<u>\$ 259,746</u>	<u>\$ 225,727</u>

(See accompanying notes)

SaskEnergy Incorporated
Consolidated Statement of Cash Flows
(thousands of dollars)

	Three months ended September 30		Nine months ended September 30	
	<u>2004</u> <i>(unaudited)</i>	<u>2003</u> <i>(unaudited)</i> <i>(restated-note 2)</i>	<u>2004</u> <i>(unaudited)</i>	<u>2003</u> <i>(unaudited)</i> <i>(restated-note 2)</i>
Operating Activities				
Net earnings	\$ 7,730	\$ 6,551	\$ 64,657	\$ 9,982
Add (deduct) items not requiring an outlay of cash				
Amortization of property, plant and equipment	11,970	11,999	36,721	36,271
Other non-cash items	(699)	962	(2,398)	1,410
	<u>19,001</u>	<u>19,512</u>	<u>98,980</u>	<u>47,663</u>
Net change in non-cash working capital related to operations	<u>(6,422)</u>	<u>(14,385)</u>	<u>31,460</u>	<u>13,854</u>
Cash provided by operating activities	<u>12,579</u>	<u>5,127</u>	<u>130,440</u>	<u>61,517</u>
Investing Activities				
Additions to property, plant and equipment	(19,371)	(22,431)	(40,523)	(42,219)
Customer capital contributions received	1,677	5,352	6,563	11,279
Additions to investments and other assets	-	(2,295)	-	(10,353)
Decrease in natural gas in storage (non-current)	-	755	60	1,419
Cash used in investing activities	<u>(17,694)</u>	<u>(18,619)</u>	<u>(33,900)</u>	<u>(39,874)</u>
Financing Activities				
Dividend paid	(11,400)	(6,800)	(38,560)	(13,060)
Increase (decrease) in short-term debt	18,800	22,500	(32,600)	(56,700)
Repayment of long-term debt	-	-	(19,757)	-
Sinking fund instalments	(1,399)	(2,161)	(2,951)	(3,711)
Proceeds from long-term debt	-	-	-	50,000
Cash provided by (used in) financing activities	<u>6,001</u>	<u>13,539</u>	<u>(93,868)</u>	<u>(23,471)</u>
Increase (decrease) in cash during period	886	47	2,672	(1,828)
Cash position, beginning of period	<u>491</u>	<u>(44)</u>	<u>(1,295)</u>	<u>1,831</u>
Cash position, end of period	<u>\$ 1,377</u>	<u>\$ 3</u>	<u>\$ 1,377</u>	<u>\$ 3</u>

Cash position consists of cash less bank indebtedness.

(See accompanying notes)

SaskEnergy Incorporated
Notes to the Consolidated Financial Statements
September 30, 2004
Unaudited

1. Accounting Policies

SaskEnergy Incorporated (SaskEnergy or the Corporation) prepares its consolidated interim financial statements in accordance with Canadian generally accepted accounting principles except that the disclosures do not conform in all respects to the requirements for annual financial statements. The consolidated interim financial statements follow the same accounting policies and methods of computation as the consolidated financial statements for the year ended December 31, 2003, except as described in note 2.

These consolidated interim financial statements, which are unaudited, should be read in conjunction with the consolidated financial statements for the year ended December 31, 2003 and have been prepared from the records of the Corporation. The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenue and expenses. Actual amounts could differ from these estimates.

The consolidated interim financial statements should not be taken as indicative of the performance to be expected for the full year due to the seasonal nature of the natural gas utility business in Saskatchewan.

2. Change in Accounting Policy

Asset Retirement Obligations

Until December 31, 2003, SaskEnergy recognized its responsibility for the estimated future costs associated with the permanent decommissioning of the Corporation's property, plant and equipment in accordance with the existing Canadian Institute of Chartered Accountants (CICA) Handbook section 3061. The estimated cost of retiring these assets was being amortized on a straight-line basis over the expected useful life of the related assets. As at December 31, 2003, the Corporation had recorded a total provision of \$1,950 thousand for the decommissioning of certain natural gas storage fields.

Effective January 1, 2004 SaskEnergy adopted the new CICA Handbook section 3110, "Asset Retirement Obligations". The decommissioning costs referred to above, are now recognized in accordance with this new standard. The Corporation is required to record this accounting change retroactively with a restatement of prior periods to show what the effect would have been on the assets, liabilities, earnings and retained earnings if the new policy had been followed in prior periods. The impact of the accounting policy change was a \$121 thousand decrease in net earnings for 2003.

The impact of this accounting change is as follows:

	Year Ended December 31 2003	Three Months Ended September 30 2003	Nine Months Ended September 30 2003
Impact of Accounting Change		Increase/ (Decrease) (thousands)	
Consolidated Statement of Earnings and Retained Earnings			
Amortization of property, plant and equipment	\$ 260	\$ 65	\$ 195
Operating and maintenance expense	(139)	(34)	(104)
Net earnings	(121)	(31)	(91)
Consolidated Statement of Financial Position			
Property, plant and equipment, net	1,302	1,367	1,367
Accounts payable	(1,950)	(1,888)	(1,888)
Asset retirement obligation	2,401	2,373	2,373
Retained earnings, beginning of period	972	912	972
Retained earnings, end of period	851	881	881

SaskEnergy Incorporated
Notes to the Consolidated Financial Statements
September 30, 2004
Unaudited

3. Gas Cost Variance Account

The Gas Cost Variance Account (GCVA), as at September 30, includes natural gas costs to be recovered from or refunded to customers as follows: (thousands)

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
		<i>(restated-note 2)</i>		<i>(restated-note 2)</i>
Commodity sales revenue	\$ 33,617	\$ 31,258	\$ 257,152	\$ 233,515
Cost of gas before interest on the GCVA	33,410	31,477	240,484	270,701
Interest on the GCVA	<u>163</u>	<u>352</u>	<u>577</u>	<u>1,235</u>
	33,573	31,829	241,061	271,936
Other items:				
Loss on excess gas sales	-	(12,784)	-	(12,784)
Mark-to-market adjustment	(1,734)	-	(1,073)	-
Interest not recoverable	<u>(60)</u>	<u>(905)</u>	<u>(254)</u>	<u>(905)</u>
	<u>31,779</u>	<u>18,140</u>	<u>239,734</u>	<u>258,247</u>
Change in balance during period	1,838	13,118	17,418	(24,732)
Balance, beginning of period, to be collected from customers	<u>33,356</u>	<u>69,527</u>	<u>48,936</u>	<u>31,677</u>
Balance, end of period, to be collected from customers in future periods	<u>\$ 31,518</u>	<u>\$ 56,409</u>	<u>\$ 31,518</u>	<u>\$ 56,409</u>

4. Comparative Figures

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