# 2012 THIRD QUARTER REPORT
# September 30, 2012

## TABLE OF CONTENTS

## 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 five wholly owned subsidiaries, including:

- 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

To create a competitive advantage for Saskatchewan through safe, innovative energy solutions.

### Mission

Our team of engaged 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 and dynamic work environment that enables personal achievement, work life balance and business success.

**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 nine month period ended September 30, 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 November 13, 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 market value adjustments may cause significant fluctuations in net income due to 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 to customers and realized margin on gas marketing sales to compare financial performance from period to period. Each measure removes the impact of fair value adjustments on derivative instruments and the revaluation of natural gas in storage to net realizable value 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 therefore may not be comparable to similar measures presented by other entities.

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** |
| **Financial Highlights** | | | | |
| ($ millions) | | | | |
| Income before unrealized market value adjustments | **$ (16)** | $ 13 | **$ 14** | $ 58 |
| Consolidated net income | **15** | 15 | **52** | 60 |
| Dividends | **5** | 9 | **17** | 29 |
| Capital expenditures | **48** | 49 | **115** | 106 |
| Total assets | | | **1,927** | 1,824 |
| Long-term debt | | | **862** | 715 |
| Debt ratio | | | **60%** | 57% |
| **Operating Highlights** | | | | |
| Distribution | | | | |
| Volumes distributed (Petajoules) | **23** | 21 | **103** | 105 |
| Weather (compared to last 30 years) | **30% warmer** | 36% warmer | **13% warmer** | 8% colder |
| Transmission | | | | |
| Volumes transported (Petajoules) | **45** | 42 | **164** | 167 |
| 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 September 30 2012 | Three months ended September 30 2011 | Nine months ended September 30 2012 | Nine months ended September 30 2011 |
|---|---|---|---|---|
| Income before unrealized market value adjustments | **$ (16)** | $ 13 | **$ 14** | $ 58 |
| Impact of fair value adjustments | **11** | (5) | **18** | (6) |
| Revaluation of natural gas in storage | **20** | 7 | **20** | 8 |
| Consolidated net income | **$ 15** | $ 15 | **$ 52** | $ 60 |

The Corporation's income before unrealized market value adjustments totaled $14 million for the first nine months of 2012, representing a $44 million decline when compared to the same period last year. Weather during the first nine months of 2012 was 13% warmer than normal, with normal determined by the 30-year average, and 18% warmer than the same period in 2011. This significantly warmer weather, particularly during January to March, led to less delivery and commodity volumes sold to distribution customers. There was also a substantial decline in income as several large-scale transmission projects were completed during 2011, resulting in much higher customer capital contribution revenue when compared to the first nine months of 2012. The Corporation was able to partially offset these declines by increasing its realized margin from gas marketing activities through an increase in the gas marketing sales volumes. Market value adjustments had a $38 million favourable impact on net income, comprised of an $18 million increase in the fair value of financial and derivative instruments and a $20 million upward revaluation of natural gas in storage to net realizable value, resulting in consolidated net income of $52 million.

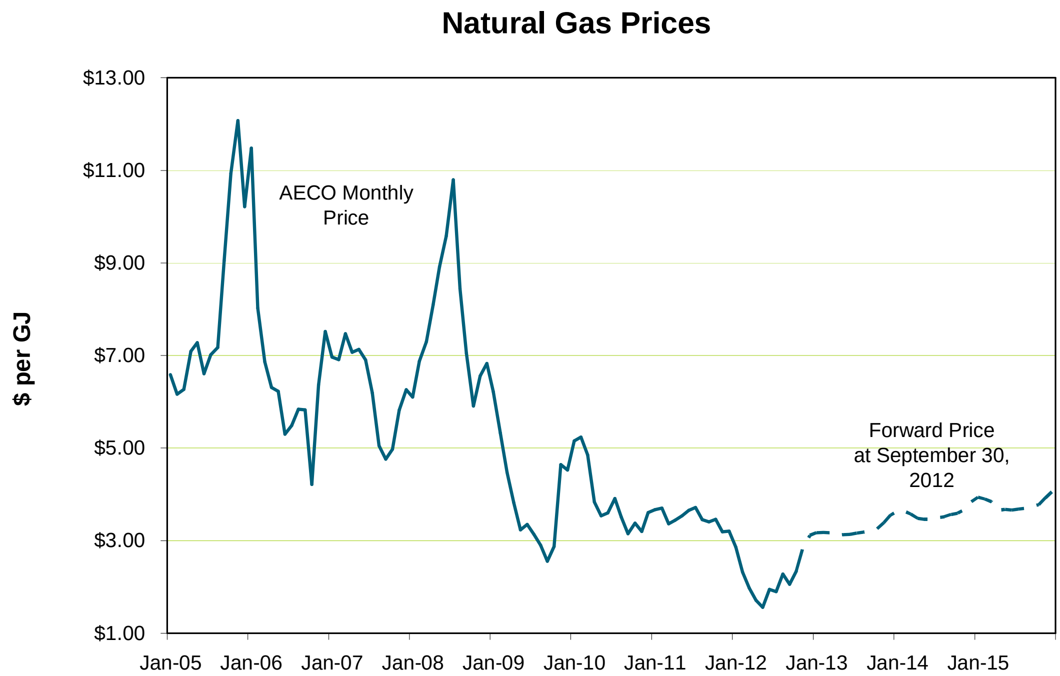
Each year, warmer temperatures during the second and third quarters, April to September, result in a significant decrease in the volume of natural gas delivered and sold to distribution customers when compared to the winter months. As such, income before unrealized market value adjustments tends to decline in the second and third quarters. During the third quarter of 2012, the Corporation recognized a loss before unrealized market value adjustments of $16 million, $29 million lower than the third quarter of 2011. The majority of the decline relates to the significant level of customer capital contribution revenue recognized during the third quarter of 2011.

## 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.

After trading at the lowest prices in over ten years, natural gas prices gained some support in the third quarter. Strong demand for natural gas in the power generation sector and slowing growth in North American natural gas production reduced the record volumes of natural gas in storage that had dominated the market for the first half of 2012.

The chart on the following page presents AECO natural gas prices. AECO is the major natural gas hub in Canada and is located in Alberta. Most natural gas in Saskatchewan is priced at a differential to the AECO price and is usually between $0.05 per gigajoule (GJ) and $0.20 per GJ higher than AECO.




## Natural Gas Sales and Purchases

The natural gas margin includes the margins for both commodity sales to customers 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 Sales to Customers

SaskEnergy's commodity rate is approved by Provincial Cabinet based on the recommendations of the Saskatchewan Rate Review Panel and is designed to recover the associated costs of natural gas sold to its distribution customers without earning a profit or incurring a loss. 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. SaskEnergy's commodity rate is reviewed on April 1 and November 1 of each year. Earlier in 2012, Provincial Cabinet approved a reduction in the commodity rate from $4.55 per GJ to $3.82 per GJ effective April 1, 2012. The lower commodity rate is reflective of the anticipated natural gas costs over the next twelve months based on rate-setting principles, as well as refunding a balance owing in the GCVA. No commodity rate adjustment is anticipated for November 1, 2012.

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| (millions) | **2012** | 2011 | **2012** | 2011 |
| Commodity sales | **$ 24** | $ 28 | **$ 161** | $ 207 |
| Commodity purchases | **(40)** | (34) | **(182)** | (201) |
| Realized margin (loss) on commodity sales[1] | **(16)** | (6) | **(21)** | 6 |
| Impact of fair value adjustments | **33** | - | **52** | 8 |
| Margin (loss) on commodity sales | **$ 17** | $ (6) | **$ 31** | $ 14 |

[1] Refers to non-IFRS measures

In order 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 the physical delivery of natural gas using non-financial derivatives, referred to as forward or physical natural gas contracts. The purchase price contained in these forward contracts can be a fixed amount, or it may be based on a floating index price which will be determined by the price of natural gas in the future delivery period. SaskEnergy may also use natural gas financial derivatives, 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.

The realized margin on commodity sales excludes the impact of unrealized fair value adjustments on derivative instruments, as these adjustments can fluctuate significantly from one period to the next and do not necessarily represent the amount that will be paid upon settlement of the related natural gas contract. As mentioned previously, the commodity sales activity operates on a cost-recovery basis while employing rate-setting principles and a GCVA to ensure that, over the life of the Corporation, no margin is earned on these activities. However, due to timing, as well as differences between IFRS and rate-setting principles, a margin or loss is commonly reported in the Corporation’s financial statements. During the first nine months of 2012, the Corporation realized a loss of $21 million which was significantly below the $6 million margin realized over the same period in 2011. For the first nine months of 2012 the average cost of gas sold was $4.91 per GJ, while the average commodity sales revenue was only $4.26 per GJ with the aforementioned commodity rate decrease. Warm weather led to a 5 petajoule (PJ) decrease in volumes sold to commodity customers when compared to the prior year. These reduced volumes were a contributing factor to the higher average cost of gas sold as some costs associated with the Corporation’s price risk management strategy do not decline with the lower sales volume.

During the first nine months of 2012, fair value adjustments on derivative instruments increased net income by $52 million as the unfavourable fair value position at December 31, 2011 of $95 million improved to $43 million at September 30, 2012. This improvement was mainly attributable to a lower volume of natural gas purchase contracts. The current unfavourable fair value position primarily relates to natural gas price swap contracts with an average purchase price of $4.05 per GJ compared to an average market price of $3.25 per GJ at September 30, 2012.

On a quarterly basis, the volume of commodity sales to customers declines significantly in the second and third quarters given the seasonality of the weather in the Province. Consequently, losses on commodity sales are not unusual in the third quarter as the Corporation has lower commodity sales during the summer months. The more significant $16 million loss for the third quarter of 2012, when compared to a $6 million loss in 2011, resulted from the April 1, 2012 commodity rate decrease.

## Gas Marketing Sales

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| (millions) | **2012** | **2011** | **2012** | **2011** |
| Gas marketing sales | **$ 58** | $ 63 | **$ 169** | $ 206 |
| Gas marketing purchases | **(45)** | (53) | **(132)** | (176) |
| Realized margin on gas marketing sales[1] | **13** | 10 | **37** | 30 |
| Impact of fair value adjustments | **(21)** | (7) | **(32)** | (16) |
| Revaluation of natural gas in storage | **20** | 7 | **20** | 8 |
| Margin on gas marketing sales | **$ 12** | $ 10 | **$ 25** | $ 22 |

[1] Refers 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 activity is focused on utilizing the Corporation’s storage field in west-central Saskatchewan. The primary strategy employed involves the simultaneous purchase of natural gas accompanied by a forward sales contract. The decline in natural gas market prices over the past few years has also 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 transmission and storage capacity by purchasing and selling natural gas in the open market to generate additional margins which benefit customers by reducing rate pressure. Lastly, SaskEnergy provides natural gas supply options to larger end-use customers in Saskatchewan through non-regulated contract sales.

Transactions undertaken to implement the Corporation's gas marketing strategies result in risk exposure, especially given the volatility of natural gas market prices. Similar to the discussion regarding commodity sales to customers, the Corporation may enter into various natural gas contracts in order to manage natural gas price risk for its 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.

The realized margin on gas marketing sales was $37 million for the first nine months of the year, an increase of $7 million from the same period last year, as the volume of gas marketing sales increased by over 34%. This increase in sales volume more than compensated for a slight decline in the per unit margins.

On a quarterly basis, strong results from gas marketing activities continued as the realized margin of $13 million improved $3 million from the third quarter last year. Sales volumes in the quarter were over 36% higher than the third quarter of 2011 while the per unit margin remained relatively consistent.

During the first nine months of 2012, fair value adjustments on derivative instruments decreased the margin on gas marketing sales by $32 million. The favourable fair value as at September 30, 2012 was $42 million, a decrease from the $74 million favourable fair value position at December 31, 2011. The favourable fair value at the end of September was primarily due to natural gas sales contracts, with an average selling price of $3.87 per GJ, compared to an average market price of $3.31 per GJ. This compared to an average selling price of $4.43 per GJ and average market price of $3.08 per GJ at 2011 year end.

At each reporting period, the Corporation measures the net realizable value of gas marketing natural gas in storage based on forward market prices. Recent low natural gas prices have translated to reduced prices on the forward curve, leaving the net realizable value of gas marketing natural gas in storage below cost. During the first nine months of 2012 the Corporation took advantage of the low natural gas prices by increasing the volume of gas marketing inventory. This led to a 12% decline in the average cost of inventory and a $20 million improvement in the revaluation of natural gas in storage from $45 million at December 31, 2011 to $25 million at September 30, 2012. If forward natural gas prices continue to improve in relation to the cost of the Corporation's inventory, SaskEnergy will record an additional upward revaluation to recognize the increase in net realizable value, up to a maximum of the original cost. Otherwise, the $25 million revaluation 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

Most of the natural gas volume delivered by SaskEnergy to customers occurs during the winter months when it is used for space heating purposes. As such, the Corporation's delivery revenue is largely impacted by the weather. Given the unusually warm weather to date, delivery volumes were 13% lower than last year, resulting in a $6 million decline in delivery revenue from $133 million at the end of September 2011 to $127 million in 2012.

The Corporation remains committed to delivering safe and reliable natural gas to its customers at competitive prices. Saskatchewan continues to experience strong economic growth, and with that growth, demand for SaskEnergy services continues to be strong. During the past three years, SaskEnergy added over 15,000 net new customers. Capital investment in new connections more than doubled what it was ten years ago. This strong pace of development also impacts SaskEnergy's safety related activities, such as line locates which have increased dramatically in recent years. SaskEnergy also heightened vigilance efforts related to public safety and infrastructure integrity programs. Natural gas related incidents, both across the industry and within Saskatchewan in 2011, created a need for additional infrastructure improvements to an already robust safety and integrity program. This added additional cost pressures to SaskEnergy's delivery service, leading to a 6.7% increase in

SaskEnergy's delivery service rates effective July 1, 2012. This resulted in an average bill increase of 2.9% for all customer classes. Despite the rate increase, SaskEnergy's residential customers still pay the lowest delivery rates in Canada.

Since most volumes are consumed during the winter months, delivery revenue in the third quarter was $30 million. This was $4 million above the third quarter of 2011, consistent with the delivery rate increase at the beginning of the quarter.

### Transportation and Storage Revenue

The recent low market prices for natural gas have led to a decline in natural gas drilling in Western Canadian conventional gas reservoirs, including Saskatchewan. At the same time, these low market prices along with the expansion of the provincial economy have resulted in increased demand in the industrial sector, transitioning Saskatchewan from a net exporter to a net importer of natural gas. Consequently, the Corporation has experienced an increase in both deliveries within Saskatchewan as well as volumes imported from Alberta, adding a significant degree of cost pressure. The Corporation has also made a substantial investment in infrastructure to maintain high quality, reliable service to its customers. As a result, a 7.5% increase to transportation rates and a 0.9% increase to storage rates became effective February 1, 2012. The rate increase, along with increased demand, resulted in a $5 million increase in transportation and storage revenue for nine months ending September 30, 2012.

On a quarterly basis, transportation and storage revenue totaled $21 million during 2012, an increase of $1 million from the third quarter of 2011, due to higher demand within the Province and the rate increase.

### 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. Generally, customer capital contributions related to the distribution system tend to be small relative to contributions related to transmission system.

For the first nine months of 2012, the Corporation experienced high levels of distribution system customer connection. However, customer capital contribution revenue for the first nine months of 2012 totaled $11 million, a $24 million decline from the prior year as the Corporation recognized several significant contributions related to transmission projects in 2011. These projects were completed during the third quarter of 2011 which accounts for the $24 million reduction in customer capital contribution revenue on a quarterly basis.

### Other Revenue

Other revenue, which includes natural gas liquid sales and royalty revenue, was $10 million year to date at the end of September 2012. This represents an increase of $1 million compared to the same period last year, primarily due to an increase in natural gas liquid sales led by higher prices and volumes.

For the third quarter, other revenue of $3 million was slightly below the $4 million from 2011 driven by lower natural gas prices during 2012.

### Other Expenses

Employee benefits include the salaries, wages and benefits provided to the Corporation's employees, less allocations to property, plant and equipment as a result of employee work on capital projects. Total employee benefits expense of $65 million was $4 million greater than the prior year as there was a slight increase in full-time equivalents driven by an increased demand for SaskEnergy's services. In addition, salaries and wages were higher due to an economic increase for employees.

Operating and maintenance expense of $58 million for the first nine months of 2012 was consistent with 2011, reflecting SaskEnergy's focus on improving efficiency and finding productivity gains throughout the Corporation. Through this commitment, the Corporation has improved processes and managed resources to counter such cost drivers as continued customer growth and non-controllable increases from third parties.

Depreciation and amortization expense of $55 million for the period ending September 30, 2012 was $5 million higher than the same period in 2011 due to an increase in capital assets, primarily transmission and compression assets. Saskatchewan taxes of $7 million were comparable to the prior year. Net finance expenses, before market value adjustments related to the fair value of debt retirement funds, increased by $1 million from the prior year to $28 million primarily due to an increase in the Corporation's overall debt in 2012.

Other expenses totaled $70 million for the third quarter of 2012 which was consistent with the third quarter of 2011. Increases in employee benefits, depreciation and amortization and net finance expenses were offset by decreases in operating and maintenance and Saskatchewan taxes.

## Liquidity and Capital Resources

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| (millions) | **2012** | **2011** | **2012** | **2011** |
| Cash provided by operating activities | **$ 14** | $ 12 | **$ 133** | $ 169 |
| Cash used in investing activities | **(48)** | (32) | **(115)** | (83) |
| Cash provided by (used in) financing activities | **34** | 22 | **(39)** | (79) |
| Increase (decrease) in cash during the period | **$ -** | $ 2 | **$ (21)** | $ 7 |

The Corporation's primary sources of liquidity and capital are cash from operations and debt borrowed from the Province of Saskatchewan's General Revenue Fund.

Cash from operating activities was $133 million in the first nine months of 2012, a decrease of $36 million from the same period last year. The volume of the Corporation's natural gas in storage held for gas marketing purposes has increased by over 14 PJ during this period, a significant change from the prior year when the volumes declined by 5 PJ. The increase in gas marketing inventory is part of a strategic objective designed to hold the gas for resale in future periods in order to generate additional margins and cash flow for the Corporation. The increased volume of inventory purchases, along with reduced earnings from lower commodity and delivery volumes, contributed to the decline in cash provided from operating activities in 2012.

Cash used in investing activities totaled $115 million for the first nine months of the year, a $32 million increase from the prior year. This year SaskEnergy has invested $100 million in expanding the capacity and maintaining the integrity of its extensive distribution and transmission systems. This is an $11 million increase over the amount invested for the same period in 2011, reflecting not only the growth in Saskatchewan, but also the Corporation's continued commitment to enhance its already robust safety programming and integrity systems. In addition, the prior year's results included the $23 million of proceeds received from the sale of its international investments.

Cash used for financing activities in the first nine months of 2012 was $39 million which was $40 million less than the same period of 2011. The Corporation received $147 million from long-term debt issued in the first quarter, which it used to help reduce its short-term debt level by $130 million. SaskEnergy's debt to equity ratio is currently 60% debt and 40% equity, slightly above the target of 57% debt and 43% equity. In addition to debt reduction, the Corporation also paid a total of $21 million in dividends to its parent, CIC, compared to $42 million in 2011.

## Outlook

SaskEnergy's financial health is dependent upon the Corporation maintaining an appropriate capital structure while providing 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 $58 million for 2012, consistent with the amount forecasted in the 2012 Second Quarter Report. It is important to note that the Corporation's net income forecast is based on normal weather, as determined by the 30-year average. Variations in the weather will directly impact the Corporation's actual results, through commodity and delivery revenue.

Strong economic development in the Province will result in continued elevated industrial, commercial and residential customer growth for the Corporation. SaskEnergy continues to develop strategies and initiatives designed to meet the challenges and cost pressures created by this growth. With this in mind, the Corporation continues to build on established efficiency and productivity success to enhance execution across the company. At the same time, the Corporation's strategies address the effects of continued low natural gas market prices and the resulting decline in provincial natural gas production. Within Saskatchewan's strong economic environment, the Corporation will leverage its corporate expertise and private sector partnerships to take full advantage of growth opportunities.

The Corporation anticipates total capital investment of $190 million for 2012. This significant investment is driven by customer demand, enhanced safety and integrity programming and initiatives related to future cost containment. Capital investment is necessary to maintain the Corporation's commitment to safety and customer service, honour customer commitments and minimize future incremental operating costs using the most cost-effective capital investment strategy.

As a Crown corporation, SaskEnergy undertakes to ensure that all corporate activities are in strategic alignment with the Government of Saskatchewan's Crown Sector Priorities. Providing safe, reliable, high quality service to its customers is critically important to SaskEnergy – as is the provision of infrastructure necessary for the province to grow and prosper.

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| (millions) | Notes | As at September 30, 2012 (unaudited) | As at December 31, 2011 (audited) |
|---|---|---|---|
| **Assets** | | | |
| Current assets | | | |
| Cash | | **$ -** | $ 21 |
| Trade and other receivables | | **46** | 103 |
| Natural gas in storage held for resale | 5 | **248** | 214 |
| Inventory of supplies | | **11** | 10 |
| Debt retirement funds | | **6** | 6 |
| Fair value of derivative instruments | 6 | **57** | 78 |
| | | **368** | 432 |
| Intangible assets | | **35** | 30 |
| Property, plant and equipment | | **1,450** | 1,395 |
| Debt retirement funds | | **74** | 67 |
| | | **$ 1,927** | $ 1,924 |
| **Liabilities and Province's equity** | | | |
| Current liabilities | | | |
| Short-term debt | | **$ 184** | $ 314 |
| Trade and other payables | | **83** | 101 |
| Dividends payable | | **5** | 9 |
| Current portion of long-term debt | 7 | **50** | 50 |
| Deferred revenue | 8 | **46** | 32 |
| Fair value of derivative instruments | 6 | **57** | 98 |
| | | **425** | 604 |
| Employee future benefits | | **12** | 13 |
| Provisions | | **18** | 17 |
| Deferred revenue | 8 | **9** | 9 |
| Long-term debt | 7 | **812** | 665 |
| | | **1,276** | 1,308 |
| Province's equity | | | |
| Equity advances | | **72** | 72 |
| Retained earnings | | **579** | 544 |
| | | **651** | 616 |
| | | **$ 1,927** | $ 1,924 |

Commitments and contingencies 9

(See accompanying notes)

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
**(unaudited)**

| (millions) | Notes | For the Three Months Ended September 30, 2012 — Income before Unrealized Market Value Adjustments | For the Three Months Ended September 30, 2012 — Unrealized Market Value Adjustments (Note 10) | For the Three Months Ended September 30, 2012 — Total | For the Three Months Ended September 30, 2011 — Income before Unrealized Market Value Adjustments | For the Three Months Ended September 30, 2011 — Unrealized Market Value Adjustments (Note 10) | For the Three Months Ended September 30, 2011 — Total |
|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | |
| Natural gas sales | 11 | **$ 82** | **$ (23)** | **$ 59** | $ 91 | $ (7) | $ 84 |
| Delivery | | **30** | **-** | **30** | 26 | - | 26 |
| Transportation and storage | | **21** | **-** | **21** | 20 | - | 20 |
| Customer capital contributions | | **3** | **-** | **3** | 27 | - | 27 |
| Other | | **3** | **-** | **3** | 4 | - | 4 |
| | | **139** | **(23)** | **116** | 168 | (7) | 161 |
| **Expenses** | | | | | | | |
| Natural gas purchases (net of change in inventory) | 11 | **85** | **(55)** | **30** | 87 | (7) | 80 |
| Employee benefits | | **21** | **-** | **21** | 18 | - | 18 |
| Operating and maintenance | | **18** | **-** | **18** | 22 | - | 22 |
| Depreciation and amortization | | **19** | **-** | **19** | 17 | - | 17 |
| Saskatchewan taxes | | **3** | **-** | **3** | 4 | - | 4 |
| | | **146** | **(55)** | **91** | 148 | (7) | 141 |
| **Income (loss) before the following** | | **(7)** | **32** | **25** | 20 | - | 20 |
| Finance income | | **2** | **(1)** | **1** | 1 | 2 | 3 |
| Finance expenses | | **(11)** | **-** | **(11)** | (10) | - | (10) |
| **Net finance expenses** | | **(9)** | **(1)** | **(10)** | (9) | 2 | (7) |
| Gain on sale of investment in associate | | **-** | **-** | **-** | 2 | - | 2 |
| **Total comprehensive income (loss)** | | **$ (16)** | **$ 31** | **$ 15** | $ 13 | $ 2 | $ 15 |

(See accompanying notes)

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
**(unaudited)**

| (millions) | Notes | For the Nine Months Ended September 30, 2012 | | | For the Nine Months Ended September 30, 2011 | | |
|---|---|---|---|---|---|---|---|
| | | Income before Unrealized Market Value Adjustments | Unrealized Market Value Adjustments (Note 10) | Total | Income before Unrealized Market Value Adjustments | Unrealized Market Value Adjustments (Note 10) | Total |
| **Revenue** | | | | | | | |
| Natural gas sales | 11 | $ 330 | $ (37) | $ 293 | $ 413 | $ (21) | $ 392 |
| Delivery | | 127 | - | 127 | 133 | - | 133 |
| Transportation and storage | | 63 | - | 63 | 58 | - | 58 |
| Customer capital contributions | 8 | 11 | - | 11 | 35 | - | 35 |
| Other | | 10 | - | 10 | 9 | - | 9 |
| | | 541 | (37) | 504 | 648 | (21) | 627 |
| **Expenses** | | | | | | | |
| Natural gas purchases (net of change in inventory) | 11 | 314 | (77) | 237 | 377 | (21) | 356 |
| Employee benefits | | 65 | - | 65 | 61 | - | 61 |
| Operating and maintenance | | 58 | - | 58 | 58 | - | 58 |
| Depreciation and amortization | | 55 | - | 55 | 50 | - | 50 |
| Saskatchewan taxes | | 7 | - | 7 | 8 | - | 8 |
| | | 499 | (77) | 422 | 554 | (21) | 533 |
| **Income before the following** | | 42 | 40 | 82 | 94 | - | 94 |
| Finance income | | 4 | (2) | 2 | 3 | 2 | 5 |
| Finance expenses | | (32) | - | (32) | (30) | - | (30) |
| **Net finance expenses** | | (28) | (2) | (30) | (27) | 2 | (25) |
| Loss on sale of investments in associates | | - | - | - | (9) | - | (9) |
| **Total comprehensive income** | | $ 14 | $ 38 | $ 52 | $ 58 | $ 2 | $ 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 | (29) | - | - | **(29)** |
| **Balance as at September 30, 2011** | $ 588 | $ 72 | $ - | **$ 660** |
| **Balance as at January 1, 2012** | $ 544 | $ 72 | $ - | **$ 616** |
| Comprehensive income | 52 | - | - | **52** |
| Dividends | (17) | - | - | **(17)** |
| **Balance as at September 30, 2012** | $ 579 | $ 72 | $ - | **$ 651** |

(See accompanying notes)

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
**(unaudited)**

| (millions) | Notes | For the Nine Months Ended September 30 2012 | 2011 |
|---|---|---|---|
| **Operating activities** | | | |
| Net income | | **$ 52** | $ 60 |
| Add (deduct) items not requiring an outlay of cash | | | |
| Net change in fair value of derivative instrument assets and liabilities | 10 | **(20)** | 8 |
| Change in revaluation of natural gas in storage to net realizable value | 10 | **(20)** | (8) |
| Depreciation and amortization | | **55** | 50 |
| Net finance expenses | | **30** | 25 |
| Loss on assets held for sale | | **-** | 9 |
| Other non-cash items | | **1** | 1 |
| | | **98** | 145 |
| Net change in non-cash working capital related to operations | 12 | **35** | 24 |
| Cash provided by operating activities | | **133** | 169 |
| **Investing activities** | | | |
| Additions to intangible assets | | **(8)** | (8) |
| Additions to property, plant and equipment | | **(107)** | (98) |
| Proceeds on assets held for sale | | **-** | 23 |
| Cash used in investing activities | | **(115)** | (83) |
| **Financing activities** | | | |
| Debt retirement funds installments | | **(5)** | (5) |
| Decrease in short-term debt | | **(130)** | (4) |
| Dividends paid | | **(21)** | (42) |
| Proceeds from long-term debt | | **147** | - |
| Interest paid | | **(30)** | (28) |
| Cash used in financing activities | | **(39)** | (79) |
| **(Decrease) increase in cash and cash equivalents** | | **(21)** | 7 |
| **Cash and cash equivalents, beginning of period** | | **21** | 1 |
| **Cash and cash equivalents, end of period** | | **$ -** | $ 8 |

(See accompanying notes)

## 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 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 November 13, 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 unearned 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 $1,046 million of debt outstanding (December 31, 2011 - $1,029 million) and authority to borrow an additional $216 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 debt ratio percentage was calculated as net debt divided by total capital at the end of the period as follows:

| (millions) | As at September 30, 2012 | As at December 31, 2011 |
|---|---|---|
| Long-term debt | **$ 862** | $ 715 |
| Short-term debt | **184** | 314 |
| Debt retirement funds | **(80)** | (73) |
| Cash | **-** | (21) |
| Total net debt | **966** | 935 |
| Equity advances | **72** | 72 |
| Retained earnings | **579** | 544 |
| Total capital | **$ 1,617** | $ 1,551 |
| Debt Ratio | **59.7%** | 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 September 30, 2012 | As at December 31, 2011 |
|---|---|---|
| Cost | **$ 273** | $ 259 |
| Revaluation to net realizable value | **(25)** | (45) |
| | **$ 248** | $ 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 $25 million below cost (December 31, 2011 - $45 million).

**5. Natural gas in storage held for resale (continued)**

As of the reporting date, the Corporation expects that $81 million of the current inventory value will be realized twelve months or more beyond the reporting date.

**6. Financial and derivative instruments and risk management**

**a. Financial instruments**

| | | As at September 30, 2012 | | As at December 31, 2011 | |
|---|---|---|---|---|---|
| **(millions)** | **Classification** | **Carrying Amount** | **Fair Value** | **Carrying Amount** | **Fair Value** |
| **Financial assets** | | | | | |
| Cash | FVTPL | **$ -** | **$ -** | $ 21 | $ 21 |
| Trade and other receivables | LAR | **46** | **46** | 103 | 103 |
| Debt retirement funds | FVTPL | **80** | **80** | 73 | 73 |
| **Financial liabilities** | | | | | |
| Short-term debt | OL | **184** | **184** | 314 | 314 |
| Trade and other payables | OL | **83** | **83** | 101 | 101 |
| Dividends payable | OL | **5** | **5** | 9 | 9 |
| Long-term debt | OL | **862** | **1,054** | 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.

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

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.

As at September 30, 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 | $ 4 | $ 5 | $ 3 | $ 1 | $ 1 | **$ 14** |
| Notional value | 44 | 42 | 26 | 7 | (8) | **111** |
| **Natural gas price swaps** | | | | | | |
| Fair value | (10) | (5) | - | - | 1 | **(14)** |
| Notional value | (10) | (5) | - | - | 1 | **(14)** |
| **Total** | | | | | | |
| Fair value | $ (6) | $ - | $ 3 | $ 1 | $ 2 | **$ -** |
| Notional value | $ 34 | $ 37 | $ 26 | $ 7 | $ (7) | **$ 97** |

*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 September 30, 2012 | As at December 31, 2011 |
|---|---|---|
| Fair value of derivative instrument assets | **$ 57** | $ 78 |
| Fair value of derivative instrument liabilities | **(57)** | (98) |
| | **$ -** | $ (20) |

### c. Fair value of financial and derivative instruments

As at September 30, 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 | $ - | $ 80 | $ - | **$ 80** |
| Fair value of derivative instrument assets | - | 57 | - | **57** |
| Fair value of derivative instrument liabilities | - | (57) | - | **(57)** |

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

#### d. Risk management

Through the normal course of business, the Corporation has exposure to market risk (natural gas price risk, interest rate 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.

##### 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 forward 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 $19 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 $19 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 $184 million of short-term debt that may be refinanced and $50 million of long-term debt that will mature within the year and may be refinanced. Based on these amounts, a one percent change in interest rates would increase or decrease the annual finance expense by approximately $2 million (December 31, 2011 - $4 million).

The Corporation is also subject to interest rate risk related to debt retirement funds as the recorded fair value is driven by market prices, which are largely determined by interest rates. Fluctuations in fair value of debt retirement funds do not have a significant impact on the Corporation. The change in the fair value of debt retirement funds was a $2 million decrease for the period (2011 - $2 million increase).

##### iii. 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.

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

### iv. 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 September 30, 2012 were as follows:

| (millions) | Carrying Amount | Contractual Maturities: Less Than 1 Year | 1 - 2 Years | 3 - 5 Years | More Than 5 Years | Total |
|---|---|---|---|---|---|---|
| Short-term debt | $ 184 | $ 184 | $ - | $ - | $ - | **$ 184** |
| Trade and other payables | 83 | 83 | - | - | - | **83** |
| Dividends payable | 5 | 5 | - | - | - | **5** |
| Derivative instruments | 57 | - | - | - | 1 | **1** |
| Long-term debt | 862 | 92 | 140 | 311 | 890 | **1,433** |
| | $ 1,191 | $ 364 | $ 140 | $ 311 | $ 891 | **$ 1,706** |

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

### v. 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 $21 million (December 31, 2011 - $19 million).

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

| (millions) | As at September 30, 2012 | As at December 31, 2011 |
|---|---|---|
| Cash | **$ -** | $ 21 |
| Trade and other receivables | **46** | 103 |
| Debt retirement funds | **80** | 73 |
| Fair value of derivative instrument assets | **57** | 78 |
| | **$ 183** | $ 275 |

## 7. Long-term debt

During the first quarter of 2012, the Corporation issued $150 million in long-term debt through the Province of Saskatchewan's General Revenue Fund maturing in February 2042 with an effective interest rate of 3.5 per cent.

## 8. Deferred revenue

| (millions) | As at September 30, 2012 | As at December 31, 2011 |
|---|---|---|
| **Current** | | |
| Unearned customer capital contributions | **$ 46** | $ 32 |
| **Non-current** | | |
| Unearned government grants | **9** | 9 |
| | **$ 55** | $ 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 | **27** |
| Refunds | **(2)** |
| Revenue | **(11)** |
| Balance as at September 30, 2012 | **$ 46** |

## 9. Commitments and contingencies

### a. Commitments

i. At period end, the Corporation forecasted to spend $190 million (December 31, 2011 - $258 million) on capital projects in 2012.

ii. At period end, the Corporation had $46 million (December 31, 2011 - $31 million) of outstanding contractual commitments for the procurement of goods and services in the future.

### b. Contingencies

Five statements of claim have been filed against the Corporation in relation to a home explosion and other incidents during 2011 in Regina, Saskatchewan. The Corporation has filed statements of defence, cross claims and third party claims; however, these claims remain at an early stage, and at this time the Corporation does not expect the outcome to result in any material financial impact.

## 10. Unrealized market value adjustments

| (millions) | For the Three Months Ended September 30 2012 | 2011 | For the Nine Months Ended September 30 2012 | 2011 |
|---|---|---|---|---|
| Change in fair value of debt retirement funds | **$ (1)** | $ 2 | **$ (2)** | $ 2 |
| Change in fair value of natural gas derivative instruments | **12** | (7) | **20** | (8) |
| Change in revaluation of natural gas in storage to net realizable value | **20** | 7 | **20** | 8 |
| | **$ 31** | $ 2 | **$ 38** | $ 2 |

## 11. Natural gas sales and purchases

| | For the Three Months Ended September 30 | | | | | |
|---|---|---|---|---|---|---|
| | 2012 | | | 2011 | | |
| (millions) | Commodity | Gas Marketing | Total | Commodity | Gas Marketing | Total |
| **Natural gas sales** | | | | | | |
| Natural gas sales to commodity customers | $ 15 | $ - | $ 15 | $ 16 | $ - | $ 16 |
| Realized on natural gas derivative instruments | 9 | 58 | 67 | 12 | 63 | 75 |
| Fair value of natural gas derivative instruments | - | (23) | (23) | - | (7) | (7) |
| | 24 | 35 | 59 | 28 | 56 | 84 |
| **Natural gas purchases** | | | | | | |
| Realized on natural gas derivative instruments | (40) | (45) | (85) | (34) | (53) | (87) |
| Fair value of natural gas derivative instruments | 33 | 2 | 35 | - | - | - |
| Revaluation of natural gas in storage | - | 20 | 20 | - | 7 | 7 |
| | (7) | (23) | (30) | (34) | (46) | (80) |
| | $ 17 | $ 12 | $ 29 | $ (6) | $ 10 | $ 4 |

## 11. Natural gas sales and purchases (continued)

| (millions) | For the Nine Months Ended September 30 2012 Commodity | 2012 Gas Marketing | 2012 Total | 2011 Commodity | 2011 Gas Marketing | 2011 Total |
|---|---|---|---|---|---|---|
| **Natural gas sales** | | | | | | |
| Natural gas sales to commodity customers | $ 140 | $ - | $ 140 | $ 170 | $ - | $ 170 |
| Realized on natural gas derivative instruments | 21 | 169 | 190 | 37 | 206 | 243 |
| Fair value of natural gas derivative instruments | (1) | (36) | (37) | - | (21) | (21) |
| | 160 | 133 | 293 | 207 | 185 | 392 |
| **Natural gas purchases** | | | | | | |
| Realized on natural gas derivative instruments | (182) | (132) | (314) | (201) | (176) | (377) |
| Fair value of natural gas derivative instruments | 53 | 4 | 57 | 8 | 5 | 13 |
| Revaluation of natural gas in storage | - | 20 | 20 | - | 8 | 8 |
| | (129) | (108) | (237) | (193) | (163) | (356) |
| | $ 31 | $ 25 | $ 56 | $ 14 | $ 22 | $ 36 |

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

| (millions) | For the Three Months Ended September 30 2012 | 2011 | For the Nine Months Ended September 30 2012 | 2011 |
|---|---|---|---|---|
| Trade and other receivables | **$ 13** | $ 22 | **$ 57** | $ 66 |
| Natural gas in storage held for resale | **(27)** | (37) | **(14)** | - |
| Inventory of supplies | **(1)** | - | **(1)** | (2) |
| Trade and other payables | **14** | 9 | **(21)** | (25) |
| Deferred revenue | **2** | (20) | **14** | (15) |
| | **$ 1** | $ (26) | **$ 35** | $ 24 |

## 13. Comparative figures

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