



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 period ended March 31, 2005. This discussion should be read in conjunction with the consolidated interim financial statements and accompanying note. For additional information relative to its operations and financial position, refer to the Corporation's Annual Report for the year ended December 31, 2004.

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 327,000 residential, farm, commercial and industrial customers over a 65,000 kilometre pipeline distribution system. The transmission system provides transportation and storage service to the distribution system, producers, marketers and large volume end-use customers within Saskatchewan.

SaskEnergy has seven wholly-owned subsidiaries:

- TransGas Limited – owns natural gas transportation and storage facilities;
- 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

<i>Three Months ended March 31</i>	2005	2004
Financial Highlights		
Consolidated Net Earnings (millions)	\$ 35	\$ 45
Total Assets (millions)	\$ 1,246	\$ 1,189
Long-term Debt (millions)	\$ 675	\$ 662
Operating Highlights		
Distribution		
Volumes Distributed - Petajoules	49	50
Winter Weather - Compared to the thirty year average	3% colder	Normal
Average Cost of Natural Gas to March 31 - Dollars per Gigajoule	\$6.88	\$6.50
Transmission		
Volumes Transported - Petajoules	102	105
Peak Day Natural Gas Flows (Winter Season) – Petajoules	1.38 January 15	1.48 January 27

Financial Results

Consolidated Net Earnings

Earnings from operations of \$31.6 million for the first three months of 2005 were an increase of \$0.1 million compared to the same period in 2004. Although revenue from operations of \$97.0 million was lower than 2004 by \$3.1 million, this was more than offset by a decrease in expenses of \$3.2 million. The gain on commodity sales of \$3.1 million was \$10.6 million lower than the gain in the first three months of 2004 due higher prices paid for natural gas. The reduced gain on commodity sales was the primary factor causing consolidated earnings of \$34.8 million for the first quarter of 2005 to be \$10.6 million lower than the first quarter of 2004.

A. Revenue

1. Delivery Revenue

Delivery revenue in the first quarter of 2005 was \$62.1 million, which was \$1.2 million lower than the same period in 2004. The majority of SaskEnergy's distribution customers consume natural gas for heating purposes and, as a result, the volume of natural gas distributed is sensitive to variations in weather, particularly through the November-to-March prime heating load season. The weather from January 1 to March 31, 2005 was warmer than the same period in 2004, resulting in lower delivery revenue.

2. Transportation and Storage Revenue

Transportation and storage revenue for the first quarter of 2005 was \$21.5 million, which was \$0.6 million lower than the first quarter of 2004.

Transportation revenue in 2005 was lower as a result of a 3.4 per cent rate decrease implemented in November 2004.

Storage revenue for 2005 was consistent with the same period in 2004. As in prior periods, storage continues to be fully contracted.

3. Net Sales from Gas Marketing

SaskEnergy leverages its transmission and storage capacity during off-peak periods to earn a margin by purchasing and selling natural gas in the open market. The volume of activity is dependent upon market conditions such as price volatility and therefore margins can vary from

year to year. Based on market conditions in 2005, net sales from gas marketing activities for the first quarter of 2005 were \$1.9 million compared to \$3.4 million in the first quarter of 2004.

B. Expenses

Total expenses to March 31, 2005 were \$65.4 million, which was \$3.2 million lower than the first quarter of 2004.

Operating and maintenance expense for the first three months of 2005 was \$29.3 million compared to \$31.1 million for 2004. The major reason for the decrease is due to certain expenses in 2005 occurring later than in 2004. Increases over the same period in 2004 include transportation costs paid to third parties of \$0.5 million.

Interest expense of \$12.3 million in the first quarter of 2005 was lower by \$0.4 million compared to the same period in 2004, due to a reduction in over-all debt levels and average interest rates.

Amortization of property, plant and equipment, payments to municipalities to March 31, 2005 were consistent with the same period in 2004.

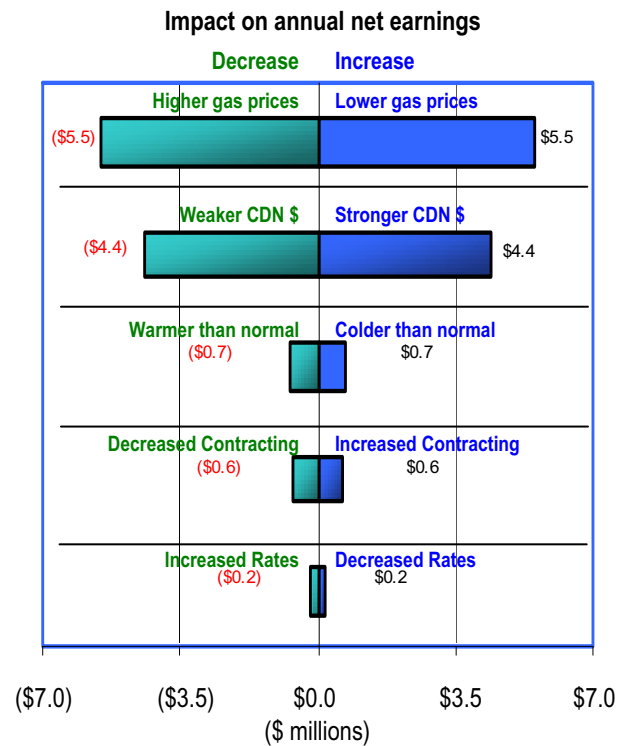
C. Gain on Commodity Sales

Similar to practices in other regulated Canadian jurisdictions, SaskEnergy's commodity rates are designed to ensure that, in the long term, the Corporation neither profits from nor incurs a loss on the sale of natural gas to its commodity customers. However, SaskEnergy may experience gains or losses on commodity sales during a fiscal period depending on the difference between commodity rates and the cost of gas sold. The gain on commodity sales for the three months ended March 31, 2005 was \$3.2 million compared to a gain of \$13.9 million for the same period in 2004. During the first three months of 2005, the cost of gas sold was \$6.88 per gigajoule (GJ) compared to a commodity rate of \$6.97 per GJ. In the first quarter of 2004 the commodity rate was \$6.97 per GJ compared to the cost of gas sold of \$6.50 per GJ.

Outlook

The earnings of SaskEnergy are influenced by changes in a number of factors. The following are the factors that can cause the greatest variability in earnings:

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



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

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

	<u>As at</u> <u>March 31, 2005</u> <i>(unaudited)</i>	<u>As at</u> <u>December 31, 2004</u> <i>(audited)</i>
Assets		
Current assets		
Cash	\$ 5,275	\$ 3,637
Accounts receivable	200,242	173,726
Natural gas in storage held for resale	32,927	95,966
Inventories of supplies	<u>6,702</u>	<u>6,843</u>
	245,146	280,172
Property, plant and equipment (net)	944,837	949,461
Investments and other assets	31,163	31,755
Natural gas in storage held for resale and operations	<u>24,995</u>	<u>25,053</u>
	<u>\$ 1,246,141</u>	<u>\$ 1,286,441</u>
Liabilities and Province's Equity		
Current liabilities		
Short-term debt	\$ 39,000	\$ 78,900
Accounts payable	152,133	159,422
Dividend payable	14,300	26,500
Current portion of long-term debt	<u>131,235</u>	<u>106,235</u>
	336,668	371,057
Long-term debt	<u>543,538</u>	<u>569,348</u>
	<u>880,206</u>	<u>940,405</u>
Province of Saskatchewan's equity		
Equity advances	71,531	71,531
Retained earnings	296,901	276,431
Foreign currency translation adjustment	<u>(2,497)</u>	<u>(1,926)</u>
	365,935	346,036
	<u>\$ 1,246,141</u>	<u>\$ 1,286,441</u>

(See accompanying note)

On behalf of the Board:



Director



D

SaskEnergy Incorporated
Consolidated Statement of Earnings and Retained Earnings
(thousands of dollars)

	Three months ended March 31	
	<u>2005</u>	<u>2004</u>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Revenue		
Delivery	\$ 62,139	\$ 63,371
Transportation and storage	21,468	22,021
Revenue collected for municipalities	10,261	10,445
Net sales from gas marketing	1,918	3,373
Other	<u>1,222</u>	<u>892</u>
	<u>97,008</u>	<u>100,102</u>
Expenses		
Operating and maintenance	29,282	31,051
Interest	12,264	12,687
Amortization of property, plant and equipment	12,330	12,298
Payments to municipalities	10,261	10,445
Saskatchewan taxes and royalties	<u>1,257</u>	<u>2,091</u>
	<u>65,394</u>	<u>68,572</u>
Earnings from operations before the following	<u>31,614</u>	<u>31,530</u>
Commodity revenue	167,621	174,660
Cost of gas sold	<u>164,465</u>	<u>160,805</u>
Gain on commodity sales	<u>3,156</u>	<u>13,855</u>
Net earnings	<u>34,770</u>	<u>45,385</u>
Retained earnings, beginning of period	276,431	238,589
Dividend	<u>(14,300)</u>	<u>(16,600)</u>
Retained earnings, end of period	<u>\$ 296,901</u>	<u>\$ 267,374</u>

(See accompanying note)

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

	Three months ended March 31	
	<u>2005</u>	<u>2004</u>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Operating Activities		
Net earnings	\$ 34,770	\$ 45,385
Add (deduct) items not requiring an outlay of cash		
Amortization of property, plant and equipment	12,330	12,298
Other non-cash items	(539)	(1,658)
	<u>46,561</u>	<u>56,025</u>
Net change in non-cash working capital related to operations	<u>29,375</u>	<u>24,717</u>
Cash provided by operating activities	<u>75,936</u>	<u>80,742</u>
Investing Activities		
Additions to property, plant and equipment	(8,080)	(8,514)
Customer capital contributions received	374	2,592
Decrease in natural gas in storage (non-current)	58	60
	<u>(7,648)</u>	<u>(5,862)</u>
Financing Activities		
Decrease in short-term debt	(39,900)	(62,500)
Dividend paid	(26,500)	(10,560)
Sinking fund instalments	(250)	(250)
	<u>(66,650)</u>	<u>(73,310)</u>
Increase in cash during period	1,638	1,570
Cash position, beginning of period	<u>3,637</u>	<u>(1,295)</u>
Cash position, end of period	<u>\$ 5,275</u>	<u>\$ 275</u>

Cash position consists of cash less bank indebtedness.

(See accompanying note)

SaskEnergy Incorporated
Note to the Consolidated Financial Statements
March 31, 2005
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, 2004.

These consolidated interim financial statements, which are unaudited, should be read in conjunction with the consolidated financial statements for the year ended December 31, 2004 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.