SASKENERGY INCORPORATED

FOURTH QUARTER REPORT
December 31, 2015

SaskEnergy

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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 (such as SaskEnergy, SaskPower, SaskTel and SGI) and various commercial investments.

SaskEnergy's main business is the natural gas Distribution Utility. SaskEnergy owns and operates the 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 body, prior to receiving Provincial Cabinet approval.

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

> **Bayhurst Gas Limited (Bayhurst)** owns, produces, and sells natural gas from its storage facilities in the western area of Saskatchewan. Bayhurst also owns a gross overriding royalty on several 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 per cent interest in a natural gas liquid extraction plant in southeastern Saskatchewan, which is operated through a joint arrangement with ATCO Energy Solutions. BESCO is also the sole owner and operator of a gathering and processing facility in Coleville as well as a bulk compressed natural gas fueling facility in Weyburn.
> >
> > **BG Storage Inc. (BGSI)** owns a 50 per cent 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 transmission pipeline interconnections into Alberta, two into the United States, and one into Manitoba, all of which connect to the TransGas Limited pipeline 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 contact *Sask 1st Call* to request the location of pipeline- and non-pipeline-related facilities of its subscribers. *Sask 1st Call's* rate structure is intended to operate on a break-even basis.
>
> **TransGas Limited (TransGas)** owns and operates the Transmission Utility 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 which is integrated with the transmission pipeline system. TransGas' transportation and storage rates are subject to Provincial Cabinet approval. TransGas has a Customer Dialogue process where business, operational and rate matters are openly discussed 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 December 31		Twelve months ended December 31	
	2015	**2014**	**2015**	**2014**
FINANCIAL HIGHLIGHTS ($ millions)				
Total revenue	**248**	305	**809**	1,108
Total expenses	**197**	377	**724**	1,141
Consolidated net income (loss)	**51**	(72)	**85**	(33)
Market value adjustments	**(6)**	(99)	**(3)**	(80)
Income before unrealized market value adjustments	**57**	27	**88**	47
Dividends	**14**	3	**44**	17
Cash provided by operating activities	**57**	52	**260**	248
Capital expenditures	**86**	110	**214**	299
Total assets			**2,464**	2,380
Total net debt			**1,195**	1,159
Debt ratio			**61.9%**	63.0%
OPERATING HIGHLIGHTS				
Distribution				
Volumes distributed (petajoules)	**55**	56	**186**	184
Weather (compared to last 30 years)	**13% warmer**	2% warmer	**6% warmer**	9% colder
Transmission				
Volumes transported (petajoules)	**83**	83	**300**	282
Peak day natural gas flows (petajoules)			**1.34**	1.42
Date of peak flow			**January 4**	February 6

INTRODUCTION

The Management's Discussion and Analysis (MD&A) highlights the primary factors that affected SaskEnergy's consolidated financial condition and performance for the twelve month period ended December 31, 2015. In late November, the Government of Saskatchewan announced that, as a next step in the transition to summary budgeting, the fiscal year end of Crown Investments Corporation entities, including SaskEnergy, will change from December 31 to March 31. For the current year, SaskEnergy will report on a 15-month period beginning January 1, 2015 and ending March 31, 2016. Thereafter, SaskEnergy will report on the 12-month periods ending March 31st of each year. 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 February 26, 2016 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 2014 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 2014 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 delivered to customers 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.

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

Consolidated Net Income

	Three months ended December 31			Twelve months ended December 31		
(millions)	**2015**	**2014**	**Change**	**2015**	**2014**	**Change**
Income before unrealized market value adjustments	**$ 57**	$ 27	$ 30	**$ 88**	$ 47	$ 41
Impact of fair value adjustments	**(5)**	(76)	71	**(2)**	(68)	66
Revaluation of natural gas in storage	**(1)**	(23)	22	**(1)**	(12)	11
Consolidated net income (loss)	**$ 51**	$ (72)	$ 123	**$ 85**	$ (33)	$ 118

Income before unrealized market value adjustments of $88 million for the twelve months of 2015 was $41 million higher than 2014. Low natural gas prices and a commodity rate increase effective July 1, 2014 have contributed to higher realized commodity margins in 2015 compared to 2014. Transportation revenue also increased as a result of higher contracted demand volumes and a rate increase effective January 1, 2015. Delivery revenue declined due to lower volumes delivered to residential and commercial customers, a result of 2015 being significantly warmer on a consistent basis than 2014. Operating and maintenance expenses have decreased from 2014, as the Corporation implemented a number of both short and long term cost reduction initiatives during the year.

Gas Marketing activities improved in 2015 compared to 2014, generating higher margins. This was achievable despite selling 50% less gas in a lower natural gas market price environment with smaller pricing differentials between current and forward prices. A small favourable unrealized market value adjustment was recognized on natural gas contracts outstanding at the end of 2015, as the improvement in market value from the expiration of contracts more than offset the unfavourable impact of lower market prices. Natural gas liquid prices have also declined from the levels experienced in 2014, resulting in an additional impairment of natural gas liquid extraction assets being recognized in 2015.

The fourth quarter of 2015 reported $57 million of income before unrealized market value adjustments, which was $30 million higher than the $27 million reported in 2014. This is primarily due to higher customer contribution revenue relating to transmission projects, and lower operating and maintenance expenses. A higher realized margin on commodity sales resulting from a rate increase and higher transportation revenue, resulting from higher contracted volumes plus a rate increase also contributed to the favourable variance. These results were partially offset by a decline in delivery revenue, a result of warmer than normal weather in the fourth quarter reducing the volume of natural gas delivered.

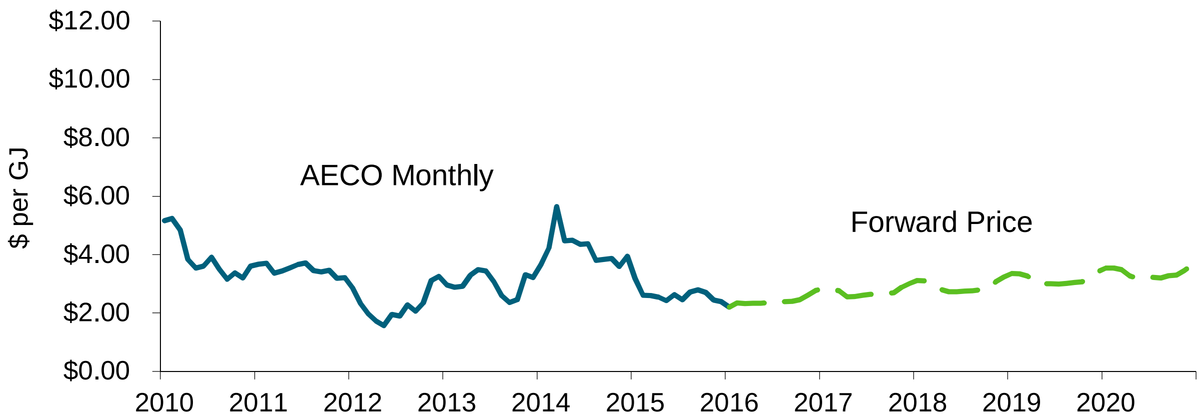
Natural Gas Prices

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.

Prices remained low throughout 2015, with forward natural gas prices reaching their lowest levels since 1998 in early December. Demand for heating load was muted with an unseasonably warm fourth quarter, while production remained near record levels. Natural gas in storage in North America ended the injection season at the highest level on record, remaining at record levels through December.

The AECO monthly index, the benchmark price for natural gas in western Canada, averaged $2.62/GJ in 2015, down from an average of $4.19/GJ during the same time period in 2014. Of particular note in 2015 was the low volatility in AECO natural gas prices, which was approximately 50% less volatile than historical levels.

The following chart presents AECO natural gas prices. Most natural gas in Saskatchewan is priced at a differential to the AECO price and is typically 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. These activities are presented together, as required by IFRS. However, 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 realized costs associated with 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 (a wholly owned subsidiary), 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.

Commodity Margin

The commodity margin on sales to customers, as reported in the consolidated financial statements, was as follows:

	Three months ended December 31			Twelve months ended December 31		
(millions)	**2015**	**2014**	**Change**	**2015**	**2014**	**Change**
Commodity sales	**$ 89**	$ 113	$ (24)	**$ 290**	$ 310	$ (20)
Commodity purchases [1]	**(72)**	(101)	29	**(250)**	(301)	51
Realized margin on commodity sales	**17**	12	5	**40**	9	31
Impact of fair value adjustments	**(1)**	(94)	93	**15**	(83)	98
Margin on commodity sales	**$ 16**	$ (82)	$ 98	**$ 55**	$ (74)	$ 129

[1] Net of change in inventory

SaskEnergy manages the purchase price of natural gas it buys through its natural gas price risk management program with two objectives: to reduce the volatility of natural gas prices and to 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. 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. SaskEnergy uses financial derivatives and physical swaps to manage the future purchase price of natural gas.

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 $40 million margin on commodity sales, with average revenue of $4.29 per GJ and average cost of gas sold of $3.71 per GJ. This compared to a favourable realized margin of $9 million for the same period in 2014. The higher realized commodity margin in 2015 is a result of low natural gas market prices allowing the Corporation to reduce the average cost of commodity purchases, combined with the Corporation's first commodity rate increase in six years to $4.84 per GJ effective July 1, 2014. This was slightly offset by lower volumes delivered to residential and commercial customers, a result of warmer weather.

During the fourth quarter of 2015, the Corporation realized a $17 million favourable margin on commodity sales which was $5 million higher than the same period of 2014, a result of the low natural gas market prices allowing for the Corporation to realize a lower average cost of commodity purchases.

Gas Marketing Activity

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. The primary strategy involves the purchase and storage injection of natural gas accompanied by a forward sales contract that essentially locks in a future profit margin. Low natural gas market prices in the past few years created opportunities for the Corporation to purchase relatively low-priced natural gas which has been injected into storage facilities to be sold in the future when prices are higher. The Corporation also optimizes transmission and storage capacity during off peak periods, 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 rates. Lastly, SaskEnergy provides natural gas supply options to larger end-use customers in Saskatchewan through non-regulated contract sales.

Gas Marketing Margin

The gas marketing margin, as reported in the consolidated financial statements, was as follows:

(millions)	Three months ended December 31 2015	2014	Change	Twelve months ended December 31 2015	2014	Change
Gas marketing sales	**$ 41**	$ 60	$ (19)	**$ 150**	$ 408	$ (258)
Gas marketing purchases [1]	**(34)**	(56)	22	**(131)**	(394)	263
Realized margin on gas marketing sales	**7**	4	3	**19**	14	5
Impact of fair value adjustments	**(5)**	16	(21)	**(14)**	8	(22)
Revaluation of natural gas in storage	**(1)**	(23)	22	**(1)**	(12)	11
Margin on gas marketing sales	**$ 1**	$ (3)	$ 4	**$ 4**	$ 10	$ (6)

[1] Net of change in inventory

The year to date realized margin on gas marketing sales for 2015, which removes fair value adjustments on derivative instruments and the revaluation of natural gas in storage, was $19 million. This was an increase of $5 million from the same period last year as higher margins were realized as purchases executed at lower market prices reduced the average cost of natural gas per GJ. This was achievable despite lower market prices and smaller forward pricing differentials constraining opportunities for the Corporation to transact significant volumes of purchases and sales. There were 47 PJs of natural gas sold in the twelve months of 2015 compared to 95 PJs in the same period of 2014. During the fourth quarter, the Corporation realized a $7 million margin in 2015 compared to a $4 million margin in 2014, which is also a result of declines in the natural gas price environment from 2014.

Derivative Instruments

As derivative instruments, natural gas contracts are recorded at fair value using a market approach until their settlement date. Changes in the fair value of the derivative instruments, driven by changes in future natural gas prices, are recorded in net income through natural gas sales or natural gas purchases depending on the specific contract. Upon settlement of the natural gas contract, the amount paid or received by SaskEnergy becomes realized and is recorded in natural gas sales or purchases.

Commodity Fair Value Adjustments

The fair value adjustments at the end of the fourth quarter increased the margin on commodity sales by $15 million as the $104 million unfavourable fair value position at the end of 2014 improved to an $89 million unfavourable position at the end of December 2015. The settlement of natural gas contracts during 2015 contributed to a lower volume of contracts outstanding at the end of 2015. Additionally, the values of the remaining natural gas contracts that are outstanding are closer to market prices, which also improve the fair value adjustment.

Gas Marketing Fair Value Adjustments

The Corporation enters into various natural gas contracts (swaps, options and forwards) in its gas marketing strategies, which are subject to volatility of natural gas market prices. The fair value adjustment at December 2015 on gas marketing derivative instruments reduced the gas marketing margin by $14 million compared to the favourable fair value impact of $8 million at the end of December 2014. In 2014, natural gas market prices declined heavily in December, creating a favourable market price differential of $0.76/GJ on gas marketing sales contracts outstanding at the end of 2014. The resulting favourable fair value impact on these natural gas contracts were realized in 2015 as the contracts were settled and replaced with new gas marketing sales contracts with an average market price differential of only $0.16/GJ. This decreased the favourable fair value impact in 2015 compared to 2014.

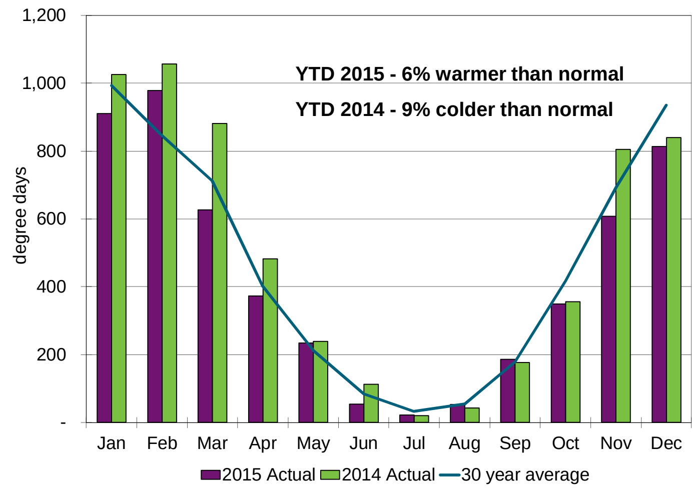
Revaluation of Natural Gas in Storage

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 is adjusted to reflect the lower of weighted average cost and net realizable value. In recent years, low natural gas prices have translated to reduced prices on the forward price curve. AECO's price decreased from $2.70/GJ at the end of 2014 to $2.35/GJ at the end of 2015, a decrease of $0.35/GJ. The declining market price environment and the relative market stability throughout 2015 provide an opportunity to purchase lower priced natural gas inventory but the declining market prices also create an unfavourable net realizable value impact on longer term higher priced inventory contracts that remain in storage. The result is an unfavourable net realizable value impact at the end of 2015 due to declining market prices despite a lower volume of gas in inventory. Consequently, the net realizable value of gas marketing natural gas in storage was $24 million below cost as at December 31, 2015, which $1 million lower than the revaluation adjustment required at December 31, 2014.

Delivery Revenue

The Corporation earns delivery revenue based on the volume of natural gas delivered to distribution customers plus a basic monthly charge.

Delivery revenue is highly dependent on weather as natural gas is primarily used as heating fuel by residential and commercial customers during the cold winter months. Delivery revenue of $215 million is $17 million below 2014. Based on weather data for the past 30 years, 2015 was 6% warmer than normal while 2014 was 9% colder than normal. The warmer weather reduced volumes delivered to residential and commercial customers compared to 2014, resulting in lower delivery revenue. This was partially offset by the full year effect of a delivery rate increase effective September 1, 2014 and increased customer growth. A delivery rate increase, needed to meet SaskEnergy's revenue requirements, takes effect January 1, 2016.



During the fourth quarter of 2015, delivery revenue of $64 million was $5 million lower than the fourth quarter of 2014. Weather, which was 13% warmer than normal in the fourth quarter of 2015 compared to only 2% warmer than normal in the same period in 2014, reduced the volume of natural gas delivered to customers.

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. For receipt service , the Corporation offers both firm and interruptible transportation from points of receipt to TEP. For delivery service, the Corporation offers firm and interruptible service for gas delivered from TEP to consumers within Saskatchewan or for export. A number of customers moved from interruptible service to firm delivery contracts during the second quarter of 2014. When customers contract for firm rather than interruptible service contracts, revenue certainty improves which provides the support required for pipeline expansions. 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.

Year-to-date, transportation and storage revenue of $119 million was $21 million above the same period in 2014. On a quarter-over-quarter basis, transportation and storage revenue of $30 million was $3 million above the fourth quarter of 2014. The increased demand for gas within the province and higher export deliveries resulted in greater receipt, export and delivery revenues. A rate increase effective January 1, 2015 also contributed to higher revenue. Conversely, storage revenue was down slightly from the same period last year due to storage de-contracting, a result of the low natural gas price environment.

Customer Capital Contribution Revenue

The Corporation receives capital contributions from customers in exchange for the construction of new, customer-specific service connections. Generally, contributions related to transmission system projects tend to be larger but less frequent than contributions related to the distribution system. The volume and magnitude of contributions can vary significantly period over period as varying factors influence their receipt and revenue recognition. The contributions received, less potential refunds, are recognized as revenue once the related property, plant, and equipment is available for use. The amount of contributions refundable are estimated and recorded in deferred revenue until the eligible refund period expires. During 2015, the Corporation refined the estimation process used to calculate the amount of contribution that is deferred for potential refund. The new estimate is based on the customer's requested delivery capacity rather than management's estimate of customer's future delivery, and is considered a more reliable estimate of the amounts likely to be refunded.

Customer capital contribution revenue of $38 million for the twelve months of 2015 was $5 million above the same period last year. The fourth quarter customer capital contribution revenue of $24 million was $8 million higher than 2014, a result of the $12 million impact resulting from the change in estimate related to transmission project customer contributions being recognized in the fourth quarter. This increase in contribution revenue was partially offset by a decrease in transmission system customer connections, a result of fewer capital projects in 2015.

Other Revenue

Other revenue primarily consists of revenues from natural gas liquid extraction operations from two separate gas plants, consisting of compression and gathering revenue; gas processing revenue and the sale of natural gas liquids. In addition, Royalty revenues are generated from a gross overriding royalty on several natural gas-producing properties in Saskatchewan and Alberta. Other revenue of $12 million for the twelve months of 2015 is $4 million lower than 2014, a result of declining natural gas liquid prices. The $4 million of revenue for the fourth quarter of 2015 was comparable to 2014.

Other Expenses

Other expenses, as reported in the consolidated financial statements, are as follows:

	Three months ended December 31			Twelve months ended December 31		
(millions)	**2015**	**2014**	**Change**	**2015**	**2014**	**Change**
Employee benefits	**$ 22**	$ 24	$ (2)	**$ 91**	$ 92	$ (1)
Operating and maintenance	**32**	41	(9)	**118**	126	(8)
Depreciation and amortization	**23**	23	-	**87**	83	4
Saskatchewan taxes	**3**	2	1	**12**	11	1
Other Expenses	**$ 80**	$ 90	$ (10)	**$ 308**	$ 312	$ (4)

With strong growth in the provincial economy in recent years, the Corporation has experienced significant growth in its customer base and pipeline facilities. The increasing investment in facilities directly increases ongoing operating and maintenance costs, depreciation and amortization and corporate capital taxes. Other expenses of $308 million for the twelve months in 2015 represent a slight decrease of $4 million over the same period in 2014. On a quarterly basis, other expenses of $80 million were $10 million below 2014. In both cases, the Corporation was able to realize lower operating and maintenance expenses through austerity program cost reduction initiatives relating to contract/consulting, materials/supplies, vehicle, sustenance and advertising expenses despite increasing cost pressures driven by growth in customer base and customer facilities. This was partially offset by increased transportation expenses, depreciation and amortization expenses and Saskatchewan taxes, all being a direct result of the growth in pipeline facilities.

Net Finance Expenses

Net finance expenses, before the impact of fair value adjustments, were $46 million for the twelve months of 2015 and were $2 million higher than 2014. Increased earnings on debt retirement funds were fully offset by the higher debt financing needed to fund the Corporation’s capital expenditure requirements. There was also a $3 million unfavourable fair value adjustment on debt retirement funds during 2015, an outcome of higher interest rates on fixed-rate investments. On a quarterly basis, net finance expenses of $13 million, before the impact of fair value adjustments, were slightly above 2014 due to increased levels of debt.

Other (Losses) Gains

Recent changes in the oil and gas industry have led to declining natural gas and natural gas liquid prices, which have adversely affected cash flows generated from natural gas liquid extraction plant assets. An impairment loss on natural gas liquid extraction plant assets of $3 million was recorded in the first quarter of 2015 and in the fourth quarter of 2014 to recognize the impact of a decline in natural gas liquid prices on the asset’s value in use. The 2015 impairment loss plus losses on other asset disposals were partially offset by $5 million of insurance proceeds relating to Prud’homme and Landis incidents that occurred in prior years. The Prud’homme insurance proceeds were disclosed as a contingent asset in the December 31, 2014 financial statements. The 2014 impairment loss on the extraction plant assets plus losses on other asset disposals were fully offset by a $5 million gain recorded for the sale of storage and distribution assets and the Corporation’s interest in an ethane extraction plant.

LIQUIDITY AND CAPITAL RESOURCES

(millions)	Three months ended December 31 2015	2014	Change	Twelve months ended December 31 2015	2014	Change
Cash provided by operating activities	**$ 57**	$ 52	$ 5	**$ 260**	$ 248	$ 12
Cash used in investing activities	**(83)**	(98)	15	**(215)**	(283)	68
Cash provided by (used in) financing activities	**28**	47	(19)	**(47)**	40	(87)
Increase (decrease) in cash and cash equivalents	**$ 2**	$ 1	$ 1	**$ (2)**	$ 5	$ (7)

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. Generally, SaskEnergy finances its investment activity with cash from operations. To the extent that cash from operations is insufficient to support its investment activity, debt servicing costs and dividends, additional short and long term debt is used. Sources of liquidity include Order in Council authority to borrow up to $500 million in short-term loans, which was increased by $100 million in the third quarter of 2015. The Corporation holds 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.

Operating Activities

Cash from operating activities was $260 million in 2015, an increase of $12 million from the twelve months of 2014, which is a result of higher transportation revenue and the commodity rate increase both improving cash flow in 2015 compared to 2014. Gas Marketing activities increased margins and cash flows in 2015 as the lower natural gas price environment generated a lower average cost of gas sold per GJ in 2015 versus 2014.This is partially offset by lower commodity volumes sold and lower delivery service revenue, both due to the warmer than normal weather in 2015 compared to the significantly colder weather in 2014.

Investing Activities

Cash used in investing activities totaled $215 million for the twelve months of 2015, $68 million below 2014. Capital investment levels have declined in 2015 due to lower system growth and customer connection levels compared to 2014. The majority of 2015 capital investment focused on $61 million of customer connection projects, which are a result of Saskatchewan residential and industrial growth, as well as safety and integrity programming of $52 million, a sign of the Corporation's ongoing commitment to a safe, reliable system. The Bayhurst-to-Rosetown pipeline project was completed in 2014, which was the Corporation's largest capital investment project in recent years, contributing $70 million to the record high level of capital investment in 2014. The Corporation funds its substantial capital requirements with cash from operations and debt from the Province of Saskatchewan.

Financing Activities

Cash used for financing activities was $47 million during the twelve months of 2015 compared to a source of funds in 2014. In the first quarter of 2015, given the Corporation's relatively high short-term debt balances and attractive interest rates on long-term debt, the Corporation issued $50 million of long term debt at an effective interest rate of 2.7%, the proceeds of which were used to repay $62 million of its short-term debt. With decreased capital spending in 2015, long term debt requirements declined from 2014 and $50 million of long term debt was repaid in the fourth quarter while cash from operations has been utilized to meet the 2015 capital spending and operating requirements. SaskEnergy's debt ratio at December 31, 2015 was 62%.

OUTLOOK

In late November, the Government of Saskatchewan announced that, as a next step in the transition to summary budgeting, the fiscal year end of Crown Investments Corporation entities, including SaskEnergy, will change from December 31 to March 31. For the current year, SaskEnergy will report on a 15-month period beginning January 1, 2015 and ending March 31, 2016. Thereafter, SaskEnergy will report on the 12-month periods ending March 31st of each year.

In close alignment with Saskatchewan Crown Sector Priorities and the Saskatchewan Plan for Growth, SaskEnergy's 2015/2016 efforts will continue to focus on the four strategic mandates: Service Excellence, Achieving Growth, Our Team and Creating Value. The Corporation is financially well-positioned to achieve its business objectives in 2015/2016 and over the five-year planning horizon.

Market Prices

Since December 2015, natural gas prices have continued to weaken and we anticipate prices will remain low throughout the fifth quarter of 2015/2016. It is expected 2016 will continue to be characterized by a forward pricing curve for natural gas that shows a very small differential between current market prices and future market prices. This is good for customers and large consumers of natural gas who value stability and low prices. The lower price environment will continue to lower the average cost of gas sold and have a favourable impact on margins through the fifth quarter of 2015/2016 and forward.

Commodity Margin

The $4.84 per GJ commodity rate approved on July 1, 2014, combined with a lower average cost of gas, due to declines in market prices, provided favourable margins on commodity sales in the first four quarters of 2015 and reduced the Gas Cost Variance Account owing from customers. On October 21, 2015, Cabinet approved a $0.54 per GJ reduction to the commodity rate to $4.30 per GJ, based on the recommendations of the Saskatchewan Rate Review Panel. The commodity rate reduction takes effect January 1, 2016 together with an average 4.5% increase to the delivery rate, resulting in an overall bill decrease for customers.

Gas Marketing Margin

Based on current market conditions, the volume of gas marketing activity has declined by 50% in the first four quarters of 2015/2016, however by leveraging its assets and expertise SaskEnergy has found several opportunities which allow it to maintain slightly higher margins through 2015/2016 and forward.

Delivery Revenue

The weather through the first four quarters of 2015/2016 have been warmer than normal, with the fourth quarter winter heating season registering 13% warmer than normal. The warmer weather has decreased delivery volumes and revenue, resulting in the fifth quarter forecast being revised to incorporate the impact of weather being 10% warmer than normal. In addition, the pace of Saskatchewan's provincial economy has slowed through 2015 and the Corporation tempered its expectations for customer connection rates to levels closer to the ten year average. Residential customer capital contributions declined and are forecasted to be lower than recent years, while industrial and commercial demand for service is expected to continue at strong levels and exhibit steady growth. A delivery rate increase takes effect January 1, 2016 which will provide additional revenue to alleviate cost pressures related to maintaining a safe and reliable distribution system. The Corporation will also continue to focus on efficiencies that will offset cost pressures to ensure Delivery Service Rates remain competitive.

Transportation Revenue

Transportation and storage service rate increases implemented effective January 1, 2016 will increase transportation service rates by an average of 2.5% and storage rates by an average of 5.8% for an overall average 3.0% increase. The rate increase will address increasing capital and operating costs to continue providing high quality, safe and reliable service to transmission customers including an increased focus on system integrity, emergency response and public awareness. Another major factor for the rate adjustment is the increasing cost of importing natural gas supply from Alberta.

Other Expenses

The heightened focus on security of natural gas supply and the need to look at cost effective options for sourcing that supply will continue in 2016. Saskatchewan production levels for conventional natural gas have been in steady decline for the past several years and are expected to remain at current levels going forward. As major industrial projects come on line, load pressures will increase and operating costs to meet those loads will continue to increase, though not to the same degree as in recent years. The Corporation continues to pursue its resourcing strategy which calls for relatively stable employee levels augmented by third party contract resources. In addition, efficiency initiatives have enhanced productivity and will continue to allow SaskEnergy to meet its business commitments in a nimble and cost effective manner with a focus on cost savings in employee benefits, contract and consulting, advertising and vehicle costs.

Capital Investment

SaskEnergy will continue to focus its efforts on providing safe and reliable service to customers while trying to mitigate undue rate pressure. Spending will focus on upgrading infrastructure to meet load and service requirements, as well as the integrity of transmission, distribution and storage systems. The Corporation has spent $214 million on capital projects in the first twelve months with plans to spend an additional $37 million in the fifth quarter of 2015/2016. These capital expenditures will be funded through operating cash flows and debt made available through the Province at what are expected to be historically low interest rates.

In summary, SaskEnergy will continue to focus on investing in safety and growth initiatives and realizing efficiencies, while forecasting income before unrealized market value adjustments of $34 million for the fifth quarter of 2015/2016 bringing total income before unrealized market value adjustments to $122 million for the fifteen month period ending March 31, 2016.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(millions)	Notes	As at December 31, 2015 (unaudited)	As at December 31, 2014 (audited)
Assets			
Current assets			
Cash		**$ 3**	$ 5
Trade and other receivables	5	**116**	148
Natural gas in storage held for resale	6	**123**	140
Inventory of supplies		**12**	12
Debt retirement funds		**8**	7
Fair value of derivative instruments	7	**7**	21
		269	333
Intangible assets		**56**	49
Property, plant and equipment		**2,050**	1,912
Debt retirement funds		**89**	86
		$ 2,464	$ 2,380
Liabilities and Province's equity			
Current liabilities			
Short-term debt		**$ 325**	$ 299
Trade and other payables		**121**	117
Dividends payable		**14**	3
Current portion of long-term debt	9	**83**	50
Deferred revenue		**77**	90
Fair value of derivative instruments	7	**93**	107
		713	666
Employee future benefits		**9**	10
Provisions		**113**	95
Deferred revenue		**6**	6
Long-term debt	9	**887**	908
		1,728	1,685
Province's equity			
Equity advances		**72**	72
Retained earnings		**664**	623
		736	695
		$ 2,464	$ 2,380

(See accompanying notes)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(unaudited)

		For the Three Months Ended December 31, 2015						For the Three Months Ended December 31, 2014					
(millions)	**Notes**	**Income before Unrealized Market Value Adjustments**		**Unrealized Market Value Adjustments (Note 11)**		**Total**		**Income before Unrealized Market Value Adjustments**		**Unrealized Market Value Adjustments (Note 11)**		**Total**	
Revenue													
Natural gas sales	12	**$**	**130**	**$**	**(4)**	**$**	**126**	$	173	$	17	$	190
Delivery			**64**		**-**		**64**		69		-		69
Transportation and storage	15		**30**		**-**		**30**		27		-		27
Customer capital contributions			**24**		**-**		**24**		16		-		16
Other	15		**4**		**-**		**4**		3		-		3
			252		**(4)**		**248**		288		17		305
Expenses													
Natural gas purchases (net of change in inventory)	12		**106**		**3**		**109**		157		118		275
Employee benefits			**22**		**-**		**22**		24		-		24
Operating and maintenance			**32**		**-**		**32**		41		-		41
Depreciation and amortization			**23**		**-**		**23**		23		-		23
Saskatchewan taxes			**3**		**-**		**3**		2		-		2
			186		**3**		**189**		247		118		365
Income (loss) before the following			**66**		**(7)**		**59**		41		(101)		(60)
Finance income			**-**		**1**		**1**		1		2		3
Finance expenses			**(13)**		**-**		**(13)**		(12)		-		(12)
Net finance expenses			**(13)**		**1**		**(12)**		(11)		2		(9)
Other gains (losses)	5		**4**		**-**		**4**		(3)		-		(3)
Total net income (loss) and comprehensive income (loss)		**$**	**57**	**$**	**(6)**	**$**	**51**	$	27	$	(99)	$	(72)

(See accompanying notes)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		For the Twelve Months Ended December 31, 2015 (unaudited)			For the Twelve Months Ended December 31, 2014 (audited)		
(millions)	**Notes**	**Income before Unrealized Market Value Adjustments**	**Unrealized Market Value Adjustments (Note 11)**	**Total**	**Income before Unrealized Market Value Adjustments**	**Unrealized Market Value Adjustments (Note 11)**	**Total**
Revenue							
Natural gas sales	12	**$ 440**	**$ (15)**	**$ 425**	$ 718	$ 11	$ 729
Delivery		**215**	**-**	**215**	232	-	232
Transportation and storage	15	**119**	**-**	**119**	98	-	98
Customer capital contributions		**38**	**-**	**38**	33	-	33
Other	15	**12**	**-**	**12**	16	-	16
		824	**(15)**	**809**	1,097	11	1,108
Expenses							
Natural gas purchases (net of change in inventory)	12	**381**	**(15)**	**366**	695	98	793
Employee benefits		**91**	**-**	**91**	92	-	92
Operating and maintenance		**118**	**-**	**118**	126	-	126
Depreciation and amortization		**87**	**-**	**87**	83	-	83
Saskatchewan taxes		**12**	**-**	**12**	11	-	11
		689	**(15)**	**674**	1,007	98	1,105
Income before the following		**135**	**-**	**135**	90	(87)	3
Finance income		**5**	**(3)**	**2**	4	7	11
Finance expenses		**(51)**	**-**	**(51)**	(48)	-	(48)
Net finance expenses		**(46)**	**(3)**	**(49)**	(44)	7	(37)
Other (losses) gains	5	**(1)**	**-**	**(1)**	1	-	1
Total net income (loss) and comprehensive income (loss)		**$ 88**	**$ (3)**	**$ 85**	$ 47	$ (80)	$ (33)

(See accompanying notes)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(millions)	Retained Earnings	Equity Advances	Other Components of Equity	Total
(audited)				
Balance as at January 1, 2014	$ 673	$ 72	$ -	**$ 745**
Comprehensive loss	(33)	-	-	**(33)**
Dividends	(17)	-	-	**(17)**
Balance as at December 31, 2014	$ 623	$ 72	$ -	**$ 695**
(unaudited)				
Comprehensive income	85	-	-	**85**
Dividends	(44)	-	-	**(44)**
Balance as at December 31, 2015	$ 664	$ 72	$ -	**$ 736**

(See accompanying notes)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(millions)	Notes	For the Twelve Months Ended December 31 2015 (unaudited)	2014 (audited)
Operating activities			
Net income and comprehensive income		**$ 85**	$ (33)
Add (deduct) items not requiring an outlay of cash			
Net change in fair value of derivative instrument assets and liabilities	11	**(1)**	75
Change in revaluation of natural gas in storage to net realizable value	11	**1**	12
Depreciation and amortization		**87**	83
Net finance expenses		**49**	37
Other losses (gains) on disposal of assets		**6**	(1)
Employee future benefits paid in excess of expense		**(1)**	-
Other non-cash items		**-**	(1)
		226	172
Net change in non-cash working capital related to operations	13	**34**	76
Cash provided by operating activities		**260**	248
Investing activities			
Additions to intangible assets		**(12)**	(7)
Additions to property, plant and equipment		**(202)**	(279)
Decommissioning costs		**(3)**	(3)
Net proceeds on disposal of assets		**2**	6
Cash used in investing activities		**(215)**	(283)
Financing activities			
Debt retirement funds installments		**(9)**	(10)
Debt retirement funds redemptions		**7**	6
Increase (decrease) in short-term debt		**26**	(81)
Dividends paid		**(33)**	(24)
Proceeds from long-term debt	9	**62**	246
Repayment of long-term debt	9	**(50)**	(50)
Interest paid		**(50)**	(47)
Cash (used in) provided by financing activities		**(47)**	40
(Decrease) increase in cash and cash equivalents		**(2)**	5
Cash and cash equivalents, beginning of period		**5**	-
Cash and cash equivalents, end of period		**$ 3**	$ 5

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

For the Twelve Months Ended December 31, 2015

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.

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.

On November 30, 2015, the Government of Saskatchewan announced a change in the year-end for all Crown Investments Corporations entities from December 31 to March 31, commencing with the 2015/2016 fiscal year. Accordingly, the Corporation will have a 15 month fiscal year ending March 31, 2016.

2. Basis of preparation

a. Statement of compliance

The Corporation's 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, 2014.

The condensed consolidated financial statements were authorized for issue by the Board of Directors on February 26, 2016.

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.

2. Basis of preparation (continued)

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

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

During the year, the Corporation modified its estimate of deferred revenue. As the Corporation's customer capital contributions are often subject to refunds over a specified period, an estimate of these refunds remains in deferred revenue until the eligible refund period expires. Under the new methodology, the Corporation calculated the estimated refunds based on a customer's requested delivery capacity rather than management's estimate of future customer usage. This change is a more accurate reflection of the amount that is likely to be refunded, and as such, is an improvement over the previous estimation process. As a change in estimate, the impact was applied prospectively effective January 1, 2015 and resulted in approximately $12 million of customer contribution revenue for the year.

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, 2014, have been applied consistently, by the Corporation and its subsidiaries, to all periods presented in these condensed consolidated financial statements.

Certain comparative amounts in the condensed consolidated statement of comprehensive income have been reclassified to conform with the current quarter's presentation (Note 15).

a. Changes in accounting policies

Effective January 1, 2015, the Corporation adopted the following new and amended IFRS:

- IAS 19 *Employee benefits*

The adoption of this amended standard had no impact on the condensed consolidated financial statements.

b. Fair value measurements

For recurring and non-recurring fair value measurements, the Corporation estimates the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the reporting date under current market conditions. This requires the Corporation to make certain assumptions, including the principal (or most advantageous) market, the most appropriate valuation technique and the most appropriate valuation premise. The Corporation's own credit risk and the credit risk of the counterparty have been taken into account in determining the fair value of financial assets and liabilities, including derivative instruments.

In measuring fair value, the Corporation classifies items according to the following fair value hierarchy based on the amount of observable inputs:

i. Level 1

Quoted prices (unadjusted) are available in active markets for identical assets or liabilities as at the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide ongoing pricing information. The Corporation did not classify any of its fair value measurements within Level 1.

3. Summary of significant accounting policies (continued)

ii. Level 2

Inputs are other than quoted prices included within Level 1 that are either directly or indirectly observable for the asset or liability as at the reporting date. Level 2 valuations are based on inputs, including quoted market prices, time value, volatility factors and broker quotations which can be substantially observed or corroborated in the marketplace.

The fair value of debt retirement funds is determined by Saskatchewan's Ministry of Finance using a market approach with 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 instrument.

The fair value of natural gas derivative instruments is determined using a market approach. The Corporation obtains quoted market prices 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 long-term debt is determined for disclosure purposes only using an income approach. Fair values are estimated using the present value of future cash flows discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.

iii. Level 3

Inputs are unobservable for the particular assets and liabilities as at the reporting date. The Corporation did not classify any of its fair value measurements within Level 3.

c. Future changes in accounting policies

The following new and amended standards are not yet effective and have not been applied in preparing these consolidated financial statements:

IFRS 9 *Financial Instruments* – introduces a logical approach for the classification of financial assets driven by cash flow characteristics and the business model in which an asset is held. The new Standard also 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, with early adoption permitted.

IFRS 15 *Revenue from Contracts with Customers* – clarifies the principles for recognizing revenue from contracts with customers and will affect the Corporation's accounting policies with respect to the following applicable revenue Standards and Interpretations upon its effective date:

IAS 18 *Revenue*
IAS 11 *Construction Contracts*
IFRIC 18 *Transfer of Assets from Customers*

This standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

The Corporation is continuing to review the new standards and has completed a preliminary assessment of the impact on its consolidated financial statements. The anticipated impacts are as follows:

IFRS 9 *Financial Instruments* – under the new financial asset classifications, the Corporation's debt retirement funds would be classified as fair value through other comprehensive income. Classification as such would eliminate the recognition of fluctuations in fair value on debt retirement funds in net income, as market value adjustments would be recorded in other comprehensive income. Under the new Standard, the Corporation is also evaluating the implementation of hedge accounting for its commodity price risk management strategy. Implementation of hedge accounting would reduce the volatility of market value adjustments for outstanding commodity purchase contracts on net income, as the effective portion of the designated hedging relationships would be reclassified to other comprehensive income.

IFRS 15 *Revenue from Contracts with Customers* – under the new control-based revenue model, the Corporation anticipates minimal impacts to the majority of its revenue streams, but has identified potential changes to customer capital contribution revenue.

4. Capital management

Under *The SaskEnergy Act*, the Corporation may borrow up to $1,700 million of debt upon approval of the Lieutenant Governor in Council. During the third quarter, the Corporation's received approval to borrow up to $500 million in temporary loans, an increase of $100 million to the previously approved short-term borrowing limit. The short-term borrowing limit falls within the Corporation's overall debt limit, which remains unchanged from year end.

5. Trade and other receivables

Included in other receivables is $4 million for insurance receivable on a cavern wellhead fire that occurred in the latter part of 2014. Total damages from this incident are estimated at $12 million. The Corporation is insured for the loss of natural gas, emergency response, and surface facilities and equipment. To date, the Corporation has received $5 million of insurance proceeds and an additional $4 million in commitments from insurers. The $4 million in commitments from insurers is recognized in other losses (gains), as it pertains to costs incurred in the prior year. The Corporation's claim for the remaining $3 million is currently being assessed by the insurers for resolution in due course.

6. Natural gas in storage held for resale

(millions)	**As at December 31, 2015**	**As at December 31, 2014**
Cost	**$ 147**	$ 163
Revaluation to net realizable value	**(24)**	(23)
	$ 123	$ 140

With the decline in natural gas market prices over recent years, the net realizable value of natural gas in storage at the end of the quarter was $24 million below cost (December 31, 2014 - $23 million below cost). As at December 31, 2015, the Corporation expected that $75 million of the current inventory value would be sold or consumed within the next year, and $48 million of the current inventory value would be sold or consumed after more than one year.

7. Financial and derivative instruments

			As at December 31, 2015		As at December 31, 2014	
(millions)	Classifi-cation	Fair Value Hierarchy	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial and derivative assets						
Cash	FVTPL	n/a	**$ 3**	**$ 3**	$ 5	$ 5
Trade and other receivables	LAR	n/a	**116**	**116**	148	148
Debt retirement funds	FVTPL	Level 2	**97**	**97**	93	93
Fair value of derivative instrument assets	FVTPL	Level 2	**7**	**7**	21	21
Financial and derivative liabilities						
Short-term debt	OL	n/a	**325**	**325**	299	299
Trade and other payables	OL	n/a	**121**	**121**	117	117
Dividends payable	OL	n/a	**14**	**14**	3	3
Long-term debt	OL	Level 2	**970**	**1,133**	958	1,145
Fair value of derivative instrument liabilities	FVTPL	Level 2	**93**	**93**	107	107

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 December 31, 2015 natural gas derivative instruments had the following fair values, notional values, and maturities:

(millions)	2016	2017	2018	2019	2020	Total
Physical natural gas contracts						
Fair value	$ (42)	$ (14)	$ (7)	$ (1)	$ -	**$ (64)**
Notional value	(150)	(70)	(35)	(10)	4	**(261)**
Natural gas price swaps						
Fair value	(14)	(8)	-	-	-	**(22)**
Notional value	(14)	(8)	-	-	-	**(22)**
Total						
Fair value	$ (56)	$ (22)	$ (7)	$ (1)	$ -	**$ (86)**
Notional value	$ (164)	$ (78)	$ (35)	$ (10)	$ 4	**$ (283)**

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

7. 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 December 31, 2015	As at December 31, 2014
Fair value of derivative instrument assets	**$ 7**	$ 21
Fair value of derivative instrument liabilities	**(93)**	(107)
	$ (86)	$ (86)

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 December 31, 2015	As at December 31, 2014
Trade and other receivables		
Gross amount recognized	**$ 15**	$ 21
Amount offset	**(8)**	(13)
Net amount presented in the consolidated statement of financial position	**7**	8
Trade and other payables		
Gross amount recognized	**30**	37
Amount offset	**(8)**	(13)
Net amount presented in the consolidated statement of financial position	**$ 22**	$ 24

8. Property, plant and equipment

During the first quarter of 2015, as a result of the continued decline in natural gas liquid prices, the Corporation incurred a $3 million impairment loss on its gas gathering and processing assets. The impairment was recognized as the carrying value of the assets exceeded the recoverable amount. The recoverable amount was the value in use determined using cash flows attributed to probable production, discounted at 6.0%, and adjusted for future market prices. The impairment loss has been recognized within other (losses) gains.

9. Long-term debt

During the first quarter of 2015, the Corporation issued $50 million in long-term debt with an effective interest rate of 2.7%. The long-term debt was issued at a premium of $12 million.

During the fourth quarter of 2015, the Corporation repaid $50 million in long-term debt with an effective interest rate of 4.4%.

10. Commitments and contingencies

At period end, the Corporation forecasted to spend an additional $37 million on capital projects during the remainder of the 2015/2016 fiscal year, and the Corporation had $36 million of outstanding contractual commitments for the procurement of goods and services in the future.

The Corporation is involved in litigation resulting from the 2014 natural gas incident in the community of Regina Beach, Saskatchewan. The Corporation does not expect the outcomes to result in any material financial impact.

11. Unrealized market value adjustments

(millions)	For the Three Months Ended December 31 2015	2014	For the Twelve Months Ended December 31 2015	2014
Change in fair value of debt retirement funds	**$ 1**	$ 2	**$ (3)**	$ 7
Change in fair value of natural gas derivative instruments	**(6)**	(78)	**1**	(75)
Change in revaluation of natural gas in storage to net realizable value	**(1)**	(23)	**(1)**	(12)
	$ (6)	$ (99)	**$ (3)**	$ (80)

12. Natural gas sales and purchases

	For the Three Months Ended December 31 2015			2014		
(millions)	Commodity	Gas Marketing	Total	Commodity	Gas Marketing	Total
Natural gas sales						
Natural gas sales to commodity customers	$ 81	$ -	$ 81	$ 97	$ -	$ 97
Realized on natural gas derivative instruments	8	41	49	16	60	76
Change in fair value of natural gas derivative instruments	-	(4)	(4)	-	17	17
	89	37	126	113	77	190
Natural gas purchases						
Realized on natural gas derivative instruments	(72)	(34)	(106)	(101)	(56)	(157)
Change in fair value of natural gas derivative instruments	(1)	(1)	(2)	(94)	(1)	(95)
Change in revaluation of natural gas in storage to net realizable value	-	(1)	(1)	-	(23)	(23)
	(73)	(36)	(109)	(195)	(80)	(275)
	$ 16	$ 1	$ 17	$ (82)	$ (3)	$ (85)

12. Natural gas sales and purchases (continued)

	For the Twelve Months Ended December 31					
	2015			2014		
(millions)	Commodity	Gas Marketing	Total	Commodity	Gas Marketing	Total
Natural gas sales						
Natural gas sales to commodity customers	$ 249	$ -	$ 249	$ 262	$ -	$ 262
Realized on natural gas derivative instruments	41	150	191	48	408	456
Change in fair value of natural gas derivative instruments	(1)	(14)	(15)	-	11	11
	289	136	425	310	419	729
Natural gas purchases						
Realized on natural gas derivative instruments	(250)	(131)	(381)	(301)	(394)	(695)
Change in fair value of natural gas derivative instruments	16	-	16	(83)	(3)	(86)
Change in revaluation of natural gas in storage to net realizable value	-	(1)	(1)	-	(12)	(12)
	(234)	(132)	(366)	(384)	(409)	(793)
	$ 55	$ 4	$ 59	$ (74)	$ 10	$ (64)

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

	For the Twelve Months Ended December 31	
(millions)	2015	2014
Trade and other receivables	**$ 32**	$ -
Natural gas in storage held for resale	**16**	56
Inventories of supplies	**-**	-
Trade and other payables	**(2)**	(6)
Deferred revenue	**(12)**	26
	$ 34	$ 76

14. 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.

14. 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. 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 $75 million (December 31, 2014 - $87 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 $76 million (December 31, 2014 - $87 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 December 31, 2015 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	$ 325	$ 325	$ -	$ -	$ -
Trade and other payables	121	121	-	-	-
Dividends payable	14	14	-	-	-
Long-term debt	970	128	116	227	1,157
Derivative instruments	93	164	78	41	-
	$ 1,523	$ 752	$ 194	$ 268	$ 1,157

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

15. Comparative Figures

Certain of the 2014 comparative figures have been reclassified to conform to the current period's presentation. During the year, the Corporation's non-rate regulated compression and gathering services were reclassified from transportation and storage to other revenue. This reclassification resulted in a $4 million adjustment to the 2014 comparative figures.