SASKENERGY INCORPORATED

SECOND QUARTER REPORT
JUNE 30, 2014

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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). CIC is also a Crown corporation and effectively operates as the Province's holding company for commercial Crown corporations and various commercial investments.

SaskEnergy's main business is the natural gas Distribution Utility, which has the exclusive legislated franchise to distribute natural gas within the Province of Saskatchewan. The Provincial Cabinet regulates SaskEnergy's delivery and commodity rates. All rate changes are subject to review by the Saskatchewan Rate Review Panel, an independent ministerial advisory committee, prior to receiving Provincial Cabinet approval.

SaskEnergy's corporate structure includes five wholly owned and two indirect wholly owned subsidiaries as follows:

> **Bayhurst Gas Limited (Bayhurst)** owns, produces, and sells natural gas from its storage facility in the west-central area of Saskatchewan. Bayhurst also owns a gross overriding royalty on approximately 450 properties in Saskatchewan and Alberta. Bayhurst has two wholly owned subsidiaries as follows:
>
> > **Bayhurst Energy Services Corporation (BESCO)** is an energy services company. BESCO owns a 50% interest in a natural gas processing plant, which is operated through a joint arrangement with ATCO Energy Solutions. BESCO is also the sole owner and operator of a bulk compressed natural gas fueling facility in Weyburn.
> >
> > **BG Storage Inc. (BGSI)** owns a 50% interest in a natural gas storage business, which is operated through a joint arrangement with Faro Energy Ventures Ltd.
>
> **Many Islands Pipe Lines (Canada) Limited (MIPL)** is a transmission company that owns nine natural gas pipeline interconnections into Alberta, two into the United States, and one into Manitoba, all of which connect to the TransGas Limited system. MIPL is regulated by the National Energy Board.
>
> **Saskatchewan First Call Corporation (*Sask 1st Call*)** provides a centralized "Call Before You Dig" underground facility screening and notification service. *Sask 1st Call* was established primarily for safety reasons to maintain a database of oil, natural gas, and other underground infrastructures. *Sask 1st Call* provides a service whereby landowners and other stakeholders can request the location of pipeline and underground facilities of its subscribers. *Sask 1st Call's* fee structure is intended to operate on a break-even basis.
>
> **Swan Valley Gas Corporation (SVGC)** owned a natural gas distribution utility in the Swan Valley area of western Manitoba which serves customers in the towns of Swan River, Benito, and Minitonas. In May 2014 SVGC sold its assets to Centra Gas Manitoba Inc., including the transfer of its exclusive franchises in the Swan River area.
>
> **TransGas Limited (TransGas)** owns and operates a high pressure natural gas transmission pipeline business and has the exclusive legislated franchise to transport natural gas within the Province of Saskatchewan. It also owns and operates a non-regulated natural gas storage business as well as gathering and processing facilities, which are integrated with the transmission pipeline system. TransGas' transportation and storage rates are subject to Provincial Cabinet approval. TransGas uses a Customer Dialogue process to openly discuss business, operational, and rate matters with a representative group of customers.

As a Crown corporation, SaskEnergy is committed to ensuring 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 the Corporation – as is the provision of infrastructure necessary for the Province to grow and prosper.

VISION, MISSION AND VALUES

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

FINANCIAL AND OPERATING HIGHLIGHTS

	Three months ended June 30		Six months ended June 30	
	2014	**2013**	**2014**	**2013**
FINANCIAL HIGHLIGHTS ($ millions)				
Total revenue	**227**	208	**589**	485
Total expenses	**244**	217	**543**	431
Consolidated net income (loss)	**(17)**	(9)	**46**	54
Market value adjustments	**(11)**	(7)	**13**	(1)
Income (loss) before unrealized market value adjustments	**(6)**	(2)	**33**	55
Dividends	**3**	7	**9**	14
Cash provided by operating activities	**93**	88	**173**	166
Capital expenditures	**56**	32	**85**	58
Total assets			**2,228**	1,978
Total net debt			**1,005**	941
Debt ratio			**56.3%**	56.1%
OPERATING HIGHLIGHTS				
Distribution				
Volumes distributed (petajoules)	**35**	36	**101**	94
Weather (compared to last 30 years)	**21% colder**	25% colder	**18% colder**	13% colder
Transmission				
Volumes transported (petajoules)	**58**	54	**150**	134
Peak day natural gas flows (petajoules)			**1.37**	1.20
Date of peak flow			**February 6**	January 30

INTRODUCTION

The Management's Discussion and Analysis (MD&A) highlights the primary factors that affected SaskEnergy's consolidated financial condition and performance for the six month period ended June 30, 2014. 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. This MD&A is presented as at August 13, 2014 and should be read in conjunction with the Corporation's condensed consolidated financial statements, which have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting* using accounting policies consistent with International Financial Reporting Standards (IFRS). For additional information related to the Corporation, refer to SaskEnergy's 2013 Annual Report.

The following discussion contains certain forward-looking statements that are subject to inherent uncertainties and risks, which are described in the Risk Management and Disclosure section of SaskEnergy's 2013 Annual Report. All forward-looking statements reflect the Corporation's best estimates and assumptions based on 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 financial results should not be taken as indicative of the performance to be expected for the full year.

In order to compare financial performance from period to period, the Corporation uses the following measures: income before unrealized market value adjustments, realized margin on commodity sales, and realized margin on gas marketing sales. Each measure removes the impact of fair value adjustments on financial and derivative instruments and the revaluation of natural gas in storage to the lower of cost and net realizable value. These unrealized market value adjustments vary considerably with the market prices of natural gas, drive significant changes in the Corporation's consolidated net income, and may obscure other business factors that are also important to understanding the Corporation's financial results. The measures referred to above are non-IFRS measures, in that there is no standardized definition, and may not be comparable to similar measures presented by other entities.

CONSOLIDATED FINANCIAL RESULTS

	Three months ended June 30			Six months ended June 30		
(millions)	**2014**	2013	Change	**2014**	2013	Change
Income (loss) before unrealized market value adjustments	**$ (6)**	$ (2)	$ (4)	**$ 33**	$ 55	$ (22)
Impact of fair value adjustments	**(11)**	(1)	(10)	**2**	(3)	5
Revaluation of natural gas in storage	**-**	(6)	6	**11**	2	9
Consolidated net income (loss)	**$ (17)**	$ (9)	$ (8)	**$ 46**	$ 54	$ (8)

Given the seasonality of the Corporation's business, the first half of 2014 continued to be best characterized by the relentless cold weather experienced throughout the first quarter. In fact, the winter of 2013/2014 was one of the coldest Saskatchewan has experienced in the past 30 years. Typically, colder weather generates positive results for the Corporation as additional natural gas is delivered to customers. While the cold weather impact is evident in the $14 million growth in delivery revenue, the system and supply challenges also led to additional costs. Operating costs, which includes employee benefits and operating and maintenance expense, saw a $13 million increase period over period as additional natural gas was imported into Saskatchewan to meet heightened demand, resulting in additional third party transportation costs. The Corporation's team of dedicated employees and contractors worked long hours to ensure the provincial natural gas system met the high level of customer demand. Cold weather across North America drove significant natural gas price increases which negatively impacted the Corporation's first half realized margin on natural gas sales – declining from $29 million in 2013 to $6 million in 2014. Consequently, the Corporation's income before unrealized market value adjustments of $33 million was $22 million below the first half of 2013.

Natural gas prices continue to be a factor that can drive significant volatility, as evidenced by the $14 million change in unrealized market value adjustments on a period-over-period basis. At the end of June 2014 the net realizable value of natural gas in storage recovered, approximating cost, and the Corporation's fair value position on outstanding financial and derivative instruments also improved. As a result, consolidated net income of $46 million was only $8 million below the first half of 2013.

Typically each year, the Corporation's net income declines during the second and third quarters as revenues are reduced with warmer temperatures while operating costs are incurred fairly evenly throughout the year. Net income then recovers during the fourth quarter as the weather becomes colder and natural gas consumption increases. The second quarter of 2014 was no exception as the Corporation reported a $6 million loss before unrealized market value adjustments, $4 million below the second quarter of 2013 with the most significant variance related to third party transportation costs. Beginning in the first quarter, the Corporation increased its contracted demand for the majority of 2014 in order to ensure a secure supply of natural gas from Alberta, and as a result, the unfavourable variance in third party transportation costs will continue to grow throughout the remainder of the year.

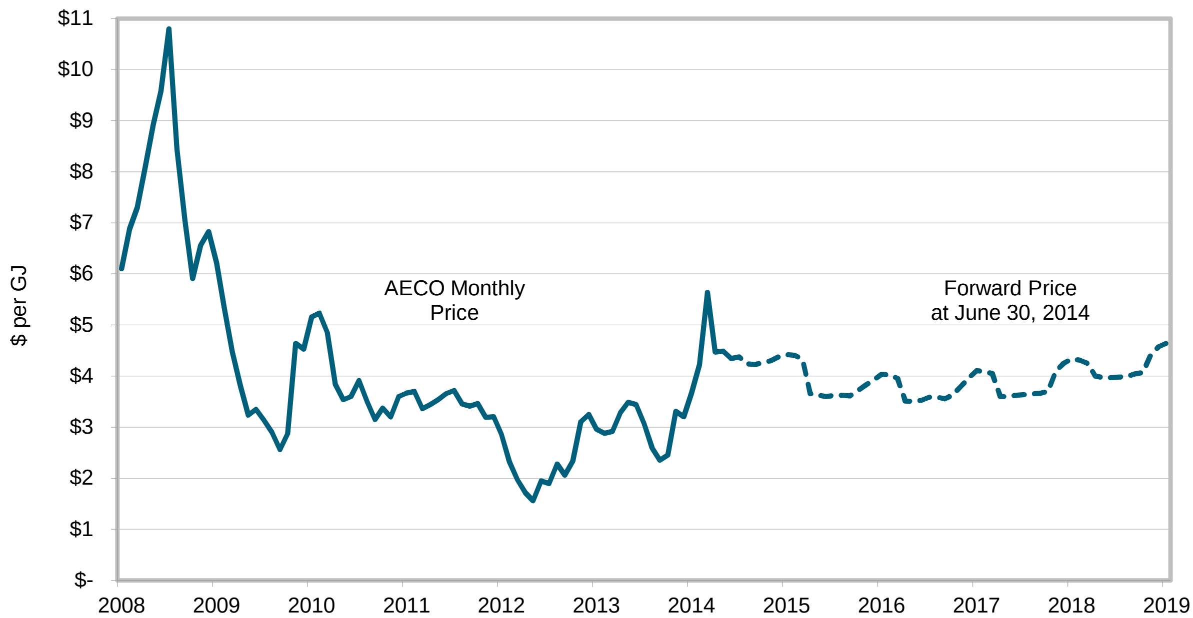
Natural Gas Prices

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 can be very volatile.

This past winter was the coldest in the United States and Canada in the past 20 years. Across North America, demand to heat homes and businesses increased consumption. In the United States, records were set for consumption for residential, commercial and industrial consumers. The cold weather resulted in the largest winter season storage drawdown in North America. At the end of March, natural gas in storage in the United States was 55% below the five-year average and at the lowest level in 11 years. By the end of June, halfway through the storage injection season, the gap had narrowed to 30% below the five-year average. Storage has refilled 20% faster than average, led by increased production and milder summer temperatures.

Throughout the extremely cold winter, natural gas prices increased and experienced high volatility. The AECO monthly index, the benchmark price for natural gas in western Canada, reached a five-year high in March of $5.64/GJ. Increased production has led to a steady refill of storage and eased pressure on market prices. The June index settled at $4.35/GJ.

The following chart presents AECO natural gas prices. 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

Included within natural gas sales and purchases are rate-regulated commodity sales to distribution customers and non-regulated gas marketing activities. Although presented together within the consolidated financial statements in accordance with IFRS, the Corporation manages these activities as distinct and separate businesses and, as such, the MD&A addresses these natural gas sales and purchases separately.

Commodity Sales to Customers

SaskEnergy sells natural gas to its distribution customers at a commodity rate approved by Provincial Cabinet based on the recommendations of the Saskatchewan Rate Review Panel. The commodity rate, which is reviewed April 1 and November 1 of each year, is determined based on rate-setting principles and is designed to recover the associated costs of natural gas sold to distribution customers without earning a profit or incurring a loss over the long term. 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.

For financial reporting purposes, the Corporation prepares its financial statements on a consolidated basis while applying IFRS. Consequently, the amounts determined for rate-setting purposes are different than those reported within its consolidated financial statements. The most notable differences are the elimination of intercompany costs in the preparation of the consolidated financial statements, including transportation costs paid to TransGas, as well as the timing related to recognition of financial derivative settlements. While a gain or loss is commonly reported in the Corporation's consolidated financial statements, it should not be taken as indicative of the results recorded within the GCVA. The commodity sales to customers, as reported in the consolidated financial statements, were as follows:

	Three months ended June 30			Six months ended June 30		
(millions)	**2014**	**2013**	**Change**	**2014**	**2013**	**Change**
Commodity sales	**$ 37**	$ 31	$ 6	**$ 158**	$ 127	$ 31
Commodity purchases [1]	**(42)**	(33)	(9)	**(162)**	(113)	(49)
Realized margin (loss) on commodity sales	**(5)**	(2)	(3)	**(4)**	14	(18)
Impact of fair value adjustments	**(17)**	(6)	(11)	**10**	13	(3)
Margin (loss) on commodity sales	**$ (22)**	$ (8)	$ (14)	**$ 6**	$ 27	$ (21)

[1] Net of change in inventory

SaskEnergy manages the purchase price of natural gas it buys on behalf of customers through its natural gas price risk management program with two objectives in mind: reduce the volatility of natural gas prices and offer rates that are competitive to other utilities. The two objectives naturally oppose each other, and the balance between the two may change depending on existing market conditions. In order to ensure a secure supply of natural gas, SaskEnergy contracts 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 may be fixed, or it may be based on a variable index price. In order to manage the future purchase price of natural gas SaskEnergy may use financial derivatives, primarily natural gas price swaps. SaskEnergy may also enter into other natural gas contracts to manage the price or supply of natural gas acquired for its commodity customers. While fixed price contracts reduce the impact of natural gas price volatility, variable or market prices can assist in offering competitive rates depending on the pricing environment.

As derivative instruments, natural gas contracts are recorded at fair value until the settlement date. Changes in the fair value of the derivative instruments, driven by changes in future natural gas prices related to the prices of outstanding contracts, are recorded in either commodity sales or commodity purchases depending on the specific contract. Upon settlement of the contract, the amount paid or received by SaskEnergy becomes realized and is recorded in commodity sales or purchases. For the first six months of 2014, fair value adjustments increased the margin on commodity sales by $10 million as the $21 million unfavourable fair value position at the end of 2013 improved to an $11 million unfavourable position at the end of June 2014. Higher future natural gas prices translated into improved fair value positions on those natural gas purchases that remained outstanding as at June 30, 2014, meaning the average purchase price was closer to the average future market price.

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. On a consolidated basis, the Corporation realized a $4 million loss on commodity sales, with average revenue of $3.81 per GJ and average cost of gas sold of $3.92 per GJ. This compared to a $14 million realized margin in 2013, with average revenue of $3.81 per GJ and average cost of gas sold of $3.39 per GJ.

Despite one of the coldest winters in decades which saw extreme volatility in natural gas prices, the Corporation maintained its commodity rate of $3.82/GJ throughout the first half of 2014. The Corporation's natural gas price risk management strategy, which places more focus on fixed price natural gas contracts during the winter months, minimized the impact of the escalation in natural gas prices throughout the 2013/2014 winter. This allowed the Corporation to delay its commodity rate application beyond April 1 until prices stabilized, enabling customers to experience a stable commodity rate throughout the past winter. However, the impact is reflected in the Corporation's realized loss on commodity margin for the first six months. At the end of June, Cabinet, based on the recommendation of the Saskatchewan Rate Review Panel, approved SaskEnergy's application for an increase to its commodity rate – the first increase in six years. With this change SaskEnergy's commodity rate moves to $4.84/GJ effective July 1, 2014 and allows the Corporation to recover the GCVA balance over a 24-month period. Despite this increase SaskEnergy's commodity rate remains competitive with other jurisdictions, many of which have already implemented higher rates.

Due to the seasonality of the weather in the Province, the volume of commodity sales to customers declines significantly in the second quarter. However, some of the costs associated with the Corporation's price risk management strategy do not decline with the lower sales volumes. As such, losses on commodity sales are not unusual during the second quarter. For the second quarter of 2014 the Corporation realized a $5 million loss on commodity sales compared to a $2 million loss in the second quarter of 2013, driven by an increase in the average cost of gas sold per GJ. Fair value adjustments were affected by the decline in future market prices that occurred towards the end of the second quarter, resulting in a $17 million unfavourable adjustment from the end of March 2014.

Gas Marketing Sales

	Three months ended June 30			Six months ended June 30		
(millions)	**2014**	**2013**	**Change**	**2014**	**2013**	**Change**
Gas marketing sales	**$ 106**	$ 95	$ 11	**$ 251**	$ 194	$ 57
Gas marketing purchases [1]	**(101)**	(89)	(12)	**(241)**	(179)	(62)
Realized margin on gas marketing sales	**5**	6	(1)	**10**	15	(5)
Impact of fair value adjustments	**4**	9	(5)	**(12)**	(11)	(1)
Revaluation of natural gas in storage	**-**	(6)	6	**11**	2	9
Gain on gas marketing sales	**$ 9**	$ 9	$ -	**$ 9**	$ 6	$ 3

[1] Net of change in inventory

SaskEnergy's gas marketing operation employs several different strategies, all of which attempt to optimize storage and transportation capacity available to the Corporation to earn a positive margin. The most significant gas marketing activity is focused on utilizing the storage capabilities of a depleted gas field in west-central Saskatchewan. The primary strategy involves the purchase of natural gas accompanied by a forward sales contract which essentially locks in a future profit margin. Low natural gas market prices over the past few years also created an opportunity for the Corporation to purchase relatively low-priced natural gas to inject into this storage facility with the intent to sell it at a profit when prices rise. 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. The margins earned on this activity benefit customers by reducing pressure on transmission and distribution tolls. Lastly, SaskEnergy provides natural gas supply options to larger end-use customers in Saskatchewan through non-regulated contract sales.

Transactions undertaken through the Corporation's gas marketing strategies result in exposure to risk, especially given the volatility of natural gas market prices. Similar to the discussion regarding commodity sales, the Corporation may enter into various natural gas contracts to manage natural gas price risk for its gas marketing activities. These contracts are derivative instruments and, as such, are recorded at fair value until the date of settlement. Changes in fair value positions 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 realized and recorded in gas marketing sales or gas marketing purchases, as appropriate. During the first six months of 2014, fair value adjustments on derivative instruments reduced the margin on gas marketing sales by $12 million as the fair value position declined from $9 million favourable at the end of 2013 to $3 million unfavourable at the end of June 2014. The change reflects the rise in natural gas prices as future market prices at the end of June were above the average sales price of the Corporation's outstanding contracts.

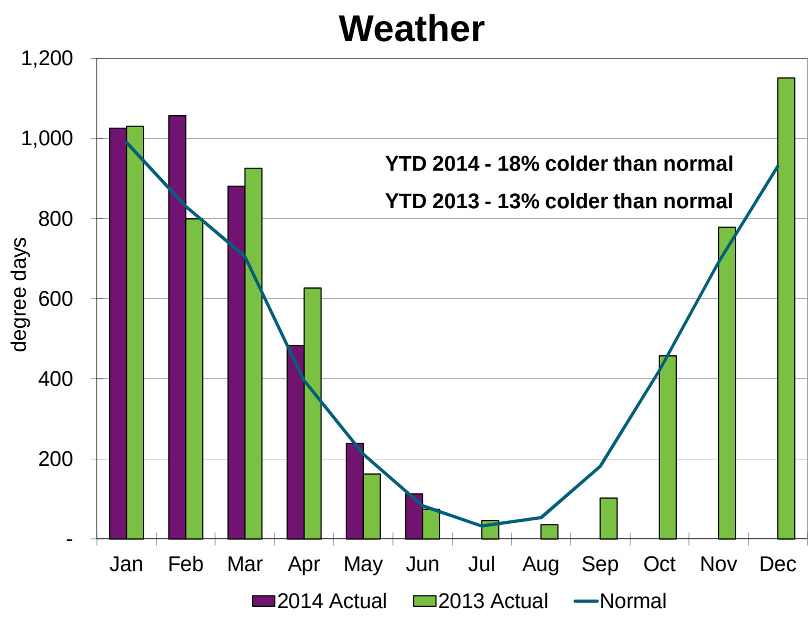
At each reporting period, the Corporation measures the net realizable value of gas marketing natural gas in storage based on forward market prices and anticipated delivery dates. The carrying amount of natural gas in storage inventory is then adjusted to reflect the lower of weighted average cost and net realizable value. In recent years, low natural gas prices translated to reduced prices on the forward curve, and consequently, the net realizable value of gas marketing natural gas in storage was $11 million below cost as at December 31, 2013. Increases in future market prices during 2014 meant the net realizable value actually exceeded the weighted average cost at the end of June. As a result, the Corporation recorded an $11 million improvement during the first half of 2014 to eliminate the previously recorded revaluation of natural gas in storage.

The realized margin on gas marketing sales, which removes fair value adjustments on derivative instruments and the revaluation of natural gas in storage, was $10 million. This was a decrease of $5 million from the same period last year as higher natural gas prices negatively impacted the average cost of inventory, thereby reducing the realized margins on sales transactions. Despite the surge in market prices during the first quarter, the Corporation's top priority was maintaining natural gas service to distribution and transmission customers, and therefore was not able to capitalize through increased sales activity. In addition, an inverted price curve, meaning short-term prices were higher than longer term prices, further limited the opportunity to generate significant margins on gas marketing transactions during the period. On a quarterly basis, the Corporation realized a $5 million margin in 2014 which was comparable to the second quarter of 2013.

Delivery Revenue

Cold weather, customer growth and a September 1, 2013 delivery rate increase resulted in a $14 million period-over-period improvement in delivery revenue – from $114 million in 2013 to $128 million in 2014. The Corporation earns delivery revenue based on the volume of natural gas delivered to distribution customers plus a basic monthly charge.

Nearly 7,700 new residential, business, and industrial customers were added to the distribution system in 2013 and another 1,688 were added during the first half of 2014 leading to increased basic monthly charge revenue. With one of the coldest winters in the last 30 years, weather throughout the first six months of 2014 was 18.0% colder than normal (based on weather data for the past 30 years) and 5.0% colder than the same period in 2013. The cold weather, combined with the customer growth, lead to an additional 4.3 PJ of natural gas delivered to customers, an 11.1% volume increase.



During the second quarter of 2014, there was a 0.8 PJ increase in the volume of natural gas delivered to customers, an outcome of the continued customer growth. This volume increase, combined with prior year's third quarter rate increase, resulted in delivery revenue of $43 million, $3 million above the second quarter of 2013.

Transportation and Storage Revenue

The Corporation's subsidiary, TransGas, provides receipt and delivery transportation through the use of the TransGas Energy Pool (TEP), a notional point where producers, marketers and end-users can match supplies to demand. On the receipt side, the Corporation offers both firm and interruptible transportation from points of receipt to TEP. On the delivery side, the Corporation offers firm and interruptible service for gas delivered from TEP to consumers within Saskatchewan or for export. Integral to the Corporation's transmission system are several strategically located natural gas storage sites with the capacity to provide operational flexibility along with a reliable and competitive natural gas storage service.

The combination of extremely cold weather, natural gas price volatility, high industrial usage, third party restrictions at Alberta interconnect points, and a record level of storage withdrawals resulted in a number of system challenges for TransGas throughout the 2013/2014 winter. In order to maintain firm delivery service to customers, TransGas introduced a number of key measures, such as system modifications, increased third party transport contracts, and periodic restrictions on interruptible transportation service. The additional activity did not have a substantial impact on total revenue for the first quarter of 2014 as the majority of the Corporation's customers transport natural gas under firm contracts, so while the increased activity resulted in additional volumes most natural gas was transported within customers' existing contracts. However, during the second quarter a number of customers that were impacted moved from interruptible service to demand contracts. Not only does this increase demand revenue for TransGas, it also improves revenue certainty which is more supportive of required pipeline expansions.

Year-to-date, transportation and storage revenue of $49 million was $4 million above the same period in 2013. On a quarter-over-quarter basis, transportation and storage revenue of $26 million was also $4 million above the second quarter of 2014. There was some improvement in direct and receipt revenue, a consequence of higher contracted demand and interruptible volumes as well as rate increases that became effective March 1, 2013 and January 1, 2014. The Corporation also experienced higher demand for its service to import natural gas from Alberta, referred to as NIT to TEP service. Conversely, despite higher storage withdrawals charges during the first quarter, storage revenue was down slightly driven by customer-driven decontracting,

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 mirror the projects themselves – those related to the transmission system tend to be larger but less frequent than contributions related to the distribution system. Customer capital contribution revenue of $9 million, driven by the year-to-date 1,688 distribution system customer connections, was $1 million above the same period in 2013. Similarly, the second quarter customer capital contribution revenue of $4 million was $1 million higher than 2013 related to the distribution system customer connections.

Other Revenue

Other revenue primarily consists of revenues from natural gas processing operations and royalty revenues. The Corporation's natural gas processing operations include gas processing at two separate gas plants and the sale of natural gas liquids from the processing operations. Royalty revenue is generated from a gross overriding royalty on 450 natural gas-producing properties in Saskatchewan and Alberta. Other revenue of $7 million for the first six months of 2014, as well as $3 million for the second quarter of 2014, was consistent with the comparable period in 2013.

Other Expenses

Employee benefits of $48 million for the first half of 2014 were $3 million above prior year. Costs were impacted by additional overtime, most of which was incurred during the first quarter to ensure continued service to customers. The Corporation also experienced a modest increase in the level of full-time equivalents related to filling vacant positions as well as salary and wages increases that occurred at the beginning of the year.

Operating and maintenance costs for the six months increased from $42 million in 2013 to $52 million in 2014 as the supply and system challenges experienced throughout the first quarter continued to place upward pressure on the Corporation's operating costs with the most significant impact related to transportation expense. In order to ensure a sufficient supply of natural gas, the Corporation contracted additional third party transport to bring more natural gas from Alberta. As a consequence, third party transportation expenses increased $10 million compared to the first half of 2013 with the variance expected to grow for the remainder of the year.

During the second quarter, the Corporation recognized the sale of several storage caverns near the city of Melville and also finalized the sale of the distribution assets belonging to its subsidiary, Swan Valley Gas Corporation. The two separate sales transactions were identified as assets held for sale in the Corporation's December 31, 2013 consolidated financial statements and resulted in a net gain of $3 million which was included within operating and maintenance expense for the first six months of 2014.

Depreciation and amortization expense of $40 million for 2014 was $1 million above the prior year. The significant level of capital expenditures throughout last year lead to a higher capital asset base at the beginning of 2014, resulting in additional depreciation and amortization expense. However, the rates used in the first half of 2014 were lower than those used in the first half of 2013 given timing of the Distribution Utility depreciation study implementation last year.

Saskatchewan taxes of $4 million, which include corporate capital taxes paid to the Province and grants-in-lieu of taxes paid to municipalities, were consistent with the first half of 2013.

For the second quarter of 2014, other expenses of $71 million were $5 million above 2013 with the primary driver being increased third party transportation costs.

Net Finance Expenses

Net finance expenses, before the impact of fair value adjustments, were $22 million compared to $18 million in 2013 given higher finance expenses as well as slightly lower debt retirement fund earnings. Within finance expenses the Corporation incurred higher long-term debt interest because of higher balances and also recognized additional costs related to unwinding of the discount of the Distribution Utilities' decommissioning liability. There was also a $4 million favourable fair value adjustment on debt retirement funds during 2014, an outcome of reduced interest rates on the fair value of primarily fixed-rate investments.

On a quarterly basis, net finance expenses, before the impact of fair value adjustments, of $11 million were $2 million above 2013. Drivers of the quarterly increase were consistent with the year-to-date results – lower debt retirement fund earnings, larger long-term debt balances, and higher finance costs related to the Distribution Utilities' decommissioning liability.

LIQUIDITY AND CAPITAL RESOURCES

	Three months ended June 30			Six months ended June 30		
(millions)	**2014**	**2013**	**Change**	**2014**	**2013**	**Change**
Cash provided by operating activities	**$ 93**	$ 88	$ 5	**$ 173**	$ 166	$ 7
Cash used in investing activities	**(50)**	(33)	(17)	**(80)**	(57)	(23)
Cash used in financing activities	**(35)**	(59)	24	**(79)**	(112)	33
Increase (decrease) in cash and cash equivalents	**$ 8**	$ (4)	$ 12	**$ 14**	$ (3)	$ 17

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. Sources of liquidity include Order in Council authority to borrow up to $400 million in short-term loans from the Province's General Revenue Fund and a $35 million uncommitted line of credit with the Toronto-Dominion Bank. Over the longer term, *The SaskEnergy Act* allows the Corporation to borrow up to $1,700 million.

Cash from operating activities was $173 million in 2014, an increase of $7 million from the first half of 2013. Colder than normal weather resulted in increased cash flow for the Distribution Utility, despite additional costs to maintain the transmission and distribution systems reliability and natural gas supply. As a result of the surge in natural gas prices, the Corporation limited its gas marketing injections. Instead, the volume of gas marketing natural gas in storage declined by over 12 PJ from year end as sales contracts were settled, further contributing to cash from operating activities.

Cash used in investing activities totaled $80 million for the first six months, $23 million above 2013. The majority of the first half capital investment was focused on system expansion (a result of Saskatchewan residential and industrial growth as well as changes in natural gas supply) and safety and integrity programming (a sign of the Corporation's ongoing commitment to a safe, reliable system). In particular, a significant component of the year-to-date capital expenditures relates to the construction of a pipeline from Bayhurst, a storage field near Leader, to Rosetown, which will enable the Corporation to move more natural gas into the northern portion of its transmission system. This system expansion will enable more natural gas to be imported from Alberta and add operational flexibility which will be critical for future transmission system operation. The Corporation funds its high level of capital requirements with cash from operations and debt from the Province of Saskatchewan.

Cash used for financing activities was $79 million during 2014 as the Corporation paid dividends to its Shareholder, CIC, of $16 million. Given the Corporation's relatively high short-term debt balances and attractive rates on long-term debt, the Corporation converted $246 million of short-term debt to long-term debt during the first six months at a weighted average interest rate of 3.2%. The Corporation also repaid $50 million of long-term debt which matured during the quarter. SaskEnergy's debt ratio at the end of the period was 56.3%, an improvement from 58.8% at December 31, 2013 and in line with the Corporation's long-term target of 57.0% as the Corporation reduced its total debt level by $38 million during the first half of 2014.

OUTLOOK

With continued Saskatchewan growth, the Corporation plans to spend an additional $227 million on capital during the remainder of 2014, highlighted by a continued concentration on public safety, through system upgrading and integrity programming, as well as on meeting new infrastructure requirements. The Corporation will focus on maximizing supply into Saskatchewan through system enhancements and customer specific facilities to meet growing demand. Projects such as the previously discussed Bayhurst to Rosetown pipeline are scheduled for completion in 2014 and will enable the Corporation to move more natural gas into the northern portion of its system. At the same time, the Corporation has committed to a number of system improvements, such as additional mobile compression, to enhance the flexibility and reliability of its system during winter operations.

The Corporation is able to fund these capital expenditures, as well as its financial obligations, through its consistent operating cash flows and debt available through the Province. Given the Province's "AAA" credit rating, the Corporation is able to take advantage of historically low interest rates to fund these expenditures, matching the multi-generational life expectancy of the capital assets. Each year, through cooperation and consultation with the Province, CIC, and management, the Corporation prepares a Debt Management Plan that factors the current interest rate environment with liquidity requirements to plan for short- and long-term borrowings for the coming years. In addition, the Corporation's strategy of injecting natural gas into storage during low priced periods and holding it for resale in future periods will generate additional margins and cash flow for the Corporation.

In close alignment with the Government of Saskatchewan's Crown Sector Priorities and Saskatchewan Growth Plan, SaskEnergy's 2014 efforts focus around its four strategic mandates: Service Excellence, Achieving Growth, Our Team, and Creating Value. The Corporation is well-positioned to achieve its business objectives in 2014. While realizing efficiencies, the Corporation is projected to achieve consistent profitability from operations with an income before unrealized market value adjustments target of $50 million in 2014. The forecast is slightly below the 2014 first quarter forecast, an outcome of the delay in the approval of a commodity rate increase. While the delay negatively impacted the Corporation's results through increased realized losses on commodity sales, waiting until prices stabilized will provide long-term benefit to customers through stable rates. The approved July 1, 2014 commodity rate increase to $4.84/GJ will offer customers the lowest commodity rate possible and provide price protection throughout the next winter. At the same time, the new commodity rate will translate into improved realized margins on commodity sales for future periods.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(millions)	Notes	As at June 30, 2014 (unaudited)	As at December 31, 2013 (audited)
Assets			
Current assets			
Cash		**$ 14**	$ -
Trade and other receivables		**123**	148
Natural gas in storage held for resale	4	**179**	208
Inventory of supplies		**13**	12
Debt retirement funds		**-**	6
Assets held for sale	5	**-**	4
Fair value of derivative instruments	6	**28**	28
		357	406
Intangible assets		**47**	47
Property, plant and equipment		**1,739**	1,682
Debt retirement funds		**85**	72
		$ 2,228	$ 2,207
Liabilities and Province's equity			
Current liabilities			
Short-term debt		**$ 146**	$ 380
Trade and other payables		**116**	122
Dividends payable		**3**	10
Current portion of long-term debt	7	**-**	50
Deferred revenue		**85**	59
Fair value of derivative instruments	6	**41**	39
		391	660
Employee future benefits		**10**	10
Provisions		**81**	71
Deferred revenue		**6**	9
Long-term debt	7	**958**	712
		1,446	1,462
Province's equity			
Equity advances		**72**	72
Retained earnings		**710**	673
		782	745
		$ 2,228	$ 2,207

(See accompanying notes)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(unaudited)

		For the Three Months Ended June 30, 2014			For the Three Months Ended June 30, 2013		
(millions)	**Notes**	**Income before Unrealized Market Value Adjustments**	**Unrealized Market Value Adjustments (Note 9)**	**Total**	**Income before Unrealized Market Value Adjustments**	**Unrealized Market Value Adjustments (Note 9)**	**Total**
Revenue							
Natural gas sales	10	**$ 143**	**$ 8**	**$ 151**	$ 126	$ 13	$ 139
Delivery		**43**	**-**	**43**	40	-	40
Transportation and storage		**26**	**-**	**26**	22	-	22
Customer capital contributions		**4**	**-**	**4**	3	-	3
Other		**3**	**-**	**3**	4	-	4
		219	**8**	**227**	195	13	208
Expenses							
Natural gas purchases (net of change in inventory)	10	**143**	**21**	**164**	122	16	138
Employee benefits		**24**	**-**	**24**	22	-	22
Operating and maintenance		**25**	**-**	**25**	23	-	23
Depreciation and amortization		**20**	**-**	**20**	19	-	19
Saskatchewan taxes		**2**	**-**	**2**	2	-	2
		214	**21**	**235**	188	16	204
Net income (loss) before the following		**5**	**(13)**	**(8)**	7	(3)	4
Finance income		**1**	**2**	**3**	2	(4)	(2)
Finance expenses		**(12)**	**-**	**(12)**	(11)	-	(11)
Net finance expenses		**(11)**	**2**	**(9)**	(9)	(4)	(13)
Total net loss and comprehensive loss		**$ (6)**	**$ (11)**	**$ (17)**	$ (2)	$ (7)	$ (9)

(See accompanying notes)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(unaudited)

		For the Six Months Ended June 30, 2014			For the Six Months Ended June 30, 2013		
(millions)	Notes	Income before Unrealized Market Value Adjustments	Unrealized Market Value Adjustments (Note 9)	Total	Income before Unrealized Market Value Adjustments	Unrealized Market Value Adjustments (Note 9)	Total
Revenue							
Natural gas sales	10	$ 409	$ (13)	$ 396	$ 321	$ (10)	$ 311
Delivery		128	-	128	114	-	114
Transportation and storage		49	-	49	45	-	45
Customer capital contributions		9	-	9	8	-	8
Other		7	-	7	7	-	7
		602	(13)	589	495	(10)	485
Expenses							
Natural gas purchases (net of change in inventory)	10	403	(22)	381	292	(14)	278
Employee benefits		48	-	48	45	-	45
Operating and maintenance		52	-	52	42	-	42
Depreciation and amortization		40	-	40	39	-	39
Saskatchewan taxes		4	-	4	4	-	4
		547	(22)	525	422	(14)	408
Net income before the following		55	9	64	73	4	77
Finance income		2	4	6	3	(5)	(2)
Finance expenses		(24)	-	(24)	(21)	-	(21)
Net finance expenses		(22)	4	(18)	(18)	(5)	(23)
Total net income and comprehensive income		$ 33	$ 13	$ 46	$ 55	$ (1)	$ 54

(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, 2013	$ 624	$ 72	$ -	**$ 696**
Comprehensive income	54	-	-	**54**
Dividends	(14)	-	-	**(14)**
Balance as at June 30, 2013	$ 664	$ 72	$ -	**$ 736**
Balance as at January 1, 2014	$ 673	$ 72	$ -	**$ 745**
Comprehensive income	46	-	-	**46**
Dividends	(9)	-	-	**(9)**
Balance as at June 30, 2014	$ 710	$ 72	$ -	**$ 782**

(See accompanying notes)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(unaudited)

(millions)	Notes	For the Six Months Ended June 30 2014	2013
Operating activities			
Net income		**$ 46**	$ 54
Add (deduct) items not requiring an outlay of cash			
Net change in fair value of derivative instrument assets and liabilities	9	**2**	(2)
Change in revaluation of natural gas in storage to net realizable value	9	**(11)**	(2)
Depreciation and amortization		**40**	39
Net finance expenses		**18**	23
Gain on disposal of assets		**(3)**	(1)
		92	111
Net change in non-cash working capital related to operations	11	**81**	55
Cash provided by operating activities		**173**	166
Investing activities			
Additions to intangible assets		**(2)**	(5)
Additions to property, plant and equipment		**(78)**	(53)
Net proceeds on disposal of assets		**-**	1
Cash used in investing activities		**(80)**	(57)
Financing activities			
Debt retirement funds installments		**(7)**	(4)
Debt retirement fund redemptions		**6**	-
Decrease in short-term debt		**(234)**	(69)
Dividends paid		**(16)**	(18)
Proceeds from long-term debt	7	**246**	-
Repayment of long-term debt		**(50)**	-
Interest paid		**(24)**	(21)
Cash used in financing activities		**(79)**	(112)
Increase (decrease) in cash and cash equivalents		**14**	(3)
Cash and cash equivalents, beginning of period		**-**	2
Cash and cash equivalents, end of period		**$ 14**	$ (1)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

For the Six Months Ended June 30, 2014

1. General information

SaskEnergy Incorporated (SaskEnergy or the Corporation) is a Saskatchewan provincially owned 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 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 provincially owned 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 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). The condensed consolidated financial statements do not include all the information required for the Corporation's annual consolidated financial statements. Accordingly, these statements should be read with reference to the annual report for the year ended December 31, 2013.

The condensed consolidated financial statements were authorized for issue by the Board of Directors on August 13, 2014.

b. Basis of measurement

The condensed consolidated financial statements have been prepared on the historical cost basis except for the following items:

Financial instruments classified as at fair value through profit or loss
Employee future benefits
Provisions

c. Functional and presentation currency

The condensed consolidated 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 financial statements include:

Revenue recognition related to unbilled revenue
Existence of decommissioning liabilities

2. **Basis of preparation (continued)**

d. **Use of estimates and judgments (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
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 year ended December 31, 2013, have been applied consistently, by the Corporation and its subsidiaries, to all periods presented in these condensed consolidated financial statements.

a. **Changes in accounting policies**

Effective January 1, 2014, the Corporation adopted the following new and amended IFRS:

IAS 32 *Financial Instruments: Presentation*

Amendments to this standard clarified certain items regarding offsetting financial assets and financial liabilities. The adoption of this amended standard had no impact on the condensed consolidated financial statements.

b. **Future changes in accounting policies**

The IASB issued several new and amended standards that are not yet effective and have not been applied in preparing these condensed consolidated financial statements, including the following:

IFRS 9 *Financial Instruments* – replaces the rule-based hedge accounting requirements in IAS 39 *Financial Instruments: Recognition and Measurement* to more closely align the accounting with risk management activities. This standard is effective for annual periods beginning on or after January 1, 2018.

IFRS 15 *Revenue from Contracts with Customers* – clarifies the principles for recognizing revenue from contracts with customers. It applies to all contracts with customers except leases, financial instruments and insurance contracts. This standard is effective for annual periods beginning on or after January 1, 2017.

SaskEnergy is continuing to review the new and amended standards and has not yet determined the impact on its consolidated financial statements.

4. **Natural gas in storage held for resale**

(millions)	**As at June 30, 2014**	**As at December 31, 2013**
Cost	**$ 179**	$ 219
Revaluation of natural gas in storage	**-**	(11)
	$ 179	$ 208

At the end of the period, the net realizable value of natural gas in storage approximated its cost (December 31, 2013 - $11 million below cost). As at June 30, 2014, the Corporation expected that $101 million of the current inventory value would be sold or consumed within the next year, and $78 million of the current inventory value would be sold or consumed after more than one year.

5. Assets held for sale

The Corporation had previously classified several non-current assets as held for sale within its consolidated statement of financial position. During the second quarter of 2014, the Corporation sold these assets resulting in a total gain on sale of $3 million included within operating and maintenance expense for the period.

6. Financial and derivative instruments

			As at June 30, 2014		As at December 31, 2013	
(millions)	**Classification**	**Fair Value Hierarchy**	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Financial and derivative assets						
Cash	FVTPL	n/a	**$ 14**	**$ 14**	$ -	$ -
Trade and other receivables	LAR	n/a	**123**	**123**	148	148
Debt retirement funds	FVTPL	Level 2	**85**	**85**	78	78
Fair value of derivative instrument assets	FVTPL	Level 2	**28**	**28**	28	28
Financial and derivative liabilities						
Short-term debt	OL	n/a	**146**	**146**	380	380
Trade and other payables	OL	n/a	**116**	**116**	122	122
Dividends payable	OL	n/a	**3**	**3**	10	10
Long-term debt	OL	Level 2	**958**	**1,110**	762	869
Fair value of derivative instrument liabilities	FVTPL	Level 2	**41**	**41**	39	39

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

The fair value hierarchy is not applicable where the carrying amount approximates fair value due to the short-term nature of the financial instrument.

Notional values are an approximation of future undiscounted net cash flows. For physical natural gas contracts, the notional value is based on the contract price. For natural gas price swaps, 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 June 30, 2014 natural gas derivative instruments had the following fair values, notional values, and maturities:

(millions)	**2015**	**2016**	**2017**	**2018**	**2019**	**Total**
Physical natural gas contracts						
Fair value	$ (10)	$ (4)	$ (1)	$ 2	$ 1	**$ (12)**
Notional value	(70)	(74)	(38)	(24)	(8)	**(214)**
Natural gas price swaps						
Fair value	3	(2)	(1)	(1)	-	**(1)**
Notional value	3	(2)	(1)	(1)	-	**(1)**
Total						
Fair value	$ (7)	$ (6)	$ (2)	$ 1	$ 1	**$ (13)**
Notional value	$ (67)	$ (76)	$ (39)	$ (25)	$ (8)	**$ (215)**

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

6. Financial and derivative instruments (continued)

The fair value of the Corporation's outstanding natural gas contracts is presented in the condensed consolidated statement of financial position as follows:

(millions)	As at June 30, 2014	As at December 31, 2013
Fair value of derivative instrument assets	**$ 28**	$ 28
Fair value of derivative instrument liabilities	**(41)**	(39)
	$ (13)	$ (11)

Financial assets and liabilities are offset within the condensed consolidated statement of financial position if the Corporation has the legal right to offset and intends to settle on a net basis. When natural gas contracts settle or become realized, the Corporation records the amount due to or from counterparties within trade payables or trade receivables, respectively. The Corporation offsets these amounts when the counterparty and timing of settlement are the same, which reflects the Corporation's expected future cash flows from settling its natural gas contracts. At period end, the following amounts were netted within the condensed consolidated statement of financial position:

(millions)	As at June 30, 2014	As at December 31, 2013
Trade and other receivables		
Gross amount recognized	**$ 33**	$ 31
Amount offset	**(18)**	(17)
Net amount presented in the consolidated statement of financial position	**15**	$ 14
Trade and other payables		
Gross amount recognized	**$ 46**	$ 41
Amount offset	**(18)**	(17)
Net amount presented in the consolidated statement of financial position	**$ 28**	$ 24

7. Long-term debt

During the first quarter of 2014, the Corporation issued $250 million in long-term debt with a weighted average interest rate of 3.2%. The long-term debt was issued at a discount of $4 million.

During the second quarter of 2014, the Corporation repaid $50 million in long-term debt with a weighted average interest rate of 5.3%.

8. Commitments and contingencies

At period end, the Corporation forecasted to spend an additional $227 million on capital projects during the remainder of 2014, and the Corporation had $120 million of outstanding contractual commitments for the procurement of goods and services in the future.

9. Unrealized market value adjustments

(millions)	For the Three Months Ended June 30 2014	2013	For the Six Months Ended June 30 2014	2013
Change in fair value of debt retirement funds	**$ 2**	$ (4)	**$ 4**	$ (5)
Change in fair value of natural gas derivative instruments	**(13)**	3	**(2)**	2
Change in revaluation of natural gas in storage to net realizable value	**-**	(6)	**11**	2
	$ (11)	$ (7)	**$ 13**	$ (1)

10. Natural gas sales and purchases

	For the Three Months Ended June 30					
	2014			2013		
(millions)	Commodity	Gas Marketing	Total	Commodity	Gas Marketing	Total
Natural gas sales						
Natural gas sales to commodity customers	$ 34	$ -	$ 34	$ 31	$ -	$ 31
Realized on natural gas derivative instruments	3	106	109	-	95	95
Fair value of natural gas derivative instruments	-	8	8	-	13	13
	37	114	151	31	108	139
Natural gas purchases						
Realized on natural gas derivative instruments	(42)	(101)	(143)	(33)	(89)	(122)
Fair value of natural gas derivative instruments	(17)	(4)	(21)	(6)	(4)	(10)
Revaluation of natural gas in storage	-	-	-	-	(6)	(6)
	(59)	(105)	(164)	(39)	(99)	(138)
	$ (22)	$ 9	$ (13)	$ (8)	$ 9	$ 1

10. Natural gas sales and purchases (continued)

	For the Six Months Ended June 30					
	2014			2013		
(millions)	Commodity	Gas Marketing	Total	Commodity	Gas Marketing	Total
Natural gas sales						
Natural gas sales to commodity customers	$ 143	$ -	$ 143	$ 127	$ -	$ 127
Realized on natural gas derivative instruments	15	251	266	-	194	194
Fair value of natural gas derivative instruments	-	(13)	(13)	-	(10)	(10)
	158	238	396	127	184	311
Natural gas purchases						
Realized on natural gas derivative instruments	(162)	(241)	(403)	(113)	(179)	(292)
Fair value of natural gas derivative instruments	10	1	11	13	(1)	12
Revaluation of natural gas in storage	-	11	11	-	2	2
	(152)	(229)	(381)	(100)	(178)	(278)
	$ 6	$ 9	$ 15	$ 27	$ 6	$ 33

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

	For the Six Months Ended June 30	
(millions)	2014	2013
Trade and other receivables	**$ 25**	$ 40
Natural gas in storage held for resale	**40**	28
Inventory of supplies	**(1)**	(1)
Trade and other payables	**(7)**	(40)
Deferred revenue	**24**	28
	$ 81	$ 55

12. Financial 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 related to its financial and derivative instruments. 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's 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 financial and derivative instruments to manage its risks. The Corporation's significant risk management policies include the Corporate Derivatives Policy, the Commodity Risk Management Policy, the Corporate Debt and Interest Rate Risk Management Policy, the Foreign Currency Risk Management Policy and the Corporate Credit Risk Management Policy. The objectives, policies, and processes for managing risk were consistent with the prior period. The significant risks in relation to financial instruments that impact the Corporation are discussed below.

12. Financial risk management (continued)

a. Natural gas price risk

The Corporation purchases natural gas for resale to its customers. While natural gas is purchased at fluctuating market prices, the Corporation sells natural gas to customers at a fixed commodity rate that is reviewed semi-annually. As part of its natural gas price risk management, the Corporation uses derivative instruments to manage the price of the natural gas it buys on behalf of its customers. The Corporation's objective is to reduce the volatility of natural gas prices and to have rates that are competitive to other utilities. The Corporation also purchases and sells natural gas in the open market to generate incremental income through its gas marketing activities.

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.

The Corporation's commodity price risk management strategy establishes specific hedging targets, which may differ depending on current market conditions, to guide risk management activities. Additionally, the Corporation uses mark-to-market value, value-at-risk, and net exposure to monitor natural gas price risk. These metrics are measured and reported daily to the Commodity Risk Management Committee, a subcommittee of the Corporation's Executive Committee.

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 $100 million (December 31, 2013 - $35 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 $100 million (December 31, 2013 - $35 million).

b. 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 June 30, 2014 were as follows:

		Contractual Maturities			
(millions)	**Carrying Amount**	**Less Than 1 Year**	**1 - 2 Years**	**3 - 5 Years**	**More Than 5 Years**
Short-term debt	$ 146	$ 146	$ -	$ -	$ -
Trade and other payables	116	116	-	-	-
Dividends payable	3	3	-	-	-
Long-term debt	958	45	116	300	1,176
Derivative instruments	41	67	76	72	-
	$ 1,264	$ 377	$ 192	$ 372	$ 1,176

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

In addition to the above, the Corporation has posted a $20 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.

c. 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.

12. Financial risk management (continued)

c. Credit risk (continued)

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 $3 million (December 31, 2013 - $4 million).