SASKENERGY INCORPORATED

FIRST QUARTER REPORT
March 31, 2015

TABLE OF CONTENTS

CORPORATE PROFILE

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

SaskEnergy's main business is the natural gas Distribution Utility. SaskEnergy owns and operates the Distribution Utility, which has the exclusive legislated franchise to distribute natural gas within the Province of Saskatchewan. The Provincial Cabinet regulates SaskEnergy's delivery and commodity rates. All rate changes are subject to review by the Saskatchewan Rate Review Panel, an independent body, prior to receiving Provincial Cabinet approval.

SaskEnergy's corporate structure includes four wholly owned and two indirect wholly owned operating subsidiaries as follows:

Bayhurst Gas Limited (Bayhurst) owns, produces, and sells natural gas from its storage facilities in the western area of Saskatchewan. Bayhurst also owns a gross overriding royalty on several properties in Saskatchewan and Alberta. Bayhurst has two wholly owned subsidiaries as follows:

Bayhurst Energy Services Corporation (BESCO) is an energy services company. BESCO owns a 50 per cent interest in a natural gas processing plant in southeastern Saskatchewan, which is operated through a joint arrangement with ATCO Energy Solutions. BESCO is also the sole owner and operator of a gathering and processing facility in Coleville as well as a bulk compressed natural gas fueling facility in Weyburn.

BG Storage Inc. (BGSI) owns a 50 per cent interest in a natural gas storage business, which is operated through a joint arrangement with Faro Energy Ventures Ltd.

Many Islands Pipe Lines (Canada) Limited (MIPL) is a transmission company that owns nine natural gas transmission pipeline interconnections into Alberta, two into the United States, and one into Manitoba, all of which connect to the TransGas Limited system. MIPL is regulated by the National Energy Board.

Saskatchewan First Call Corporation (*Sask 1st Call*) provides a centralized "Call Before You Dig" underground facility screening and notification service. *Sask 1st Call* was established primarily for safety reasons to maintain a database of oil, natural gas, and other underground infrastructures. *Sask 1st Call* provides a service whereby landowners and other stakeholders can contact *Sask 1st Call* to request the location of pipeline- and non-pipeline-related facilities of its subscribers. *Sask 1st Call's* rate structure is intended to operate on a break-even basis.

TransGas Limited (TransGas) owns and operates the Transmission Utility and has the exclusive legislated franchise to transport natural gas within the Province of Saskatchewan. It also owns and operates a non-regulated natural gas storage business which is integrated with the transmission pipeline system. TransGas' transportation and storage rates are subject to Provincial Cabinet approval. TransGas has a Customer Dialogue process where business, operational and rate matters are openly discussed with a representative group of customers.

As a Crown corporation, SaskEnergy is committed to ensuring that all corporate activities are in strategic alignment with the Government of Saskatchewan's Crown Sector Priorities. Providing safe, reliable, high quality service to its customers is critically important to the Corporation – as is the provision of infrastructure necessary for the Province to grow and prosper.

VISION, MISSION AND VALUES

VISION

To create a competitive advantage for Saskatchewan through safe, innovative energy solutions.

MISSION

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

VALUES

FINANCIAL AND OPERATING HIGHLIGHTS

	Three months ended March 31	
	2015	**2014**
FINANCIAL HIGHLIGHTS		
($ millions)		
Total revenue	**275**	362
Total expenses	**220**	299
Consolidated net income	**55**	63
Market value adjustments	**6**	24
Income before unrealized market value adjustments	**49**	39
Dividends	**10**	6
Cash provided by operating activities	**89**	80
Capital expenditures	**31**	29
Total assets	**2,373**	2,231
Total net debt	**1,110**	1,031
Debt ratio	**60.0%**	56.3%
OPERATING HIGHLIGHTS		
Distribution		
Volumes distributed (petajoules)	**61**	66
Weather (compared to last 30 years)	**1% warmer**	17% colder
Transmission		
Volumes transported (petajoules)	**90**	92
Peak day natural gas flows (petajoules)	**1.34**	1.37
Date of peak flow	**January 4**	February 6

INTRODUCTION

The Management's Discussion and Analysis (MD&A) highlights the primary factors that affected SaskEnergy's consolidated financial condition and performance for the three month period ended March 31, 2015. Using financial and operating results as its basis, the MD&A describes the Corporation's past performance and future prospects, enabling readers to view SaskEnergy from the perspective of management. This MD&A is presented as at May 22, 2015 and should be read in conjunction with the Corporation's condensed consolidated financial statements, which have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting* using accounting policies consistent with International Financial Reporting Standards (IFRS). For additional information related to the Corporation, refer to SaskEnergy's 2014 Annual Report.

The following discussion contains certain forward-looking statements that are subject to inherent uncertainties and risks, which are described in the Risk Management and Disclosure section of SaskEnergy's 2014 Annual Report. All forward-looking statements reflect the Corporation's best estimates and assumptions based on information available at the time the statements were made. However, actual results and events may vary significantly from those included in, contemplated by, or implied by such statements.

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

In order to compare financial performance from period to period, the Corporation uses the following measures: income before unrealized market value adjustments, realized margin on commodity sales, and realized margin on gas marketing sales. Each measure removes the impact of fair value adjustments on financial and derivative instruments and the revaluation of natural gas in storage to the lower of cost and net realizable value. These unrealized market value adjustments vary considerably with the market prices of natural gas, drive significant changes in the Corporation's consolidated net income, and may obscure other business factors that are also important to understanding the Corporation's financial results. The measures referred to above are non-IFRS measures, in that there is no standardized definition, and may not be comparable to similar measures presented by other entities.

CONSOLIDATED FINANCIAL RESULTS

Consolidated Net Income

	Three months ended March 31		
(millions)	**2015**	**2014**	**Change**
Income before unrealized market value adjustments	**$ 49**	$ 39	$ 10
Impact of fair value adjustments	**6**	13	(7)
Revaluation of natural gas in storage	**-**	11	(11)
Consolidated net income	**$ 55**	$ 63	$ (8)

The demand for natural gas, is cyclical and depends on the time of year and changes from season to season, typically peaking in the first quarter before tapering off in the spring and summer months. High demand for natural gas in the coldest months of winter is driven by residential and commercial heating requirements. In the first quarter of 2014, one of the coldest winters Saskatchewan experienced in the past 30 years, the Corporation saw system and supply challenges which led to additional costs throughout all aspects of the Corporation's business. In contrast the winter of 2015 was much closer to normal, and combined with natural gas price declines from the same period in 2014, there were fewer pressures on operating costs.

Low natural gas market prices and a commodity rate increase effective July 1, 2014 have contributed to higher realized commodity margins in the first quarter of 2015, which is the main driver of the higher income before unrealized market value adjustments in 2015 relative to 2014. While throughput on the transportation and distribution systems is down relative to 2014, the impact that would have had on revenue has been offset by transportation and delivery rate increases, as well as an increase in firm transportation services and additional distribution customers.

Natural gas market prices are expected to remain low throughout 2015, which may limit gas marketing opportunities compared to prior years. The decline in natural gas prices will continue to generate unfavourable unrealized market value adjustments on natural gas contracts and natural gas in storage, however in the first quarter the settlement of existing contracts has resulted in a favourable market value adjustment. Natural gas liquid prices have also declined, resulting in an impairment of gas processing assets being recognized for the period ending March 31, 2015.

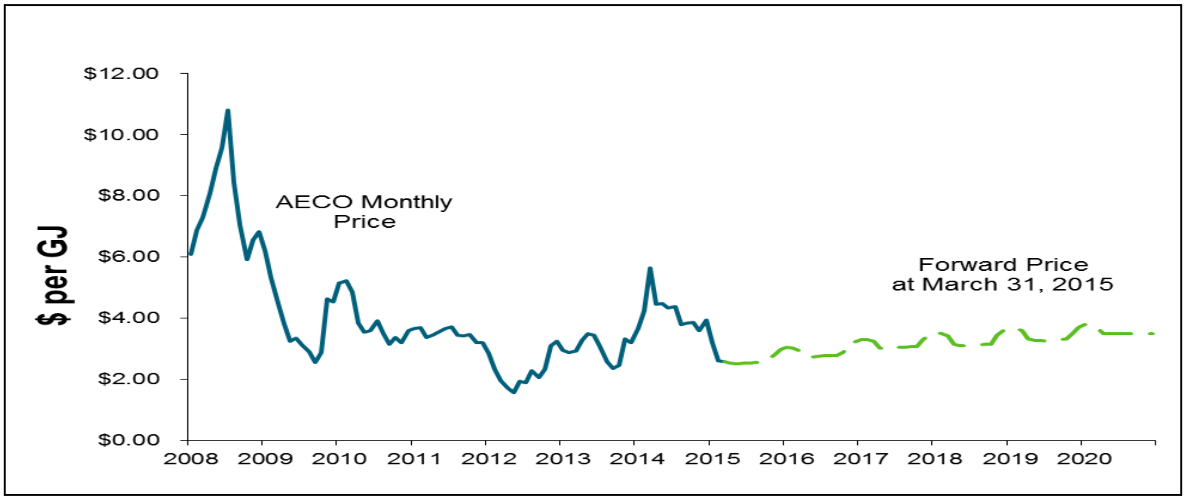
Natural Gas Prices

Natural gas prices are set in an open market and are influenced by a number of variables including production, demand, natural gas storage levels and economic conditions. Given the high demand for natural gas to heat homes and businesses during the cold winter months and the demand for natural gas to generate incremental electricity for air conditioning in the summer, weather has the greatest impact on natural gas prices in the near term. Due to the high degree of uncertainty associated with weather, natural gas prices can be very volatile.

Prices remained low in the first quarter of 2015 as a result of continued record levels of production and unseasonable warm weather in western North America. Prices had declined sharply at the end of 2014 after hitting a five year high in March 2014 following one of the coldest winters in Canada and the U.S. in over 20 years.

The AECO monthly index, the benchmark price for natural gas in western Canada, averaged $2.80/GJ in the first three months of 2015, down from an average of $4.51/GJ from the same time period in 2014.

The following chart presents AECO natural gas prices. Most natural gas in Saskatchewan is priced at a differential to the AECO price and is usually between $0.05 per gigajoule (GJ) and $0.20 per GJ higher than AECO, which is consistent with the differential in the first quarter.



Natural Gas Sales and Purchases

Included within natural gas sales and purchases are rate-regulated commodity sales to distribution customers and non-regulated gas marketing activities. Although presented together within the consolidated financial statements in accordance with IFRS, the Corporation manages these activities as distinct and separate businesses and, as such, the MD&A addresses these natural gas sales and purchases separately.

Commodity Sales to Customers

SaskEnergy sells natural gas to its distribution customers at a commodity rate approved by Provincial Cabinet based on the recommendations of the Saskatchewan Rate Review Panel. The commodity rate, which is reviewed April 1 and November 1 of each year, is determined based on rate-setting principles and is designed to recover the realized costs associated with natural gas sold to distribution customers without earning a profit or incurring a loss over the long term. For rate-setting purposes, SaskEnergy accumulates differences between the commodity revenue earned and the cost of natural gas sold in a Gas Cost Variance Account (GCVA). The balance in the GCVA, which is not recorded for financial reporting purposes, is either recovered from or refunded to customers as part of future commodity rates.

For financial reporting purposes, the Corporation prepares its financial statements on a consolidated basis while applying IFRS. Consequently, the amounts determined for rate-setting purposes are different than those reported within its consolidated financial statements. The most notable differences are the elimination of intercompany costs in the preparation of the consolidated financial statements, including transportation costs paid to TransGas, as well as the timing related to recognition of financial derivative settlements. While a gain or loss is commonly reported in the Corporation's consolidated financial statements, it should not be taken as indicative of the results recorded within the GCVA. The commodity margins on sales to customers, as reported in the consolidated financial statements, were as follows:

Commodity Margin

(millions)	Three months ended March 31 2015	2014	Change
Commodity sales	**$ 130**	$ 121	$ 9
Commodity purchases [1]	**(111)**	(120)	9
Realized margin on commodity sales	**19**	1	18
Impact of fair value adjustments	**9**	27	(18)
Margin on commodity sales	**$ 28**	$ 28	$ -

[1] Net of change in inventory

SaskEnergy manages the purchase price of natural gas it buys through its natural gas price risk management program with two objectives in mind: to reduce the volatility of natural gas prices and to offer rates that are competitive to other utilities. The two objectives naturally oppose each other, and the balance between the two may change depending on existing market conditions. In order to ensure a secure supply of natural gas, SaskEnergy contracts for the physical delivery of natural gas using non-financial derivatives, referred to as forward or physical natural gas contracts. The purchase price contained in these forward contracts may be fixed, or it may be based on a variable index price. While fixed price contracts reduce the impact of natural gas price volatility, variable or market prices can assist in offering competitive rates depending on the pricing environment. SaskEnergy uses financial derivatives and physical swaps to manage the future purchase price of natural gas.

As derivative instruments, natural gas contracts are recorded at fair value until the settlement date. Changes in the fair value of the derivative instruments, driven by changes in future natural gas prices, are recorded in either commodity sales or commodity purchases depending on the specific contract. Upon settlement of the contract, the amount paid or received by SaskEnergy becomes realized and is recorded in commodity sales or purchases. For the first three months of 2015, fair value adjustments increased the margin on commodity sales by $9 million as the $104 million unfavourable fair value position at the end of 2014 improved to a $95 million unfavourable position at the end of March 2015. The settlement of contracts during the first quarter of 2015 contributed to a lower volume of contracts outstanding at March 31, 2015. Additionally, the remaining contracts have a lower average contract price, which improves the fair value.

The realized margin on commodity sales excludes the impact of unrealized fair value adjustments on derivative instruments, as these adjustments can fluctuate significantly from one period to the next and do not necessarily represent the amount that will be paid upon settlement of the related natural gas contract. On a consolidated basis, the Corporation realized a $19 million margin on commodity sales, with average revenue of $4.57 per GJ and average cost of gas sold of $3.91 per GJ. This compared to a $1 million realized margin in 2014. The higher commodity margin in 2015 is a result of the Corporation's first commodity rate increase in six years to $4.84 per GJ effective July 1, 2014, combined with low natural gas market prices allowing the Corporation to reduce the average price of commodity purchases.

Gas Marketing Sales

(millions)	Three months ended March 31 2015	2014	Change
Gas marketing sales	**$ 34**	$ 145	$ (111)
Gas marketing purchases [1]	**(30)**	(140)	110
Realized margin on gas marketing sales	**4**	5	(1)
Impact of fair value adjustments	**(4)**	(16)	12
Revaluation of natural gas in storage	**-**	11	(11)
Margin on gas marketing sales	**$ -**	$ -	$ -

[1] Net of change in inventory

SaskEnergy's gas marketing activity employs several different strategies, all of which attempt to optimize storage and transportation capacity available to the Corporation to earn a positive margin. The most significant gas marketing activity is focused on utilizing the storage capabilities of a depleted gas field in west-central Saskatchewan. The primary strategy involves the purchase of natural gas accompanied by a forward sales contract that essentially locks in a future profit margin. Low natural gas market prices in the past few years created opportunities for the Corporation to purchase relatively low-priced natural gas which has been injected into storage facilities to be sold in the future when prices are higher. The Corporation also optimizes transmission and storage capacity during off peak periods, by purchasing and selling natural gas in the open market to generate additional margins. The margins earned on this activity benefit customers by reducing pressure on transmission and distribution rates. Lastly, SaskEnergy provides natural gas supply options to larger end-use customers in Saskatchewan through non-regulated contract sales.

Transactions undertaken through the Corporation's gas marketing strategies create risk, especially given the volatility of natural gas market prices. In its gas marketing activities, the Corporation enters into various natural gas contracts. These contracts are derivative instruments and, as such, are recorded at fair value until the date of settlement. Changes in fair value positions are recorded in either gas marketing sales or gas marketing purchases, depending on the specific natural gas contract. Once settled, the amount paid or received for the contract is recorded in gas marketing sales or gas marketing purchases, as appropriate. During the first three months of 2015, fair value adjustments on derivative instruments reduced the margin on gas marketing sales by $4 million as the fair value position declined from $17 million favourable at the end of 2014 to $13 million favourable at the end of March 2015. The change reflects the Corporation's lower volume of outstanding contracts at the end of the period due to contracts settling in the first quarter of 2015.

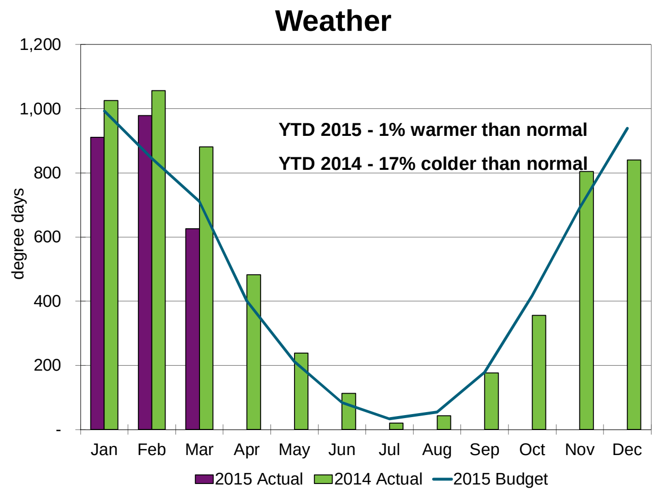
At each reporting period, the Corporation measures the net realizable value of gas marketing natural gas in storage based on forward market prices and anticipated delivery dates. The carrying amount of natural gas in storage is adjusted to reflect the lower of weighted average cost and net realizable value. In recent years, low natural gas prices have translated to reduced prices on the forward curve, and consequently, the net realizable value of gas marketing natural gas in storage was $23 million below cost as at March 31, 2015, resulting in no change to the revaluation adjustment at December 31, 2014.

The realized margin on gas marketing sales, which removes fair value adjustments on derivative instruments and the revaluation of natural gas in storage, was $4 million. This was a decrease of $1 million from the same period last year as low market prices for natural gas and forward market pricing limited the opportunities for the Corporation to transact significant volumes of purchases and sales.

Delivery Revenue

The Corporation earns delivery revenue based on the volume of natural gas delivered to distribution customers plus a basic monthly charge.

Delivery revenue is highly dependent on weather during the first quarter as natural gas is primarily used as heating fuel by residential and commercial customers during the cold winter months. Delivery revenue of $80 million was $5 million below 2014 as the first three months of 2015 were 1% warmer than normal, based on weather data for the past 30 years, compared to 17% colder than the same period in 2014. The warmer weather decreased customer consumption compared to 2014 resulting in lower delivery revenue, which was partially offset by a delivery rate increase effective September 1, 2014 and increased customer growth.



Transportation and Storage Revenue

The Corporation's subsidiary, TransGas, provides receipt and delivery transportation through the use of the TransGas Energy Pool (TEP), a notional point where producers, marketers and end-users can match supplies to demand. On the receipt side, the Corporation offers both firm and interruptible transportation from points of receipt to TEP. On the delivery side, the Corporation offers firm and interruptible service for gas delivered from TEP to consumers within Saskatchewan or for export. Integral to the Corporation's transmission system are several strategically located natural gas storage sites with the capacity to provide operational flexibility along with a reliable and competitive natural gas storage service.

Year-to-date, transportation and storage revenue of $30 million was $7 million above the same period in 2014. This was primarily due to a rate increase effective January 1, 2015 combined with higher contracted demand volumes, resulting in higher direct and receipt revenue, and increased recoveries for its service to import natural gas from Alberta. The higher direct and receipt revenue is a result of a number of customers moving from interruptible service to firm delivery contracts during the second quarter of 2014. When customers transfer from interruptible to firm contracts it increases demand revenue for TransGas and also improves revenue certainty which is more supportive of required pipeline expansions. Conversely, storage revenue was down slightly from the same period last year due to customer preference to buy/sell at the market rather than use storage, a result of the low natural gas price environment.

Customer Capital Contribution Revenue

The Corporation receives capital contributions from customers in exchange for the construction of new, customer-specific service connections. These contributions, less potential refunds, are recognized as revenue once the related property, plant, and equipment is available for use. The volume and magnitude of these contributions can vary significantly period over period as varying factors influence their receipt. Generally, customer capital contributions mirror the projects themselves – those related to the transmission system tend to be larger but less frequent than contributions related to the distribution system. Customer capital contribution revenue of $3 million, driven by the year-to-date distribution system customer connections, was $2 million below the same period last year due to slower customer connection activity.

Other Revenue

Other revenue primarily consists of revenues from natural gas processing operations and royalty revenues. The Corporation's natural gas processing operations include gas processing at two separate gas plants and the sale of natural gas liquids from the processing operations. Royalty revenue is generated from a gross overriding royalty on several natural gas-producing properties in Saskatchewan and Alberta. Other revenue of $2 million for the first three months of 2015 is $2 million lower than 2014 as a result of lower natural gas liquid prices.

Other Expenses

With strong growth in the provincial economy in recent years, the Corporation has experienced significant growth in its customer base and pipeline facilities. The increasing investment in facilities directly affects depreciation and amortization and corporate capital taxes. While the Corporation continues to focus on improving operating cost efficiencies, operating costs have increased in the first quarter of 2015 relative to 2014 largely due to the cost of transporting additional gas into Saskatchewan to meet growing demand.

Net Finance Expenses

Net finance expenses, before the impact of fair value adjustments, were $9 million in 2015 compared to $11 million in 2014. Increasing interest expense is a direct result of the higher debt financing needed to fund the Corporation's growing capital expenditure requirements, which was offset by increased earnings on debt retirement funds. There was also a $1 million favourable fair value adjustment on debt retirement funds during 2015, an outcome of reduced interest rates on the fair value of primarily fixed-rate investments.

Other Losses

Recent changes in the oil and gas market have led to declining natural gas and natural gas liquid prices, which have adversely affected cash flows generated from gas processing plant assets. A $3 million impairment on gas processing plant assets was recorded at March 31, 2015 to recognize the impact of lower natural gas liquid prices on its value in use.

LIQUIDITY AND CAPITAL RESOURCES

	Three months ended March 31		
(millions)	**2015**	**2014**	**Change**
Cash provided by operating activities	**$ 89**	$ 80	$ 9
Cash used in investing activities	**(31)**	(30)	(1)
Cash used in financing activities	**(53)**	(44)	(9)
Increase in cash and cash equivalents	**$ 5**	$ 6	$ (1)

Cash from operations and debt borrowed from the Province of Saskatchewan's General Revenue Fund are the primary sources of liquidity and capital for SaskEnergy. Sources of liquidity include Order in Council authority to borrow up to $400 million in short-term loans. The Corporation holds a $35 million uncommitted line of credit with the Toronto-Dominion Bank. Over the longer term, *The SaskEnergy Act* allows the Corporation to borrow up to $1,700 million.

Cash from operating activities was $89 million in 2015, an increase of $9 million from the first three months of 2014. A higher commodity rate in 2015 has increased cash flow compared to 2014. This was partially offset by lower volumes sold to customers and lower delivery service revenue, both due to the near normal weather in 2015 compared to the extreme weather in 2014. The decline in natural gas prices continues to limit the Corporation's gas marketing activities. The volume of gas marketing natural gas in storage declined by 3 PJ from year end as existing sales contracts were settled, contributing to cash from operating activities.

Cash used in investing activities totaled $31 million for the first three months, $1 million above 2014. The majority of the capital investment was focused on system expansion and growth initiatives of $14 million, a result of Saskatchewan residential and industrial growth, as well as safety and integrity programming of $10 million, a sign of the Corporation's ongoing commitment to a safe, reliable system. The Corporation funds its high level of capital requirements with cash from operations and debt from the Province of Saskatchewan.

Cash used for financing activities was $53 million during the first quarter of 2015. With the cold weather, the Corporation provides service to customers to meet their high natural gas consumption, resulting in high revenue and cash flows in the first quarter. This increase in cash flow contributes to reducing short term debt outstanding at the end of March 2015. In addition, given the Corporation's relatively high short-term debt balances and attractive interest rates on long-term debt, the Corporation converted $62 million of its short-term debt to long-term debt during the first quarter of 2015 at an effective interest rate of 2.7%. SaskEnergy's debt ratio at the end of the period was 60%, slightly lower than December 31, 2014 and slightly higher than the Corporation's long-term target of 57%.

OUTLOOK

In close alignment with Saskatchewan Crown Sector Priorities and the Saskatchewan Plan for Growth, SaskEnergy's 2015 efforts will continue to focus on the four strategic mandates: Service Excellence, Achieving Growth, Our Team and Creating Value. The Corporation is financially well-positioned to achieve its business objectives in 2015 and over the five-year planning horizon.

Currently, 2015 is characterized by a forward pricing curve for natural gas that shows very little differential between current market prices and future market prices, which is good for customers and large consumers of natural gas who value stability and low prices. The $4.84 per GJ commodity rate approved on July 1, 2014, combined with a lower average cost of gas, due to declines in market prices, will continue to provide more favourable margins on commodity sales in 2015 and reduce the GCVA owing from customers.

The Corporation's gas marketing activities are not expected to provide the margins that were typical prior to 2014 when traditionally volatile natural gas prices allowed for price arbitrage transactions to be undertaken at relatively high margins. The gas marketing margin expected in 2015 is forecast to be slightly higher than the 2014 margin based on market conditions at the end of 2014. SaskEnergy will continue to look for opportunities throughout the year to extract additional value out of gas markets by leveraging its assets and expertise.

The Corporation expects to see the pace of Saskatchewan's economy slow to moderate levels in 2015 as commodity prices are not expected to recover significantly before the end of the year. In light of this, SaskEnergy has tempered its expectations for customer connection rates to levels closer to the ten year average. These lower expectations mean that delivery revenue growth will decline due to slower customer growth, compounded by reduced customer consumption due to increasing energy efficiency. Residential customer capital contributions have declined and are forecasted to be lower than 2014. Industrial and commercial demand for service is expected to continue at strong levels and exhibit steady growth through 2015, which will slightly mitigate the declines related to residential customers.

The heightened focus on security of natural gas supply and the need to look at cost effective options for sourcing that supply will continue in 2015. Saskatchewan production levels for conventional natural gas have been in steady decline for the past several years and are expected to remain at current levels going forward. As major industrial projects come on line, load pressures will increase and operating costs to meet those loads will continue to increase, though not to the same degree as in 2014. Third party transportation expenses, which were the key driver of higher operating costs in 2014, will decrease in 2015 as the investment in the Bayhurst to Rosetown pipeline will assist in managing third party transportation requirements.

The outlook for labour markets and contractor demand are unclear given the downturn in the provincial economy. The Corporation will continue pursuing its resourcing strategy which calls for relatively stable employee levels augmented by third party contract resources. In addition, efficiency initiatives will enhance productivity and will allow SaskEnergy to meet its business commitments in a nimble and cost effective manner with a focus on cost savings in employment, contract and consulting and vehicle costs.

SaskEnergy will continue to focus its efforts on providing safe and reliable service to customers without creating undue rate pressure. Spending will focus on upgrading infrastructure to meet load and service requirements, as well as the integrity of transmission, distribution and storage systems. The 2015 capital plan also includes funding for growth-related projects such as gas processing and associated gas capture. The Corporation has spent $30 million on capital projects in 2015 and plans to spend a total of $238 million on capital investment in 2015, which will be funded through operating cash flows and debt which will be made available through the Province at what are expected to be historically low interest rates.

In summary, SaskEnergy will continue to focus on investing in safety and growth initiatives and realizing efficiencies while targeting an income before unrealized market value adjustments of $73 million in 2015.

CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(millions)	Notes	As at March 31, 2015 (unaudited)	As at December 31, 2014 (audited)
Assets			
Current assets			
Cash		**$ 10**	$ 5
Trade and other receivables		**158**	148
Natural gas in storage held for resale	4	**92**	140
Inventory of supplies		**12**	12
Debt retirement funds		**7**	7
Fair value of derivative instruments	5	**16**	21
		295	333
Intangible assets		**49**	49
Property, plant and equipment		**1,936**	1,912
Debt retirement funds		**93**	86
		$ 2,373	$ 2,380
Liabilities and Province's equity			
Current liabilities			
Short-term debt		**$ 200**	$ 299
Trade and other payables		**86**	117
Dividends payable		**10**	3
Current portion of long-term debt	7	**50**	50
Deferred revenue		**92**	90
Fair value of derivative instruments	5	**97**	107
		535	666
Employee future benefits		**10**	10
Provisions		**112**	95
Deferred revenue		**6**	6
Long-term debt	7	**970**	908
		1,633	1,685
Province's equity			
Equity advances		**72**	72
Retained earnings		**668**	623
		740	695
		$ 2,373	$ 2,380

(See accompanying notes)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(unaudited)

		For the Three Months Ended March 31, 2015			For the Three Months Ended March 31, 2014		
(millions)	**Notes**	**Income before Unrealized Market Value Adjustments**	**Unrealized Market Value Adjustments (Note 9)**	**Total**	**Income before Unrealized Market Value Adjustments**	**Unrealized Market Value Adjustments (Note 9)**	**Total**
Revenue							
Natural gas sales	10	**$ 164**	**$ (4)**	**$ 160**	$ 266	$ (21)	$ 245
Delivery		**80**	**-**	**80**	85	-	85
Transportation and storage		**30**	**-**	**30**	23	-	23
Customer capital contributions		**3**	**-**	**3**	5	-	5
Other		**2**	**-**	**2**	4	-	4
		279	**(4)**	**275**	383	(21)	362
Expenses							
Natural gas purchases (net of change in inventory)	10	**141**	**(9)**	**132**	260	(43)	217
Employee benefits		**25**	**-**	**25**	24	-	24
Operating and maintenance		**28**	**-**	**28**	27	-	27
Depreciation and amortization		**21**	**-**	**21**	20	-	20
Saskatchewan taxes		**3**	**-**	**3**	2	-	2
		218	**(9)**	**209**	333	(43)	290
Income before the following		**61**	**5**	**66**	50	22	72
Finance income		**3**	**1**	**4**	1	2	3
Finance expenses		**(12)**	**-**	**(12)**	(12)	-	(12)
Net finance expenses		**(9)**	**1**	**(8)**	(11)	2	(9)
Other losses		**(3)**	**-**	**(3)**	-	-	-
Total net income and comprehensive income		**$ 49**	**$ 6**	**$ 55**	$ 39	$ 24	$ 63

(See accompanying notes)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(unaudited)

(millions)	Retained Earnings	Equity Advances	Other Components of Equity	Total
Balance as at January 1, 2014	$ 673	$ 72	$ -	**$ 745**
Comprehensive income	63	-	-	**63**
Dividends	(6)	-	-	**(6)**
Balance as at March 31, 2014	$ 730	$ 72	$ -	**$ 802**
Balance as at January 1, 2015	$ 623	$ 72	$ -	**$ 695**
Comprehensive income	55	-	-	**55**
Dividends	(10)	-	-	**(10)**
Balance as at March 31, 2015	$ 668	$ 72	$ -	**$ 740**

(See accompanying notes)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(unaudited)

(millions)	Notes	For the Three Months Ended March 31 2015	2014
Operating activities			
Net income and comprehensive income		**$ 55**	$ 63
Add (deduct) items not requiring an outlay of cash			
Net change in fair value of derivative instrument assets and liabilities	9	**(5)**	(11)
Change in revaluation of natural gas in storage to net realizable value	9	**-**	(11)
Depreciation and amortization		**21**	20
Net finance expenses		**8**	9
Other losses		**3**	-
		82	70
Net change in non-cash working capital related to operations	11	**7**	10
Cash provided by operating activities		**89**	80
Investing activities			
Additions to intangible assets		**(1)**	(1)
Additions to property, plant and equipment		**(30)**	(29)
Cash used in investing activities		**(31)**	(30)
Financing activities			
Debt retirement funds installments		**(3)**	(3)
Decrease in short-term debt		**(99)**	(267)
Dividends paid		**(3)**	(10)
Proceeds from long-term debt	7	**62**	246
Interest paid		**(10)**	(10)
Cash used in financing activities		**(53)**	(44)
Increase in cash and cash equivalents		**5**	6
Cash and cash equivalents, beginning of period		**5**	-
Cash and cash equivalents, end of period		**$ 10**	$ 6

(See accompanying notes)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

For the Three Months Ended March 31, 2015

1. General information

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

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

By virtue of *The Crown Corporations Act, 1993*, SaskEnergy has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC), a Saskatchewan provincially owned Crown corporation. Accordingly, the financial results of SaskEnergy are included in the consolidated financial statements of CIC. As a provincial Crown corporation, SaskEnergy and its wholly owned subsidiaries are not subject to Federal or Provincial income taxes in Canada.

2. Basis of preparation

a. Statement of compliance

The Corporation's condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting* using accounting policies consistent with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). The condensed consolidated financial statements do not include all the information required for the Corporation's annual consolidated financial statements. Accordingly, these statements should be read with reference to the annual report for the year ended December 31, 2014.

The condensed consolidated financial statements were authorized for issue by the Board of Directors on May 22, 2015.

b. Basis of measurement

The condensed consolidated financial statements have been prepared on the historical cost basis except for the following items:

Financial instruments classified as at fair value through profit or loss
Employee future benefits
Provisions

c. Functional and presentation currency

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

d. Use of estimates and judgments

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

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

Information about critical judgments in applying accounting policies that have a significant effect on the amounts recognized in the condensed consolidated financial statements include:

Revenue recognition related to unbilled revenue
Existence of decommissioning liabilities

2. Basis of preparation (continued)

Information about significant management estimates and assumptions that have a significant risk of resulting in a material adjustment within the next financial period include:

- Estimated unbilled revenue
- Net realizable value of natural gas in storage held for resale
- Fair value of financial and derivative instruments
- Useful lives and amortization rates for intangible assets
- Useful lives and depreciation rates for property, plant, and equipment
- Estimated unearned customer capital contributions
- Estimated future cost of decommissioning liabilities

3. Summary of significant accounting policies

The accounting policies, as detailed in Note 3 to the consolidated financial statements for the year ended December 31, 2014, have been applied consistently, by the Corporation and its subsidiaries, to all periods presented in these condensed consolidated financial statements.

a. Changes in accounting policies

Effective January 1, 2015, the Corporation adopted the following new and amended IFRS:

- IFRS 3 *Business combinations*
- IFRS 13 *Fair value measurement*
- IAS 16 *Property, plant and equipment*
- IAS 19 *Employee benefits*
- IAS 24 *Related party disclosures*
- IAS 38 *Intangible assets*

The adoption of these amended standards had no impact on the condensed consolidated financial statements.

b. Fair value measurements

For recurring and non-recurring fair value measurements, the Corporation estimates the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the reporting date under current market conditions. This requires the Corporation to make certain assumptions, including the principal (or most advantageous) market, the most appropriate valuation technique and the most appropriate valuation premise. The Corporation's own credit risk and the credit risk of the counterparty have been taken into account in determining the fair value of financial assets and liabilities, including derivative instruments.

In measuring fair value, the Corporation classifies items according to the following fair value hierarchy based on the amount of observable inputs:

i. Level 1

Quoted prices (unadjusted) are available in active markets for identical assets or liabilities as at the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide ongoing pricing information. The Corporation did not classify any of its fair value measurements within Level 1.

ii. Level 2

Inputs are other than quoted prices included within Level 1 that are either directly or indirectly observable for the asset or liability as at the reporting date. Level 2 valuations are based on inputs, including quoted market prices, time value, volatility factors and broker quotations which can be substantially observed or corroborated in the marketplace.

The fair value of debt retirement funds is determined by Saskatchewan's Ministry of Finance using a market approach with information provided by investment dealers. To the extent possible, valuations reflect indicative secondary pricing for these securities. In all other circumstances, valuations are determined with reference to similar actively traded instruments.

3. Summary of significant accounting policies (continued)

The fair value of natural gas derivative instruments is determined using a market approach. The Corporation obtains quoted market prices from sources such as the New York Mercantile Exchange and the Natural Gas Exchange, independent price publications and over-the-counter broker quotes.

The fair value of long-term debt is determined for disclosure purposes only using an income approach. Fair values are estimated using the present value of future cash flows discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.

iii. Level 3

Inputs are unobservable for the particular assets and liabilities as at the reporting date. The Corporation did not classify any of its fair value measurements within Level 3.

c. Future changes in accounting policies

The following new and amended standards are not yet effective and have not been applied in preparing these consolidated financial statements:

IFRS 9 *Financial Instruments* – replaces the rule-based hedge accounting requirements in IAS 39 *Financial Instruments: Recognition and Measurement* to more closely align the accounting with risk management activities. This standard is effective for annual periods beginning on or after January 1, 2018.

IFRS 15 *Revenue from Contracts with Customers* – clarifies the principles for recognizing revenue from contracts with customers and will affect the Corporation's accounting policies with respect to the following applicable revenue Standards and Interpretations upon its effective date:

IAS 18 *Revenue*
IAS 11 *Construction Contracts*
IFRIC 18 *Transfer of Assets from Customers*

This standard is effective for annual periods beginning on or after January 1, 2017.

The Corporation is continuing to review the new and amended standards and has not yet determined the impact on its condensed consolidated financial statements.

4. Natural gas in storage held for resale

(millions)	As at March 31, 2015	As at December 31, 2014
Cost	**$ 115**	$ 163
Revaluation to net realizable value	**(23)**	(23)
	$ 92	$ 140

With the decline in natural gas market prices over recent years, the net realizable value of natural gas in storage at the end of the quarter was $23 million below cost (December 31, 2014 - $23 million below cost). As at March 31, 2015, the Corporation expected that $48 million of the current inventory value would be sold or consumed within the next year, and $44 million of the current inventory value would be sold or consumed after more than one year.

5. Financial and derivative instruments

(millions)	Classification	Fair Value Hierarchy	As at March 31, 2015 Carrying Amount	As at March 31, 2015 Fair Value	As at December 31, 2014 Carrying Amount	As at December 31, 2014 Fair Value
Financial and derivative assets						
Cash	FVTPL	n/a	**$ 10**	**$ 10**	$ 5	$ 5
Trade and other receivables	LAR	n/a	**158**	**158**	148	148
Debt retirement funds	FVTPL	Level 2	**100**	**100**	93	93
Fair value of derivative instrument assets	FVTPL	Level 2	**16**	**16**	21	21
Financial and derivative liabilities						
Short-term debt	OL	n/a	**200**	**200**	299	299
Trade and other payables	OL	n/a	**86**	**86**	117	117
Dividends payable	OL	n/a	**10**	**10**	3	3
Long-term debt	OL	Level 2	**1,020**	**1,259**	958	1,145
Fair value of derivative instrument liabilities	FVTPL	Level 2	**97**	**97**	107	107

Classification details:
FVTPL - fair value through profit or loss
LAR - loans and receivables
OL - other liabilities

The fair value hierarchy is not applicable where the carrying amount approximates fair value due to the short-term nature of the financial instrument.

Notional values are an approximation of future undiscounted net cash flows. For physical natural gas contracts, the notional value is based on the contract price. For natural gas price swaps, the notional value is the difference between the contract price and the market price. Where contract prices are referenced to an index price that has not yet been fixed, the market price is used to estimate the contract price. As at March 31, 2015 natural gas derivative instruments had the following fair values, notional values, and maturities:

(millions)	2016	2017	2018	2019	2020	Total
Physical natural gas contracts						
Fair value	$ (39)	$ (14)	$ (4)	$ (2)	$ -	**$ (59)**
Notional value	(123)	(81)	(50)	(24)	(4)	**(282)**
Natural gas price swaps						
Fair value	(11)	(7)	(4)	-	-	**(22)**
Notional value	(11)	(7)	(4)	-	-	**(22)**
Total						
Fair value	$ (50)	$ (21)	$ (8)	$ (2)	$ -	**$ (81)**
Notional value	$ (134)	$ (88)	$ (54)	$ (24)	$ (4)	**$ (304)**

Fair value - increase (decrease) in net income
Notional value - estimated undiscounted net cash inflow (outflow)

5. Financial and derivative instruments (continued)

The fair value of the Corporation's outstanding natural gas contracts is presented in the condensed consolidated statement of financial position as follows:

(millions)		As at March 31, 2015		As at December 31, 2014
Fair value of derivative instrument assets	**$**	**16**	$	21
Fair value of derivative instrument liabilities		**(97)**		(107)
	$	**(81)**	$	(86)

Financial assets and liabilities are offset within the condensed consolidated statement of financial position if the Corporation has the legal right to offset and intends to settle on a net basis. When natural gas contracts settle or become realized, the Corporation records the amount due to or from counterparties within trade payables or trade receivables, respectively. The Corporation offsets these amounts when the counterparty and timing of settlement are the same, which reflects the Corporation's expected future cash flows from settling its natural gas contracts. At period end, the following amounts were netted within the condensed consolidated statement of financial position:

(millions)		As at March 31, 2015		As at December 31, 2014
Trade and other receivables				
Gross amount recognized	**$**	**14**	$	21
Amount offset		**(9)**		(13)
Net amount presented in the consolidated statement of financial position		**5**	$	8
Trade and other payables				
Gross amount recognized	**$**	**29**	$	37
Amount offset		**(9)**		(13)
Net amount presented in the consolidated statement of financial position	**$**	**20**	$	24

6. Property, plant and equipment

At March 31, 2015, as a result of the continued decline in natural gas liquid prices, the Corporation has incurred a $3 million impairment loss on its gas gathering and processing assets. The impairment was recognized as the carrying value of the assets exceeded the recoverable amount. The recoverable amount was the value in use determined using cash flows attributed to probable production, discounted at 6.0%, and adjusted for future market prices. The impairment loss has been recognized within other losses for the quarter.

7. Long-term debt

During the first quarter of 2015, the Corporation issued $50 million in long-term debt with an effective interest rate of 2.7%. The long-term debt was issued at a premium of $12 million.

8. Commitments and contingencies

At period end, the Corporation forecasted to spend an additional $208 million on capital projects during the remainder of 2015, and the Corporation had $49 million of outstanding contractual commitments for the procurement of goods and services in the future.

9. Unrealized market value adjustments

(millions)	For the Three Months Ended March 31 2015	2014
Change in fair value of debt retirement funds	**$ 1**	$ 2
Change in fair value of natural gas derivative instruments	**5**	11
Change in revaluation of natural gas in storage to net realizable value	**-**	11
	$ 6	$ 24

10. Natural gas sales and purchases

	For the Three Months Ended March 31					
	2015			2014		
(millions)	Commodity	Gas Marketing	Total	Commodity	Gas Marketing	Total
Natural gas sales						
Natural gas sales to commodity customers	$ 120	$ -	$ 120	$ 109	$ -	$ 109
Realized on natural gas derivative instruments	10	34	44	12	145	157
Change in fair value of natural gas derivative instruments	-	(4)	(4)	-	(21)	(21)
	130	30	160	121	124	245
Natural gas purchases						
Realized on natural gas derivative instruments	(111)	(30)	(141)	(120)	(140)	(260)
Change in fair value of natural gas derivative instruments	9	-	9	27	5	32
Change in revaluation of natural gas in storage to net realizable value	-	-	-	-	11	11
	(102)	(30)	(132)	(93)	(124)	(217)
	$ 28	$ -	$ 28	$ 28	$ -	$ 28

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

(millions)	For the Three Months Ended March 31 2015	2014
Trade and other receivables	**$ (10)**	$ (17)
Natural gas in storage held for resale	**48**	41
Trade and other payables	**(33)**	(22)
Deferred revenue	**2**	8
	$ 7	$ 10

12. Financial risk management

Through the normal course of business, the Corporation has exposure to market risk (natural gas price risk, interest rate risk, and foreign currency risk), liquidity risk, and credit risk related to its financial and derivative instruments. The Board of Directors, through the Audit and Finance Committee, has the overall responsibility for the establishment and oversight of the Corporation's risk management efforts. The Corporation’s risk management policies and strategies, approved by the Board of Directors and reviewed regularly by the Audit and Finance Committee, provide the framework within which the Corporation may use financial and derivative instruments to manage its risks. The Corporation’s significant risk management policies include the Corporate Derivatives Policy, the Commodity Risk Management Policy, the Corporate Debt and Interest Rate Risk Management Policy, the Foreign Currency Risk Management Policy and the Corporate Credit Risk Management Policy. The objectives, policies, and processes for managing risk were consistent with the prior period. The significant risks in relation to financial instruments that impact the Corporation are discussed below.

a. Natural gas price risk

The Corporation purchases natural gas for resale to its customers. While natural gas is purchased at fluctuating market prices, the Corporation sells natural gas to customers at a fixed commodity rate that is reviewed semi-annually. As part of its natural gas price risk management, the Corporation uses derivative instruments to manage the price of the natural gas it buys. The Corporation’s objective is to reduce the volatility of natural gas prices and to have rates that are competitive to other utilities. The Corporation also purchases and sells natural gas in the open market to generate incremental income through its gas marketing activities.

The purchase or sale price of natural gas may be fixed within the contract or referenced to a floating index price. When the price is referenced to a floating index price, natural gas derivative instruments may be used to fix the settlement amount. The types of natural gas derivative instruments the Corporation may use for price risk management include natural gas price swaps, options, swaptions, and forward contracts.

The Corporation’s commodity price risk management strategy establishes specific hedging targets, which may differ depending on current market conditions, to guide risk management activities. Additionally, the Corporation uses mark-to-market value, value-at-risk, and net exposure to monitor natural gas price risk. These metrics are measured and reported daily to the Commodity Risk Management Committee, a subcommittee of the Corporation’s Executive Committee.

Based on the Corporation’s period-end closing positions, an increase of $1.00 per Gigajoule in natural gas prices would have increased net income, through an increase in the fair value of natural gas derivative instruments, by $99 million (December 31, 2014 - $87 million). Conversely, a decrease of $1.00 per Gigajoule would have decreased net income, through a decrease in the fair value of natural gas derivative instruments, by $99 million (December 31, 2014 - $87 million).

12. Financial risk management (continued)

b. Liquidity risk

Liquidity risk is the risk that the Corporation is unable to meet its financial obligations as they become due. The Corporation has credit facilities available to refinance maturities in excess of anticipated operating cash flows. The contractual maturities of the Corporation's financial obligations, including interest payments and the impact of netting agreements, as at March 31, 2015 were as follows:

		Contractual Maturities			
(millions)	**Carrying Amount**	**Less Than 1 Year**	**1 - 2 Years**	**3 - 5 Years**	**More Than 5 Years**
Short-term debt	$ 200	$ 200	$ -	$ -	$ -
Trade and other payables	86	86	-	-	-
Dividends payable	10	10	-	-	-
Long-term debt	1,020	97	143	256	1,218
Derivative instruments	97	134	88	82	-
	$ 1,413	$ 527	$ 231	$ 338	$ 1,218

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

In addition to the above, the Corporation has posted a $15 million letter of credit with NGX Financial Inc. (NGX) as security for natural gas purchases and sales conducted by the Corporation on the NGX natural gas exchange in Alberta. NGX may draw upon the letter of credit if the Corporation fails to make timely payment for, or delivery of, natural gas as per the related contract.