SaskEnergy

YOUR NATURAL CHOICE ®

Management's Discussion and Analysis

The Management's Discussion and Analysis highlights the primary factors that impacted the operations and financial results of SaskEnergy Incorporated (SaskEnergy or the Corporation) and its wholly owned subsidiaries for the nine month period ended September 30, 2007. This discussion should be read in conjunction with the consolidated interim financial statements and accompanying notes. This discussion and the attached financial statements have not yet been approved by the SaskEnergy Board of Directors. For additional information relative to its operations and financial position, refer to the Corporation's Annual Report for the year ended December 31, 2006.

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 332,000 residential, farm, commercial and industrial customers over a 66,000 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	
	2007	2006	2007	2006
Financial Highlights				
Consolidated Net Income (Loss) (millions)	$(6)	(12)	$47	$13
Total Assets (millions)			$1,345	$1,255
Long-term Debt (millions)			$708	$649
Operating Highlights				
Distribution				
Volumes Distributed - Petajoules	20	20	92	82
Winter Weather - Compared to the thirty year average	N/A	N/A	Normal	11% Warmer
Average Cost per Gigajoule of Natural Gas to September 30*	$7.11	$6.57	$6.13	$8.10
Transmission				
Volumes Transported - Petajoules	75	88	244	262
Peak Day Natural Gas Flows (Winter Season) - Petajoules - Date of Peak Flow	N/A	N/A	1.49 February 14	1.53 February 16

*For 2006 before the effect of Saskatchewan Energy Share

Financial Results

Effective January 1, 2007, SaskEnergy adopted the new Canadian Institute of Chartered Accountants (CICA) Handbook Section 1530 - Comprehensive Income, Section 3251 - Equity, Section 3855 - Financial Instruments - Recognition and Measurement, Section 3861 - Financial Instruments - Presentation and Disclosure, and Section 3865 - Hedges. Upon adoption of these new standards all financial instruments were recorded at fair value on the consolidated statement of financial position. This change in accounting policy and its impact is discussed in Note 2 of the attached financial statements.

There are two new financial statements resulting from the adoption of the financial instrument standards: the statement of comprehensive income and the statement of accumulated other comprehensive income. These new financial statements incorporate other comprehensive income which represents certain unrealized gains and losses on certain derivatives of the Corporation.

Effective June 1, 2007 the delivery rate charged to SaskEnergy customers increased an average of 5.7%. The average overall bill impact was an increase of 1.5%, including commodity costs. The Basic Monthly Charge increased $2.00 per month for residential customers and $2.50 per month for farm customers, with modest increases for other customer classes. This delivery rate increase is the first in ten years, as the last increase was July 1, 1997.

Subsequent to the third quarter, the commodity rate for natural gas decreased from $7.17 per Gigajoule (GJ) to $6.57 per GJ. This approved rate change was effective November 1, 2007 and represents an average 5.7% decrease for SaskEnergy customers.

Consolidated Net Income

For the first nine months of 2007 consolidated net income was $47 million, which was $34 million higher than the $13 million for the same period in 2006. A lower loss on commodity sales in 2007 than in 2006 and higher margins on gas marketing sales than in 2006 contributed to the higher net income in 2007.

1. Commodity

(a) Commodity Sales

The commodity rate for natural gas sales to distribution utility customers was $7.17 per GJ for the period January 1, 2007 to September 30, 2007. In 2006 the commodity rate was $7.95 per GJ from January 1 to March 31 and $6.80 per GJ from April 1 to September 30. This resulted in lower average revenue per GJ for the first nine months of 2007 compared to 2006.

The lower average revenue per GJ was offset by normal weather in the nine months of 2007 compared to 11% warmer than normal weather in 2006. The colder weather in 2007 increased the amount of natural gas consumed for space heating purposes by 1.5 Petajoules in 2007 compared to 2006.

Also at the time of the adoption of the new CICA standards for the reporting of financial instruments, SaskEnergy discontinued the use of hedge accounting for natural gas contracts. Accordingly, commodity sales to September 30, 2007 includes commodity revenue of $34 million related to physical contracts entered into for price management purposes. In 2006 the net gain or loss related to these contracts was included in commodity cost of gas sold.

(b) Commodity Cost of Gas Sold

The cost of gas sold includes the cost of purchased gas and adjustments that effectively record the fair value of natural gas contracts (fair value adjustments) as at September 30.

The fair value adjustments increased the cost of gas sold during the first nine months of 2007 by $6 million. Therefore, the loss on commodity sales of $6 million for the first nine months of 2007 was primarily due to the fair value adjustments on natural gas contracts. The $25 million loss on commodity sales during the first nine months of 2006 was primarily due to $21 million in unfavourable fair value adjustments.

The effect of unfavourable fair value adjustments was the primary cause of a $12 million loss on commodity sales in the third quarter of 2007 and the $16 million loss on commodity sales in the third quarter of 2006.

2. **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 competes to supply natural gas to larger end-use customers in Saskatchewan through non-regulated contract sales.

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

In the first nine months of 2007, the realized margin from the foregoing activity was $31 million. However, favourable fair value adjustments on natural gas contracts of $9 million resulted in a margin of $40 million. This compared to a margin of $26 million for the same period in 2006.

In the three month period ending September 30, 2007 the margin from gas marketing sales was $11 million compared with $10 million for the same period in 2006. In the third quarter of 2007, there were unfavourable fair value adjustments relating to natural gas contracts of $4 million compared to unfavourable fair value adjustments of $5 million for the third quarter of 2006.

3. **Delivery Revenue**

Delivery revenue in the first nine months of 2007 was $112 million, which was $11 million higher than the same period in 2006. 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, 2007 was 13% colder than the same period in 2006. Weather and the delivery rate increase (noted earlier) effective June 1, 2007 were the primary reasons for increased delivery revenue.

For the three month period ending September 30, 2007, delivery revenue of $24 million was $3 million higher than in the same period in 2006 due to the rate increase in 2007 and the warmer weather in 2006.

4. **Transportation and Storage Revenue**

Transportation and storage revenue for the first nine months of 2007 was $66 million, which was consistent with the same period in 2006.

5. **Other Expenses**

Expenses (excluding cost of gas sold) to September 30, 2007 were $188 million, which was $12 million higher than the first nine months of 2006. For the three month period ending September 30, 2007 total expenses (excluding cost of gas) were $56 million or $4 million higher than the same period in 2006.

Operating and maintenance expenses for the first nine months of 2007 were $93 million, which was $10 million higher compared to the first nine months of 2006 primarily due to increased labour costs in 2007 and a gain on the sale of a compressor unit in 2006. For the third quarter ended September 30, 2007 the operating and maintenance expenses of $28 million were $4 million higher than 2006, also due to increased labour costs.

Interest expense, amortization, payments to municipalities and Saskatchewan taxes to September 30, 2007 were consistent with the same period in 2006.

Outlook

SaskEnergy's financial results are sensitive to changes in a number of key factors. The following are the factors that can cause the greatest variability in income:

Description of the risk	Factor	Sensitivity	Potential impact on annual net income	
			Decrease	Increase
Natural gas prices fluctuate in the market and can affect income 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	Higher gas prices $(5.3)	Lower gas prices $5.3
Winter weather fluctuations can affect income. 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	Warmer than normal $(0.7)	Colder than normal $0.7
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	Decreased contracting $(0.6)	Increased contracting $0.6
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	Increased rates $(0.2)	Decreased rates $0.2

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

SaskEnergy Incorporated

Consolidated Statement of Financial Position

(millions of dollars)

(unaudited)

	As at September 30, 2007 (Note 2)	As at December 31, 2006 (Note 4)
Assets		
Current assets		
Accounts receivable	$ 95	$ 169
Natural gas in storage held for resale	150	111
Inventories of supplies	11	7
Debt retirement funds	3	4
Fair value of derivative instruments	25	1
	284	292
Property, plant and equipment (net)	948	955
Natural gas in storage held for resale and operations	45	46
Debt retirement funds	37	34
Investments and other assets	31	33
	$ 1,345	$ 1,360
Liabilities and Province's Equity		
Current liabilities		
Bank indebtedness	$ -	$ 2
Short-term debt	40	69
Accounts payable	140	169
Dividend payable	13	12
Current portion of long-term debt	75	48
Fair value of derivative instruments	33	14
	301	314
Long-term debt	633	634
	934	948
Province of Saskatchewan's equity		
Equity advances	72	72
Retained earnings	345	342
Accumulated other comprehensive income (Note 3)	(6)	(2)
	411	412
	$ 1,345	$ 1,360

(See accompanying notes)

SaskEnergy Incorporated

Consolidated Statement of Income and Retained Earnings

(millions of dollars)

(unaudited)

	Three months ended September 30		Nine months ended September 30	
	2007 (Note 2)	2006	2007 (Note 2)	2006
Revenue				
Commodity sales	$ 32	$ 38	$ 271	$ 247
Gas marketing sales	155	177	380	489
Delivery	24	21	112	101
Transportation and storage	22	22	66	66
Revenue collected for municipalities	2	2	17	16
Other	3	1	6	5
	238	261	852	924
Expenses				
Commodity cost of gas sold	44	54	277	272
Gas marketing cost of gas sold	144	167	340	463
Operating and maintenance	28	24	93	83
Interest	10	11	33	33
Amortization	14	13	40	39
Payments to municipalities	2	2	17	16
Saskatchewan taxes	2	2	5	5
	244	273	805	911
Net income (loss)	(6)	(12)	47	13
Retained earnings, beginning of period	364	329	342	324
Change in accounting policy (Note 2)	-	-	2	-
Dividend	(13)	(2)	(46)	(22)
Retained earnings, end of period	$ 345	$ 315	$ 345	$ 315

(See accompanying notes)

SaskEnergy Incorporated

Consolidated Statement of Comprehensive Income

(millions of dollars)

(unaudited)

	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
Net income (loss)	$ (6)	$ (12)	$ 47	$ 13
Other comprehensive income:				
Gains and losses on derivative instruments designated as hedges for accounting purposes in prior periods transferred to net income in the current period	(4)	-	-	-
Unrealized gains and losses on translating financial statements of self-sustaining foreign operations	(1)	-	(3)	(1)
	(5)	-	(3)	(1)
Comprehensive income	$ (11)	$ (12)	$ 44	$ 12

SaskEnergy Incorporated

Consolidated Statement of Accumulated Other Comprehensive Income

(millions of dollars)

(unaudited)

	As at September 30, 2007	As at December 31, 2006
Accumulated other comprehensive income, beginning of period	$ (2)	$ (2)
Transitional amounts for gains and losses on derivative instruments designated as hedges for accounting purposes in prior periods	(1)	-
Other comprehensive income	(3)	-
Accumulated other comprehensive income, end of period (Note 3)	$ (6)	$ (2)

(See accompanying notes)

Consolidated Statement of Cash Flows
(millions of dollars)
(unaudited)

	Three months ended September 30		Nine months ended September 30	
	2007 (Note 2)	2006	2007 (Note 2)	2006
Operating Activities				
Net income (loss)	$ (6)	$ (12)	$ 47	$ 13
Add (deduct) items not requiring an outlay of cash				
Amortization of property, plant and equipment	14	13	40	39
Other non-cash items	11	-	(7)	(1)
	19	1	80	51
Net change in non-cash working capital related to operating activities	7	46	9	44
Cash provided by operating activities	26	47	89	95
Investing Activities				
Additions to property, plant and equipment	(28)	(23)	(54)	(45)
Additions to investments and other assets	(2)	-	(3)	(1)
Customer capital contributions received	6	2	21	7
Decrease (increase) in natural gas in storage (non-current)	(9)	(2)	(4)	(3)
Cash used in investing activities	(33)	(23)	(40)	(42)
Financing Activities				
Proceeds from long-term debt	40	-	76	-
Decrease in short-term debt	(12)	(19)	(29)	(26)
Repayments of long-term debt (net)	-	-	(44)	-
Dividend paid	(21)	(8)	(46)	(25)
Decrease in bank indebtedness	-	-	(2)	-
Debt retirement fund instalments	(1)	(1)	(4)	(4)
Cash used in financing activities	6	(28)	(49)	(55)
Decrease in cash during period	(1)	(4)	-	(2)
Cash position, beginning of period	1	4	-	2
Cash position, end of period	$ -	$ -	$ -	$ -

(See accompanying notes)

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, 2006 except as noted in the Change in Accounting Policy 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, 2006 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

Effective January 1, 2007, SaskEnergy adopted the new Canadian Institute of Chartered Accountants (CICA) Handbook Section 1530 - Comprehensive Income, Section 3251 - Equity, Section 3855 - Financial Instruments - Recognition and Measurement, Section 3861 - Financial Instruments - Presentation and Disclosure, and Section 3865 - Hedges. The following are the impacts of implementing these new standards prospectively in 2007:

Under the new standards SaskEnergy was required to classify all financial instruments into one of the following categories: 1) held-for-trading, 2) held-to-maturity, 3) loans and receivables, 4) available-for-sale, and 5) other liabilities.

All financial instruments are measured at fair value upon initial recognition. Financial assets and liabilities classified as held-for-trading are subsequently measured at fair value with changes in fair value recognized in net income. Financial assets classified as available-for-sale are subsequently measured at fair value with changes in fair value recognized in other comprehensive income. Financial assets classified as held-to-maturity and loans and receivables as well as financial liabilities classified as other liabilities are subsequently amortized using the effective interest method.

Cash and cash equivalents are classified as held-for-trading and are measured at carrying value which approximates fair value due to the nature of these instruments. Accounts receivable are classified as loans and receivables. Accounts payable, short-term debt, and dividend payable are classified as other financial liabilities.

The Corporation uses various derivative financial instruments to manage the risk associated with its operating exposures to fluctuations in foreign currency exchange rates, interest rates and the price of natural gas. A Corporate Derivatives Policy and specific risk management strategies establish the guidelines within such derivative financial instruments may be used.

Derivative financial assets and liabilities are classified as held-for-trading and recorded at fair value on the statement of financial position. The change in the fair value of the derivatives (gain or loss) is recorded in net income and classified within the revenue/expense category to which they relate unless the derivative is designated as a hedge for accounting purposes. If the derivative is designated as a cash flow hedge for accounting purposes, the gain or loss is temporarily recorded as other comprehensive income. The gain or loss will be transferred into income in the same period as the hedged item.

2. Change in Accounting Policy (continued)

The Corporation discontinued the use of hedge accounting on its natural gas derivatives on January 1, 2007. In accordance with the transitional rules upon the adoption of the new standards, $1 million of unrealized gains and losses on the previously designated natural gas hedges at January 1, 2007, have been recorded in accumulated other comprehensive income and will subsequently be transferred to net income as the contracts settle. All natural gas derivatives will settle by October 31, 2011. Changes in the fair value of these natural gas derivatives since January 1, 2007 have been recognized directly in net income and included with gas marketing sales, commodity cost of gas sold and gas marketing cost of gas sold as gains or losses.

SaskEnergy selected January 1, 2003 as the transition date for embedded derivatives, as such only contracts or financial instruments entered into or modified after the transition date were reviewed for embedded derivatives. The Corporation had outstanding natural gas sales contracts with embedded derivatives as at December 31, 2006 and September 30, 2007. These contracts are for non-regulated contract sales to larger end-use customers in Saskatchewan. These embedded derivatives are recorded at fair value on the statement of financial position.

The Corporation is continuing to use hedge accounting for interest rate swaps used to hedge long-term debt and foreign currency forward contracts used to hedge capital expenditures denominated in a foreign currency. In accordance with the transitional provisions upon the adoption of the new standards, $2 million of interest rate swaps settlements have been reclassified in accumulated other comprehensive income and will be subsequently transferred to net income over the life of the underlying long-term debt.

Long-term debt has been classified as other liabilities and recorded at amortized cost. The related debt premium, discount and issue costs have been reclassified and are included in the carrying value of the long-term debt and are being amortized and recorded in interest expense using the effective interest rate method.

The debt retirement funds have been classified as held-for-trading assets and are recorded at fair value on the statement of financial position. The change in the fair value of the debt retirement funds has been recorded in interest expense.

Upon the adoption of the new standards, the impact of applying this change in accounting policy prospectively effective January 1, 2007 was as follows:

Adjustment to opening retained earnings
(millions)

As at January 1, 2007	
Debt retirement funds fair value adjustment	$ 2
Total assets	$ 2
Retained earnings, beginning of year - net adjustment	$ 2
Total liabilities and equity	$ 2

2. Change in Accounting Policy (continued)

Impact of reclassifications
(millions)

As at January 1, 2007		
Fair value of derivative instruments - current asset	$	16
Investments and other assets		(2)
Total assets	$	14
Fair value of derivative instruments - current liability	$	15
Accumulated other comprehensive income, beginning of year		(1)
Total liabilities and equity	$	14

Upon the adoption of the new standards, the impact of applying this change in accounting policy prospectively on the unrealized net income for the three months and nine months ended September 30, 2007 was as follows:

Impact on net income
(millions)

	Three months ended September 30		**Nine months ended September 30**	
Gas marketing sales	$	(2)	$	10
Commodity cost of gas sold		(10)		(12)
Gas marketing cost of gas sold		(1)		(1)
Decrease in net income	$	(13)	$	(3)

3. Accumulated Other Comprehensive Income

The balance in accumulated other comprehensive income consists of the following:

	As at September 30, 2007		**As at December 31, 2006**	
Transitional amounts for gains and losses on derivative instruments designated as hedges for accounting purposes in prior periods	$	(1)	$	-
Unrealized gains and losses on translating financial statements of self-sustaining foreign operations		(5)		(2)
Decrease in net income	$	(6)	$	(2)

4. Reclassification of Comparative Figures

Effective January 1, 2007, SaskEnergy adopted the new Handbook Section 1530 – Comprehensive Income. In accordance with this section, the foreign currency translation adjustment of $2 million has been restated to accumulated other comprehensive income as at December 31, 2006.

5. Comparative Figures

The debt retirement funds which were previously presented as a reduction of long-term debt have now been presented at gross value and reported separately on the statement of financial position.

Certain of the other prior year's figures have been reclassified to conform with the current year's presentation, primarily as a result of adopting CICA Handbook Sections 1530, 3251, 3855, 3861, and 3865.

6. Subsequent Event

In October 2007, SaskEnergy, through its subsidiary, Bayhurst Gas Limited, incorporated a new wholly owned subsidiary, Bayhurst Energy Services Corporation ("Bayhurst Energy").

Effective November 1, 2007, Bayhurst Energy acquired 50% of the capital assets of a natural gas processing plant in Southeastern Saskatchewan for proceeds of $5.5 million. Bayhurst Energy contributed these assets to form a joint venture with ATCO Midstream Ltd.