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 three month period ended March 31, 2008. This discussion should be read in conjunction with the consolidated interim financial statements and accompanying notes. For additional information relative to its operations and financial position, refer to the Corporation's Annual Report for the year ended December 31, 2007.

The volume of natural gas distributed is sensitive to variations in the weather, particularly through the prime heating season of November to March. Therefore, the consolidated interim financial results 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.

Corporate Profile

SaskEnergy has the legislated franchise for the distribution and transmission of natural gas within Saskatchewan. The distribution system delivers natural gas to over 336,000 residential, farm, commercial and industrial customers over a 66,000 kilometre pipeline distribution system. The transmission system provides transportation and storage services to the distribution utility, 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;
  - Bayhurst Energy Services Corporation – a wholly owned subsidiary of Bayhurst Gas Limited was created in 2007 and operates as an energy services company;
- 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.

	Three Months Ended March 31	
Financial Highlights	**2008**	**2007**
($ millions)		
Consolidated Net Income before the Impacts of Fair Value	40	44
Fair Value Adjustments	20	3
Consolidated Net Income	60	47
Total Assets	1,437	1,354
Long-term Debt	658	680
Operating Highlights		
Distribution		
Volumes Distributed – Petajoules	51	48
Winter Weather – Compared to the Thirty Year Average	4% Colder	Normal
Transmission		
Volumes Transported – Petajoules	94	102
Peak Day Natural Gas Flows (Winter Season) – Petajoules	1.50	1.49
– Date of Peak Flow	January 28	February 14

Financial Results

Effective January 1, 2008, SaskEnergy adopted the new Canadian Institute of Chartered Accountants (CICA) Handbook Section 1535 – Capital Disclosures, Section 3031 – Inventories, Section 3862 – Financial Instruments – Disclosure, and Section 3863 – Financial Instruments – Presentation. These changes in accounting policies are discussed in Note 2 of the attached financial statements.

Consolidated Net Income

For the first three months of 2008 consolidated net income was $60 million, which was $13 million higher than the $47 million net income for the same period in 2007. Favourable fair value adjustments of $20 million, compared to $3 million for the same period in 2007, contributed to the higher net income in 2008.

1. Commodity

(a) Commodity Sales

The commodity rate for natural gas sales to distribution utility customers was $6.57 per Gigajoule (GJ) for the period January 1, 2008 to March 31, 2008. In 2007 the commodity rate was $7.17 per GJ for this period. This resulted in lower average revenue per GJ for the first three months of 2008 compared to 2007.

The lower average revenue per GJ was offset by 4% colder weather in the first three months of 2008 compared to normal weather during the same period in 2007. The colder weather in 2008 increased the amount of natural gas consumed for space heating purposes by 1.5 Petajoules in 2008 compared to 2007.

(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 March 31.

The fair value adjustments favourably impacted the financial reporting of the cost of gas sold during the first three months of 2008 by $49 million. Therefore, the margin on commodity sales of $51 million for the first three months of 2008 was primarily due to the fair value adjustments on natural gas contracts. The $18 million margin on commodity sales during the first three months of 2007 was primarily due to $14 million in favourable fair value adjustments.

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 to earn 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 three months of 2008, the realized margin from the foregoing activity was $6 million. The margin from gas marketing activities was unfavourably impacted for financial reporting purposes by the fair value adjustment of $29 million. This compared to a realized margin of $10 million and an unfavourable fair value adjustment of $11 million for the same period in 2007.

3. Delivery Revenue

Delivery revenue in the first three months of 2008 was $67 million, which was $4 million higher than the same period in 2007. This is a result of higher delivery rates and more customer natural gas consumption in 2008.

The delivery rate charged to distribution utility customers was 5.7% higher for the period January 1, 2008 to March 31, 2008 as compared to the same period in 2007.

The majority of SaskEnergy's distribution customers consume natural gas for heating purposes and, as a result, the volume of natural gas distributed is sensitive to variations in weather, particularly through the November-to-March prime heating load season. The weather from January 1 to March 31, 2008 was 4% colder than the same period in 2007.

4. Transportation and Storage Revenue

Transportation and storage revenue for the first three months of 2008 was $19 million, which was $2 million lower than the same period in 2007. The number of natural gas wells drilled in Saskatchewan declined in 2007 and 2008 which contributed to lower volumes of natural gas transported in the first three months of 2008.

5. Other Expenses

Expenses (excluding cost of gas sold) to March 31, 2008 were $68 million, which was $2 million higher than the first three months of 2007.

Operating and maintenance expenses for the first three months of 2008 were $33 million, which was $2 million higher compared to the first three months of 2007 primarily due to increased labour costs in 2008.

Interest expense, amortization, payments to municipalities and Saskatchewan taxes to March 31, 2008 were consistent with the same period in 2007.

SaskEnergy Incorporated

Consolidated Statement of Financial Position

(millions)

(unaudited)

	As at March 31, 2008 (Note 2)	As at December 31, 2007
Assets		
Current assets		
Cash	$ 5	$ 2
Accounts receivable	157	131
Natural gas in storage held for resale	96	149
Inventories of supplies	11	13
Debt retirement funds	3	3
Fair value of derivative instruments	69	26
	341	324
Property, plant and equipment (net)	980	978
Natural gas in storage held for resale and operations	36	36
Debt retirement funds	42	40
Investments and other assets	38	33
	$ 1,437	$ 1,411
Liabilities and Province's Equity		
Current liabilities		
Short-term debt	$ 100	$ 88
Accounts payable	131	144
Dividend payable	13	7
Current portion of long-term debt	25	75
Fair value of derivative instruments	41	18
	310	332
Long-term debt	633	633
	943	965
Province of Saskatchewan's equity		
Retained earnings	424	379
Accumulated other comprehensive loss	(2)	(5)
	422	374
Equity advances	72	72
	494	446
	$ 1,437	$ 1,411

(See accompanying notes)

On behalf of the Board:

Director

Director

SaskEnergy Incorporated

Consolidated Statement of Income and Retained Earnings

(millions)

(unaudited)

	Three months ended March 31	
	2008	**2007**
	(Note 2)	(Note 5)
Revenue		
Commodity sales	$ 165	$ 192
Gas marketing sales	67	103
Delivery	67	63
Transportation and storage	19	21
Revenue collected for municipalities	10	10
Other	4	2
	332	391
Expenses		
Commodity cost of gas sold	114	174
Gas marketing cost of gas sold	90	104
Operating and maintenance	33	31
Interest	11	11
Amortization	13	13
Payments to municipalities	10	10
Saskatchewan taxes	1	1
	272	344
Net income	60	47
Retained earnings, beginning of period	379	342
Change in accounting policy (Note 2)	(2)	2
Dividends	(13)	(13)
Retained earnings, end of period	$ 424	$ 378

(See accompanying notes)

SaskEnergy Incorporated

Consolidated Statement of Comprehensive Income

(millions)

(unaudited)

	Three months ended March 31	
	2008	**2007**
Net income	$ 60	$ 47
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	3	(1)
	3	3
Comprehensive income	$ 63	$ 50

SaskEnergy Incorporated

Consolidated Statement of Accumulated Other Comprehensive Loss

(millions)

(unaudited)

	As at March 31, 2008	**As at December 31, 2007**
Accumulated other comprehensive loss, beginning of period	$ (5)	$ (2)
Transitional amounts for gains and losses on derivative instruments designated as hedges for accounting purposes in prior periods	-	(1)
Other comprehensive income (loss)	3	(2)
Accumulated other comprehensive loss, end of period	$ (2)	$ (5)

(See accompanying notes)

SaskEnergy Incorporated

Consolidated Statement of Cash Flows

(millions)

(unaudited)

	Three months ended March 31	
	2008 (Note 2)	**2007**
Operating Activities		
Net income	$ 60	$ 47
Add (deduct) items not requiring an outlay of cash		
Amortization	13	13
Change in fair value of derivative instruments (Note 4)	(20)	(3)
Debt retirement fund earnings	(1)	(1)
Other	(3)	-
	49	56
Net change in non-cash working capital related to operations	16	(18)
Cash provided by operating activities	65	38
Investing Activities		
Additions to property, plant and equipment	(21)	(10)
Additions to investments and other assets	(1)	-
Customer capital contributions received	6	12
Decrease in natural gas in storage - non-current	-	5
Cash (provided by) used in investing activities	(16)	7
Financing Activities		
Decrease in bank indebtedness	-	(2)
Increase (decrease) in short-term debt	12	(29)
Debt retirement fund investments	(1)	(1)
Proceeds from long-term debt	-	17
Repayments of long-term debt (net)	(50)	(18)
Dividends paid	(7)	(12)
Cash used in financing activities	(46)	(45)
Increase in cash during period	3	-
Cash position, beginning of period	2	-
Cash position, end of period	$ 5	$ -
Supplemental cash flow information		
Interest paid	$ 13	$ 15

(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, 2007 except as noted in the Change in Accounting Policies 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, 2007 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. Changes in Accounting Policies

Effective January 1, 2008, SaskEnergy adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1535 – Capital Disclosures in accordance with the transition provisions of the section. This section requires disclosure of information related to the objectives, policies and processes for managing capital, and particularly whether the Corporation has complied with externally imposed capital requirements. As this standard only addresses disclosure requirements, there is no impact on the Corporation's operating results. The new required disclosure is provided in Note 3.

Effective January 1, 2008, SaskEnergy adopted the CICA Handbook Section 3862 – Financial Instruments – Disclosures and Section 3863 – Financial Instruments – Presentation in accordance with the transition provisions of the sections. These sections replaced CICA Handbook Section 3861 – Financial Instruments – Presentation and Disclosure. The new disclosure standards increase the disclosures related to financial instruments, and the nature, extent and management of the Corporation's risks arising from financial instruments. The presentation standards carry forward unchanged from the former presentation requirements. As these standards only address disclosure and presentation requirements, there is no impact on the Corporation's operating results. The new required disclosure is provided in Note 4.

Effective January 1, 2008, SaskEnergy adopted the CICA Handbook Section 3031 – Inventories. The new recommendations establish standards for the determination of the cost of inventories and the subsequent recognition as expense, including any write-down to net realizable value and reversals of previous write-downs for increases to net realizable value. Also, guidance is provided related to reclassification of inventory items as property, plant and equipment. The standard requires retrospective application with no restatement of prior year results.

2. **Changes in Accounting Policies (continued)**

Upon the adoption of the new standard, SaskEnergy began using the weighted average cost method for valuing all natural gas inventories. The impact of applying this change in accounting policy effective January 1, 2008 was as follows:

	January 1 2008 (millions)
Natural gas in storage held for resale	$ (5)
Total assets	$ (5)
Accounts payable	$ (3)
Retained earnings	(2)
Total liabilities and equity	$ (5)

3. **Capital Disclosure**

The Corporation's objective when managing its capital is to maintain financial stability through the effective management of liquidity and capital structure. Ensuring financial stability is critical to providing safe reliable service to Saskatchewan residents, businesses and industries.

SaskEnergy funds its capital requirements through internally generated funds and debt. As a Crown corporation, SaskEnergy receives its capital funding primarily from the Saskatchewan Ministry of Finance. SaskEnergy also has a $30 million line of credit with the Toronto-Dominion Bank which is used to manage short-term liquidity. By legislation, SaskEnergy cannot have more than $1,300 million of debt outstanding at any time. In addition to this limit on total debt outstanding, by Order-in-Council, SaskEnergy may only have $400 million of short-term loans outstanding at any time. SaskEnergy can only issue debt upon approval by the Lieutenant Governor in Council.

SaskEnergy's capital consists of short-term debt having a term to maturity of one year or less, long-term debt having a term to maturity greater than one year and equity, primarily in the form of retained earnings.

3. Capital Disclosure (continued)

The Corporation monitors capital on the basis of the debt ratio. The current long-term per cent debt ratio target is 65%, which is consistent with the prior period. The per cent debt ratio is calculated as net debt divided by end of period capitalization as follows:

	March 31 2008	December 31 2007
	(millions)	
Gross long-term debt	**$ 658**	$ 708
Short-term debt	**100**	88
Debt retirement funds	**(45)**	(43)
Cash	**(5)**	(2)
Total net debt	**708**	751
Equity advances	**72**	72
Retained earnings	**424**	379
Total capital	**$ 1,204**	$ 1,202
Debt ratio	**58.8%**	62.5%

SaskEnergy complied with all externally imposed requirements on its capital for the three months ended March 31, 2008.

4. Financial Instruments and Risk Management

a. Fair value of financial instruments

The fair value of the Corporation's financial instruments is listed below:

	March 31, 2008		December 31, 2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(millions)			
Other liabilities				
Long-term debt	**$ 658**	**$ 742**	$ 708	$ 798
Held-for-trading				
Debt retirement funds	**45**	**45**	43	43

The fair values of the above instruments were based on the following:

i. Long-term debt − The present value of future cash flows discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.

ii. Debt retirement funds − The market value of the investments held in the debt retirement fund as determined by Saskatchewan's Ministry of Finance as at March 31 and December 31.

4. Financial Instruments and Risk Management (continued)

b. Natural gas derivative instruments

The fair value of natural gas derivative instruments held-for-trading is calculated daily and is based on quoted market prices. For physical natural gas contracts notional values are an approximation of future net cash flows based on contract price multiplied by contract quantity. For other derivative financial instruments, the notional value is the difference between the contract price and the market price. SaskEnergy has sufficient borrowing capacity to fund these contractual obligations. Where contract prices are referenced to an index price that has not yet been fixed, the market price at March 31, 2008 has been used to estimate the contract price. At March 31, 2008, all derivative assets and liabilities held-for-trading are recorded on the statement of financial position at fair value.

As at March 31, 2008, natural gas derivative instruments held-for-trading had the following fair values, notional values and maturities:

	2008	2009	2010	2011	2012	Total
			(millions)			
Physical natural gas contracts						
Fair value	$ (12)	$ 2	$ -	$ -	$ -	$ (10)
Notional value	(177)	(9)	7	4	-	(175)
Natural gas price swaps						
Fair value	16	13	9	(1)	-	37
Notional value	16	13	9	(1)	-	37
Natural gas price options						
Fair value	1	-	-	-	-	1
Notional value	1	-	-	-	-	1
Total						
Fair value	$ 5	$ 15	$ 9	$ (1)	$ -	$ 28
Notional value	$ (160)	$ 4	$ 16	$ 3	$ -	$ (137)

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

The fair value of derivative instruments is presented on the consolidated statement of financial position as follows:

	March 31 2008	December 31 2007
	(millions)	
Fair value of derivative instrument assets	**$ 69**	$ 26
Fair value of derivative instrument liabilities	**(41)**	(18)
Total fair value	**$ 28**	$ 8

The fair value of other financial instruments, including cash, accounts receivable, bank indebtedness, short-term debt, accounts payable and dividend payable approximate their carrying value due to the short-term nature of the instruments.

4. **Financial Instruments and Risk Management (continued)**

Liquidity risk is the risk that the Corporation is unable to meet its financial commitments as they become due. For the following financial liabilities, the Corporation has credit facilities available to refinance maturities in excess of anticipated operating cash flows. The following summarizes the contractual maturities of the Corporation's financial liabilities as of March 31, 2008:

	6 months or less	**7-12 months**	**1-2 years**	**3-5 years**	**More than 5 years**
			(millions)		
Accounts payable	**$ (131)**	$ -	$ -	$ -	$ -
Dividend payable	**(13)**	-	-	-	-
Derivative instruments	**(138)**	(11)	(3)	-	-
Long-term debt	**(45)**	(19)	(76)	(221)	(735)
Debt retirement fund instalments	**(3)**	(3)	(5)	(14)	(43)
	$ (330)	$ (33)	$ (84)	$ (235)	$ (778)

The change in fair value of derivative instruments is recorded in net income within the relevant revenue or expense category. For the period ended March 31 the impact on net income of these unrealized gains and losses was as follows:

	Increase (decrease) in net income	
	2008	**2007**
	(millions)	
Commodity sales	$ -	$ (1)
Gas marketing sales	**(43)**	(3)
Commodity cost of gas sold	**49**	15
Gas marketing cost of gas sold	**14**	(8)
Increase in net income	**$ 20**	$ 3

c. Risk management

The Corporation uses various derivative financial instruments to manage the risks 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.

i. Natural gas price risk

The Corporation may manage the risk associated with the purchase and sale price of natural gas. 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 SaskEnergy uses for price risk management include natural gas price swaps, options, swaptions and futures contracts. An increase of $1.00 per Gigajoule in natural gas prices would increase net income by $10 million, while a decrease of $1.00 per Gigajoule would decrease net income by $10 million.

4. Financial Instruments and Risk Management (continued)

ii. Foreign currency exchange and interest rate risk

The Corporation uses derivative financial instruments to manage the interest rate risk on anticipated borrowing requirements and the foreign currency exchange rate on foreign currency denominated transactions. For the purpose of managing interest rate risk, the Corporation may use forward rate agreements, options and interest rate swaps to achieve an annual average interest rate target. For the purpose of managing the exchange rate risk on transactions denominated in foreign currency, SaskEnergy may use currency forwards and currency options.

iii. Credit risk

The Corporation extends credit to its customers in the normal course of business and is at risk of loss in the event of non-performance by counterparties on certain of the financial instruments described above. To reduce its credit risk, SaskEnergy has established policies and procedures to monitor and limit the amount of credit extended to its customers and counterparties.

The carrying amount of financial assets represents the maximum credit exposure as follows:

	March 31 2008	**December 31 2007**
	(millions)	
Cash	**$ 5**	$ 2
Accounts receivable	**157**	131
Debt retirement funds	**45**	43
Fair value of derivative instrument assets	**69**	26
Investments and other assets	**38**	33
Maximum credit exposure	**$ 314**	$ 235

Derivative credit risk arises from the possibility that a counterparty to a contract fails to perform according to the terms and conditions of that contract. Derivative credit risk is minimized by dealing with large, credit-worthy counterparties in accordance with established credit approval policies.

Provisions for credit losses are maintained and regularly reviewed by the Corporation. Credit losses are estimated based on an aging of customer accounts. Amounts are written off once reasonable collection efforts have been exhausted. Details of the allowance are as follows:

	2008	**2007**
	(millions)	
Allowance for doubtful accounts, beginning of period	**$ 1**	$ 2
Provision	**1**	1
Recoveries	**-**	2
Write-offs	**-**	(4)
Allowance for doubtful accounts, end of period	**$ 2**	$ 1

5. Comparative Figures

Certain of the prior period's figures have been reclassified to conform to the current period's presentation.