FIRST QUARTER INTERIM REPORT MARCH 31, 2009

Q1 Interim Report

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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 342,000 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.

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 it's wholly owned subsidiaries for the three month period ended March 31, 2009. 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, 2008.

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.

The following discussion contains certain forward-looking statements that are subject to inherent uncertainties and risks. The significant uncertainties and risks of the Corporation include natural gas price, winter weather, operational, regulatory and counterparty credit risks. Consequently, actual results and events may vary significantly from those included in, contemplated or implied by such statements.

	Three Months Ended March 31	
Financial Highlights	**2009**	**2008**
($ millions)		
Consolidated Net Income before the Impacts of Fair Value	55	40
Fair Value Adjustments	(23)	20
Consolidated Net Income	32	60
Total Assets	1,560	1, 437
Long-term Debt	803	658
Debt/Equity ratio	64%	59%
Capital Investment	24	21
Operating Highlights		
Distribution		
Volumes Distributed – Petajoules	51	51
Winter Weather – Compared to the Thirty Year Average	15% colder	4% Colder
Transmission		
Volumes Transported – Petajoules	84	94
Peak Day Natural Gas Flows (Winter Season) - Petajoules	1.18	1.50
- Date of Peak Flow	January 24	January 28

Financial Results

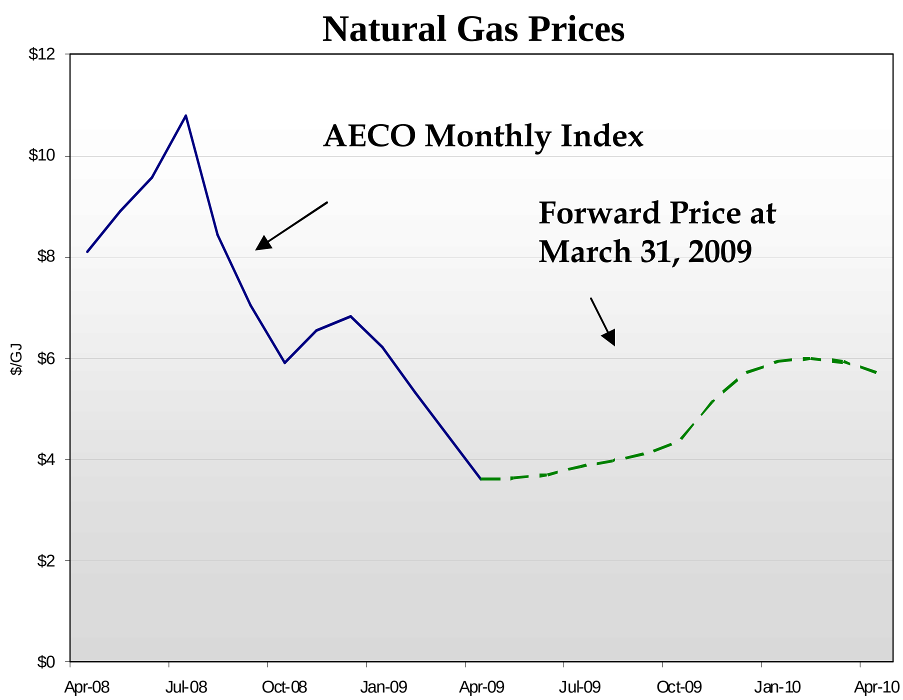
Effective January 1, 2009 SaskEnergy adopted the CICA Handbook Section 3064, Goodwill and Other Intangible Assets. This change in accounting policies is discussed in Note 2 of the attached financial statements.

Effective January 1, 2011, publicly accountable Canadian entities will be required to prepare financial information in accordance with International Financial Reporting Standards (IFRS). IFRS, like current Canadian generally accepted accounting principles (GAAP), are a principle based set of standards. However, there are areas where the accounting treatment differs from Canadian GAAP. SaskEnergy is currently evaluating IFRS to determine which areas of the Corporation's financial reporting will be impacted. In conjunction with evaluating the accounting standards, a review of the information technology and data systems' capability to provide the information required by IFRS will be performed. SaskEnergy is currently engaged in educational activities to expand its knowledge of IFRS. The Corporation has retained a service provider to provide expertise in the implementation of IFRS.

The emergence of the global credit crisis led to a fall in financial markets as well as energy prices. As economic activity slowed, demand for natural gas declined significantly in North America, resulting in natural gas prices falling at the end of last year. This reduction in natural gas prices has continued in 2009.

In response to the decreasing natural gas prices, SaskEnergy applied for and received approval for a decrease to the commodity rate. Effective April 1, 2009 the commodity rate for natural gas decreased from $8.51 per Gigajoule (GJ) to $5.96 per GJ. This approved 21 per cent rate decrease results in savings of approximately $23 per month for the average residential customer.

Following is a chart of AECO natural gas prices. AECO is the major natural gas hub in Canada and is located in Alberta. Natural gas in Saskatchewan is priced at a differential to the AECO price and is usually about $0.05GJ to $0.10GJ higher than AECO.



Consolidated Net Income

For the first three months of 2009 consolidated net income was $32 million, which was $28 million lower than the $60 million net income for the same period in 2008. Unfavourable fair value adjustments of $23 million, compared to favourable $20 million for the same period in 2008, partially offset by a higher gain on commodity sales in 2009 contributed to the lower net income in 2009.

1. Commodity Margin

Commodity Margin Analysis (millions)	2009	2008
Average Commodity Rate per GJ	$8.51	$6.57
Average Cost of Gas Sold per GJ	$7.55	$6.56
Margin on Commodity Sales	$ 26	$ 2
Impact of Fair Value Adjustments	(24)	49
Net Commodity Margin	$ 2	$ 51

The commodity rate for natural gas sales to distribution utility customers was $8.51 per GJ for the period January 1, 2009 to March 31, 2009. In 2008 the commodity rate was $6.57 per GJ for this period. This resulted in higher average revenue per GJ for the first three months of 2009 compared to 2008.

The weather was 15 per cent colder than normal in the first three months of 2009 compared to 4 per cent colder than normal weather during the same period in 2008. The colder weather in 2009 increased the amount of natural gas consumed for space heating purposes by 3.0 Petajoules (5% of budgeted annual consumption) in 2009 compared to 2008.

The higher average rate combined with increased volumes sold resulted in commodity sales of $261 million in the first quarter which was $96 million higher than commodity sales of $165 million for the first quarter of 2008.

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 financial and derivative instruments reported on the Statement of Financial Position are reported at fair value. The change in fair value of financial and derivative instruments from one reporting period to another are reported as fair value adjustments and either increase or decrease net income.

The average cost of natural gas in the first quarter was $7.55 per GJ which was lower than the commodity rate of $8.71, resulting in a commodity margin of $26 million before fair value adjustments. However, fair value adjustments unfavourably impacted the financial reporting of the cost of gas sold during the first three months of 2009 by $24 million, resulting in a margin on commodity sales of $2 million. The average cost of gas per GJ in the first quarter of 2008 approximated the commodity rate of $6.57, resulting in a commodity margin of $2.0 million before fair value adjustments. The $51 million margin on commodity sales for the first three months of 2008 was primarily due to $49 million in favourable fair value adjustments.

2. Gas Marketing

Gas Marketing Margin Analysis (millions)	2009	2008
Margin on Gas Marketing	$ 13	$ 6
Impact of Fair Value Adjustments	1	(29)
	$ 14	$ (23)
Revaluation of Inventory	(15)	n/a
Net Gas Marketing Margin	$ (1)	$ (23)

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.

In the first three months of 2009, the realized margin from the foregoing activity was $13 million. However, with the decline in natural gas market prices, the net realizable for gas marketing natural gas in storage has fallen below cost. A downward revaluation of natural gas in storage of $15 million was recorded resulting in a gas marketing loss of $2 million. If natural gas prices rise in the future, SaskEnergy will record an upward revaluation to recognize the increase in net realizable value, up to a maximum of the original cost.

When this natural gas is purchased it is held in storage to meet future sales contracts which have been entered into at fixed price. The margin is "locked in", and SaskEnergy will receive a positive net cash flow in the future. There is a timing difference as to when the revenue and related cost of gas are recorded, but the same positive net cash flow will be realized over time.

The gas marketing loss was partially offset by a favourable impact for financial reporting purposes by the fair value adjustment of $1 million. This compared to a realized margin of $6 million and an unfavourable fair value adjustment of $29 million for the same period in 2008.

3. Delivery Revenue

Delivery revenue in the first three months of 2009 was $71 million, which was $4 million higher than the same period in 2008. This was a result of higher delivery rates and increased natural gas consumption in 2009 reflecting the colder weather in 2009 compared to 2008.

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, 2009 was 6% per cent colder than the same period in 2008.

Effective November 1, 2008, SaskEnergy received approval for a delivery rate increase. As a result, the delivery rate charged to distribution utility customers was 5.8 per cent higher for the first quarter in 2009 as compared to the same period on 2008.

4. Transportation and Storage Revenue

Transportation and storage revenue for the first three months of 2009 was $20 million, which was consistent with the same period in 2008 which was $19 million.

Transportation revenue includes a rate increase of 8.6% effective February 1, 2009. The effect of the rate increase was offset by the reduction in transportation volumes in 2009 that have occurred due to a continued decline in natural gas production in Saskatchewan.

5. Other Expenses

Operating and maintenance expenses for the first three months of 2009 were $36 million, which was $3 million higher compared to the first three months of 2008 in contract and consulting costs and other general expenses.

Interest expense, amortization, payments to municipalities and Saskatchewan taxes to March 31, 2009 were consistent with the same period in 2008.

Outlook

SaskEnergy will continue to monitor the impact of changing economic conditions throughout its business operations. SaskEnergy is projecting 4,500 new natural gas customer connections in 2009 compared to the exceptional year in 2008 with 6,100 new customer connections. Transportation revenue is directly impacted by the level of new natural gas wells drilled in the province. The reduced drilling activity seen over the last half of 2008, due to declining prices for natural gas, is expected to continue in 2009. Fewer wells drilled translate into reduced volumes of gas that shippers transport on the transmission system, which will mean lower revenues.

The Corporation's consolidated net income target for 2009 is $72 million. SaskEnergy expects net income for the 2009 will be somewhat negatively impacted by lower anticipated transportation revenues and reduced margins on its gas processing activities due to lower market prices.

All internal costs are closely managed in an effort to minimize any future rate adjustments related to the company's operations, while maintaining a high level of service. SaskEnergy conducts its borrowing activity for its capital program through the Province of Saskatchewan and the corporation does not anticipate any problems accessing adequate capital in 2009.

SaskEnergy Incorporated

Consolidated Statement of Financial Position

(millions)

(unaudited)

	As at March 31, 2009 (Note 2)	As at December 31, 2008
Assets		
Current assets		
Cash	$ 4	$ 4
Accounts receivable	199	163
Natural gas in storage held for resale	131	199
Inventories of supplies	10	17
Fair value of derivative instruments	79	46
	423	429
Intangible assets (net)	16	17
Property, plant and equipment (net)	993	991
Natural gas in storage held for resale and operations	35	35
Debt retirement funds	49	48
Investments and other assets	44	41
	$ 1,560	$ 1,561
Liabilities and Province's Equity		
Current liabilities		
Short-term debt	$ 52	$ 164
Accounts payable	111	136
Dividend payable	15	6
Current portion of long-term debt	39	39
Fair value of derivative instruments	119	61
	336	406
Asset Retirement obligations	8	8
Long-term debt	764	714
	1,108	1,128
Province of Saskatchewan's equity		
Retained earnings	381	364
Accumulated other comprehensive loss	(1)	(3)
	380	361
Equity advances	72	72
	452	433
	$ 1,560	$ 1,561

(See accompanying notes)

SaskEnergy Incorporated

Consolidated Statement of Income and Retained Earnings

(millions)

(unaudited)

	Three months ended March 31	
	2009	**2008**
	(Note 2)	(Note 2)
Revenue		
Commodity sales	$ 261	$ 165
Gas marketing sales	126	67
Delivery	71	67
Transportation and storage	20	19
Revenue collected for municipalities	13	10
Other	3	4
	494	332
Expenses		
Commodity cost of gas sold	259	114
Gas marketing cost of gas sold	127	90
Operating and maintenance	36	33
Interest	11	11
Amortization	14	13
Payments to municipalities	13	10
Saskatchewan taxes	2	1
	462	272
Net income	32	60
Retained earnings, beginning of period	364	379
Change in accounting policy (Note 2)	-	(2)
Dividends	(15)	(13)
Retained earnings, end of period	$ 381	$ 424

(See accompanying notes)

SaskEnergy Incorporated

Consolidated Statement of Comprehensive Income

(millions)

(unaudited)

	Three months ended March 31	
	2009	**2008**
Net income	$ 32	$ 60
Other comprehensive income:		
Unrealized gains and losses on translating financial statements of self-sustaining foreign operations	2	3
Comprehensive income	$ 34	$ 63

SaskEnergy Incorporated

Consolidated Statement of Accumulated Other Comprehensive Loss

(millions)

(unaudited)

	As at March 31, 2009	As at March 31, 2008
Accumulated other comprehensive loss, beginning of period	$ (3)	$ (5)
Other comprehensive income	2	3
Accumulated other comprehensive loss, end of period	$ (1)	$ (2)

(See accompanying notes)

SaskEnergy Incorporated

Consolidated Statement of Cash Flows

(millions)

(unaudited)

	Three months ended March 31	
	2009	2008
	(Note 2)	
Operating Activities		
Net income	$ 32	$ 60
Add (deduct) items not requiring an outlay of cash		
Amortization	14	13
Write-down of natural gas in storage held for resale (Note 3)	15	-
Change in fair value of derivative instruments (Note 4)	25	(20)
Debt retirement fund earnings	-	(1)
Equity earnings	(1)	-
Other	-	(3)
	85	49
Net change in non-cash working capital related to operations	(1)	16
Cash provided by operating activities	84	65
Investing Activities		
Additions to property, plant and equipment	(24)	(21)
Additions to investments and other assets	(1)	(1)
Customer capital contributions received	9	6
Decrease in natural gas in storage - non-current	-	-
Cash used in investing activities	(16)	(16)
Financing Activities		
Increase (decrease) in short-term debt	(111)	12
Debt retirement fund investments	(1)	(1)
Proceeds from long-term debt	50	-
Repayments of long-term debt (net)	-	(50)
Dividends paid	(6)	(7)
Cash used in financing activities	(68)	(46)
Increase in cash during period	-	3
Cash position, beginning of period	4	2
Cash position, end of period	$ 4	$ 5

(See accompanying notes)

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, 2008.

These consolidated interim financial statements, which are unaudited, should be read in conjunction with the consolidated financial statements for the year ended December 31, 2008 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.

a. Future Accounting Policy Changes

The CICA has issued several new Handbook Sections: Section 1582 – Business Combinations, Section 1601 – Consolidated Financial Statements and Section 1602 – Non-Controlling Interests for fiscal years beginning on or after January 1, 2011. These sections replace existing Handbook Sections 1581 and 1600 and establish standards for the accounting of business combinations, preparation of consolidated financial statements and accounting for a non-controlling interest in a subsidiary. The Corporation is evaluating the potential impacts of these accounting recommendations and does not anticipate a significant impact on the Corporation’s financial statements.

The CICA has announced that publicly accountable Canadian entities will be required to prepare financial information in accordance with International Financial Reporting Standards (IFRS) effective January 1, 2011. Although IFRS are a principle-based set of standards, similar to current GAAP, there are areas where the accounting treatment differs from Canadian GAAP. The Corporation is evaluating the potential impacts of IFRS on the Corporation’s financial statements.

2. Change in Accounting Policy

Effective January 1, 2009, SaskEnergy adopted the CICA Handbook Section 3064 – Goodwill and Intangible Assets. This section supersedes Section 3062, Goodwill and Other Intangible Assets and Section 3450, Research and Development Costs. This section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The standard requires retrospective application with restatement of prior year comparative results. Intangible assets are to be presented and disclosed separately in the financial statements and in the notes to the financial statements.

Upon the adoption of the new standard, SaskEnergy is presenting and disclosing intangible assets separately in the financial statements and in the notes to the financial statements. The impact of applying this change in accounting policy effective January 1, 2009 was as follows:

	31-Dec 2008 (millions)
Intangible assets (net)	$ 17
Property, plant and equipment (net)	(17)
Total assets	$ -
Total liabilities and equity	$ -

The adoption of this section did not have any effect of the results of the three month period ended March 31, 2009.

3. Natural Gas in Storage Held for Resale and Operations

For the three months ended March 31, 2009, $338 million of natural gas in storage held for resale (2008 - $282 million) was recognized as cost of gas sold. With the decline in natural gas market prices, the net realizable for gas marketing natural gas in storage has fallen below cost. There was a $15 million write-down of natural gas in storage held for resale to its net realizable value included in gas marketing cost of gas sold. If natural gas prices rise in the future, there will a reversal of the write-down. There was no reversal of any prior period write-down during the three months ended March 31, 2009.

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, 2009		December 31, 2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(millions)			
Other liabilities				
Long-term debt	**$ 803**	**$ 905**	$ 753	$ 853
Held-for-trading				
Debt retirement funds	**49**	**49**	48	48

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.

b. Natural gas derivative instruments

The fair value of natural gas derivative instruments held-for-trading, with the exception of natural gas price options, is calculated daily and is based on quoted market prices. The fair value of natural gas price options is determined using the Garman-Kohlhagen model which requires the use of various assumptions, including quoted market prices, interest rates and volatility estimates for forward natural gas prices, which are each based on external market sources. 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 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, 2009 has been used to estimate the contract price. At March 31, 2009, all derivative assets and liabilities held-for-trading are recorded on the statement of financial position at fair value.

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

As at March 31, 2009, natural gas derivative instruments held-for-trading had the following fair values, notional values and maturities:

	2009	2010	2011	2012	2013	Total
			(millions)			
Physical natural gas contracts						
Fair value	$ (8)	$ 6	$ 1	$ -	$ -	$ (1)
Notional value	(160)	27	5	1	-	(127)
Natural gas price swaps						
Fair value	(21)	(6)	2	1	-	(24)
Notional value	(21)	(6)	2	1	-	(24)
Natural gas price options						
Fair value	(15)	-	-	-	-	(15)
Notional value	(15)	-	-	-	-	(15)
Total						
Fair value	$ (44)	$ -	$ 3	$ 1	$ -	$ (40)
Notional value	$ (196)	$ 21	$ 7	$ 2	$ -	$ (166)

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

c. Changes in fair value

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

	Increase (decrease) in net income 2009	2008
	(millions)	
Gas marketing sales	**30**	(43)
Commodity cost of gas sold	**(24)**	49
Gas marketing cost of gas sold	**(29)**	14
(Decrease) increase in net income	**$ (23)**	$ 20

d. Risk management

i. Natural gas price risk

The Corporation uses various derivative financial instruments to manage the risks associated with its operating exposures to fluctuations in 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.

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.

Based on the Corporation's March 31, 2009 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 contracts, by $11 million. Conversely, a decrease of $1.00 per Gigajoule would have decreased net income, through a decrease in the fair value of natural gas contracts, by $11 million.

ii. Credit Risk

The Corporation is exposed to credit risk through cash, accounts receivable, debt retirement funds and derivative instrument assets. Credit risk related to cash and debt retirement funds and derivative instrument assets. Credit risk related to cash and debt retirement funds is minimized by dealing with institutions that have strong credit ratings and holding highly-rated financial securities.

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 and may require letters of credit and other forms of security. At March 31, 2009 the maximum credit exposure to a single counterparty was $3 million (Dec. 31/08 - $14 million)

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

	March 31 2009	**December 31 2008**
	(millions)	
Cash	**$ 4**	$ 4
Accounts receivable	**199**	163
Debt retirement funds	**49**	48
Fair value of derivative instrument assets	**79**	46
Maximum credit exposure	**$ 331**	$ 261

5. Comparative Figures

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