2012 FIRST QUARTER REPORT
MARCH 31, 2012

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Corporate Profile

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

SaskEnergy has the exclusive legislated franchise to distribute natural gas within Saskatchewan. The distribution system delivers natural gas to over 358,000 residential, farm, commercial and industrial customers over a 67,000 kilometre pipeline distribution system. SaskEnergy has six wholly owned subsidiaries:

- TransGas Limited − owns and operates the transmission system and has the exclusive legislated franchise to transport natural gas within Saskatchewan. It also owns and operates a natural gas storage business as well as gathering and processing facilities, which are integrated with the transmission system;
- 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 Gas Limited has two wholly owned subsidiaries: Bayhurst Energy Services Corporation, an energy services company, and BG Storage Inc., a natural gas storage company;
- 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.

Vision

We create superior value through innovative energy solutions.

Mission

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

Values

Safety: We never compromise the safety of our employees and the public.

Community: We are leaders in developing a diverse workforce, supporting our communities and environmental stewardship.

Recognition: We take time to recognize the individual and team contributions of our employees.

Accountability: We are accountable for our decisions, our actions and the results.

Spirit: We create a positive, welcoming and enjoyable work environment that supports employees in achieving their career goals and life balance.

Communications: We have open, honest and respectful communication that builds strong relationships.

Integrity: We are honest, respectful and apply high ethical standards.

Management's Discussion and Analysis

The Management's Discussion and Analysis (MD&A) highlights the primary factors that affected SaskEnergy's consolidated financial condition and results of operations for the three month period ended March 31, 2012. Using financial and operating results as its basis, the MD&A describes the Corporation's past performance and future prospects, enabling readers to view SaskEnergy from the perspective of management. For additional information related to the Corporation, refer to SaskEnergy's Annual Report for the year ended December 31, 2011.

This MD&A is presented at May 24, 2012 and should be read in conjunction with the condensed consolidated interim financial statements and accompanying notes, which have been prepared in accordance with International Accounting Standard (IAS) 34 "Interim Financial Reporting".

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 prices and winter weather. All forward-looking statements reflect the Corporation's best estimates and assumptions based on the information available at the time the statements were made. However, actual results and events may vary significantly from those included in, contemplated by or implied by such statements.

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

The Corporation uses realized margin on commodity sales and realized margin on gas marketing sales to compare financial performance from period to period. Each measure removes the impact of fair value adjustments and the revaluation of natural gas in storage as these market value adjustments are unrealized and subject to considerable variation based on the market prices of natural gas. These are non-IFRS measures as there is no standardized meaning, and they may not be comparable to similar measures presented by other entities.

	Three months ended March 31	
	2012	**2011**
Financial Highlights		
($ millions)		
Net income before unrealized market value adjustments	**$ 38**	$ 55
Consolidated net income	**2**	60
Dividends	**6**	12
Capital expenditures	**33**	31
Total assets	**1,899**	1,841
Long-term debt	**862**	715
Debt ratio	**60%**	56%
Operating Highlights		
Distribution		
Volumes distributed (Petajoules)	**48**	55
Weather (compared to the 30-year average)	**15% warmer**	12% colder
Transmission		
Volumes transported (Petajoules)	**71**	77
Peak day natural gas flows (Petajoules)	**1.16**	1.10
Date of peak flow	**January 18**	January 31

CONSOLIDATED FINANCIAL RESULTS

(millions)	Three months ended March 31 2012		2011	
Net income before unrealized market value adjustments	**$**	**38**	$	55
Impact of fair value adjustments		**(11)**		-
Revaluation of natural gas in storage		**(25)**		5
Consolidated net income	**$**	**2**	$	60

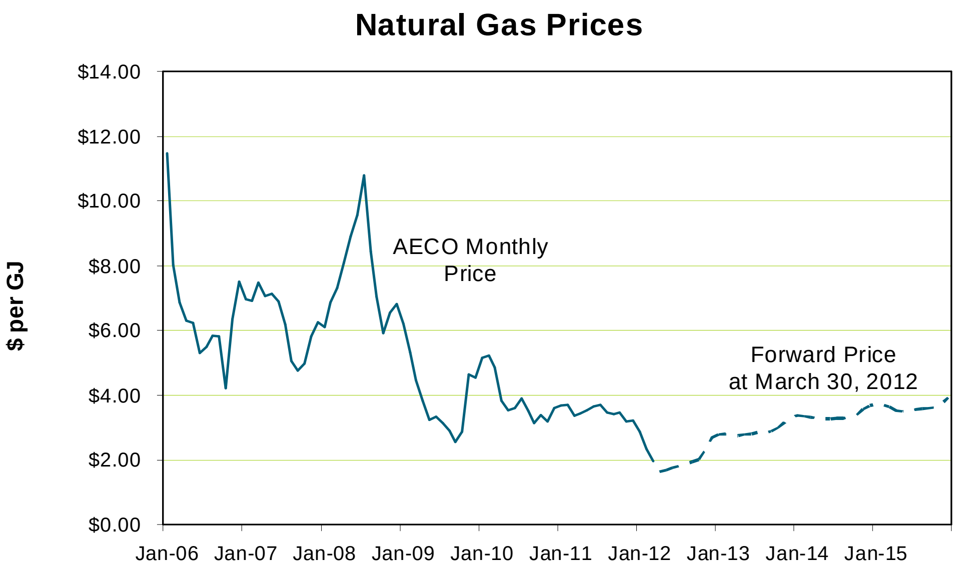
Net income before unrealized market value adjustments for the three months ended March 31, 2012 was $38 million, a decline of $17 million from the same period in 2011. Significantly warmer than normal weather in the first quarter led to lower delivery revenues and a lower realized margin on commodity sales which were the primary causes of this decline. These unfavorable variances were partially offset by increased margins on gas marketing sales due to the falling market price of natural gas. Upon inclusion of market value adjustments, the Corporation's consolidated net income fell to $2 million as the decline of natural gas market prices led to large fair value adjustments and a large adjustment for the revaluation of natural gas in storage.

Natural Gas Prices

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

The first quarter of 2012 marked the start of the fourth consecutive year of low natural gas prices, resulting from continued strong production. Despite the sustained low natural gas prices in North America, record production continues to add further supply growth and larger record inventory levels in both Canada and the United States. In Saskatchewan, strong demand and declining production due to low natural gas prices resulted in the province transitioning to a net importer of natural gas. However, the abundance of natural gas supply in western Canada along with the established pipeline infrastructure is facilitating this transition by managing the incremental Saskatchewan demand with imports from Alberta.

The 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 between $0.05 per gigajoule (GJ) and $0.10 per GJ higher than AECO.



Natural Gas Sales and Purchases

The natural gas margin includes the margins for both commodity and gas marketing activities as indicated in Note 11 of the condensed consolidated interim financial statements. As the Corporation manages each activity distinctly, the MD&A discussion for natural gas margin has been broken into these separate components.

Commodity Margin

(millions)	Three months ended March 31 2012	2011
Commodity sales	**$ 99**	$ 131
Commodity purchases	**(92)**	(117)
Realized margin on commodity sales[1]	**7**	14
Impact of fair value adjustments	**(19)**	7
Margin on commodity sales	**$ (12)**	$ 21

[1] Refer to non-IFRS measures

SaskEnergy's commodity rate, approved by Provincial Cabinet based on the recommendations of the SRRP, is designed to recover the associated costs of the natural gas sold to its distribution customers without earning a profit, nor incurring a loss. Each year, the rate is set on November 1, with a review and opportunity to change on April 1. While the commodity rate remains constant between each review, the costs incurred by the Corporation to acquire natural gas in the open market fluctuate based on the forces of supply and demand. For rate-setting purposes, SaskEnergy accumulates differences between the commodity revenue earned and the cost of natural gas sold in a Gas Cost Variance Account (GCVA). The balance in the GCVA, which is not recorded for financial reporting purposes, is either recovered from or refunded to customers as part of future commodity rates.

To assist in achieving its goal of delivering stable and competitive commodity rates to its customers, SaskEnergy reduces the impact of the volatility of natural gas purchase prices through a natural gas price risk management strategy. To ensure a secure supply of natural gas, SaskEnergy may contract for physical delivery of natural gas using non-financial derivatives, referred to as forward contracts. The purchase price contained in these forward contracts is typically based on a floating index price which will be determined by the price of natural gas in the future delivery period. SaskEnergy may use other natural gas derivative contracts, primarily natural gas price swaps and natural gas price options, to manage the future purchase price of natural gas. As derivative instruments, these natural gas contracts are recorded at fair value until the date of settlement. Changes in fair value, which will vary with future natural gas prices and price differentials, are recorded in commodity purchases. Upon settlement of the natural gas contract, the amount paid or received by SaskEnergy is recorded in commodity purchases. During the first quarter of 2012, fair value adjustments decreased net income by $19 million as the unfavourable fair value as at March 31, 2012 increased to $114 million from the $95 million unfavourable fair value position at December 31, 2011. The unfavourable fair value position was primarily due to natural gas price swap contracts, with an average purchase price of $4.18 per GJ compared to an average market price of $2.52 per GJ at March 31, 2012.

The realized margin on commodity sales removes the impact of these unrealized fair value adjustments, as they can fluctuate significantly and do not necessarily represent the amount that will be paid upon settlement of the related natural gas contract. On a realized basis in the first quarter of 2012 the Corporation recorded a margin of $7 million, which is exactly half of the margin earned during the same period of 2011. The margin in 2012 was a result of the difference between the approved commodity rate of $4.55/GJ and the average cost of gas sold of $4.22/GJ. The warm weather to begin this year led to a 5 petajoule decrease in sales to commodity customers as compared to the prior year when the weather was significantly colder than normal. The reduced volumes were the primary contributor to the reduced margin.

Gas Marketing Margin

(millions)	Three months ended March 31 2012	2011
Gas marketing sales	**$ 52**	$ 74
Gas marketing purchases	**(41)**	(65)
Realized margin on gas marketing sales[1]	**11**	9
Impact of fair value adjustments	**10**	(6)
Revaluation of natural gas in storage	**(25)**	5
Margin on gas marketing sales	**$ (4)**	$ 8

[1] Refer to non-IFRS measures

SaskEnergy's gas marketing activity employs several different strategies, all of which attempt to optimize storage and transportation capacity available to the Corporation to earn a positive margin, as well as provide a financial benefit to SaskEnergy and TransGas customers. The most significant gas marketing strategy is focused on utilizing the Corporation's storage field in west-central Saskatchewan. The decline in natural gas market prices over the past few years has created an opportunity for SaskEnergy to purchase relatively low-priced natural gas to inject into this storage facility with the intent to subsequently sell it at a profit. During off-peak periods the Corporation also optimizes the transmission and storage capacity by purchasing and selling natural gas in the open market to generate additional margins which benefits customers by reducing rate pressure. Lastly, SaskEnergy provides natural gas supply options to larger end-use customers in Saskatchewan through non-regulated contract sales.

The realized margin on gas marketing sales, which removes fair value adjustments and the revaluation of natural gas in storage, was $11 million. The declining market price for natural gas in early 2012 reduced the Corporation's average cost which led to a small increase in the gas marketing margin compared to the $9 million earned in the same period of 2011.

The transactions undertaken to implement the Corporation's gas marketing strategies result in additional risk exposure. Given the volatility of market prices the greatest exposure is to natural gas price risk. Similar to the discussion related to the commodity margin, the Corporation may enter into various natural gas contracts in order to manage natural gas price risk for its natural gas marketing activities. These natural gas contracts are derivative instruments and, as such, are recorded at fair value until the date of settlement. Changes in fair value are recorded in either gas marketing sales or gas marketing purchases, depending on the specific natural gas contract. Once settled, the amount paid or received for the contract is recorded in gas marketing sales or gas marketing purchases, as appropriate. During the first quarter of 2012, fair value adjustments increased net income by $10 million. The favourable fair value as at March 31, 2012 was $84 million, an increase from the $74 million fair value position at December 31, 2011. The favourable fair value at March 31, 2012 was primarily due to natural gas sales contracts, with an average selling price of $3.78 per GJ, compared to an average market price of $2.53 per GJ.

At March 31, 2012, the Corporation measured the net realizable value of gas marketing natural gas in storage, based on forward market prices. The decline in the market price during the first quarter also translated to low prices on the forward curve. The result is that the net realizable value for gas marketing natural gas in storage has fallen below cost. At March 31, 2012, the downward revaluation totaled $70 million, an increase of $25 million from the revaluation at December 31, 2011. 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. Otherwise, the $70 million will result in improved margins in the future, as contracts are settled, by virtue of the lower carrying value of natural gas in storage.

Delivery Revenue

Delivery revenue of $61 million for the three months ended March 31, 2012 was $10 million below the same period in 2011. As most of the natural gas delivered is used for space heating purposes, the volume of natural gas delivered is directly impacted by the weather during the winter months. The weather for the first three months of 2012 was approximately 23 per cent warmer than the same period in 2011, contributing to a 6 PJ period-over-period decrease in the volume of natural gas delivered.

Transportation and Storage Revenue

Transportation and storage revenue is driven by several factors, including the volume of deliveries by the transmission system to customers within Saskatchewan, or to points where natural gas is subsequently exported, the volume of receipts onto the system, and the volume of withdrawals from storage. Recent low natural gas prices have led to a decline in natural gas drilling in Western Canadian conventional gas reservoirs, including Saskatchewan. Lower natural gas prices also resulted in less natural gas being withdrawn from storage. These factors, combined with a decline in production from existing natural gas wells, have resulted in declines in both receipt and export volumes, however deliveries within Saskatchewan have increased, due mostly to growing industrial sector demand. Transportation and storage revenue of $21 million is an increase of $2 million,as compared to the first quarter of 2011. The increase is a result of increased deliveries within Saskatchewan, while the receipt, export, and storage revenues have remained consistent with the prior year.

Customer Capital Contribution Revenue

The Corporation receives capital contributions from customers in exchange for the construction of new, customer-specific service connections. These contributions, less potential refunds, are recognized as revenue once the related property, plant and equipment is available for use. The volume and magnitude of these contributions can vary significantly period over period as varying factors influence their receipt. Customer capital contribution revenue for the first quarter of 2012 totaled $4 million, which is a small decrease from the $5 million recognized in 2011.

Other Revenue

Other revenue of $4 million, which includes royalty revenue and natural gas and liquid sales, increased by $1 million compared to the first three months of 2011. Revenue from natural gas processing operations was $1 million higher than the same period in 2011 due to increased volumes processed.

Other Expenses

Employee benefits include the salaries, wages, and benefits provided to the Corporation's employees, less allocations to property, plant, & equipment as a result of employee work on capital projects. Total employee benefits expenses of $22 million remained consistent with the same period of last year.

Operating and maintenance expenses of $19 million for the three months ended March 31, 2012, were $2 million higher than the same period last year. The increased operating and maintenance expenses were mainly attributable to higher levels of service work and higher cost of transportation services from third-party pipeline companies due to an increase in the amount of gas brought in from Alberta.

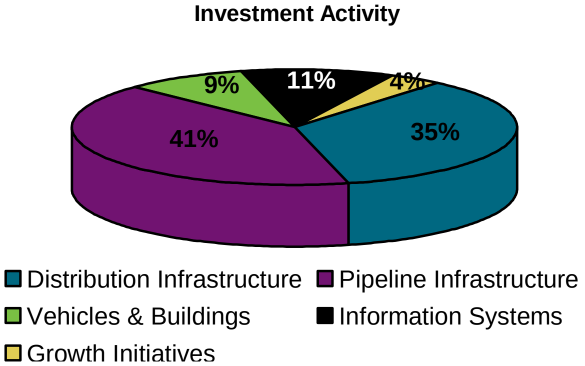
Amortization and depreciation of $18 million for the first quarter were $2 million higher than the same period in 2011 due to an increase in capital assets, primarily in transmission and compression. Saskatchewan taxes and net finance expenses of $2 million and $9 million respectively, were consistent with the prior year.

Liquidity and Capital Resources

	Three months ended March 31	
(millions)	**2012**	**2011**
Cash provided by operating activities	**$ 57**	$ 90
Cash used in investing activities	**(33)**	(31)
Cash used in financing activities	**(44)**	(60)
Increase (decrease) in cash during the period	**$ (20)**	$ (1)

Cash from operations and debt borrowed from the Province of Saskatchewan's General Revenue Fund are the primary sources of liquidity and capital for SaskEnergy.

Commodity sales and delivery revenues were a combined $42 million lower compared to the prior year, primarily due to lower sales as a result of the significantly warmer weather in the first quarter of 2012. These reductions were the primary cause of the $33 million decrease in cash provided by operating activities as compared to the same period of the prior year. In addition to a decline in these receipts, the Corporation's gas marketing group increased the volume of its natural gas in storage during the quarter by over three petajoules. This natural gas will be held for resale in subsequent periods to generate additional margins and cash flow for the Corporation.



During the first three months of 2012, cash used in investing activities was $33 million, a slight increase of $2 million from the prior year. The majority of the capital investments were made to expand the capacity and maintain the integrity of SaskEnergy's extensive distribution and transmission systems. The increase reflects the Corporation's commitment to enhance its already robust safety programming and integrity systems.

Cash used in financing activities was $16 million lower than the first quarter of 2011 as the dividends paid to CIC, the Corporation's parent, were $13 million lower in 2012. The Corporation received $147 million from long-term debt issued in the quarter. The proceeds from this issue helped the Corporation reduce its short-term debt position by $174 million in the first three months of 2012. SaskEnergy's debt to equity ratio is currently 60 per cent debt and 40 per cent equity, slightly off from the target of 57 per cent debt and 43 per cent equity.

Outlook

SaskEnergy's financial health is dependent upon the Corporation maintaining an appropriate capital structure while providing both reasonable financial returns to CIC and competitive rates to customers. The Corporation works hard to balance the interests of both CIC and its customers – focusing on annual profitability and long-term sustainability.

With a solid financial position and a positive outlook for the future, the Corporation anticipates strong financial returns with a targeted net income before market value adjustments of $56 million for 2012. As the Saskatchewan economy continues to grow, SaskEnergy expects continued strong demand for natural gas services. As the cleanest burning fossil fuel, the business and environmental benefits of natural gas will continue to make it the energy source of choice for many consumers. This expanding demand for natural gas is expected to result in continued growth for the well established distribution and transmission utilities. Opportunities beyond the Corporation's regulated utilities will further expand SaskEnergy's business within Saskatchewan and many of these opportunities, such as waste heat recovery, possess an environmental up-side as well. The Corporation anticipates additional margins from gas marketing activities as market opportunities become available.

The Corporation anticipates total capital investment of $218 million for 2012. This represents a significant increase from recent years, driven primarily by customer demand, enhanced safety integrity programming, and initiatives related to future cost containment. Capital investment is necessary to maintain SaskEnergy's commitment to safety and high standards of customer service, honour customer commitments and minimize future incremental operating costs using the most cost-effective capital investment strategy.

SaskEnergy will continue to deliver stable financial returns through prudent financial management, highlighted by a focus on efficiency and productivity gains throughout the Corporation. The Corporation implements plans to improve efficiency and resource management in an effort to counter such cost drivers as continued customer growth, labour costs and non-controllable cost increases from third parties. All internal costs are closely managed in an effort to minimize future rate adjustments. The Corporation's operations will continue to focus on maintaining safe, reliable systems and high levels of customer service.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(unaudited)

(millions)	Notes	As at March 31, 2012	As at December 31, 2011
Assets			
Current assets			
Cash		**$ 1**	$ 21
Trade and other receivables		**118**	103
Natural gas in storage held for resale	5	**163**	214
Inventory of supplies		**10**	10
Debt retirement funds		**6**	6
Fair value of derivative instruments	6	**93**	78
		391	432
Intangible assets		**32**	30
Property, plant and equipment		**1,408**	1,395
Debt retirement funds		**68**	67
		$ 1,899	$ 1,924
Liabilities and Province's equity			
Current liabilities			
Short-term debt		**$ 140**	$ 314
Trade and other payables		**75**	101
Dividends payable		**6**	9
Current portion of long-term debt	7	**50**	50
Deferred revenue	8	**42**	32
Fair value of derivative instruments	6	**123**	98
		436	604
Employee future benefits		**12**	13
Provisions		**18**	17
Deferred revenue	8	**9**	9
Long-term debt	7	**812**	665
		1,287	1,308
Province's equity			
Equity advances		**72**	72
Retained earnings		**540**	544
Other components of equity		**-**	-
		612	616
		$ 1,899	$ 1,924

Commitments and contingencies 9

(See accompanying notes)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(unaudited)

(millions)	Notes	For the Three Months Ended March 31, 2012 Income before Unrealized Market Value Adjustments	Unrealized Market Value Adjustments (Note 10)	Total	For the Three Months Ended March 31, 2011 Income before Unrealized Market Value Adjustments	Unrealized Market Value Adjustments (Note 10)	Total
Revenue							
Natural gas sales	11	**$ 151**	**$ 14**	**$ 165**	$ 205	$ (11)	$ 194
Delivery		**61**	**-**	**61**	71	-	71
Transportation and storage		**21**	**-**	**21**	19	-	19
Customer capital contributions		**4**	**-**	**4**	5	-	5
Other		**4**	**-**	**4**	3	-	3
		241	**14**	**255**	303	(11)	292
Expenses							
Natural gas purchases (net of change in inventory)	11	**133**	**48**	**181**	182	(17)	165
Employee benefits		**22**	**-**	**22**	22	-	22
Operating and maintenance		**19**	**-**	**19**	17	-	17
Depreciation and amortization		**18**	**-**	**18**	16	-	16
Saskatchewan taxes		**2**	**-**	**2**	2	-	2
		194	**48**	**242**	239	(17)	222
Income before the following		**47**	**(34)**	**13**	64	6	70
Finance income		**2**	**(2)**	**-**	1	(1)	-
Finance expenses		**(11)**	**-**	**(11)**	(10)	-	(10)
Net finance expenses		**(9)**	**(2)**	**(11)**	(9)	(1)	(10)
Total comprehensive income		**38**	**(36)**	**2**	55	5	60

(See accompanying notes)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(unaudited)

(millions)	Retained Earnings	Equity Advances	Other Components of Equity	Total
Balance as at January 1, 2011	$ 557	$ 72	$ -	**$ 629**
Comprehensive income	60	-	-	**60**
Dividends	(12)	-	-	**(12)**
Balance as at March 31, 2011	$ 605	$ 72	$ -	**$ 677**
Balance as at January 1, 2012	$ 544	$ 72	$ -	**$ 616**
Comprehensive income	2	-	-	**2**
Dividends	(6)	-	-	**(6)**
Balance as at March 31, 2012	$ 540	$ 72	$ -	**$ 612**

(See accompanying notes)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(unaudited)

(millions)	Notes	For the Three Months Ended March 31 2012	2011
Operating activities			
Net income		**$ 2**	$ 60
Add (deduct) items not requiring an outlay of cash			
Net change in fair value of derivative instrument assets and liabilities	10	**9**	(2)
Change in revaluation of natural gas in storage to net realizable value	10	**25**	(5)
Depreciation and amortization		**18**	16
Net finance expenses		**11**	10
		65	79
Net change in non-cash working capital related to operations	12	**(8)**	11
Cash provided by operating activities		**57**	90
Investing activities			
Additions to intangible assets		**(3)**	(2)
Additions to property, plant and equipment		**(30)**	(29)
Cash used in investing activities		**(33)**	(31)
Financing activities			
(Decrease) increase in short-term debt		**(174)**	(29)
Debt retirement funds installments		**(1)**	(1)
Interest paid		**(8)**	(8)
Dividends paid		**(9)**	(22)
Proceeds from long-term debt		**148**	-
Cash used in financing activities		**(44)**	(60)
(Decrease) increase in cash and cash equivalents		**(20)**	(1)
Cash and cash equivalents, beginning of period		**21**	1
Cash and cash equivalents, end of period		**$ 1**	$ -

(See accompanying notes)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(unaudited)

1. General information

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

The Corporation owns and operates natural gas-related businesses located both within and outside Saskatchewan. The condensed consolidated 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 business.

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

2. Basis of preparation

a. Statement of compliance

The Corporation's unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting* using accounting policies consistent with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). These condensed statements do not include all of the information required for full annual financial statements. Accordingly, these statements should be read in conjunction with the annual report for the year ended December 31, 2011.

The condensed consolidated interim financial statements were authorized for issue by the Board of Directors on May 24, 2012.

b. Basis of measurement

The condensed consolidated interim financial statements have been prepared on the historical cost basis except where otherwise noted.

c. Functional and presentation currency

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

d. Use of estimates and judgments

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

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

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

Revenue recognition related to unbilled revenue
Existence of decommissioning liabilities

2. Basis of preparation (continued)

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

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

3. Summary of significant accounting policies

The accounting policies, as detailed in Note 3 to the Consolidated Financial Statements for the period ended December 31, 2011, have been applied consistently, by the Corporation and its subsidiaries, to all periods presented in these condensed consolidated interim financial statements.

a. New standards and interpretations not yet adopted

A number of new standards, and amendments to standards and interpretations, are not yet effective and have not been applied in preparing these consolidated financial statements. In particular, the following new and amended standards become effective for annual periods beginning on or after January 1, 2013:

IFRS 9 *Financial Instruments* – Introduces a new single classification and measurement model for financial assets and liabilities. The new model includes only two classifications, amortized cost and fair value. The classification depends on the entity's business model and the cash flow characteristics of the financial asset or liability.

IFRS 10 *Consolidated Financial Statements* – Requires consolidation for all investees controlled by an entity, and it provides requirements for determining when control exists.

IFRS 11 *Joint Arrangements* – Separately defines the treatment of joint operations (previously jointly controlled assets and jointly controlled operations) and joint ventures.

IFRS 12 *Disclosure of Interests in Other Entities* – Establishes disclosure objectives and minimum requirements for interests in subsidiaries, joint arrangements, associates, and unconsolidated entities.

IFRS 13 *Fair Value Measurement* – Accumulates guidance on fair value measurement previously dispersed throughout existing standards. No new requirements are set out in the standard, but additional guidance on measurement and disclosure is included.

IAS 19 *Employee Benefits* – Amends the previously published standard and discontinues the ability to defer recognition of actuarial gains and losses and requires immediate recognition in other comprehensive income.

IAS 27 *Separate Financial Statements* – Addresses accounting for subsidiaries, jointly controlled entities, and associates in non-consolidated financial statements.

IAS 28 *Investments in Associates and Joint Ventures* – Amends the previously published standard to include joint ventures in its scope and to address changes adopted in IFRS 10, IFRS 11, and IFRS 12.

These new standards and amendments all become effective for the Corporation beginning on or after January 1, 2013. The Corporation continues to review these new and updated standards and will monitor any additional changes made prior to their adoption. At this time the Corporation does not anticipate any material impact from the adoption of these standards.

4. Capital management

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.

The Corporation finances its capital requirements through internally generated funds and injections of capital from the Province of Saskatchewan's General Revenue Fund, typically in the form of debt. Under *The SaskEnergy Act*, the Corporation may borrow up to $1,700 million of debt upon approval of the Lieutenant Governor in Council (December 31, 2011 - $1,700 million). At the end of the period, the Corporation had $1,002 million of debt outstanding (December 31, 2011 - $1,029 million) and authority to borrow an additional $260 million of temporary loans (December 31, 2011 - $87 million), including a $35 million uncommitted line of credit with Toronto-Dominion Bank (December 31, 2011 - $35 million).

The Corporation borrows all its capital, with the exception of occasional overnight loans from the Toronto-Dominion Bank, from the Province of Saskatchewan (the Province). The Corporation's borrowing requirements constitute a minor portion of the Province's total borrowings, and given the Province's strong credit rating, the Corporation was able to acquire all its funding requirements during the period.

The Corporation monitors capital on the basis of the debt ratio. The purpose of this strategy is to ensure the Corporation's debt is self supporting and does not adversely affect the Province's access to capital markets. The per cent debt ratio was calculated as net debt divided by total capital at the end of the period as follows:

(millions)	As at March 31, 2012	As at December 31, 2011
Long-term debt	**$ 862**	$ 715
Short-term debt	**140**	314
Debt retirement funds	**(74)**	(73)
Cash	**(1)**	(21)
Total net debt	**927**	935
Equity advances	**72**	72
Retained earnings	**540**	544
Total capital	**$ 1,539**	$ 1,551
Debt Ratio	**60.2%**	60.3%

The Corporation's objectives, policies and processes for managing its capital were consistent with the prior period. The Corporation complied with all externally imposed requirements on its capital for the period.

5. Natural gas in storage held for resale

(millions)	As at March 31, 2012	As at December 31, 2011
Cost	**$ 233**	$ 259
Revaluation to net realizable value	**(70)**	(45)
	$ 163	$ 214

With the decline in natural gas market prices, the net realizable value of natural gas in storage at the end of the period has fallen $70 million below cost (December 31, 2011 - $45 million). During the period, the revaluation of natural gas in storage increased $25 million given the decline in natural gas market prices.

6. Financial and derivative instruments and risk management

a. Financial instruments

		As at March 31, 2012		As at December 31, 2011	
(millions)	Classification	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets					
Cash	FVTPL	**$ 1**	**$ 1**	$ 21	$ 21
Trade and other receivables	LAR	**118**	**118**	103	103
Debt retirement funds	FVTPL	**74**	**74**	73	73
Financial liabilities					
Short-term debt	OL	**140**	**140**	314	314
Trade and other payables	OL	**75**	**75**	101	101
Dividends payable	OL	**6**	**6**	9	9
Long-term debt	OL	**862**	**1,030**	715	899

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

The fair value of the above instruments is based on the following:

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

ii. 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.

iii. Other financial instruments - The fair value of other financial instruments, including cash, trade and other receivables, bank indebtedness, short-term debt, trade and other payables and dividends payable approximate their carrying amounts due to the short-term nature of these instruments.

b. Natural gas derivative instruments

All natural gas derivative instruments are recorded on the consolidated statement of financial position at fair value. The fair value of natural gas derivative instruments, with the exception of natural gas price options, is calculated daily and is based on quoted market prices. The Corporation obtains information from sources such as the New York Mercantile Exchange and the Natural Gas Exchange, independent price publications and over-the-counter broker quotes. The fair value of natural gas price options is determined using an industry-standard valuation model, which requires the use of various assumptions, including quoted market prices, interest rates and volatility estimates for forward natural gas prices that are based on external market sources.

Notional values are an approximation of future undiscounted net cash flows. For physical natural gas contracts, the notional value is based on contract price. For other derivative instruments, the notional value is the difference between the contract price and the market price. Where contract prices are referenced to an index price that has not yet been fixed, the market price is used to estimate the contract price.

6. Financial and derivative instruments and risk management (continued)

As at March 31, 2012 natural gas derivative instruments had the following fair values, notional values and maturities:

(millions)	2013	2014	2015	2016	2017	Total
Physical natural gas contracts						
Fair value	$ 9	$ 7	$ 6	$ 3	$ -	**$ 25**
Notional value	(9)	37	29	19	4	**80**
Natural gas price swaps						
Fair value	(43)	(9)	(3)	-	-	**(55)**
Notional value	(43)	(9)	(3)	-	-	**(55)**
Total						
Fair value	$ (34)	$ (2)	$ 3	$ 3	$ -	**$ (30)**
Notional value	$ (52)	$ 28	$ 26	$ 19	$ 4	**$ 25**

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

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

(millions)	As at March 31, 2012	As at December 31, 2011
Fair value of derivative instrument assets	**$ 93**	$ 78
Fair value of derivative instrument liabilities	**(123)**	(98)
	$ (30)	$ (20)

c. Fair value of financial and derivative instruments

As at March 31, 2012 the Corporation's fair value hierarchy for financial and derivative instruments, which was consistent with the prior year's classification, was as follows:

(millions)	Level 1	Level 2	Level 3	Total
Debt retirement funds	$ -	$ 74	$ -	**$ 74**
Fair value of derivative instrument assets	-	93	-	**93**
Fair value of derivative instrument liabilities	-	(123)	-	**(123)**

d. Risk management

Through the normal course of business, the Corporation has exposure to market risk (natural gas price risk, interest rate risk, market risk and foreign currency risk), liquidity risk and credit risk. The Board of Directors, through the Audit and Finance Committee, has the overall responsibility for the establishment and oversight of the Corporation's risk management efforts. The Corporation seeks to manage the financial impact of natural gas price risk by using derivative instruments to manage its exposure. The Corporate Derivatives Policy and other risk management policies and strategies, approved by the Board of Directors and reviewed regularly by the Audit and Finance Committee, provide the framework within which the Corporation may use derivative instruments to manage its risks. The objectives policies and processes for managing risk were consistent with the prior period.

6. Financial and derivative instruments and risk management (continued)

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 the Corporation may use for price risk management include natural gas price swaps, options, swaptions and futures contracts.

Based on the Corporation's period end closing positions, an increase of $1.00 per Gigajoule in natural gas prices would have increased net income, through an increase in the fair value of natural gas derivative instruments, by $31 million (December 31, 2011 - $41 million). Conversely, a decrease of $1.00 per Gigajoule would have decreased net income, through a decrease in the fair value of natural gas derivative instruments, by $31 million (December 31, 2011 - $41 million).

ii. Interest rate risk

The Corporation's significant interest-bearing financial instruments are short- and long-term debts, which are fixed rate instruments. Consequently, the Corporation is subject to interest rate risk when issuing debt or refinancing maturities. At period end, the Corporation had $140 million of short-term debt that may be refinanced and $50 million of long-term debt that which may be refinanced upon maturity. Based on these amounts, a one per cent change in interest rates would increase or decrease the annual finance expense by approximately $2 million (December 31, 2011 - $4 million).

iii. Market risk

The Corporation is subject to market risk related to debt retirement funds as the recorded fair value is driven by market prices. Fluctuations in fair value of debt retirement funds do not have a significant impact on the Corporation.

iv. Foreign currency risk

The Corporation is exposed to foreign currency risk primarily through the purchase of goods and services; however, fluctuations in foreign currency do not have a significant impact on the Corporation.

v. Liquidity risk

Liquidity risk is the risk that the Corporation is unable to meet its financial obligations as they become due. The Corporation has credit facilities available to refinance maturities in excess of anticipated operating cash flows. The contractual maturities of the Corporation's financial obligations, including interest payments and the impact of netting agreements, as at March 31, 2012 were as follows:

		Contractual Maturities				
(millions)	Carrying Amount	Less Than 1 Year	1 - 2 Years	3 - 5 Years	More Than 5 Years	Total
Short-term debt	$ 140	$ 140	$ -	$ -	$ -	**$ 140**
Trade and other payables	75	75	-	-	-	**75**
Dividends payable	6	6	-	-	-	**6**
Derivative instruments	123	52	-	-	-	**52**
Long-term debt	862	94	91	309	986	**1,480**
	$ 1,206	$ 367	$ 91	$ 309	$ 986	**$ 1,753**

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

6. Financial and derivative instruments and risk management (continued)

vi. Credit risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial or derivative instrument fails to meet its contractual obligations. The Corporation is exposed to credit risk through cash, trade and other receivables, 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 and derivative instruments. To reduce its credit risk, the Corporation 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 period end, the maximum credit exposure to a single counterparty was $25 million (December 31, 2011 - $19 million).

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

(millions)	As at March 31, 2012	As at December 31, 2011
Cash	**$ 1**	$ 21
Trade and other receivables	**118**	103
Debt retirement funds	**74**	73
Fair value of derivative instrument assets	**93**	78
	$ 286	$ 275

7. Long-term debt

	As at March 31, 2012		As at December 31, 2011	
	Principal Outstanding (millions)	Effective Interest Rate (per cent)	Principal Outstanding (millions)	Effective Interest Rate (per cent)
General Revenue Fund				
1 - 5 years	**$ 300**	**4.4**	$ 284	4.4
6 - 10 years	**126**	**5.1**	142	5.0
11 - 15 years	**75**	**8.8**	75	8.7
16 - 20 years	**110**	**6.1**	110	6.1
21 - 25 years	**25**	**5.0**	-	-
26 - 30 years	**225**	**4.0**	100	5.1
	861		711	
Unamortized debt premium/ discount and issue costs	**(4)**		(1)	
Less: Current portion of long-term debt	**(50)**		(50)	
	807		660	
Other long-term debt				
31 plus years	**5**	**13.5**	5	13.5
	$ 812		$ 665	

7. Long-term debt (continued)

The Corporation's long-term debt is unsecured. As at March 31, 2012 principal repayments due in each of the next five years were as follows:

(millions)	2012	2013	2014	2015	2016
Principal repayments	$ 50	$ 50	$ 50	$ 50	$ 84

8. Deferred revenue

(millions)	As at March 31, 2012	As at December 31, 2011
Current		
Unearned customer capital contributions	**$ 42**	$ 32
Non-current		
Unearned government grants	**9**	9
	$ 51	$ 41

a. Unearned customer capital contributions

(millions)	
Balance, as at December 31, 2010	**$ 49**
Additions	**32**
Refunds	**(6)**
Revenue	**(43)**
Balance as at December 31, 2011	**32**
Additions	**16**
Refunds	**(2)**
Revenue	**(4)**
Balance as at March 31, 2012	**42**

9. Commitments and contingencies

a. Letters of credit

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

ii. The Corporation has posted a $6 million letter of credit with the City of Medicine Hat as security for natural gas purchases. The City of Medicine Hat may draw upon the letter of credit if the Corporation fails to make timely payment for natural gas as per the related natural gas contract.

9. Commitments and contingencies (continued)

b. Commitments

i. At period end, the Corporation has forecasted to spend $218 million (December 31, 2011 - $258 million) on capital projects in 2012.

ii. At period end, the Corporation has $41 million of outstanding contractual commitments for the procurement of goods and services in the future.

c. Leases

As at March 31, 2012 future minimum lease payments for operating leases entered into by the Corporation, as lessee, were as follows:

(millions)	2013	2014	2015	2016	2017	Thereafter
Minimum lease payments	$ 1	$ 1	$ -	$ -	$ -	$ 1

d. Contingencies

In June 2011 three statements of claim were filed against the Corporation in relation to a home explosion, a basement fire and a garage fire during the spring of 2011 in Regina, Saskatchewan. The Corporation has filed statements of defence and cross claims, however these claims remain at an early stage and the Corporation does not expect the outcome to result in any material financial impact.

10. Market value adjustments

(millions)	For the Three Months Ended March 31 2012	2011
Change in fair value of debt retirement funds	**$ (2)**	$ (1)
Change in fair value of natural gas derivative instruments	**(9)**	1
Change in revaluation of natural gas in storage to net realizable value	**(25)**	5
	$ (36)	$ 5

11. Natural gas sales and purchases

(millions)	2012 Commodity	2012 Gas Marketing	2012 Total	2011 Commodity	2011 Gas Marketing	2011 Total
	For the Three Months Ended March 31					
Natural gas sales						
Natural gas sales to commodity customers	$ 95	$ -	$ 95	$ 120	$ -	$ 120
Realized on natural gas derivative instruments	4	52	56	11	74	85
Fair value of natural gas derivative instruments	-	14	14	-	(11)	(11)
	99	66	165	131	63	194
Natural gas purchases						
Realized on natural gas derivative instruments	(92)	(41)	(133)	(117)	(65)	(182)
Fair value of natural gas derivative instruments	(19)	(4)	(23)	7	5	12
Revaluation of natural gas in storage	-	(25)	(25)	-	5	5
	(111)	(70)	(181)	(110)	(55)	(165)
	$ (12)	$ (4)	$ (16)	$ 21	$ 8	$ 29

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

(millions)	For the Three Months Ended March 31 2012	2011
Trade and other receivables	**$ (15)**	$ (24)
Natural gas in storage held for resale	**26**	52
Inventory of supplies	**-**	(1)
Trade and other payables	**(29)**	(21)
Deferred revenue	**10**	5
	$ (8)	$ 11

13. Comparative figures

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