SaskEnergy

YOUR NATURAL CHOICE®

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 nine month period ended September 30, 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 and is regulated by the National Energy Board;
- Bayhurst Gas Limited – owns, produces and sells natural gas from storage-related assets and holds natural gas royalty interests;
- 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	
	2005	2004	2005	2004
Financial Highlights				
Consolidated Net Earnings (Loss) (millions)	$(33)	$8	$8	$65
Total Assets (millions)			$1,263	$1,189
Long-term Debt (millions)			$726	$639
Operating Highlights				
Distribution				
Volumes Distributed – Petajoules	18	19	91	95
Winter Weather – Compared to the thirty year average	N/A	N/A	3% Colder	7 % Colder
Average Cost per Gigajoule of Natural Gas to September 30	$7.17	$6.60	$6.66	$6.53
Transmission				
Volumes Transported – Petajoules	80.9	78.0	260.0	263.6
Peak Day Natural Gas Flows (Winter Season) – Petajoules – Date of Peak Flow	N/A	N/A	1.38 January 15	1.49 January 27

Financial Results

Consolidated Net Earnings

The two major components of consolidated net earnings are earnings from operations and the gain or loss on commodity sales. Earnings from operations of $45.0 million were reduced by a $37.1 million loss on commodity sales resulting in consolidated net earnings of $7.9 million for the first nine months of 2005.

In comparison, consolidated earnings were $64.7 million for the first nine months of 2004 as both earnings from operations and the gain on commodity sales were higher in 2004 than the same period in 2005.

The earnings from operations of $45.0 million were $1.4 million lower than the first nine months of 2004 due to lower revenues of $0.1 million and higher expenses of $1.3 million.

The major factor contributing to lower earnings in 2005 was the margin on commodity sales. In 2004 there was a gain on commodity sales for the first nine months of $18.2 million while in the similar period in 2005 there was a loss on commodity sales of $37.1 million. The margin on commodity sales was $55.3 million less in 2005 than in 2004 due to higher prices paid for natural gas in 2005 compared to 2004 and an accounting adjustment of $45.8 million in 2005 related to the market value of financial derivatives.

A. Revenue

1. Delivery Revenue

Delivery revenue in the first nine months of 2005 was $107.4 million, which was $3.9 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 September 30, 2005 was warmer than the same period in 2004, resulting in reduced delivery volumes and revenue.

For the three month period ending September 30, 2005, delivery revenue of $21.0 million was $0.7 million lower than the same period in 2004 as weather was warmer in 2005.

2. Transportation and Storage Revenue

Transportation and storage revenue for the first three quarters of 2005 was $65.2 million, which was down $1.1 million from the same period in 2004. For the third quarter, transportation and storage revenue was $21.9 million, a reduction of $0.4 million compared to the third quarter of 2004.

A 3.4 per cent rate decrease by TransGas Limited implemented in November 2004 reduced transportation revenue in 2005.

Increased storage capacity lead to higher storage revenue for 2005 compared to 2004. As in prior periods, storage continues to be fully contracted to customers.

3. 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 2005, net revenue from the foregoing activities was $32.8 million compared with $27.7 million for the same period in 2004, due to higher volumes sold in 2005. For the third quarter, net revenue from these activities was $20.1 million up $7.4 million from the same period last year also as a result of higher volumes sold.

B. Expenses

Total expenses to September 30, 2005 were $182.2 million, which were $1.3 million higher than the first nine months of 2004. Expenses of $56.3 million for the three months ending September 30, 2005 were $2.4 million higher than the similar period in 2004.

Operating and maintenance expenses for the first nine months of 2005 were $86.2 million which was $1.4 million higher compared to

2004. The increase was mainly due to a $4.0 million adjustment to assets held for sale partially offset by a $2.0 million reduction in transportation and storage expense accomplished by managing the timing of natural gas flowing through storage. Similarly, operating and maintenance expenses for the third quarter of 2005 were $27.0 million or $1.4 million higher than the 2004 third quarter.

Interest expense was lower by $1.6 million for the first nine months of 2005 compared to 2004 and down by $0.4 million for the third quarter compared to the same period in 2004, due to a reduction in both over-all debt levels and average interest rates.

Amortization of property, plant and equipment of $37.9 million was $1.2 million higher in 2005 due to a higher asset base in 2005.

Payments to municipalities to September 30, 2005 were consistent with the same period in 2004.

C. Gain on Commodity Sales

Similar to practices in other Canadian regulated 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.

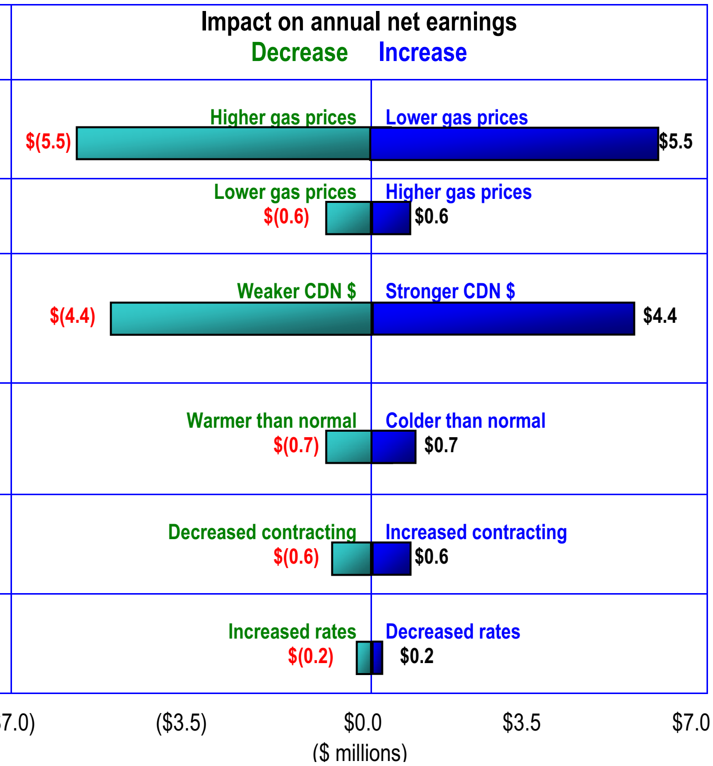
The loss on commodity sales for the nine months ended September 30, 2005 was $37.1 million compared to a gain of $18.2 million for the same period in 2004. The commodity margin was lower in the first nine months of 2005 as the cost of gas sold was $6.66 per gigajoule (GJ) compared to the cost of gas sold of $6.53 per GJ in the first nine months of 2004. During both periods the commodity rate charged to consumers was $6.97 per GJ. The loss on commodity sales for 2005 also includes an accounting adjustment of $45.8 million related to the market value of financial derivatives.

SaskEnergy uses various types of financial derivatives to assist in mitigating the volatility of the prices it pays for the purchase of natural gas. For financial reporting purposes, the change in market value for certain types of these financial derivatives is required to be reflected in the income statement as either a gain or a loss. The remaining derivatives are recorded at historical cost and no gain or loss is recorded due to changes in market value. As at September 30, 2005 a loss of $45.8 million is included in the cost of gas related to those derivatives on the market value basis. For those derivatives on the historical cost basis, there was an unrecorded gain of $36.5 million.

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 approved commodity rates.	Natural gas prices	$0.10 change per gigajoule
Natural gas prices fluctuate in the market affecting earnings by changing the sale price of storage gas volumes sold by Bayhurst Gas Limited.	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)

	As at September 30, 2005 *(unaudited)*	As at December 31, 2004 *(audited)*
Assets		
Current assets		
Cash	$ 668	$ 3,637
Accounts receivable	120,298	173,726
Natural gas in storage held for resale	129,228	95,966
Inventories of supplies	7,897	6,843
	258,091	280,172
Property, plant and equipment (net)	943,237	949,461
Investments and other assets	33,147	31,755
Natural gas in storage held for resale and operations	28,200	25,053
	$ 1,262,675	$ 1,286,441
Liabilities and Province's Equity		
Current liabilities		
Short-term debt	$ 5,000	$ 78,900
Accounts payable	201,590	159,422
Dividend payable	-	26,500
Current portion of long-term debt	146,785	106,235
	353,375	371,057
Long-term debt	579,591	569,348
	932,966	940,405
Province of Saskatchewan's equity		
Equity advances	71,531	71,531
Retained earnings	260,273	276,431
Foreign currency translation adjustment	(2,095)	(1,926)
	329,709	346,036
	$ 1,262,675	$ 1,286,441

(See accompanying note)

Director

Director

SaskEnergy Incorporated

Consolidated Statement of Earnings and Retained Earnings

(thousands of dollars)

	Three months ended September 30		Nine months ended September 30	
	2005	**2004**	**2005**	**2004**
	(unaudited)	*(unaudited)*	*(unaudited)*	*(unaudited)*
Revenue				
Delivery	$ 20,973	$ 21,682	$ 107,411	$ 111,284
Transportation and storage	21,886	22,256	65,232	66,343
Revenue collected for municipalities	2,591	2,510	17,089	17,412
Net sales from gas marketing	20,061	12,635	32,759	27,709
Other	1,797	2,294	4,727	4,619
	67,308	61,377	227,218	227,367
Expenses				
Operating and maintenance	27,023	25,577	86,155	84,744
Interest	11,632	12,033	35,861	37,472
Amortization of property, plant and equipment	13,010	11,970	37,872	36,721
Payments to municipalities	2,591	2,510	17,089	17,412
Saskatchewan taxes and royalties	2,089	1,816	5,213	4,548
	56,345	53,906	182,190	180,897
Earnings from operations before the following	10,963	7,471	45,028	46,470
Commodity revenue	28,526	33,656	238,678	257,479
Cost of gas sold	72,642	33,397	275,764	239,292
Gain (loss) on commodity sales	(44,116)	259	(37,086)	18,187
Net earnings (loss)	(33,153)	7,730	7,942	64,657
Retained earnings, beginning of period:	293,426	268,016	276,431	238,589
Dividend	-	(16,000)	(24,100)	(43,500)
Retained earnings, end of period	$ 260,273	$ 259,746	$ 260,273	$ 259,746

(See accompanying note)

SaskEnergy Incorporated

Consolidated Statement of Cash Flows

(thousands of dollars)

	Three months ended September 30		Nine months ended September 30	
	2005	**2004**	**2005**	**2004**
	(unaudited)	*(unaudited)*	*(unaudited)*	*(unaudited)*
Operating Activities				
Net earnings (loss)	$ (33,153)	$ 7,730	$ 7,942	$ 64,657
Add (deduct) items not requiring an outlay of cash				
Amortization of property, plant and equipment	13,010	11,970	37,872	36,721
Other non-cash items	(1,343)	(699)	(3,207)	(2,398)
	(21,486)	19,001	42,607	98,980
Net change in non-cash working capital related to operations	31,856	(6,422)	61,280	31,460
Cash provided by operating activities	10,370	12,579	103,887	130,440
Investing Activities				
Additions to property, plant and equipment	(16,904)	(19,371)	(37,323)	(40,523)
Customer capital contributions received	4,155	1,677	5,675	6,563
Additions to investments and other assets	-	-	(907)	-
Increase (decrease) in natural gas in storage (non-current)	(1,611)	-	(3,147)	60
	(14,360)	(17,694)	(35,702)	(33,900)
Financing Activities				
Increase (decrease) in short-term debt	5,000	18,800	(73,900)	(32,600)
Repayment of long-term debt	(22,012)	-	(22,012)	(19,757)
Dividend paid	(9,800)	(11,400)	(50,600)	(38,560)
Sinking fund instalments	(1,400)	(1,399)	(3,450)	(2,951)
Proceeds from long-term debt	3,808	-	78,808	-
Cash provided by (used in) financing activities	(24,404)	6,001	(71,154)	(93,868)
Increase (decrease) in cash during period	(28,394)	886	(2,969)	2,672
Cash position, beginning of period	29,062	491	3,637	(1,295)
Cash position, end of period	$ 668	$ 1,377	$ 668	$ 1,377

Cash position consists of cash and cash equivalents less bank indebtedness.

(See accompanying note)

SaskEnergy Incorporated
Note to the Consolidated Financial Statements
September 30, 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.