SaskEnergy

2015-16 ANNUAL REPORT

CONTENTS

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

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

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

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

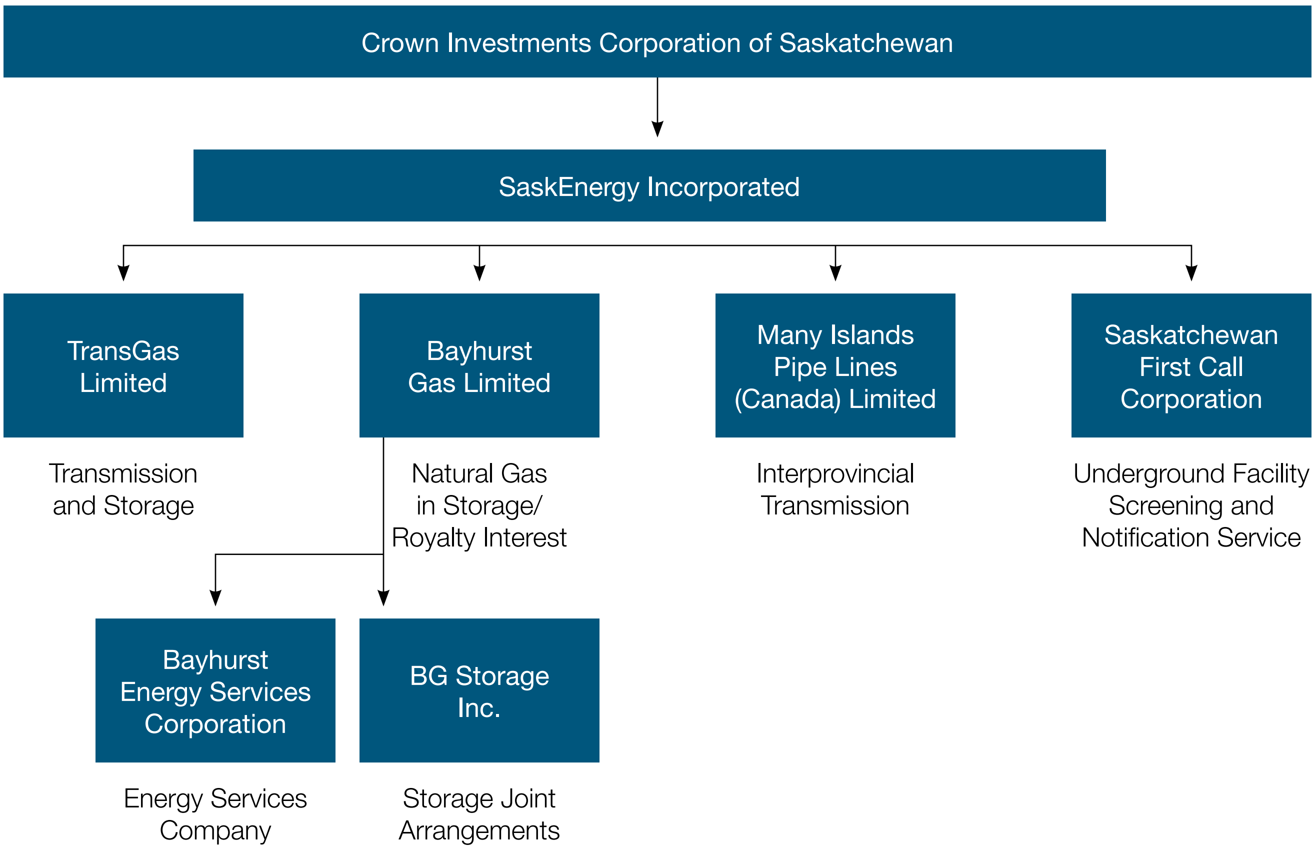
SAFETY
We never compromise the safety of our employees and the public.

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

SPIRIT
We create a positive and dynamic work environment that enables personal achievement, work life balance and business success.

INTEGRITY
We are honest, respectful and apply high ethical standards.

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 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 two storage facilities in the western area of Saskatchewan. Bayhurst also owns a gross overriding royalty on several properties in Saskatchewan and Alberta.

Bayhurst Energy Services Corporation (BESCO), a wholly owned subsidiary of Bayhurst Gas Limited, is an energy services company. BESCO owns a 50 per cent interest in a natural gas processing plant in southeastern Saskatchewan, which is operated through an unincorporated 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 fuelling facility in Weyburn.

BG Storage Inc. (BGSI), a wholly owned subsidiary of Bayhurst Gas Limited, 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 transmission pipeline interconnections to Alberta, two into the United States and one into Manitoba, all of which connect to the TransGas 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 recover all operational costs and 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 natural gas storage business as well as gathering facilities, which are 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.

Edam and Vawn Pipeline Projects

In October 2015, the Corporation completed 15 kilometres of new pipeline to provide service to Husky Energy and Serafina Energy enhanced oil recovery operations near Edam and Vawn in west-central Saskatchewan.

LETTER OF TRANSMITTAL

May 26, 2016

Her Honour the Honourable Vaughn Solomon Schofield, S.O.M., S.V.M.

Lieutenant Governor of Saskatchewan

Madam:

I respectfully submit the annual report of SaskEnergy Incorporated for the fiscal period ended March 31, 2016, in accordance with *The SaskEnergy Act*. The Consolidated Financial Statements are in the form approved by the Treasury Board, and have been reported on by the Corporation's auditors.

[Original signed by J. Reiter]

Honourable Jim Reiter
Minister Responsible for SaskEnergy

MINISTER'S MESSAGE

On behalf of Premier Brad Wall and the Government of Saskatchewan, I present the SaskEnergy 2015-16 Annual Report.

Over the past eight years, our government has worked to create the Saskatchewan Advantage — a plan to grow and strengthen Saskatchewan through sound fiscal management and a stable regulatory regime. We've done this because we know a growing economy will help us maintain a high quality of life. Once again in 2015-16, SaskEnergy played a key role in supporting this vision by providing high levels of customer service at competitive rates, while realizing operational cost efficiencies.

SaskEnergy's success in these areas has supported the overall strength of our province's energy sector, which continues to attract billions of dollars in new investment. For example, in early 2016, Husky Energy celebrated the opening of its Edam East heavy oil thermal facility, located near the village of Edam. This natural gas-fueled plant is the first of three heavy oil thermal projects Husky will bring online this year, with the projects expected to create 500 construction jobs and 90 permanent positions.

Along with other large-scale infrastructure investment underway across Saskatchewan, these expansion projects indicate that our diversified, resilient economy is well-equipped to weather the economic uncertainty and continue to create opportunity for Saskatchewan families. SaskEnergy will continue to play a significant role in the coming years as the Corporation provides stable, fulfilling careers, responds to the demands of provincial growth, maintains a safe and reliable infrastructure and collaborates effectively with the private sector.

My thanks to all SaskEnergy employees, management and the Board of Directors for their contributions to the company throughout the year.

[Original signed by J. Reiter]

Honourable Jim Reiter
Minister Responsible for SaskEnergy

CHAIR'S MESSAGE

On behalf of the SaskEnergy Board of Directors, it is my pleasure to join the Minister Responsible for SaskEnergy, the Honourable Jim Reiter, in presenting the SaskEnergy 2015-16 Annual Report.

Amid changing commodity markets and increased levels of financial restraint for Saskatchewan Crown corporations, SaskEnergy delivered strong financial results in 2015-16, while continuing to fulfill its safety and customer service mandates. Clear priorities, thorough planning, and a culture of efficiency — the foundation for these achievements — are well-established throughout the Corporation and evident in the Board's discussions with SaskEnergy Executive and management.

Among the many factors influencing the Corporation's success, perhaps none is greater than SaskEnergy's emphasis on fostering dialogue with its customers and stakeholders. This approach underpins any project or initiative SaskEnergy undertakes, and is perhaps best exemplified in the strength of the Corporation's relationship with communities along Last Mountain Lake, where system remediation work is ongoing. As someone with deep family ties to the Regina Beach area, I am proud to support SaskEnergy's commitment to safe operations in these communities, and thank everyone involved for their professionalism and understanding.

Looking ahead, the Board will continue to align SaskEnergy directions with those of the larger Crown sector, focusing on customer service, rate management, financial sustainability, private sector engagement, infrastructure investment, and building an effective workforce. At the same time, the Board will seek to identify and enable further SaskEnergy collaboration opportunities to deliver value to customers and to the Government of Saskatchewan.

I would like to recognize the contributions of Dr. Denis Jones, who completed his term on the Board in early 2016. The Board is committed to the effective stewardship of SaskEnergy, and thanks the Executive team, management and employees for their contributions this past year.

[Original signed by S. Barber]

Susan Barber, Q.C.
Chair, SaskEnergy Board of Directors

PRESIDENT'S MESSAGE

"…expanded deployment of the joint Crown Safety Patrol program resulted in a six per cent reduction in third-party line hits in 2015, bringing the total reduction to nearly 30 per cent since 2013."

SaskEnergy/TransGas delivered excellent results in 2015-16, particularly when viewed within the context of provincial and Western Canadian economic conditions. Financial highlights include $135 million in income before market value adjustments for the 15 months ended March 31, 2016 and a Core Growth measure of 3.8 per cent. A continued focus on efficiency gains generated nearly $6 million in cost reductions throughout 2015, bringing total savings in this area to $38 million over the last seven years. This aggressive pursuit of efficiency initiatives was once again a key factor in SaskEnergy's ability to provide Saskatchewan customers with competitive rates while maintaining high levels of customer satisfaction.

SaskEnergy/TransGas employees also responded admirably in aligning with other Saskatchewan Government Ministries and Crown corporations on fiscal restraint measures designed to reduce impact on the provincial budget. This involved many tough decisions throughout the year, and I thank employees for their collective effort in effectively meeting these challenges.

SAFETY & SYSTEM INTEGRITY MEASURES

Safe, reliable service delivery is SaskEnergy's top priority and our 2015-16 results reflect the success of our teams throughout the period. Internally, SaskEnergy employees achieved a record safety performance, both in terms of Total Recordable Injury Rate and Preventable Vehicle Collision Frequency Rate. On the public safety front, expanded deployment of the joint Crown Safety Patrol program resulted in a six per cent reduction in third-party line hits in 2015, bringing the total reduction to nearly 30 per cent since 2013.

System integrity programming was a major focus once again in 2015-16, with $107.5 million dedicated to programs and processes to increase the safety of SaskEnergy/TransGas infrastructure for employees, customers and the public. This included continued system remediation work in the Last Mountain Lake area, where geotechnical conditions have created challenges for buried infrastructure, including natural gas pipelines. Through dedicated effort and innovation — including the use of custom-designed remote monitoring devices and satellite imagery to detect soil movement — our teams continue to work closely with those communities to mitigate risk and increase public safety.

SUPPORTING GROWTH

An economic advantage for Saskatchewan residential, commercial and industrial customers, low natural gas commodity prices continue to drive strong provincial demand. In 2015, domestic transmission volumes increased once again — part of a 35 per cent increase since 2009. This growth has been driven mainly by industrial demand in the potash, electrical generation and enhanced oil recovery sector, which required significant expansion of TransGas pipelines in 2015 to customer facilities in the west-central part of the Province.

Stakeholder engagement remains a critical factor in the success of any growth project, whether driven by community expansion or customer demand. As SaskEnergy seeks to develop long-term infrastructure plans in and around urban centres like Regina and Saskatoon, we will need to continue to effectively collaborate with a wide range of stakeholders — including land owners, rural municipalities, community associations, provincial Ministries and other Crown corporations. Similarly, TransGas teams will work closely with existing and new customers to maintain a solid understanding of their business needs and deliver value to them.

DIVERSIFYING SUPPLY

Sustained low commodity prices have also reduced interest in conventional natural gas drilling in Western Canada — only one new gas well was drilled in Saskatchewan in 2015, down from a record 2,138 in 2003 — just as demand has increased to historic levels. In response, SaskEnergy has identified opportunities to support the capture of additional volumes of “flare gas” in areas where associated gas is being produced in conjunction with Saskatchewan oil drilling/development in-province. Last year, these efforts saw TransGas install innovative compression and gathering infrastructure near Weyburn to bring new supply onto the provincial system, creating revenue for both SaskEnergy/TransGas and private sector parties working in the area, while reducing reliance on third-party supply and transport.

In addition to these financial benefits, flare gas capture projects and other supply diversification efforts represent a significant opportunity to reduce harmful greenhouse gas emissions in Saskatchewan, capturing natural gas which would otherwise be released into the atmosphere or burned as a waste byproduct. In collaboration with the Ministry of Economy, SaskEnergy will continue to identify opportunities to leverage private sector investment to increase the volume of flare gas captured and processed within the Province.

COLLABORATING FOR PROVINCIAL SUCCESS

Looking ahead, the ever-changing dynamic of the North American energy sector presents both challenges and opportunities for SaskEnergy/TransGas. Commodity price trends, regulatory and public engagement on infrastructure projects, evolving national and social priorities regarding emissions — factors much larger than our provincial borders are at play, with the potential to fundamentally change the way we operate.

Collaboration will be critical to our success in the coming years, as SaskEnergy works with industry associations, other Crown and government entities, and the private sector to develop effective, efficient solutions and provide value to our customers. Encompassed within this collaborative approach is a focus on the development and execution of long-term, joint plans to meet both the current and future infrastructure demands of growth in Saskatchewan.

Along with the other members of the SaskEnergy Executive, I extend my thanks to our team across the Province for their contributions to our past and future success.

Sincerely,

[Original signed by D. Kelln]

Doug Kelln
President and Chief Executive Officer, SaskEnergy

Flare Gas Capture at Weyburn

TransGas installed major transmission infrastructure in the southeastern part of the Province in 2015 to receive vital volumes of natural gas produced in conjunction with oil drilling/development while facilitating gas processing initiatives in the area.

FINANCIAL AND OPERATING HIGHLIGHTS

CONSOLIDATED FINANCIAL INFORMATION	2015-16[1]	2015[2]	2014[2]	2013	2012	2011
($ millions)						
Delivery	**289**	215	232	217	194	187
Transportation and storage	**151**	119	98	92	85	77
Commodity margin	**47**	40	9	18	(2)	10
Gas marketing margin	**24**	19	14	32	47	41
Customer contributions	**61**	37	33	24	29	43
Other revenue	**14**	12	16	12	12	12
Total revenue (net of cost of gas)	**586**	**442**	**402**	**395**	**365**	**370**
Employee benefits	**115**	91	92	89	85	82
Operating and maintenance	**152**	118	126	97	85	83
Depreciation and amortization	**110**	87	83	77	73	68
Saskatchewan taxes	**15**	12	11	11	10	10
Net finance expense	**56**	46	44	40	39	35
Other losses (gains)	**3**	–	(1)	2	–	8
Total expenses	**451**	**354**	**355**	**316**	**292**	**286**
Income before unrealized market value adjustments	**135**	**88**	**47**	**79**	**73**	**84**
Market value adjustments	**(24)**	(3)	(80)	–	34	(58)
CONSOLIDATED NET INCOME (LOSS)	**111**	**85**	**(33)**	**79**	**107**	**26**
Dividends declared	**65**	44	17	30	27	39
Total assets	**2,450**	2,464	2,380	2,207	2,037	1,924
Cash provided by operating activities	**347**	260	248	244	172	195
Cash used in investing activities	**(241)**	(215)	(283)	(221)	(181)	(150)
Cash (used in) provided by financing activities	**(100)**	(47)	40	(25)	(10)	(25)
Capital expenditures	**244**	214	299	224	187	172
Total net debt	**1,156**	1,195	1,159	1,064	1,009	935
Debt/Equity ratio	**61/39**	62/38	63/37	59/41	59/41	60/40
Rate of return on equity	**18.8%**	12.3%	6.5%	11.0%	11.0%	13.6%
OPERATING STATISTICS						
Distribution volumes (petajoules)						
Residential/Farm	**47**	34	39	37	34	34
Commercial	**41**	29	34	33	29	29
Industrial	**159**	123	111	108	90	82
TOTAL	**247**	186	184	178	153	145
Transmission volumes (petajoules)						
Domestic	**366**	277	275	265	237	226
Export	**28**	23	7	3	4	5
TOTAL	**394**	300	282	268	241	231
Number of customers						
Distribution	**386,886**	385,858	380,768	373,436	365,749	358,363
Transmission	**133**	133	153	153	148	137

[1] On November 30, 2015, the Government of Saskatchewan announced a change in the year end for CIC and its subsidiaries from December 31 to March 31, commencing with the 2015-16 fiscal year. Accordingly, for the 2015-16 fiscal year the Corporation reported a 15-month fiscal period ended March 31, 2016, shown here compared to 12-month fiscal periods ended December 31.

[2] Certain comparative amounts have been reclassified to conform with the current fiscal year's presentation.

OPERATING SUMMARY – DISTRIBUTION	2015-16[1]	2015	2014	2013	2012	2011
Sales in million cubic metres[2]	**6,382**	4,792	4,811	4,639	3,985	3,803
Residential annual average usage (cubic metres)	**3,579**	2,534	3,006	3,020	2,696	2,851
Degree days[3]	**7,417**	5,210	6,039	6,193	5,415	5,564
Percentage warmer (colder) than normal	**9.0%**	6.0%	(9.0%)	(12.5%)	2.4%	(0.5%)
PIPELINE (kilometres)						
SaskEnergy Incorporated	**69,547**	69,489	69,015	68,612	68,092	67,692

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[2] Retail, industrial and natural gas marketing.

[3] A unit measuring the extent to which the temperature falls below 18° Celsius. Normal weather in 2015 (12 months ended December 31, 2015) would have been 5,500 degree days. Normal weather in 2015-16 (15 months ended March 31, 2016) would have been 8,076 degree days.

OPERATING SUMMARY – TRANSMISSION	2015-16[1]	2015	2014	2013	2012	2011
Peak day natural gas flows (petajoules)	**1.35**	1.31	1.42	1.26	1.20	1.09
Date of peak day flow	**Jan. 16/16**	Jan. 4	Feb. 6	Dec. 6	Jan. 18	Jan. 31
Storage cavern sites	**6**	6	6	6	6	7
Storage caverns	**22**	22	24	26	27	27
Storage field sites[2]	**4**	4	4	4	4	3
Producing field sites[2]	**1**	1	1	1	1	2
PIPELINE (kilometres)						
TransGas Limited						
Transmission	**14,397**	14,397	14,423	14,291	14,230	14,048
Gathering	**297**	297	203	203	201	201
Many Islands Pipe Lines (Canada) Limited	**441**	441	435	435	435	435
Bayhurst Gas Limited	**21**	21	113	113	113	113
TOTAL	**15,156**	15,156	15,174	15,042	14,979	14,797
SYSTEM COMPRESSION						
TransGas Limited Stations	**24**	24	23	24	24	24
Bayhurst Gas Limited Stations	**3**	3	3	3	3	3
Mobile Compressor Units	**13**	13	7	3	1	1
COMPRESSION HORSEPOWER						
TransGas Limited	**70,435**	70,435	89,360	87,720	86,270	85,120
Bayhurst Gas Limited	**6,300**	6,300	6,300	6,300	6,300	6,300
TOTAL	**82,615**	82,615	95,660	94,020	92,570	91,420

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[2] Includes Bayhurst Gas Limited.

QUARTERLY FINANCIAL AND OPERATING HIGHLIGHTS

2015-16 CONSOLIDATED FINANCIAL INFORMATION	Q1	Q2	Q3	Q4	Q5	15 Months Ended March 31, 2016[1]
($ millions)						
Total revenue	275	145	141	247	262	**1,070**
Total expenses	220	146	161	196	236	**959**
Consolidated net income (loss)	55	(1)	(20)	51	26	**111**
Market value adjustments	6	4	(7)	(6)	(21)	**(24)**
Income (loss) before unrealized market value adjustments	49	(5)	(13)	57	47	**135**
Dividends	10	10	10	14	21	**65**
Cash provided by operating activities	89	80	34	57	87	**347**
Capital expenditures	31	41	56	86	30	**244**
OPERATING HIGHLIGHTS						
Distribution						
Volumes distributed (petajoules)	61	36	34	55	61	**247**
Weather (compared to last 30 years)	1% warmer	5% warmer	2% warmer	13% warmer	14% warmer	**9% warmer**
Transmission						
Volumes transported (petajoules)	90	62	65	83	94	**394**

2014 CONSOLIDATED FINANCIAL INFORMATION	Q1	Q2	Q3	Q4	12 Months Ended December 31, 2014[1]
($ millions)					
Total revenue	362	227	214	305	**1,108**
Total expenses	299	244	221	377	**1,141**
Consolidated net income (loss)	63	(17)	(7)	(72)	**(33)**
Market value adjustments	24	(11)	6	(99)	**(80)**
Income (loss) before unrealized market value adjustments	39	(6)	(13)	27	**47**
Dividends	6	3	5	3	**17**
Cash provided by operating activities	80	93	23	52	**248**
Capital expenditures	29	56	104	110	**299**
OPERATING HIGHLIGHTS					
Distribution					
Volumes distributed (petajoules)	66	35	27	56	**184**
Weather (compared to last 30 years)	17% colder	21% colder	10% warmer	2% warmer	**9% colder**
Transmission					
Volumes transported (petajoules)	92	58	49	83	**282**

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System Integrity Initiatives

SaskEnergy spent $92 million on system integrity initiatives in 2015, and an additional $15.5 million in the first three months of 2016, reflecting its commitment to safety. More than $5 million was spent on mitigation projects throughout the Province, with a focus on Last Mountain Lake and the communities of Regina Beach and Saskatchewan Beach, to increase gas service integrity in communities with possible slope movement.

CORPORATE HIGHLIGHTS

SaskEnergy's Strategic Objectives align with the Government of Saskatchewan's Crown Sector Strategic Priorities and the Saskatchewan Plan for Growth. The Corporation's operating environment, the provincial economy, commodity market fluctuations, and public expectations of pipeline companies have influenced the strategic direction of the Corporation.

SERVICE EXCELLENCE

System Integrity and Risk Management Initiatives

SaskEnergy spent $92 million on system integrity initiatives in 2015, and an additional $15.5 million in the first three months of 2016, reflecting the Corporation's commitment to safety across its more than 84,000 kilometres of pipeline. SaskEnergy invested in a number of initiatives throughout the year to manage risk and ensure the safe and reliable operation of its distribution and transmission networks, including upgrades to 2,311 gas service connections in Regina, Regina Beach and Rosetown. More than $5 million was spent on mitigation projects throughout the Province, with a focus on Last Mountain Lake and the communities of Regina Beach and Saskatchewan Beach, to increase gas service integrity in communities with possible slope movement. SaskEnergy would like to thank all of these communities, and in particular the town of Regina Beach — the mayor, town council and all residents — for their cooperation and discussion.

Corporate Safety Performance

Safety is at the core of SaskEnergy's business and, in 2015, the Corporation achieved its best-ever safety performance with a Total Recordable Injury Frequency Rate (TRIR) of 1.86 (injuries per 100 employees). This is down from 2.22 in 2014, which was also a record year. In 2015, SaskEnergy experienced its lowest-ever Preventable Vehicle Collision (PVC) Frequency Rate for the second consecutive year. In alignment with industry best practices, the Corporation achieved an overall audit score of 94 per cent in the Certificate of Recognition (COR) Program, which assesses the elements of SaskEnergy's safety management system against COR Program requirements. Other 2015 safety initiatives included a new employee safety orientation program, which was developed internally to ensure all new and transferred employees receive a consistent introduction to corporate safety practices and procedures. In addition, SaskEnergy rolled out the first phase of a corporate Automated External Defibrillator (AED) Program, which saw the installation of 26 AED machines at various area offices, as well as training, setup, service and support.

Damage Prevention Initiatives

As part of its risk and asset management strategy, SaskEnergy engaged in a number of initiatives to reduce damage to its buried infrastructure. As a result, there was a six per cent reduction in third-party line hits in 2015, helping to add to a total reduction of nearly 30 per cent since 2013. In partnership with *Sask 1st Call*, the Saskatchewan Common Ground Alliance (SCGA), SaskPower and SaskTel, SaskEnergy expanded its Safety Patrol program during the 2015 construction season and added three new patrollers to its fleet. Originally monitoring neighbourhoods in Regina and Saskatoon where Crown utilities have reported higher percentages of facility damages, the program was extended to 16 other communities. The patrollers initiated face-to-face contact with homeowners, local contractors and customers in rental stores and businesses in Regina and Saskatoon to increase awareness of the requirement to contact *Sask 1st Call* for line locates before projects got underway. Other initiatives included a new *Sask 1st Call* mobile application, supervised crossings, tri-locates, collaborating with SCGA to ensure greater contractor awareness, providing information to businesses that rent digging equipment and public awareness advertising.

ACHIEVING GROWTH

Distribution and Transmission Growth

From January 1, 2015 to December 31, 2015, population growth in Saskatchewan benefited SaskEnergy, as the Corporation added 5,090 customers to its distribution base, bringing total customers to 385,858. Distribution customers grew to 386,886 by March 31, 2016. Transmission volume in 2015 increased by 18 petajoules (PJ), or 6.4 per cent, from 2014, and totaled 394 PJ for the 15 months ended March 31, 2016. SaskEnergy has made significant investments in its distribution and transmission system to connect customers in a wide range of key Saskatchewan industries, including enhanced oil recovery, potash production and power production.

Edam and Vawn Pipeline Projects

In October 2015, the Corporation completed 15 kilometres of new pipeline to provide service to Husky Energy and Serafina Energy enhanced oil recovery operations near Edam and Vawn in west-central Saskatchewan. SaskEnergy, through its subsidiary TransGas Limited, used an innovative odourant injection system on this project, thereby enhancing process safety and reducing cost. As the cost of these projects was paid by the customers, TransGas worked closely with Husky and Serafina to ensure that the cost was within their expectations. Consistent with Crown Sector Strategic Priorities, TransGas was able to provide timely access to its transportation service through this project, while collaborating with customers to provide service at a reasonable cost.

Flare Gas Capture in Southeastern Saskatchewan

Capturing the volumes of natural gas produced in conjunction with Saskatchewan oil drilling/development represents a key opportunity to increase Saskatchewan gas production and, in turn, decrease the need for natural gas imports from Alberta to meet Saskatchewan's growing energy demands. To this end, TransGas installed major transmission infrastructure in the southeastern part of the Province in 2015 to receive vital associated/flare gas volumes while facilitating gas processing initiatives in the area. To deliver an effective compression solution, TransGas leveraged a modular design, as well as learnings from a previous build at Saskatoon, to allow for two mobile trailers to be docked and operate as one system. In addition, TransGas utilized new project management processes to keep on-track and work through issues. Designed and installed in a record seven months, this new compression allowed previously constrained gas producers in the area to generate revenue through incremental volume flow, while creating increased transport revenues for TransGas.

OUR TEAM

Developing Leaders and Realizing Training Efficiencies

In alignment with the Crown Sector Priority of building an effective workforce through innovative strategies that attract, retain and develop skilled workers, SaskEnergy remains committed to developing its leaders at all levels. The most recent Leadership Development Program class, which included two SaskWater participants, concluded its program in early 2015. Other leadership learning opportunities throughout 2015 included internally-facilitated learning sessions, mentoring and stretch job assignments. The Executive and employees in the Generation Energy (Gen-E) group (ages 30 and under) also came together in an annual session to promote dialogue on business topics. The use of online tools, e-learning and video to effectively deliver information and training continued to bring efficiencies to learning on management, leadership, technical and compliance topics.

Meter Exchanges

SaskEnergy, along with a third-party contractor team, removed and replaced approximately 41,000 meters throughout the Province in 2015 — another record number, which is 4,000 more than 2014 and 16,000 more than in 2013. A further 18,000 meters were exchanged during the first three months of 2016. SaskEnergy accelerated the rate of meter replacements due to the introduction of stricter Measurement Canada compliance requirements that were implemented in 2013, and to ensure compatibility with its new Advanced Metering Infrastructure. The larger number of meter replacements was achieved through effective planning to maximize field technician productivity, and greater coordination with customers to ensure that most meter exchanges were completed by appointment.

Response to Northern Forest Fires

In late June 2015, smoke from the forest fires in northern Saskatchewan blew south, blanketing many cities and towns in the southern half of the Province, and even crossing the border into the United States. While the air quality decreased in these regions, the situation was significantly worse at Air Ronge, La Ronge, Montreal Lake, Weyakwin and other northern communities. The level of urgency from SaskEnergy/TransGas crews and other first responders grew, and their response was outstanding. The efforts of SaskEnergy/TransGas employees and their response to the fires were recognized internally at the annual SaskEnergy Employee Awards of Excellence, and externally, with recognition at the Legislative Building in Regina in November 2015.

CREATING VALUE

Productivity and Efficiency Initiatives

In 2015, SaskEnergy realized $5.9 million in efficiency savings and process improvements through a combination of joint servicing activity with other Saskatchewan Crown corporations, the use of mobile compression and business process changes. With a multi-year financial focus, savings will continue to be gained through efficiencies achieved through planned Crown collaboration initiatives, business process changes and leveraging technology solutions. Further efficiencies related to strategic capital deployment have also been identified for future periods. In addition to the planned efficiencies that SaskEnergy incorporated into the Business Plan for 2015, further restraint measures were undertaken in alignment with provincial government heightened cost management. Within this direction, SaskEnergy re-evaluated the inputs that were included as part of the 2015 Business Plan and also undertook restraint measures including salary freezes, vacancy management, reduced travel and training costs and reduced advertising and sponsorships.

Expanded Advanced Metering Infrastructure (AMI) Roll-out

In 2015, more than 125,000 AMI gas modules were installed throughout the Province, bringing the total to nearly 279,000 modules (73 per cent of SaskEnergy distribution meters). As of March 31, 2016, more than 11,000 additional modules were installed. The modules, which resulted in $1.5 million in frontline resourcing savings in 2015 (and $0.5 million in the first three months of 2016), provide regular information on natural gas consumption to SaskEnergy using a two-way wireless communication system. Customer service levels have been increased as well — meter read visits/submitting meter reads is no longer required and billing questions are answered more quickly and efficiently. No safety issues have occurred relative to the deployment.

Crown Collaboration Initiatives

Given the effectiveness of recent multi-Crown efforts such as joint line location, AMI, joint servicing and similar private sector projects, collaboration focus is inherent within SaskEnergy's efforts to optimize the use of resources and develop efficient solutions to improve service. In 2015, SaskEnergy and SaskTel aligned their provincial vegetation management control services under SaskEnergy's existing contractor to provide leverage for SaskTel to achieve significant savings. In addition, SaskEnergy oversaw a competitive bid process and award to select Records and Information Management software, in alignment with the provincial government 2011 mandate for all government entities to be compliant with *The Archives Act 2004*, to improve and secure electronic records management. The negotiated award to OpenText Corporation includes preferential software and maintenance pricing available for all Saskatchewan Government entities until September 30, 2016. SaskPower and SaskEnergy also collaboratively entered into five-year agreements for Employee and Family Assistance Programs, achieving an estimated 27 per cent in savings over five years.

Expanded Use of Mobile Compression

Since purchasing its first mobile compressor in 2010, TransGas has seen its fleet grow to include 13 units, with another four compressors expected later in 2016. Mobile compressors have given TransGas the flexibility to move compression to where it is required, whether it is for seasonal tasks such as field injection, for temporary power while a stationary unit is under repair, or to replace units that have reached the end of their useful life. Mobile compressors are modern low-emission units that combine flexibility of operation with reduced maintenance requirements, allowing TransGas to quickly respond to requests from industrial clients without large capital investments. As gas supply has rapidly grown in southeastern Saskatchewan, SaskEnergy/TransGas has used mobile compressors to bring this gas onto its storage and distribution systems.

Environmental Efficiencies

As part of its commitment to reducing negative environmental impacts in the Province, SaskEnergy achieved a number of environmental efficiencies during 2015. Through the modernization of its compressor fleet, the Corporation exceeded its reduction target for compressor emissions by nearly 10 per cent. In addition, a record number of projects were reviewed by SaskEnergy's Environment and Sustainability group, the 2015 emissions reduction target was more than doubled through leak repairs and greenhouse gas emissions were reduced by 8,800 tonnes. The Environment and Sustainability group is monitoring regulatory developments pertaining to climate change and air pollutants. While no emissions regulations were implemented, in March 2016 the Federal Government announced commitments toward reducing oil and gas industry methane emissions by 40 to 45 per cent over the next decade, using 2012 levels as a benchmark. SaskEnergy also entered into an agreement with the Ministry of Environment that allows the Corporation to screen and clear certain projects internally in a streamlined fashion relative to the Ministry.

Northern Fires Response

In late June 2015, smoke from the forest fires in northern Saskatchewan blew south, blanketing many cities and towns in the southern half of the Province, and even crossing the border into the United States. The level of urgency from SaskEnergy/TransGas crews and other first responders grew, and their response was outstanding.

MANAGEMENT'S DISCUSSION & ANALYSIS

INTRODUCTION

The Management's Discussion and Analysis (MD&A) highlights the primary factors that affected SaskEnergy's consolidated financial condition and performance for the 12 months ended December 31, 2015 plus the three months ended March 31, 2016. On November 30, 2015, the Government of Saskatchewan announced a change in the year end for CIC and its subsidiaries from December 31 to March 31, commencing with the 2015-16 fiscal year. Accordingly, for the 2015-16 fiscal year, the Corporation reported a 15-month fiscal period ended March 31, 2016, which is compared to a 12-month period ended December 31, 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. The MD&A is presented as at May 26, 2016, and should be read in conjunction with the Corporation's audited consolidated financial statements, which have been prepared in accordance with International Financial Reporting Standards (IFRS).

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 the MD&A. 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 Corporation's financial results are subject to fluctuations, especially given 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 they may not be comparable to similar measures presented by other entities.

STRATEGIC SCORECARD MEASURES

SaskEnergy's four strategic mandates as set out in the Business Plan — Service Excellence, Achieving Growth, Our Team and Creating Value — support the vision, mission and values of the Corporation. They also align with the Crown Sector Strategic Priorities as identified by Crown Investments Corporation of Saskatchewan (CIC). These mandates and strategic priorities play a vital role in SaskEnergy's business planning process, performance management and reporting. They also help employees determine how their everyday efforts contribute to the Strategic Plan and overall direction of the Corporation and Province.

The Crown Sector Strategic Priorities for 2015 – 2017 and the Saskatchewan Plan for Growth convey the shareholders strategic direction for the Province's Crown corporations.

The government's strategic plan identified three critical issues and five strategic priorities based on the principle of Steady Growth.

Critical Issues

- Continued focus on improving operational efficiency
- Increased collaboration amongst the Crown corporations
- Increased scrutiny of Crown corporation's capital budget requirements

Strategic Priorities

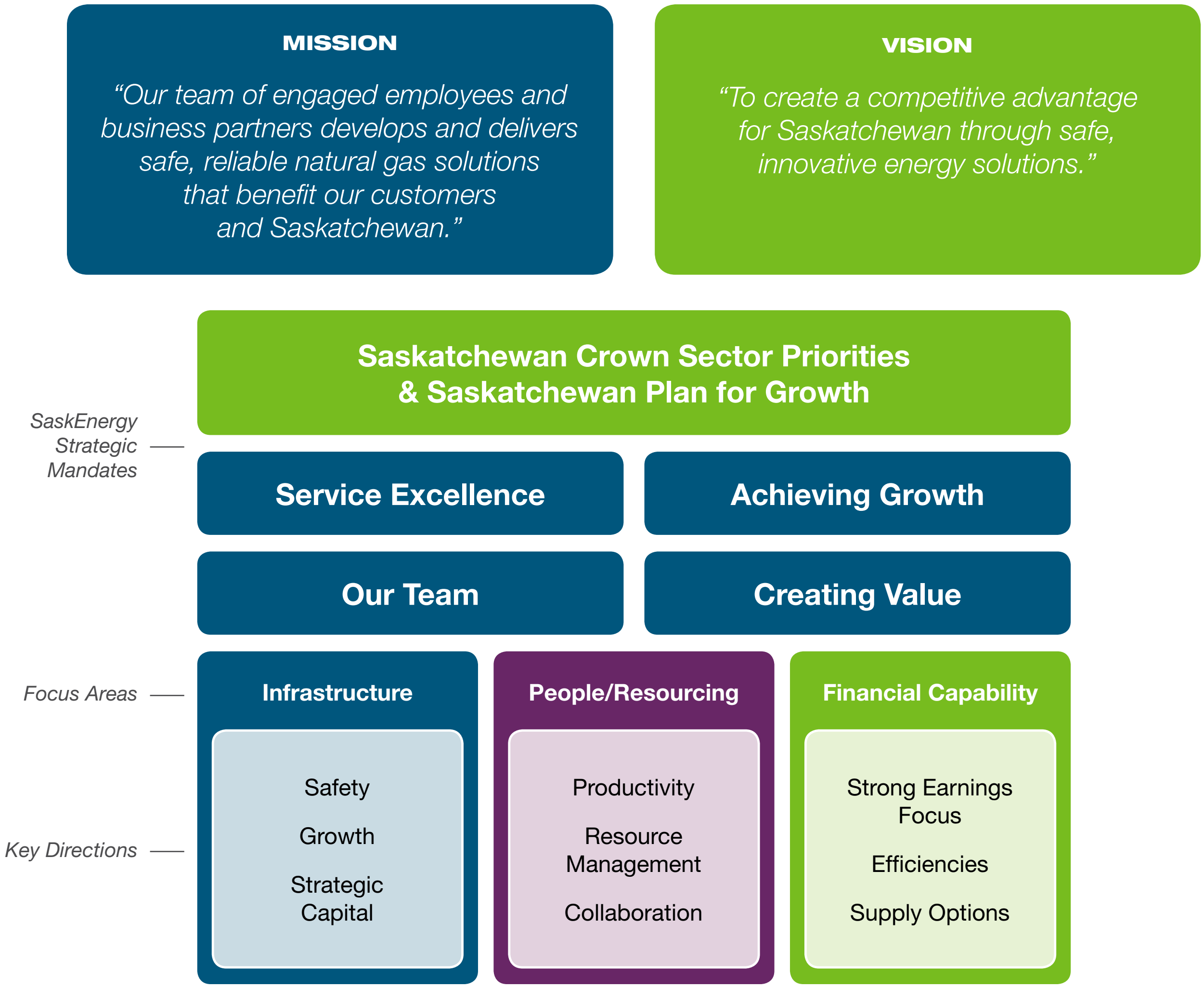
- Customer Focus
- Financial Stability
- Private Sector Engagement
- Infrastructure Investment
- Skilled Labour Shortage

SaskEnergy received two specific growth directives through the Saskatchewan Plan for Growth. In order to facilitate growth in the provincial economy, SaskEnergy's role is to:

- Reduce the time it takes to complete new connect requests for customers; and
- Meet the needs of a growing residential, commercial and industrial customer base through upgrades to SaskEnergy's capital network (transmission expansion).

Each year, as part of the business planning process, SaskEnergy incorporates the Province's strategic directives and evaluates the continued relevance of the performance metrics contained in the previous year's scorecard. Any changes deemed appropriate are made and associated targets are developed for each metric. The final scorecard, including metrics and targets for the five year planning horizon, is presented to the Corporation's Board of Directors for approval as part of the business plan approval. The CIC Board reviews the business plan and confirms compliance with the Crown Sector Strategic Priorities prior to their approval. Progress toward these targets is monitored and reported throughout the year. Regular reporting on those specific scorecard targets allows management to closely monitor progress and take any corrective action necessary to achieve the targets.

The following discussion outlines the Corporation's 2015 performance relative to its strategic scorecard targets for the 12 months ended December 31, 2015, which are further defined in the Glossary of Key Success Measures. The performance results for the 15-month period ended March 31, 2016 are provided for information purposes.



SERVICE EXCELLENCE

SaskEnergy is committed to providing safe and reliable service to its customers. Effective customer solutions and responsiveness are also important aspects of the service commitment as evidenced by its Service Excellence mandate. In alignment with Crown Sector Strategic Priorities, SaskEnergy focused on reducing the time it takes to complete new connect requests. Efficient Operations, Safety/Vigilance and Customer Satisfaction make up the three categories of measures against which success is measured related to the Service Excellence mandate. Industry benchmarking and customer surveys provide a valuable gauge against which results can be analyzed.

Service Excellence

Strategic Measure	December 31, 2014 Actual	December 31, 2015 Actual	December 31, 2015 Target	March 31, 2016 Actual[1]	March 31, 2017 Target	March 31, 2018 Target	March 31, 2019 Target	March 31, 2020 Target	March 31, 2021 Target
Efficient Operations									
Distribution									
Operation, Maintenance and Administration Costs per Customer	$316	**$300**	$305	$375	$317	$318	$319	$320	$321
Competitive Residential Delivery Rates	Competitive with Industry	**Competitive with Industry**	Competitive with Industry	Competitive with Industry	Competitive with Industry	Competitive with Industry	Competitive with Industry	Competitive with Industry	Competitive with Industry
Transmission									
Operation, Maintenance and Administration Costs per Book Value of Assets Managed	7.4%	**6.7%**	7.1%	8.5%	7.1%	7.1%	7.1%	7.1%	7.1%
Safety/Vigilance									
SaskEnergy Leaks per 1,000 kilometres of Mains	6.0	**5.9**	6.0	6.7	5.8	5.6	5.5	5.4	5.3
TransGas Pipeline Failures per 1,000 kilometres of Pipe	0.07	**0.00**	0.11	0.00	0.09	0.08	0.07	0.07	0.07
Safety and Integrity	6.2%	**5.9%**	5.2%	5.3%	5.4%	5.5%	5.5%	5.5%	5.5%
Customer Satisfaction									
SaskEnergy	86%	**87%**	89%	87%	89%	89%	89%	89%	89%
TransGas	93%	**90%**	93%	90%	93%	93%	93%	93%	93%

[1]For the 15 months ended March 31, 2016

Efficient Operations

In alignment with the Crown Sector Priority of financial stability and a continued emphasis on operational efficiency, SaskEnergy and TransGas are committed to the cost-effective delivery of natural gas services to all customers in Saskatchewan. The Corporation realized $5.9 million in efficiency savings and process improvements in 2015. These efforts are reflected in the Operation, Maintenance and Administration (OM&A) Costs per Customer measure and SaskEnergy's ability to successfully offer competitive residential delivery rates to its customers each year. Activity levels moderated somewhat in 2015 relative to previous years and this, combined with collaboration efforts around AMI and joint services, allowed the Corporation to effectively manage costs in 2015.

A typical residential customer in Saskatchewan paid $453 for delivery service in 2015, which was again the lowest amount across Canada (2014 – $446).

The Transmission metric OM&A Costs per Book Value of Assets Managed is a proxy for the relative efficiency of the Transmission Utility operations. Transmission OM&A reflected strong resource management efforts during the year, which offset the impact of increasing third-party transportation costs to import natural gas from Alberta and reflects the Corporation's commitment to efficient operations.

Safety/Vigilance

Efficiency does not come at the expense of a safe and reliable system, as acknowledged by the Corporation's ongoing commitment to system integrity programming. Integrity-related budgets will be actively managed over the coming years while the Corporation continues to maintain strong results in the areas of gas leaks, failures, third-party line-hits and other integrity measures. Continued commitment to system integrity and asset management efforts will always be a key focus area for SaskEnergy and TransGas as the Corporation continues to look to the industry to ensure operations reflect best practices. As well, personnel from TransGas and SaskEnergy are active participants on industry committees that have been tasked with helping to define best practices as technology and tools continue to evolve.

The targets related to safety and vigilance for both SaskEnergy and TransGas were achieved as a result of the continued focus the Corporation has placed on its risk-based integrity programming.

Key initiatives undertaken by SaskEnergy throughout 2015 included the continuation of the service upgrade program on service lines throughout the Province, a major integrity initiative to ensure safe and reliable gas service in communities with possible slope movement, enhanced leak survey processes and the continuation of the damage prevention initiative aimed at reducing leaks due to external interference. TransGas continued its risk reduction efforts through in-line inspections, visual inspections and cathodic protection programs.

SaskEnergy/TransGas' investment in safety and integrity initiatives in 2015 was slightly above expected levels due to the mitigation and monitoring efforts required in communities with possible slope movement.

Customer Satisfaction

Perhaps the best indicator of SaskEnergy's success in delivering safe, reliable and affordable services is formal feedback from its customers. Recognizing that customers are vital to the success of any business, both SaskEnergy and TransGas conduct annual surveys in an effort to gather feedback on customer expectations and overall satisfaction.

The 2015 SaskEnergy survey results show strong levels of customer satisfaction within a number of key areas including reliable service, informing the public of safety-related initiatives and being environmentally responsible. In the 2015 survey, over three-quarters of customers indicated they are confident in SaskEnergy's safety efforts.

The TransGas customer survey results in 2015 continue to reflect strong satisfaction with TransGas business services despite challenges that have been encountered with the TransGas customer service interface system, which is expected to be completed in 2016-17.

ACHIEVING GROWTH

Achieving Growth includes all areas of our business — continuing to build on the foundation of the core business of transmission, distribution and storage service to support a growing residential, commercial and industrial customer base as well as finding new opportunities through partnerships and technology developments. The measures within Achieving Growth represent the Corporation's commitment to facilitating growth in Saskatchewan.

Achieving Growth

Strategic Measure	December 31, 2014 Actual	December 31, 2015 Actual	December 31, 2015 Target	March 31, 2016 Actual[1]	March 31, 2017 Target	March 31, 2018 Target	March 31, 2019 Target	March 31, 2020 Target	March 31, 2021 Target
Business Growth Investment									
Core Growth – SaskEnergy and TransGas Revenue Growth	4.3%	**4.3%**	2.2%	3.8%	3.3%	3.3%	3.4%	3.4%	3.5%
Diversified Non-Core Business									
Return on Equity[2]	10.6%	**9.3%**	19.6	12.3%	N/A	N/A	N/A	N/A	N/A
Return on Non-Core Assets[2]	N/A	**N/A**	N/A	N/A	4.4%	6.2%	9.1%	10.8%	11.1%
Total Capital Investment *(millions)*	$87.0	**$15.0**	$45.6	$15.3	$13.6	$52.1	$4.4	$4.5	$4.4
Percentage of Third-Party Capital Investment	87%	**25%**	66%	25%	1%	79%	1%	1%	1%
Associated Gas Capture as a Percentage of 2014 Saskatchewan Sourced Volume[3]	N/A	**N/A**	N/A	22%	31%	35%	36%	36%	37%
Net Revenue (millions)	$22.1	**$24.7**	$30.5	$29.9	N/A	N/A	N/A	N/A	N/A

[1] For the 15 months ended March 31, 2016
[2] Return on Equity has been discontinued and is replaced by the Return on Non-Core Assets Metric starting in 2016-17
[3] This is a new metric implemented January 1, 2016

Business Growth Investment

The Business Growth Investment measure recognizes the fundamental importance of core revenue growth in the Corporation's two utilities as a key indicator of the continued success of the business. In this regard, provincial growth has directly contributed to an increased distribution customer base and increased demand for natural gas from industrial facilities. In 2015, the Distribution Utility increased its active customer base by 5,090 customers and transmission load increased by 6.4 per cent. This provincial growth has fueled the growth of the Corporation's utility businesses and favourably impacted the result for the Core Growth metric for 2015.

Diversified Non-Core Business

The Diversified Non-Core Business measures reflect the value of developing new revenue streams within the commodity and unregulated business environment. Efforts in this area create a wider revenue base and strongly align SaskEnergy with the Crown Sector Priority of forming partnerships and joint ventures with the private sector to facilitate growth in the Saskatchewan economy.

The Return on Equity result for the period is measured before the impacts of market value adjustments on net income. The expectations for this metric included several non-core projects that did not proceed during the year due to the low natural gas price environment. This is negatively impacting the Return on Equity result for 2015. The Return on Equity and Net Revenue metrics have been discontinued and are replaced by the Return on Non-Core Assets metric starting in 2016-17, which tracks the return earned by the Corporation from its investment in non-core assets.

The results for the metric related to third-party capital investment are also reflective of the low price environment for natural gas. A sustained low gas price makes natural gas projects uneconomical as investors see limited up-side potential in these projects given the current pricing environment. The slowdown in the oil industry also impacted plans for another Saskatchewan straddle plant, a potential processing plant and additional customers switching from diesel fuel to natural gas to power drilling rigs.

OUR TEAM

Our Team is a broad and diverse group, including employees, contractors and business partners, all working together to develop mutually beneficial solutions for SaskEnergy's customers and improve the efficiency and effectiveness of work processes. The labour market remains competitive despite the moderation seen in the provincial economy. High levels of retirements are also causing an increased focus on this strategic mandate. Attention to a performance culture and the Corporation's reputation for leadership development continue to be fundamental to success. The mandate also reflects SaskEnergy's commitment to providing "the right resource at the right place at the right time". Within Our Team, there are three categories of measures — Physical Safety, Employee Engagement and Workforce Diversity.

Our Team

Strategic Measure	December 31, 2014 Actual	December 31, 2015 Actual	December 31, 2015 Target	March 31, 2016 Actual[1]	March 31, 2017 Target	March 31, 2018 Target	March 31, 2019 Target	March 31, 2020 Target	March 31, 2021 Target
Physical Safety									
Total Recordable Injury Frequency Rate	Second Quartile	**Second Quartile**	Second Quartile	Third Quartile	Second Quartile	Second Quartile	Second Quartile	Second Quartile	Second Quartile
Employee Engagement									
Employee Survey	-3%	**N/A**	At or above Hay Survey Norm	N/A	At or above Hay Survey Norm	At or above Hay Survey Norm	At or above Hay Survey Norm	At or above Hay Survey Norm	At or above Hay Survey Norm
Workforce Diversity									
Youth (30 years of age or less)	18.9%	**15.8%**	18.0%	13.6%	18.0%	18.0%	18.0%	18.0%	18.0%
First Nations/Métis	15.0%	**15.1%**	15.5%	14.8%	16.0%	16.0%	16.0%	17.0%	17.0%

[1] For the 15 months ended March 31, 2016

Physical Safety

Employee and public safety are at the core of every activity at SaskEnergy, and to send each employee home safely at the end of the day is the Corporation's top priority. Working with industry peers and other stakeholder groups to share knowledge and adopt industry best practices, SaskEnergy continually strives to develop a safety-first work environment in which processes and procedures are documented as meeting or exceeding the continually evolving best-practice standards. Importantly, the Corporation recognizes that these processes are merely the foundation for safety and that the individual decisions made by employees and contractors each day will ultimately determine success in this vital area.

The Total Recordable Injury Frequency rate was 1.86 at the end of December 31, 2015. This means there were 1.86 reportable injuries for every 100 employees. Based on the Canadian Gas Association (CGA) benchmark information, this result would place SaskEnergy in the second quartile relative to its CGA counterparts.

Employee Engagement

SaskEnergy also recognizes the importance of engaged employees to a successful organization. Through initiatives like the Leadership Network and Leadership Development Program, as well as all-employee meetings and various training and development opportunities, the Corporation has made positive strides in developing leadership skills at all levels.

In consideration of current restraint measures, SaskEnergy cancelled plans in 2015 for an externally delivered employee survey. Instead, other methods were used to seek employees' feedback and gauge engagement levels such as results produced and feedback provided during meetings, small group and individual discussions. These informal indicators remained largely positive throughout the year. As well, employees were invited to provide feedback through a brief internal pulse survey that confirmed employee pride in working for SaskEnergy remains strong along with SaskEnergy's commitment to a safe and healthy work environment. Employee recognition, appreciation and open, honest communication remain areas that require continuing attention.

Workforce Diversity

SaskEnergy sees workforce diversity as a key business success measure, in line with Crown Sector Strategic Priorities, and strives to be reflective of Saskatchewan's population by providing equal opportunity to qualified people, recognizing First Nations, Métis and youth represent a large portion of Saskatchewan's future labour force.

SaskEnergy's successful workforce transition strategies are reflected in the consistently strong results related to the percentage of youth employed by the Corporation. This has been an area of focus for the Corporation for several years; however, the 2015 results were impacted by the restraint measures and the ability to hire additional resources.

The 2015 results exceed the Saskatchewan Human Rights Commission target for First Nations/Métis representation, which has been a focus of the Corporation for several years. However, this metric was also impacted by restraint measures in 2015.

CREATING VALUE

The Creating Value strategic mandate requires SaskEnergy to perform with an entrepreneurial spirit, consistently demonstrating that the Corporation is nimble, adaptable and flexible, while always focused on efficiency and results. SaskEnergy's Creating Value mandate measures are in place to ensure that the Corporation is adding value for its shareholder, customers and employees through financially strong and sustainable operations, sound corporate governance and relationships within the communities it serves. Within Creating Value, there are three categories of measures — Financial Strength, Environmental and Community Relationship.

Creating Value

Strategic Measure	December 31, 2014 Actual	December 31, 2015 Actual	December 31, 2015 Target	March 31, 2016 Actual[1]	March 31, 2017 Target	March 31, 2018 Target	March 31, 2019 Target	March 31, 2020 Target	March 31, 2021 Target
Financial Strength									
Debt/Equity Ratio	63/37	62/38	63/37	61/39	60/40	61/39	61/39	60/40	59/41
Consolidated Return on Equity	6.5%	12.3%	10.2%	18.8%	9.9%	8.8%	8.6%	8.1%	8.2%
Income Before Unrealized Market Value Adjustments *(millions)*	$47	$88	$73	$135	$77	$73	$76	$76	$80
Environmental									
Environmental Greenhouse Gas Emissions (Tonnes of CO_2e/million running horsepower hours)	390	394	440	391	425	410	395	395	395
Community Relationship									
Community Sponsorships as a Percentage of Net Income	1.3%	0.6%	1.1%	0.6%	0.8%	0.8%	0.8%	0.8%	0.8%
Total Contracts – Percentage of Aboriginal Labour Content	15%	14%	13%	15%	14%	14%	15%	16%	16%

[1] For the 15 months ended March 31, 2016

Financial Strength

SaskEnergy strives to maintain an appropriate capital structure while providing reasonable financial returns to its statutory holding company, CIC, and competitive rates to customers. The Corporation works hard to balance the interests of both CIC and its customers — focusing on annual profitability and long-term financial sustainability.

Operating net income results were higher despite warmer than normal weather – which negatively impacted delivery revenue – and higher third-party transport costs necessary to import natural gas from Alberta to meet supply requirements. Higher commodity gains — a result of the declining market price of natural gas, higher transmission revenues due to industrial load growth and effectively managing costs in alignment with the Province's restraint measures all contributed to higher net income in 2015.

Equity levels were negatively impacted by the unfavourable market value adjustments for natural gas inventory. Outstanding debt was slightly lower than planned due to capital expenditure levels, which were also lower than planned for the period.

Environmental

SaskEnergy is also focused on environmental sustainability throughout its operations, and has made significant progress in the controllable aspects of its corporate greenhouse gas (GHG) emissions. While increased natural gas usage is beneficial to achieving emission targets in other sectors and in the Province as a whole, this creates challenges for SaskEnergy in terms of achieving its overall GHG emission reduction targets.

Recognizing the Corporation's opportunity to play a key role in a province-wide strategy related to GHG reductions, SaskEnergy developed an intensity-based performance measure in 2014. This measure tracks tonnes of carbon dioxide per million running horsepower hours, to reflect the efforts SaskEnergy has undertaken, and will continue to undertake, to reduce GHG emissions by operating more efficiently while delivering increased volumes of natural gas to customers. The Corporation exceeded its target for this metric in 2015 due to the use of its efficient fleet of mobile compressors as well as the implementation of energy saving technologies such as LED lighting retrofits and industrial equipment and controls upgrades.

Community Relationship

Acting as a responsible and contributing member of the communities it serves is an essential part of SaskEnergy's business strategy. Working closely with customers and Saskatchewan communities helps ensure successful business operations and is consistently noted in SaskEnergy Customer Satisfaction surveys as a key strength for the Corporation. SaskEnergy continues to work with CIC to align its Community Relationship scorecard measures with industry best practices and Crown Sector Strategic Priorities. During 2015, the community sponsorship efforts were reduced as part of the restraint measures. However, 201 Saskatchewan communities received SaskEnergy support during 2015. Going forward, effort will continue to be placed on fostering community relationships in the most efficient and cost-effective manner.

Another important element of SaskEnergy's contribution to Saskatchewan involves supporting the strong and vibrant Aboriginal labour and business markets. This growing market serves as an opportunity to create new, sustainable business and employment opportunities for Aboriginal people today and into the future.

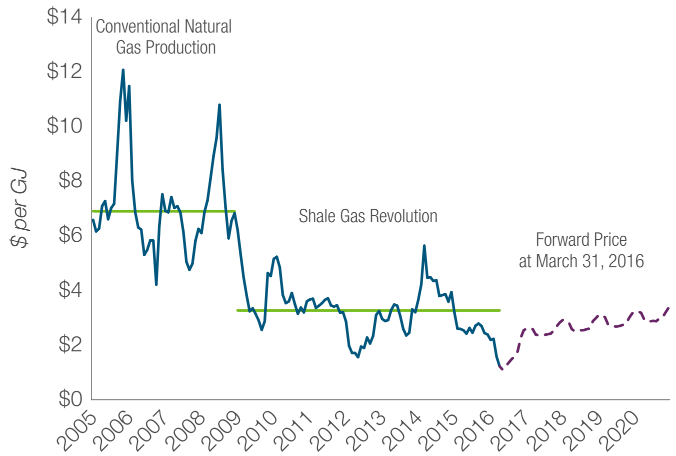
INDUSTRY OVERVIEW

SaskEnergy monitors a number of important factors that could influence financial performance.

Natural Gas Prices

Natural gas prices are set in an open market and are influenced by a number of factors including production, demand, natural gas storage levels and economic conditions. Given the high demand to heat homes and businesses during the cold winter months, and the demand for natural gas to produce electricity for air conditioning, weather typically 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 have historically been very volatile.

AECO Monthly Index Historical Prices



However, throughout 2015 and into the winter of 2015-16, natural gas prices demonstrated uncharacteristically low volatility. As winter progressed, unseasonably warm temperatures blanketed most of North America, drastically reducing heating load demand. In Saskatchewan, the provincial average degree days for the winter of 2015-16 confirmed it was one of the warmest winters in more than 80 years. On the supply side, natural gas production in the U.S. remained at record high levels, while Canadian natural gas supplies also grew significantly. By the end of winter, the volume of natural gas in storage in both Canada and the U.S. was the highest ever recorded for the time of year and natural gas prices had declined to 20-year lows.

The AECO monthly index, the benchmark price for natural gas in Western Canada, averaged $2.50 per gigajoule (GJ) during the period January 1, 2015 to March 31, 2016. This was down more than 40 per cent from an average of $4.19 per GJ during 2014. The above 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 GJ and $0.20 per GJ higher than AECO.

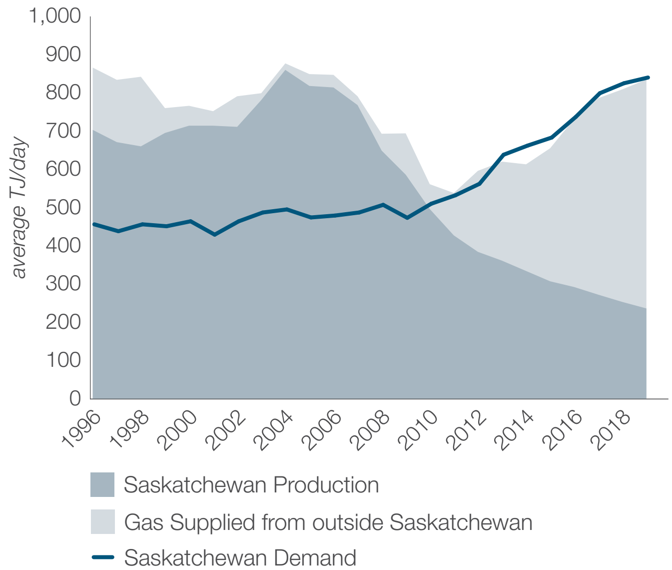
The Shale Gas Revolution

Looking back, the natural gas market went through a fundamental change in what is now referred to as the shale gas revolution. Approximately seven years ago, horizontal drilling and hydraulic fracturing technologies were implemented on a large scale to extract natural gas from shale rock. The technology proved to be very cost effective. Prior to widespread shale gas production, natural gas was produced from conventional wells, using traditional production techniques and natural gas reserves were not growing. Production of natural gas from shale rock fundamentally shifted the gas supply balance from one of shortage to one of excess supply, which resulted in a shift to lower natural gas prices.

Over the past three years, the same shale rock technology applied to natural gas production was implemented on a large scale to tight oil production. This resulted in unprecedented growth in oil production, particularly in the United States, much like what occurred in natural gas supply a few years earlier. With the dramatic increase in oil supply, oil prices also reached multi-year lows during 2015, especially into the winter of 2015-16. Natural gas and natural gas liquids – including butane, propane and condensate – are by-products of oil production, and with the growth in oil supply also came an overabundance of natural gas liquids. This past year, the price of natural gas liquids followed the same demise as oil and natural gas, trading at multi-year lows and temporarily reducing the profitability of most midstream liquids operations.

Changing Saskatchewan Natural Gas Supply

Saskatchewan Natural Gas Supply

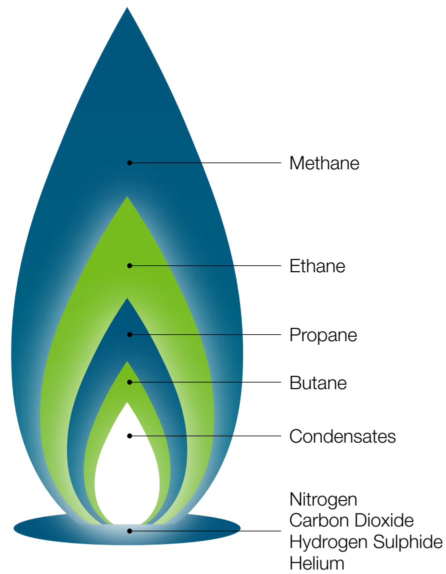


Saskatchewan is a net importer of natural gas. Annual demand exceeds production within the Province and in 2015 approximately 55 per cent of gas consumed in the Province was imported from Alberta. SaskEnergy was a net exporter of natural gas and through the shale gas revolution, transitioned to a net importer of natural gas. High natural gas prices encouraged conventional gas drilling and production within the Province, producing enough supply to meet local demand, and exporting any excess supplies to Eastern Canada or the United States. However, the sustained low natural gas prices have discouraged conventional drilling and conventional natural gas supplies have declined sharply in recent years. During the 15-month period ended March 31, 2016, only one natural gas well was drilled in Saskatchewan compared to an annual average of more than 1,000 wells prior to 2008. Meanwhile the volume of natural gas produced in the Province associated with oil production has grown from approximately 20 per cent of provincial production five years ago to nearly 50 per cent. The low natural gas prices paired with a strong provincial economy in recent years resulted in strong growth in natural gas consumption, particularly in the industrial sector in Saskatchewan. The need to import large volumes of natural gas supply from Alberta, coupled with growing provincial demand, put considerable pressure on existing natural gas infrastructure. Capital investment in additional pipelines and facilities has been necessary to meet the changing source of supply and demand within the Province.

The Impact of Natural Gas Liquids

With the transformation of natural gas supply in Saskatchewan, the composition of the natural gas in the Province has also been changing. Conventional gas supply contains primarily methane. However, natural gas that is produced with oil has a much higher content of other natural gas liquids including butane, propane and condensate, and contains a higher amount of energy than conventional natural gas. Natural gas produced from shale rock also typically has a higher composition of natural gas liquids compared to conventional production. In Western Canada, the primary area of growth in natural gas supply has occurred in the Montney and Horn River shale basins, located along the northern part of the British Columbia and Alberta border.

Common Components of Unprocessed Natural Gas



Natural gas containing a high content of liquids is usually processed and the natural gas liquids are separated and sold in the open market. The processed natural gas is then distributed throughout the natural gas pipeline system. However, during 2015-16 it was not always economical to remove the natural gas liquids from the natural gas stream due to the low natural gas liquids prices. A number of natural gas processing plants, some of which are located along the Saskatchewan/Alberta border, extracted fewer liquids and in some cases temporarily suspended operations due to the low natural gas liquids prices in 2015-16. The result of this is that, at times, the natural gas imported into the Province is less processed or not processed at all. Rather, the liquids were sometimes left in the natural gas stream due to the low liquids prices and the cost of processing. Natural gas that has a high composition of natural gas liquids has a higher heat or energy content compared to conventional natural gas and less volume is required to generate an equivalent amount of energy. In Saskatchewan, the energy content or heat value of natural gas delivered to consumers has been generally rising since Saskatchewan became a net importer of natural gas five years ago. This is due to both the higher energy content of natural gas being imported from Alberta, and the fact that natural gas associated with oil production is replacing conventional production within the Province.

CONSOLIDATED FINANCIAL RESULTS

Consolidated Net Income (Loss)

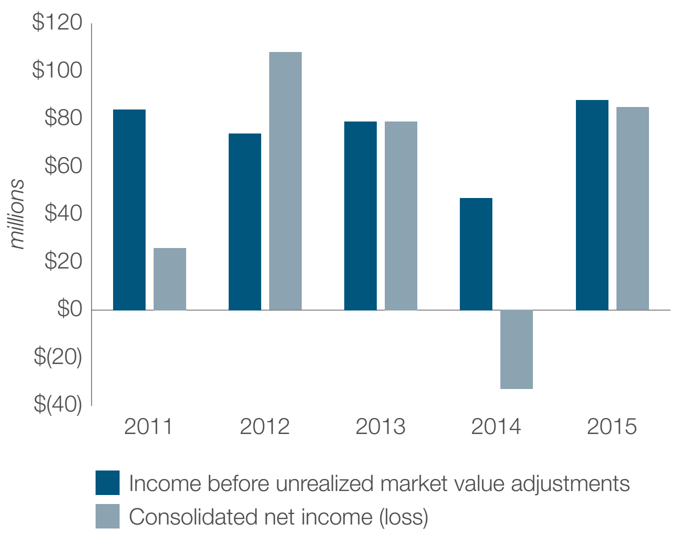
(millions)	15 Months Ended March 31, 2016[1]	3 Months Ended March 31, 2016	12 Months Ended December 31, 2015	12 Months Ended December 31, 2014	Change
Income before unrealized market value adjustments	$ 135	$ 47	$ 88	$ 47	$ 41
Impact of fair value adjustments	(13)	(11)	(2)	(68)	66
Revaluation of natural gas in storage	(11)	(10)	(1)	(12)	11
Consolidated net income (loss)	$ 111	$ 26	$ 85	$ (33)	$ 118

[1] On November 30, 2015, the Government of Saskatchewan announced a change in the year end for CIC and its subsidiaries from December 31 to March 31, commencing with the 2015-16 fiscal year. Accordingly, for the 2015-16 fiscal year the Corporation reported a 15-month fiscal period ended March 31, 2016, which is compared to a 12-month period ended December 31, 2014. The results for the three months ended March 31, 2016 and 12 months ended December 31, 2015 are unaudited and are shown for comparative purposes.

SaskEnergy's performance over the 12 months ended December 31, 2015 was significantly stronger than during 2014, reflecting a return to more normal operations following the difficult operating conditions experienced during 2014. The first three months of 2014 presented some of the coldest weather ever experienced by SaskEnergy that drove transmission operations to its design capacity, drained gas in storage and created challenging conditions resulting in higher operating expenses. In contrast, the winter months of 2015 were unseasonably warm, which reduced heating load and challenged delivery revenue. SaskEnergy added customers, increased throughput on its transmission system throughout the year and effectively managed costs, reducing employee benefits and operating and maintenance expenses by $9 million from 2014.

Most significantly, low natural gas prices and a commodity rate increase effective July 1, 2014 contributed to a higher realized commodity margin in 2015 compared to 2014. Gas marketing activities generated higher margins despite selling 50 per cent less gas in a lower natural gas price environment, which had relatively small pricing differentials between current and forward prices. SaskEnergy achieved these results through diligent market analysis and innovative ways of taking advantage of the limited trading opportunities that arose. Transportation revenues continue to improve with industrial load growth contributing an additional $15 million in 2015, combined with $6 million resulting from rate increases. Load growth from the top five major industrial customers increased transportation revenue by 36 per cent on average for the 12 months ended December 31, 2015 as compared to 2014, due to increasing contract demand for transportation service while also importing additional gas from Alberta.

Consolidated Financial Statements



For the three months ended March 31, 2016, income before unrealized market value adjustments was consistent with results from prior years. Weather for the first three months of 2016 was 14 per cent warmer than normal, resulting in lower delivery volumes and commodity sales to customers. A commodity rate decrease effective January 1, 2016 was offset by a distribution system delivery service rate increase and a transmission system transportation service rate increase.

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. IFRS requires these activities to be presented together within the consolidated financial statements; 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.

As derivative instruments, natural gas contracts are recorded at fair value 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 Margin

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. Consequently, lower commodity margins in one year are often followed by higher commodity margins in the subsequent year as is the case in 2014 and 2015.

For financial reporting purposes, the Corporation prepares its financial statements on a consolidated basis while applying IFRS. As a result, 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 margin on sales to customers, as reported in the consolidated financial statements, was as follows:

(millions)	15 Months Ended March 31, 2016[1]	3 Months Ended March 31, 2016	12 Months Ended December 31, 2015	12 Months Ended December 31, 2014	Change
Commodity sales	$ 385	$ 95	$ 290	$ 310	$ (20)
Commodity purchases	338	88	250	301	51
Realized margin on commodity sales	47	7	40	9	31
Impact of fair value adjustments	4	(11)	15	(83)	98
Margin on commodity sales	$ 51	$ (4)	$ 55	$ (74)	$ 129

[1] See note under table of Consolidated net income (loss) on page 31.

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 for the 12 months ended December 31, 2015 — $31 million higher than 2014. The margin earned in 2015 is significantly higher than 2014 as the cold weather conditions in 2014 increased commodity costs, which reduced the 2014 commodity margin and created a $34 million deficit in the GCVA. The deficit in the GCVA was addressed by increasing the commodity rate to $4.84 per GJ on July 1, 2014, a rate that was designed to recover the projected cost of gas plus the deficit in the GCVA over a two-year period. Subsequent to the commodity rate increase, natural gas prices fell below expectations, reducing the cost of gas sold and increasing commodity margins throughout 2015.

In contrast to 2014, weather was warmer than normal through 2015, resulting in the industry experiencing higher than expected levels of natural gas in storage at the end of December 31, 2015. When combined with record natural gas production, market prices reached new 20-year lows near the end of 2015 and the Corporation reduced the commodity rate from $4.84 to $4.30 per GJ effective January 1, 2016. The Corporation realized a $7 million margin on commodity sales for the three months ended March 31, 2016, which is lower than normal due to the commodity rate decrease and 14 per cent warmer than normal weather reducing volumes delivered. This was partially offset by the favourable effects of declining market prices lowering the average cost of gas sold in the three month period.

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 31, 2015. The settlement of natural gas contracts during 2015 contributed to a lower volume of contracts outstanding at the end of 2015 which improved the fair value position. In addition, the values of the remaining natural gas contracts were closer to market prices, which also improved the fair value adjustment at the end of December 31, 2015.

Between January 1 and March 31, 2016, natural gas prices fell significantly (the AECO near-month natural gas spot price fell from $2.35 per GJ to $1.02 per GJ), reducing the $15 million fair value adjustment at December 31, 2015 by $11 million to $4 million at the end of March 31, 2016.

Gas Marketing Margin

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. Traditionally this strategy has produced significant margins; however, while natural gas market prices have declined and differentials between current and forward market prices have narrowed, the opportunities to generate significant margins have also diminished. 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. The Corporation also leverages its storage facilities by purchasing natural gas and injecting it into storage when gas prices are low and selling when gas prices recover. This activity is primarily responsible for the revaluation of natural gas in storage, as gas prices continue to fall to all time low prices while inventory balances grow. Lastly, SaskEnergy provides natural gas supply options to larger end-use customers in Saskatchewan through non-regulated contract sales.

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

(millions)	15 Months Ended March 31, 2016[1]	3 Months Ended March 31, 2016	12 Months Ended December 31, 2015	12 Months Ended December 31, 2014	Change
Gas marketing sales	$ 180	$ 30	$ 150	$ 408	$ (258)
Gas marketing purchases	156	25	131	394	263
Realized margin on gas marketing sales	24	5	19	14	5
Impact of fair value adjustments	(15)	(1)	(14)	8	(22)
Revaluation of natural gas in storage	(11)	(10)	(1)	(12)	11
Margin on gas marketing sales	$ (2)	$ (6)	$ 4	$ 10	$ (6)

[1] See note under table of Consolidated net income (loss) on page 31.

The realized margin on gas marketing sales for the 12 months ended December 31, 2015 — which removes fair value adjustments on derivative instruments and the revaluation of natural gas in storage — was $19 million. By purchasing gas at low prices, SaskEnergy was able to reduce the average cost of gas sold and increase the margins earned compared to 2014. The lower market prices and smaller forward pricing differentials also constrained opportunities for the Corporation to transact significant volumes of purchases and sales. There were 47 PJ of natural gas sold in the 12 months of 2015 compared to 95 PJ sold in the same period of 2014.

During the three months ended March 31, 2016, the Corporation realized a $5 million margin on gas marketing sales, which excludes the effect of fair value adjustments and revaluation of natural gas in storage. As market prices continued to decline through the period, higher sales volumes were offset by the effects of declining gas marketing margins.

Gas Marketing Fair Value Adjustments

Gas marketing margins are affected by fair value gains and losses on the various natural gas contracts (forward contracts, swaps and options) it uses in its gas marketing strategies. During 2015, fair value adjustments reduced gas marketing margins by $14 million compared to an $8 million increase in 2014. The fair value loss in 2015 is partially attributed to the fair value gain in 2014 — as contracts with a favourable fair value settle, they reduce the amount of the fair value adjustment.

As market prices declined through the first three months of 2016, the Corporation replaced expiring natural gas contracts with new lower priced sales and purchase contracts. With higher volumes of sales and purchase contracts outstanding at the end of March 31, 2016 compared to December 31, 2015, and as market prices continued to decline, the unfavourable fair value impact declined by $1 million compared to December 31, 2015.

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. With the near-month AECO spot price falling from $2.70 per GJ at the end of December 31, 2014 to $2.35 per GJ at the end of December 31, 2015, the weighted average cost of gas in storage fell by $0.24 to $2.72 per GJ. Purchases made in the low market price environment have reduced the average cost of gas in storage; however, lower forward market prices continue to adversely affect net realizable value. Consequently, the net realizable value of gas marketing natural gas in storage was $24 million below cost as at December 31, 2015, which is $1 million lower than the revaluation adjustment at December 31, 2014.

As the near-month AECO spot price fell to $1.02 per GJ at the end of March 31, 2016, the unfavourable net realizable value adjustment on gas marketing gas in storage increased to $34 million below cost compared to $24 million below cost at December 31, 2015. The Corporation took advantage of the declining market prices through the three month period by purchasing and injecting an additional three PJ of low priced natural gas into storage, which reduced the average cost of gas in storage and lessened the effect of lower gas prices.

Revenue

The delivery revenue, transportation and storage revenue, customer capital contributions and other revenue, as reported in the consolidated financial statements, were as follows:

(millions)	15 Months Ended March 31, 2016[1]	3 Months Ended March 31, 2016	12 Months Ended December 31, 2015	12 Months Ended December 31, 2014[2]	Change
Delivery revenue	$ 289	$ 74	$ 215	$ 232	$ (17)
Transportation and storage revenue	151	32	119	98	21
Customer capital contributions	61	24	37	33	4
Other revenue	14	2	12	16	(4)
	$ 515	$ 132	$ 383	$ 379	$ 4

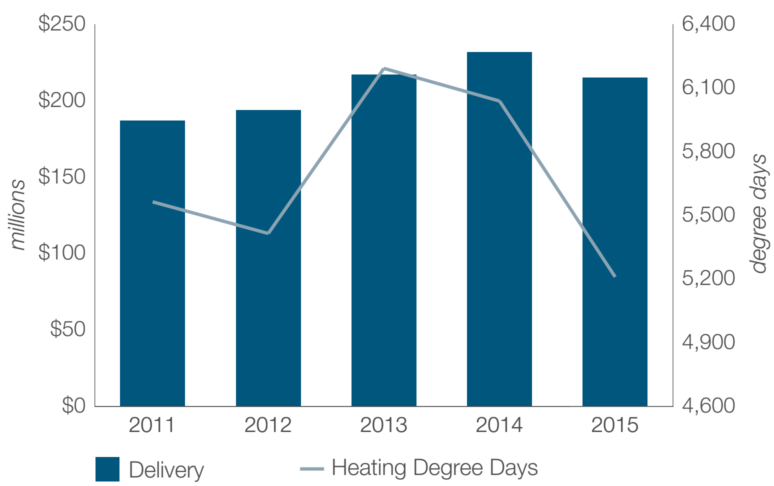
[1] See note under table of Consolidated net income (loss) on page 31.
[2] Certain comparative amounts have been reclassified to conform with the current fiscal year's presentation.

Delivery Revenue

Delivery Revenue is driven by the number of customers and how much natural gas they consume. As residential and commercial customers consume natural gas primarily as heating fuel, weather is the external factor that most affects delivery revenue. Based on weather data for the past 30 years, the quarters ended March, June and December 2015 were one per cent, five per cent and 13 per cent warmer than normal while the same three quarters in 2014 were 17 per cent colder, 21 per cent colder and two per cent warmer than normal. Delivery revenue of $215 million for the 12 months ended December 31, 2015 was $17 million below 2014. This was partially offset by the full year effect of a delivery rate increase effective September 1, 2014, a growing residential, commercial and industrial customer base, plus an increase in industrial customer load.

Distribution system growth, measured by the number of customers added, contributes not only to increased revenue but also to operating cost pressures. The Corporation added 5,090 customers through the 12 months of 2015, which as expected was below the more than 7,300 customers added in each of the past three years. The cost pressure from serving these additional customers, combined with increased spending on safety and integrity programs were the primary drivers behind increases to SaskEnergy's delivery service rates effective September 1, 2013, September 1, 2014 and also January 1, 2016. The Corporation continues to focus on efficiency initiatives to help offset the increasing rate pressures.

Delivery Revenue



Delivery revenue of $74 million for the three months ended March 31, 2016 was below expectation as the 14 per cent warmer than normal weather through the three month winter heating season decreased heating load. The 4.5 per cent rate increase effective January 1, 2016 has partially offset the adverse impact of the warmer-than-normal winter.

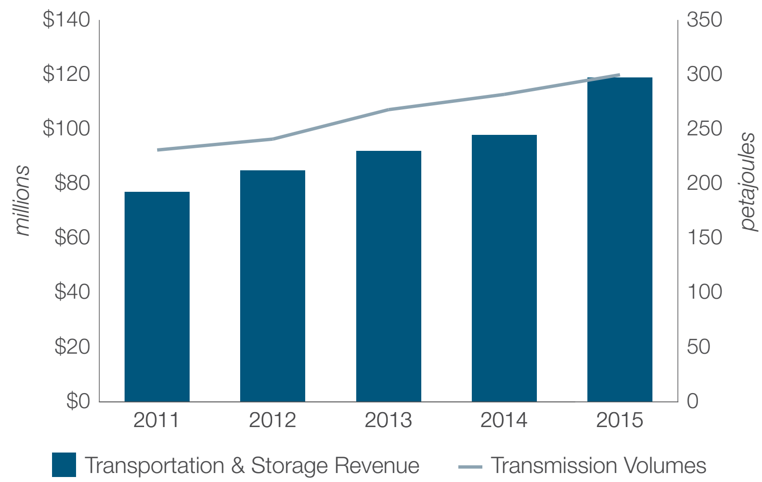
Transportation and Storage Revenue

The Corporation generates transportation revenue by taking delivery of gas from customers at various receipt points in Saskatchewan and Alberta, and delivering natural gas to customers at various delivery points in the Province. The transportation toll structure consists of a receipt service in which customers pay when they put gas onto the pipeline transportation system, and a delivery service in which customers pay a separate toll when they take delivery off of the pipeline transportation system. When gas has been delivered to the system by customers, it is considered to be part of the TransGas Energy Pool (TEP) until it is delivered to the end-use customer. For its receipt and delivery service, the Corporation offers both firm and interruptible transportation. Under a firm service contract, the customer has a right to deliver or receive a specified quantity of gas on each day of the contract. Under an interruptible contract, the customer may deliver or receive gas only when there is available capacity on the system. With a firm contract, customers pay for the amount of capacity they have contracted for whether they use the capacity or not. Under an interruptible contract, customers only pay receipt and delivery tolls when they deliver or receive gas.

Integral to the Corporation's transmission system are several strategically located natural gas storage sites, which have the capacity to provide operational flexibility along with a reliable and competitive natural gas storage service.

The increased demand for natural gas within the Province, as well as higher volumes imported from Alberta and higher export deliveries outside the Province have increased transportation revenue. For the 12-month period ended December 31, 2015, transportation and storage revenue was $21 million higher than the same period in 2014. Higher industrial demand, particularly in the potash, electrical generation and enhanced oil recovery sectors have increased transportation throughput. This growth has placed pressures on transportation infrastructure as additional Alberta border capacity is required to meet customers' needs for greater natural gas receipts. Transportation rate increases effective January 1, 2015 – necessitated by higher operating costs associated with pipeline expansion, system integrity expenditures and increasing third-party transportation costs – have also contributed to higher transportation revenue.

Transmission Revenue



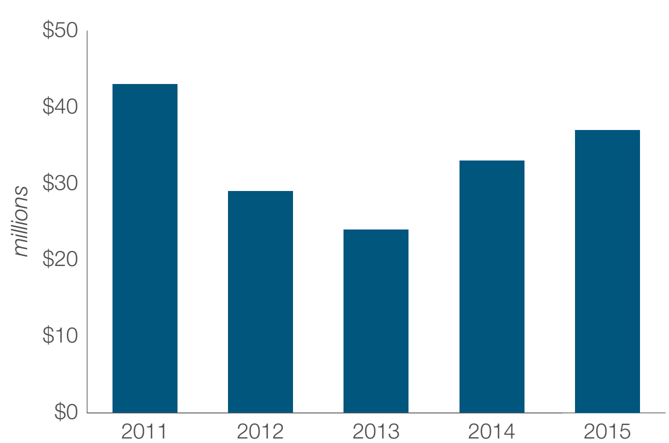
Storage revenue is down slightly compared to last year due to approximately 2 PJ of storage being de-contracted in early 2015. Storage de-contracting is a consequence of the low natural gas price environment and the relative supply imbalance as customer preferences shift to buying and selling gas directly from the market rather than utilizing storage services.

Transportation service rates increased by an average of 2.5 per cent effective January 1, 2016, while storage rates increased by an average of 5.8 per cent. The rate increases address growing capital and operating costs incurred to continue providing high quality, safe and reliable service to customers. To help mitigate the impact of increasing rate pressure from third-party transportation and increasing safety and integrity program costs, the Corporation continues to focus on efficiency initiatives to help minimize rate pressures. Transportation and storage revenue was $32 million for the three months ended March 31, 2016 as the Corporation continues to experience increasing contract demand resulting from provincial economic growth, and increasing costs associated with being a net importer of natural gas. In alignment with the Crown Sector Strategic Priorities, the Corporation continues to focus on providing the Province's growing population and industrial customers with efficient and timely access to natural gas service, while keeping rates competitive.

Customer Capital Contributions

The Corporation receives capital contributions from customers to partially offset the cost of constructing facilities to connect them to the transmission and distribution systems. 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 customer contribution revenue 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. Customers may earn a refund of some or all of the contributions they make depending on how much gas they flow. The amount of contributions that are likely to be refunded are estimated and recorded in deferred revenue until the eligible refund period expires or a refund is earned by the customer. During 2015, the Corporation refined its estimates of the amount of contribution 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 Contribution Revenue



Customer capital contribution revenue of $37 million for the 12 months ended December 31, 2015 was $4 million above the same period last year. This is comprised of $21 million relating to distribution system projects and $16 million relating to transmission system projects. The transmission system customer capital contribution revenue was $12 million higher due to the revised estimate of deferred contributions. The increase in contribution revenue was partially offset by a decrease in customer contributions associated with new transmission system customer connections, a result of fewer capital projects in 2015. New distribution system customer connections declined from 7,332 in 2014 to 5,090 in 2015. However, contribution revenue is consistent with 2014 due to a larger number of commercial and industrial projects in 2015.

Customer contribution revenue was $24 million for the three months ended March 31, 2016, primarily due to the completion of a large industrial capital project and the effect of revising the estimate of deferred transmission project customer capital contributions.

Other Revenue

Other revenue primarily consists of gas processing fees and natural gas liquid sales from two natural gas liquid extraction plants. Compression and gathering service revenue and royalty revenues comprise the remaining balance of other revenue. Royalty revenues are generated from a gross overriding royalty on several natural gas-producing properties in Saskatchewan and Alberta, which have diminished due to the continuing decline of conventional natural gas production, a result of low natural gas prices. Other revenue of $12 million for the 12 months ended December 31, 2015 was $4 million lower than 2014 — a result of natural gas liquid prices declining on average by 56 per cent year-over-year.

Other Expenses

Increasing investment in safety and integrity, strong customer growth and the need to import more natural gas from Alberta as Saskatchewan natural gas production declines, are key factors contributing to increases in other expenses. 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 operating and maintenance costs, depreciation and amortization expenses and corporate capital taxes.

Public expectations and the importance of system safety, integrity and reliability – both within the Corporation and across the industry – continue to increase. While the safety, integrity and reliability of the Corporation's transmission and distribution systems comes at a considerable cost, it is essential to the Corporation's successful operations and the safety of the people of Saskatchewan.

The Distribution Utility serves nearly 387,000 customers and the Transmission Utility serves 133 customers, with each experiencing significant growth in system safety and integrity requirements in recent years. Transmission system throughput has also grown. Innovation, creativity and collaboration are key leadership qualities promoted at SaskEnergy and are vital to the Corporation's cost management and safety initiatives.

Becoming a net importer of natural gas has affected operations of the transmission system. Load growth from industrial demand has required the Corporation to move more natural gas, and with a substantial amount of that natural gas coming from Alberta, the Corporation is transporting natural gas greater distances. To meet the rising demand on the system, the Corporation has made capital infrastructure investments to facilitate operational changes to the transmission system and continues to focus on the development of mobile compression in order to improve flexibility and operating efficiency.

Other expenses, net finance expenses before fair value adjustments (FVA) and other (losses) gains, as reported in the consolidated financial statements, were as follows:

(millions)	15 Months Ended March 31, 2016[1]	3 Months Ended March 31, 2016	12 Months Ended December 31, 2015	12 Months Ended December 31, 2014	Change
Employee benefits	$ 115	$ 24	$ 91	$ 92	$ 1
Operating and maintenance	152	34	118	126	8
Depreciation and amortization	110	23	87	83	(4)
Saskatchewan taxes	15	3	12	11	(1)
Other expenses	392	84	308	$ 312	$ 4
Net finance expenses (before FVA)	56	10	46	$ 44	$ (2)
Other (losses) gains	$ (3)	$ (3)	$ –	$ 1	$ 1

[1] See note under table of Consolidated net income (loss) on page 31.

Employee Benefits

Employee benefits of $91 million for the 12 months ended December 31, 2015 were $1 million below 2014. Weather was a factor that greatly affected operations in 2014, but had minimal negative impact in 2015. Employee overtime in 2015 was substantially lower than 2014 primarily due to the return to less severe operating conditions. In addition, by managing vacancies and continued focus on efficiency, the Corporation operated with 14 fewer full-time equivalents in 2015 compared to 2014. A freeze on management wage increases during 2015, part of austerity measures implemented by the Province, also contributed to the improvement in employee benefit costs.

Employee benefits were $24 million for the three months ended March 31, 2016, which is slightly lower than normal. The Corporation continues to actively manage vacant positions and overtime requirements while continuing to identify and implement efficiency initiatives.

Operating and Maintenance

SaskEnergy's focus on improving operational efficiency has allowed it to provide reliable high quality service to customers while reducing operating and maintenance costs from $126 million in 2014 to $118 million for the 12 months ended December 31, 2015. By strategically prioritizing maintenance programs, collaborating with Crown and industry partners, and implementing a number of temporary austerity measures, the Corporation reduced operating and maintenance expenses by $4 million. Specific areas for focused cost management included travel and non-safety related training, consulting fees, advertising, materials and supplies. In contrast, the cost of moving gas on other pipeline systems continued to increase during 2015 as additional pipeline capacity was required to bring gas into the province from Alberta.

Operating and maintenance expenses were $34 million for the three months ended March 31, 2016, a slight increase compared to normal as third-party transportation costs and safety and integrity programs continue to increase.

Depreciation and Amortization

The Corporation continues to balance safety and system integrity in an environment of growing demand for service. Strategic capital investments to meet customer requirements and replace aging infrastructure have increased the capital asset base, resulting in additional depreciation and amortization. For the 12 months ended December 31, 2015, depreciation and amortization of $87 million was $4 million higher than 2014, a result of capital additions to the transmission and distribution systems.

Depreciation and amortization was $23 million for the three months ended March 31, 2016, a slight increase compared to prior years, resulting from additional capital investment.

Net Finance Expenses

Net finance expenses, before the impact of fair value adjustments, were $46 million for the 12 months ended December 31, 2015 compared to $44 million in 2014. Higher earnings on debt retirement funds were fully offset by the higher debt financing needed to fund the Corporation's capital expenditures. There was also a $3 million unfavourable fair value adjustment on debt retirement funds during 2015, an outcome of higher interest rates on fixed interest rate investments.

Net finance expenses, before the impact of fair value adjustments, were $10 million for the three months ended March 31, 2016 as there were no changes to the debt structure. There was also a $1 million favourable fair value adjustment on debt retirement funds during the first three months of 2016.

Other (Losses) Gains

Recent increases in oil production and related natural gas liquid by-products have led to declining natural gas and natural gas liquid prices, which have adversely affected cash flows generated from the Corporation's natural gas liquid extraction plant assets. Temporary impairment losses on natural gas liquid extraction plant assets of $3 million were recorded in each of the first quarter of 2015 and the fourth quarter of 2014 to recognize the impact of declining natural gas liquid prices on an asset's value in use. The 2015 impairment loss and $2 million of losses on other asset disposals were 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 consolidated financial statements.

In March 2016, a $3 million impairment adjustment was recorded on a waste heat recovery asset located at the Rosetown compressor station. Using advanced technology, the unit captures waste heat from gas compressor units to generate electricity. The Corporation has a power purchase agreement with SaskPower to sell electrical energy. However, electricity generated by the waste heat recovery unit has been consistently lower than original expectations. Through an assessment of its recoverable amount from future operations, it was determined that the estimated recoverable amount is less than the net book value of the waste heat recovery unit.

LIQUIDITY AND CAPITAL RESOURCES

(millions)	15 Months Ended March 31, 2016[1]	3 Months Ended March 31, 2016	12 Months Ended December 31, 2015	12 Months Ended December 31, 2014	Change
Cash provided by operating activities	$ 347	$ 87	$ 260	$ 248	$ 12
Cash used in investing activities	(241)	(26)	(215)	(283)	68
Cash (used in) provided by financing activities	(100)	(53)	(47)	40	(87)
Increase (decrease) in cash and cash equivalents	$ 6	$ 8	$ (2)	$ 5	$ (7)

[1] See note under table of Consolidated net income (loss) on page 31.

Cash provided by 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 investment activity, debt servicing costs and dividends, additional short and long-term debt is required. 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 provided by operating activities was $260 million for the 12 months ended December 31, 2015, an increase of $12 million from 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 sales were higher than purchases in the declining price environment and lower operating expenses also contributed to increased operating cash flows. This was 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.

Cash from operating activities was $87 million for the three months ended March 31, 2016, resulting from increasing transportation revenue and a higher commodity margin. Declining delivery and commodity volumes during the first three months of 2016 were due to weather being 14 per cent warmer than normal.

Investing Activities

Cash used in investing activities totaled $215 million for the 12 months ended December 31, 2015, $68 million below 2014. Capital investment levels declined in 2015 due to lower system growth and customer connection levels compared to 2014. The majority of capital investment to the end of December 31, 2015 focused on $118 million of customer growth and system expansion projects, which were a result of Saskatchewan residential and industrial growth, as well as safety and system integrity programming of $76 million – a sign of the Corporation's ongoing commitment to a safe, reliable system. The Bayhurst-to-Rosetown pipeline project completed in 2014 was the Corporation's largest capital investment project in recent years, contributing $70 million to the 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.

Cash used in investing activities was $26 million for the three months ended March 31, 2016, resulting from reduced capital expenditures and deferral of customer related facility requests. The Corporation also strategically prioritized capital investment decisions while monitoring debt levels.

Financing Activities

Cash used in financing activities was $47 million through the 12 months ended December 31, 2015, which is $87 million below the $40 million provided by financing activities in 2014. The Corporation used $50 million for interest payments, $33 million for dividends and $52 million to pay debt and debt retirement fund obligations. As a result, the Corporation required an additional $62 million in long-term debt and increased its short-term borrowings by $26 million. SaskEnergy's debt ratio at the end of December 31, 2015 of 62 per cent debt and 38 per cent equity improved from 63 per cent debt and 37 per cent equity at the end of 2014. This remains within the Corporation's long-term target range of 58 per cent to 63 per cent debt, and continues to be affected by the negative impact of market value adjustments on retained earnings and the increasing debt requirements to finance growing capital expenditures.

Cash used in financing activities was $53 million for the three months ended March 31, 2016, as the Corporation was able to fund its capital requirements, pay its interest obligations, and dividend requirements while reducing its short-term debt using cash from operations.

CAPITAL EXPENDITURES

The capital expenditures were as follows:

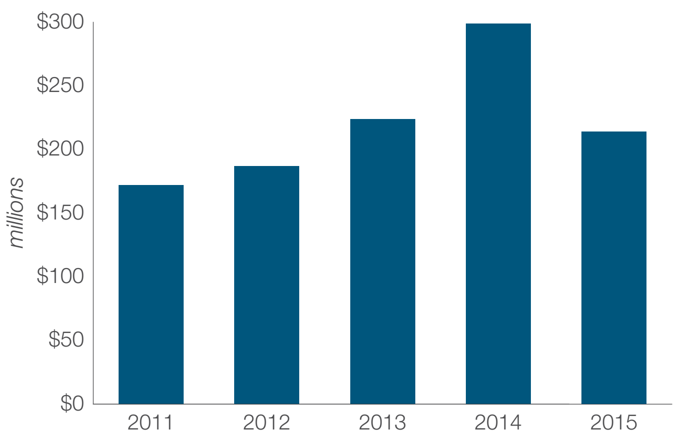
(millions)	15 Months Ended March 31, 2016[1]	3 Months Ended March 31, 2016	12 Months Ended December 31, 2015	12 Months Ended December 31, 2014	Change
Customer growth and system expansion	$ 132	$ 14	$ 118	$ 203	$ (85)
Safety and system integrity	87	11	76	80	(4)
Information systems	16	3	13	8	5
Vehicle & equipment, buildings, furniture	9	2	7	8	(1)
	$ 244	$ 30	$ 214	$ 299	$ (85)

[1] See note under table of Consolidated net income (loss) on page 31.

Provincial growth in the natural gas customer base, combined with the Corporation becoming a net importer of natural gas, place increasing capital investment requirements on the Corporation's natural gas infrastructure.

Customer growth and system expansion capital expenditures declined to normal levels in 2015, after an investment of $70 million in 2014 on the Bayhurst-to-Rosetown pipeline expansion project. This project enabled the transmission system to bring more gas into the province from Alberta and helped alleviate capacity constraints caused by the shift to becoming a net natural gas importer. The requirement to connect natural gas producers and residential customers declined relative to 2014. However, large industrial customer connections continue to grow. Through collaboration with other Crown corporations and private sector partnerships, SaskEnergy also realized efficiencies in connecting customers through the joint service trenching and turnkey initiatives. In the two largest urban centres, natural gas mains and services are now installed with power, telephone and cable services, reducing installation and administration costs that were incurred independently by each service provider. The expansion of the natural gas extraction plant at Coleville, and AMI system implementation, continued throughout 2015.

Capital Expenditures



Safety and integrity initiatives continue to gain importance across the natural gas industry and the Corporation continues to make significant capital investment to ensure safe and reliable service to customers.

Using a risk-based approach to safety and integrity programming, spending on transmission system integrity projects decreased, while work related to service upgrades, enhanced leak survey processes, reduced leaks due to external interference and ground shifting at resort communities along Last Mountain Lake increased in an effort to focus expenditures to the most urgent requirements.

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 CIC and its subsidiaries, including SaskEnergy, would change from December 31 to March 31. For the current fiscal period, SaskEnergy reported a 15-month period ended March 31, 2016. Thereafter, SaskEnergy will report 12-month fiscal periods ending March 31 of each year.

SaskEnergy is a capital intensive utility that operates within a regulatory framework. Revenue and results are affected by customer requirements, which influence capital investment and operating costs. Transportation, delivery, storage and commodity service rates are set by the Provincial Cabinet after review by the TransGas Customer Dialogue group (transportation and storage service) and the Saskatchewan Rate Review Panel (delivery and commodity service). Within the regulatory framework, SaskEnergy earns sufficient revenue to cover its operating costs plus a return on its investments in facilities used to serve customers. The rate of return on investment is determined by the weighted average cost of its debt and industry comparable returns on its accumulated equity.

In close alignment with Saskatchewan Crown Sector Strategic Priorities and the Saskatchewan Plan for Growth, SaskEnergy's 2016-17 efforts will continue to focus on the four strategic mandates: Service Excellence, Achieving Growth, Our Team and Creating Value. With the oil and gas sector accounting for nearly 15 per cent of Saskatchewan's real Gross Domestic Product (GDP), declining oil and natural gas prices through 2015 and 2016 have adversely affected the provincial economy. However, provincial demand for natural gas is expected to continue growing, as major customers in potash production and natural gas power generation expand operations through 2016-17.

The continued growth in natural gas demand, combined with declining conventional gas production and an aging pipeline system, continues to put pressure on SaskEnergy facilities to meet customer load requirements. Additional investment in pipeline facilities is required to allow more gas to be imported from Alberta, capture gas produced in association with provincial oil production, serve new customers, and maintain the integrity of the pipeline system. SaskEnergy is projecting an investment of more than $600 million over the next three years. This additional investment will be primarily funded out of cash from operations, with an additional $101 million to be financed with incremental long-term debt. The additional load growth will generate more revenue for the Corporation. However, the investment in infrastructure will also increase operating costs and put pressure on delivery and transportation rates. The Corporation continues to pursue collaboration opportunities and technology initiatives to create operational efficiencies in how it serves customers and maintains facilities. Since 2009, SaskEnergy has achieved $38 million of operating efficiency savings and another $4 million has been targeted for 2016-17.

Operating Expenses

As the number of customers increases, and the natural gas infrastructure to serve those customers grows, the cost of operating the pipeline system rises. Generally, the addition of new customers and load reduces the average cost to serve those customers, so costs do not rise at the same rate as the expansion of the system. However, as the pipeline and distribution system continues to age, and supply shifts from conventional Saskatchewan production to associated gas production and Alberta supply, additional costs are incurred that do not generate additional revenue. Consequently, the average cost of serving customers is expected to rise. Depreciation and amortization combined with net finance expenses are expected to rise by $6 million as a direct result, while operating expenses, (employee benefits and operating and maintenance) are expected to rise by $4 million even with projected efficiency savings of $4 million.

Revenue

The rate increases effective January 1, 2016 will provide additional delivery, transportation and storage revenue to help offset increasing cost pressures resulting from customer growth and integrity investments experienced in recent years. Customer connections, which are closely related to the strength of the provincial economy, are expected to decline to 4,800 through 2016-17. Industrial and commercial demand for service is expected to continue to grow. SaskEnergy currently expects revenue to increase by $22 million in 2016-17, driven by a six per cent increase in load.

Commodity and Gas Marketing Margins

Natural gas prices reached record lows during the first three months of 2016 and are not expected to make a significant recovery throughout 2016-17 given the record levels of North American natural gas in storage at the end of the winter heating season. Currently, the differential between forward prices and current prices — the driver for much of SaskEnergy's gas marketing activity — is relatively high, allowing large percentage returns; although smaller on a dollar value basis than in previous years. Consequently, the potential gas marketing margins on gas marketing activities are expected to be lower than they have been in the past. The January 1, 2016 commodity rate reduction to $4.30 per GJ will reduce commodity revenue, but lower natural gas market prices are expected to reduce the average cost of gas by an equal or greater amount. Consequently, favourable margins are expected on commodity sales. By the end of March 31, 2017, the GCVA balance owing from customers is expected to be fully recovered. As part of the regular commodity rate review process, commodity rates will be reviewed and adjusted as required.

Consolidated Net Income

Consolidated net income, including the impact of fair value adjustments, is expected to be $117 million in 2016-17. Natural gas prices are a key risk to these financial results. A $0.10 per GJ increase in the price of natural gas will allow SaskEnergy to recover $3 million of the $34 million net realizable value adjustment reported at the end of March 31, 2016 on natural gas in storage and $6 million of the $98 million fair value adjustment reported on natural gas contracts. Conversely, a $0.10 per GJ decline in natural gas prices would adversely affect net income to a similar degree. During 2016-17, a number of derivative instruments are expected to expire resulting in a reversal of fair value adjustments reported in prior periods however, further declines in natural gas prices could negatively impact the expected benefit.

Weather will be a key factor affecting 2016-17 financial results. Forecasted results are based on normal weather. To the extent that weather is colder than normal, delivery revenue will increase, and to the extent that weather is warmer than normal, delivery revenue will be lower. Transportation, storage and other revenue are typically not impacted by weather, as is the case with operating expenses. Commodity revenue and gas purchases can both be affected by weather but typically offset each other.

SaskEnergy's financial performance is expected to remain strong. Capital expenditure requirements and rising costs will remain a challenge throughout the forecast period as SaskEnergy adjusts to continued customer load growth, infrastructure renewal and shifting natural gas supply dynamics. A low natural gas price environment will continue to create challenges from a gas marketing perspective, but could create opportunities to reduce commodity rates to customers. Delivery and transportation revenue will continue to grow along with growth in operating costs. The outcome will be moderate rate pressure assuming rate increases are regular. Over the forecast period, SaskEnergy will continue to focus on providing safe and reliable service to its customers and investing in safety and growth initiatives while actively seeking operating and capital deployment efficiencies through collaboration and technology initiatives.

RISK MANAGEMENT AND DISCLOSURE

The transmission, storage, distribution and sale of natural gas are subject to a number of risks that can affect SaskEnergy's success in achieving its business objectives. The Corporation is also subject to risks specifically related to financial instruments that are not discussed below. Risks specific to financial instruments are discussed in Note 10 of the Consolidated Financial Statements. The Corporation does not seek to eliminate risk, but rather ensures existing and emerging risks are identified, communicated and effectively managed through its Enterprise Risk Management (ERM) process. The results from the annual risk assessment are used as inputs into the strategic and business planning session. The ERM policy establishes roles and responsibilities, as well as a general strategy for the Corporation to manage its risks. The Corporation identifies and manages its risks in support of its vision, mission and goals as set out in the Strategic Plan and throughout its operations.

Risk management is the responsibility of all levels of management in the Corporation. However, the Board of Directors and Executive Committee set the tone for ERM. The Executive Committee is responsible for formally identifying strategic risks that impact the Corporation's goals, actively participating in the risk assessment process and developing strategic risk management plans. Due to the ever-changing risks faced by the Corporation, it remains nimble and flexible in addressing the risks. The Board of Directors is responsible for the Corporation's risk management policy and framework. The Board executes its role in the risk management process by participating in the risk assessment process. The Board also reviews an annual report that identifies the top corporate-wide risks, along with the processes and controls in place to manage and monitor each risk, the designated control owner(s) and the link to the Strategic Plan. The top risks as identified in the 2015 annual risk assessment process are discussed below.

Pipeline, Facility and Operational Failure

Pipeline, facility and operational failure could disrupt the effective operation of SaskEnergy's natural gas storage, distribution and transmission infrastructure, negatively impacting public safety, the environment and customers. Operational hazards include severe weather conditions, fire, human error, mechanical failures, third-party pipeline encroachment, hazardous materials and acts of civil disobedience and sabotage. The occurrence of any of these events, many of which are outside the control of the Corporation, could impact financial results through increased operating costs and/or reduced revenues. Some of the primary processes used to mitigate the Corporation's pipeline, facility and operational risk include system integrity programs, public awareness and safety programs, employee and operator training, plus environmental policies and procedures. The financial impacts of these risks are also mitigated, where possible and appropriate, through insurance.

Interest Groups

SaskEnergy is exposed to the risk of higher costs, delays or even project cancellations due to pressure by landowners and other interest groups. In recent years, the ability of landowners and interest groups to make claims and oppose projects in regulatory and legal forums has increased. This "not in my backyard" philosophy could impact the Corporation's ability not only to develop new facilities through delays and additional costs, but also to operate existing facilities, and could potentially affect the integrity and reliability of its system. Through various programs and strategies, including stakeholder engagement, Aboriginal consultation, environmental assessments and public awareness, SaskEnergy works proactively with landowners and other interest groups to identify and develop appropriate responses to concerns regarding expansion and development of infrastructure.

Security of Supply

The transition from a net natural gas exporter to a net natural gas importer — a consequence of the substantial decline in natural gas production within Saskatchewan and increased consumption in the Province — has added complexity and increased costs for the transmission system to ensure that supply is available when and where needed. TransGas manages this risk through the business planning process, supply and demand forecasting and stakeholder consultation with existing and potential large customers. For the Distribution Utility, this also adds complexity from a supply planning perspective that is managed through its gas procurement strategy.

Integrated Information Systems

In today's increased use of information systems, the Corporation is at risk both internally and externally. The organization is at risk (phishing, whaling attempts, spam, malware, etc.) from external parties that may threaten the successful operation of our information systems. These threats are addressed through a number of security processes and controls. Internally, the Corporation's information systems have become increasingly integrated throughout operations, increasing the risk that a failure in one system could lead to a failure in another system, impacting the Corporation's ability to meet operational requirements. The Corporation mitigates this risk through its project prioritization process and project management methodology related to system development. The Corporation also has up-to-date business continuity and disaster recovery plans for critical operations as well as information technology processes.

Employer/Employee Relationship

The Corporation's relationship with its employees is important to the continued safe operation of its transmission, storage and distribution systems. Possible consequences of a deteriorating relationship with employees include loss of productivity and labour disruption. SaskEnergy maintains open dialogue with its union through joint union-management committees, the collective bargaining process, a focus on safety and providing an environment that offers employees a healthy work/life balance.

Emerging Strategic Business Landscape

Recent transformations in the natural gas business landscape present both uncertainties and opportunities that affect SaskEnergy's short and long-term strategy. The Corporation develops integrated strategic risk mitigation through long-term strategic planning, the customer dialogue process and relationships with industry associations. The Corporation's strategic plans identify and monitor emerging risks, advances in technology and changing customer expectations. There is less reliance on historical data or the status quo and increasing focus on strategic risk factors that may deter the Corporation from its ability to realize strategic objectives.

Business Plan Execution

Successfully implementing business plan targets is heavily dependent on managing efficiency, productivity and cost pressures. The risk of not meeting efficiency and productivity targets has financial and performance implications. SaskEnergy stresses accountability of results — whether it's managing vacant positions, collaborating with other Saskatchewan Crown corporations or actively managing transportation cost pressures. In order to meet business plan targets, employees are engaged in compiling each business plan, while a leadership network reinforces accountability for efficiency and productivity targets by keeping them at the forefront of daily management of the Corporation. The result is a strong performance management system with the entire organization working toward business plan targets.

Operational Compliance

Operational risk results from the inability to achieve or maintain compliance with legislation, regulations, codes and standards. A proactive culture of compliance with current legislation and regulations pertinent to corporate governance, business functions and service delivery can mitigate operational risk. Legislative and regulatory compliance is an ongoing responsibility of the Board, Executive, employees and all contractors working for or at SaskEnergy. The Board, CEO and Executive team are committed to staying informed of changes in legislative and regulatory requirements as well as communicating and implementing such changes. Changes are monitored through industry association memberships, environmental assessments, participation in pipeline regulatory forums and through a management system that monitors act and regulation updates. Ongoing review and training ensures everyone has a clear understanding of their roles and responsibilities related to legislation, regulations, codes and standards. It is the responsibility of each individual to ensure that they comply and participate in regular, ongoing review of policies and procedures.

Transportation and Delivery Rate Adjustment

Transportation and delivery rates cover the operating costs SaskEnergy incurs to provide transportation, delivery and customer service to its natural gas customers. Operating costs have and will continue to rise related to transportation and storage, as the Province is now a net importer of natural gas; public safety requirements; plus rising interest and depreciation expenses due to increasing capital spending, resulting from provincial growth. These escalating operating costs may trigger rate increases that are seen as unacceptable or unmanageable from a customer's perspective. While SaskEnergy cannot control or manage some third-party costs, through efficiency and productivity it can minimize the impact of rate changes on customers and pass the benefits on to customers. Transportation and delivery rate adjustments are managed through multi-year rate strategies, the annual business planning process, participation in regulatory forums, a strong relationship with the Saskatchewan Rate Review Panel and Shareholders as well as a strong Customer Dialogue process.

Engagement, Attraction and Retention of Skilled Employees

With Saskatchewan's changing economy, competition to attract and retain skilled employees has changed. This risk is still relevant because it is extremely important to have the right people in the right place at the right time. However, how this risk is managed and the effort required by management has changed. The Corporation has effective processes in place to manage turnover and is able to attract and retain a sufficient number of appropriately skilled, diverse and engaged people through its recruitment, hiring and training processes. The Corporation also conducts a quarterly succession planning assessment, utilizes a cross-training strategy, conducts employee engagement surveys and utilizes a leadership network. In addition, SaskEnergy monitors, and adjusts when appropriate, compensation and benefits as part of the job evaluation process, utilizing industry comparisons.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Corporation prepares its consolidated financial statements in accordance with IFRS, using the accounting policies described in Note 3 of the consolidated financial statements. The application of these accounting policies requires management to make a number of judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. These judgments, estimates and assumptions – which are based on historical experience and other factors that are considered relevant – are reviewed on an ongoing basis. The Corporation's critical accounting policies and estimates — which could materially impact the Corporation's consolidated financial statements — have been summarized below.

Estimated Unbilled Revenue

Commodity sales and delivery revenues are recognized when natural gas is delivered to customers. SaskEnergy estimates the volume of natural gas delivered but not billed, as it is currently impracticable to read all customer meters on March 31 of each year. As the AMI project continues to install meter-reading modules on natural gas meters, the reliance on the unbilled revenue estimate will decline. For meters without meter-reading modules installed, the volume of unbilled sales is determined by comparing the estimated total volume of natural gas delivered to the distribution system with the volume of natural gas billed to customers. Regular meter readings throughout the year are used to reconcile volumes purchased with volumes billed. At March 31, 2016, the unbilled revenue related to commodity sales and delivery revenue was $23 million.

Net Realizable Value of Natural Gas in Storage Held for Resale

The Corporation's natural gas in storage is valued at the lower of weighted average cost and net realizable value. When determining the net realizable value, the Corporation uses quoted future market prices based on anticipated delivery dates, taking into account the Corporation's existing natural gas contracts, ability to withdraw natural gas from storage and management's intention. At March 31, 2016, the revaluation reduced the carrying amount of natural gas in storage by $34 million. A $1.30 per GJ, improvement in the differential between the weighted average cost and net realizable value would completely eliminate the $34 million revaluation.

Fair Value of Financial and Derivative Instruments

The Corporation uses natural gas derivative instruments to secure its supply of natural gas and manage the impact of natural gas price variability. Prior to settlement, SaskEnergy records all natural gas derivative instruments at fair value. The fair value is determined based on quoted market prices and takes into account the credit quality of both counterparties and the Corporation. Given fluctuations in natural gas prices, fair value adjustments vary throughout the length of the contract. At March 31, 2016, a $1.00 per GJ increase in natural gas prices throughout the forward curve would have increased the fair value of outstanding natural gas contracts by $60 million. Conversely, a decrease of $1.00 per GJ would have decreased the fair value of natural gas derivative instruments by $61 million.

Useful Lives and Depreciation and Amortization Rates for Property, Plant and Equipment and Intangible Assets

With a combined carrying amount of $2,125 million, property, plant and equipment and intangible assets constitute a significant component of the Corporation's assets. As a result, changes in assumptions related to the calculation of depreciation and amortization may have a significant impact on SaskEnergy's net income. As at March 31, 2016, a one-year decrease in the estimated service life of the Corporation's capital asset base would have increased the Corporation's depreciation and amortization by approximately $2 million.

The Corporation's property, plant and equipment and intangible assets are depreciated and amortized on a straight-line basis over the estimated service life of the asset. The estimated service lives are based on extensive studies with annual reviews for reasonability. Any changes in the estimated service life of assets are treated as prospective adjustments to depreciation and amortization.

Estimated Unearned Customer Capital Contributions

Customer capital contributions – related to the construction of new, customer-specific service connections – are recognized as deferred revenue until the related property, plant and equipment are available for use. The Corporation's customer capital contributions, particularly those related to the transmission system, are often subject to refunds over a certain period. Consequently, when the related property, plant and equipment are available for use, an estimate of the potential refund remains in deferred revenue until the refund period has passed. At March 31, 2016, the Corporation estimated $61 million in customer capital contributions could be refunded in future periods.

Estimated Future Costs of Decommissioning Liabilities

The Corporation determines its obligations, legal and constructive, for the future costs of decommissioning certain natural gas facilities by estimating both the associated costs and timing of the necessary cash flows. The timing of future decommissioning is conditional upon the Corporation's anticipated ongoing use for these facilities, while future decommissioning costs are estimated based on the Corporation's experience and presented on a discounted basis. At March 31, 2016, the Corporation's provisions were estimated at $130 million. A 0.5 per cent increase in the discount rates used to determine the provisions would have resulted in a $19 million increase in provisions at the end of March 31, 2016. A 0.5 per cent decrease would have resulted in a $23 million decrease.

ACCOUNTING POLICY CHANGES

Several new and amended standards, issued by the International Accounting Standards Board (IASB), became effective January 1, 2015. The impact of the adoption of these standards has been discussed in Note 3 of Corporation's consolidated financial statements. Adoption of the new and amended standards resulted in no material impact on the Corporation's consolidated financial statements

The IASB has issued several new and amended standards that will become effective in future periods. Details on future changes in accounting policies are provided within Note 3 of the consolidated financial statements. While the Corporation continues to review these standards, the impact on its consolidated financial statements has not yet been determined.

CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

Financial Reporting

The accompanying consolidated financial statements are the responsibility of the management of SaskEnergy. They have been prepared in accordance with IFRS, using management's best estimates and judgments where appropriate. Management is responsible for the reliability and integrity of the consolidated financial statements, the notes to the consolidated financial statements and all other financial information contained in this annual report.

The Corporation's Board of Directors (the Board) is responsible for ensuring that management fulfills its responsibilities for financial reporting and control. The Board is assisted in exercising its responsibility through its Audit and Finance Committee (the Committee). The Committee is composed of directors who are not employees of the Corporation. The Committee reviews the annual report and meets regularly with management, internal audit and external auditors to discuss internal controls, accounting, auditing and financial matters. The Committee recommends the appointment of the external auditors. The Committee reports its findings to the Board for its consideration in approving the consolidated financial statements.

Internal Control over Financial Reporting

Management is also responsible for establishing and maintaining a system of internal controls, policies and procedures designed to provide reasonable assurance that assets are safeguarded and that accounting systems provide timely, accurate and reliable financial statements. The internal control system includes an internal audit function and an established code of conduct.

Management assessed the effectiveness of the Corporation's internal control over financial reporting as at March 31, 2016, based on the framework established in Internal Control — Integrated Framework issued by the Committee of Sponsoring organizations of the Treadway Commission. Based on this assessment, management concluded that the company maintained effective control over financial reporting and that there were no material weaknesses in internal controls over financial reporting as at March 31, 2016.

The consolidated financial statements have been audited by Deloitte LLP, Chartered Professional Accountants, Chartered Accountants, as appointed by the Lieutenant Governor in Council and approved by CIC. The Auditor's Report expresses their opinions on the fairness of the consolidated financial statements prepared by management.

[Original signed by D. Kelln]

Doug Kelln
President and Chief Executive Officer

[Original signed by C. Short]

Christine Short
Vice President, Finance and Chief Financial Officer

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

I, Doug Kelln, the Chief Executive Officer of SaskEnergy Incorporated (SaskEnergy), and I, Christine Short, the Chief Financial Officer, certify the following:

a. That we have reviewed the consolidated financial statements included within the annual report of SaskEnergy. Based on our knowledge, having exercised reasonable diligence, the consolidated financial statements fairly present, in all material respects, the financial condition, results of operations, and cash flows as of March 31, 2016.

b. That based on our knowledge, having exercised reasonable diligence, the financial statements do not contain any untrue statements of material fact, or omit to state a material fact that is either required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made.

c. That SaskEnergy is responsible for establishing and maintaining effective internal control over financial reporting, which includes safeguarding of assets and compliance with applicable legislative authorities; and SaskEnergy has designed internal controls over financial reporting that are appropriate to its circumstances.

d. That SaskEnergy conducted its assessment of the effectiveness of its internal controls over financial reporting and, based on the results of this assessment, it can provide reasonable assurance that internal controls over financial reporting as of March 31, 2016 were operating effectively and no material weaknesses were found in the design or operation of the internal controls over financial reporting.

[Original signed by D. Kelln]

Doug Kelln
President and Chief Executive Officer

[Original signed by C. Short]

Christine Short
Vice President, Finance and Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

To the Members of the Legislative Assembly of Saskatchewan

We have audited the accompanying consolidated financial statements of SaskEnergy Incorporated, which comprise the consolidated statements of financial position as at March 31, 2016, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the fifteen month period then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of SaskEnergy Incorporated as at March 31, 2016, and its financial performance and its cash flows for the fifteen month period then ended in accordance with International Financial Reporting Standards.

[Original signed by Deloitte LLP]

Chartered Professional Accountants, Chartered Accountants
Licensed Professional Accountants

May 26, 2016
Regina, Saskatchewan

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at

(millions)	Notes	March 31, 2016	December 31, 2014
ASSETS			
Current assets			
Cash		$ 11	$ 5
Trade and other receivables	5	104	148
Natural gas in storage held for resale	6	86	140
Inventory of supplies	7	11	12
Debt retirement funds	8	10	7
Fair value of derivative instruments	9	11	21
		233	333
Intangible assets	11	57	49
Property, plant and equipment	12	2,068	1,912
Debt retirement funds	8	92	86
		$ 2,450	$ 2,380
LIABILITIES AND PROVINCE'S EQUITY			
Current liabilities			
Short-term debt	13	$ 299	$ 299
Trade and other payables	14	105	117
Dividends payable		21	3
Current portion of long-term debt	15	100	50
Deferred revenue	16	61	90
Fair value of derivative instruments	9	109	107
		695	666
Employee future benefits	17	8	10
Provisions	18	130	95
Deferred revenue	16	6	6
Long-term debt	15	870	908
		1,709	1,685
Province's equity			
Equity advances	19	72	72
Retained earnings		669	623
		741	695
		$ 2,450	$ 2,380

(See accompanying notes)

On behalf of the Board:

[Original signed by S. Barber]

Director

[Original signed by N. Joorisity]

Director

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the periods ended

(millions)	Notes	15 Months Ended March 31, 2016 Income before Unrealized Market Value Adjustments	15 Months Ended March 31, 2016 Unrealized Market Value Adjustments (Note 21)	15 Months Ended March 31, 2016 Total	12 Months Ended December 31, 2014 Income before Unrealized Market Value Adjustments	12 Months Ended December 31, 2014 Unrealized Market Value Adjustments (Note 21)	12 Months Ended December 31, 2014 Total
REVENUE							
Natural gas sales	22	$ 565	$ (10)	$ 555	$ 718	$ 11	$ 729
Delivery		289	–	289	232	–	232
Transportation and storage		151	–	151	98	–	98
Customer capital contributions	16	61	–	61	33	–	33
Other	23	14	–	14	16	–	16
		1,080	(10)	1,070	1,097	11	1,108
EXPENSES							
Natural gas purchases (net of change in inventory)	22	494	12	506	695	98	793
Employee benefits		115	–	115	92	–	92
Operating and maintenance		152	–	152	126	–	126
Depreciation and amortization	25	110	–	110	83	–	83
Saskatchewan taxes	26	15	–	15	11	–	11
		886	12	898	1,007	98	1,105
NET INCOME BEFORE THE FOLLOWING		194	(22)	172	90	(87)	3
Finance income	27	6	(2)	4	4	7	11
Finance expenses	27	(62)	–	(62)	(48)	–	(48)
NET FINANCE EXPENSES	27	(56)	(2)	(58)	(44)	7	(37)
Other (losses) gains	28	(3)	–	(3)	1	–	1
TOTAL NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)		$ 135	$ (24)	$ 111	$ 47	$ (80)	$ (33)

(See accompanying notes)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the periods ended

(millions)	Retained Earnings	Equity Advances	Total
BALANCE AS AT JANUARY 1, 2014	$ 673	$ 72	$ 745
Total comprehensive loss	(33)	–	(33)
Dividends	(17)	–	(17)
BALANCE AS AT DECEMBER 31, 2014	623	72	695
Total comprehensive income	111	–	111
Dividends	(65)	–	(65)
BALANCE AS AT MARCH 31, 2016	$ 669	$ 72	$ 741

(See accompanying notes)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the periods ended

(millions)	Notes	15 Months Ended March 31, 2016	12 Months Ended December 31, 2014
OPERATING ACTIVITIES			
Net income (loss) and comprehensive income (loss)		$ 111	$ (33)
Add (deduct) items not requiring an outlay of cash			
Net change in fair value of derivative instrument assets and liabilities	21	11	75
Change in revaluation of natural gas in storage to net realizable value	21	11	12
Depreciation and amortization	25	110	83
Net finance expenses	27	58	37
Other losses (gains) on disposal and impairment of assets	28	7	(1)
Other non-cash items		–	(1)
Employee future benefits paid in excess of expense	17	(2)	–
		306	172
Net change in non-cash working capital related to operations	29	41	76
Cash provided by operating activities		347	248
INVESTING ACTIVITIES			
Additions to intangible assets		(15)	(7)
Additions to property, plant and equipment		(225)	(279)
Proceeds on disposal of assets		2	6
Decommissioning costs		(3)	(3)
Cash used in investing activities		(241)	(283)
FINANCING ACTIVITIES			
Debt retirement funds redemptions	8	7	6
Debt retirement funds installments	8	(12)	(10)
Decrease in short-term debt		–	(81)
Proceeds of long-term debt	15	62	246
Repayment of long-term debt	15	(50)	(50)
Interest paid		(60)	(47)
Dividends paid		(47)	(24)
Cash (used in) provided by financing activities		(100)	40
INCREASE IN CASH AND CASH EQUIVALENTS		6	5
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		5	–
CASH AND CASH EQUIVALENTS, END OF PERIOD		$ 11	$ 5

(See accompanying notes)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 CIC and its subsidiaries from December 31 to March 31, commencing with the 2015-16 fiscal year. Accordingly, for the 2015-16 fiscal year the Corporation reported a 15-month fiscal period ended March 31, 2016 compared to a 12-month period ended December 31, 2014.

2. Basis of preparation

a. Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

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

b. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following items, which are described in Note 3:

- Financial instruments classified as at fair value through profit or loss
- Employee future benefits
- Provisions
- Natural gas in storage held for resale

c. Functional and presentation currency

The 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, which are described in Note 3, 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 consolidated financial statements is included in Note 3 as well as the following notes:

- Revenue recognition related to unbilled revenue (Note 5)
- Existence of decommissioning liabilities (Note 18)

2. Basis of preparation (continued)

Information about significant management estimates and assumptions that have a risk of resulting in a significant adjustment is included in Note 3 as well as the following notes:

Estimated unbilled revenue (Note 5)
Net realizable value of natural gas in storage held for resale (Note 6)
Fair value of financial and derivative instruments (Note 9)
Useful lives and amortization rates for intangible assets (Note 11)
Useful lives and depreciation rates for property, plant and equipment (Note 12)
Estimated unearned customer capital contributions (Note 16)
Estimated future cost of decommissioning liabilities (Note 18)

During the period ended March 31, 2016, 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 $25 million of additional customer contribution revenue for the 15-month period. As the estimate is dependent on future customer capital contributions received, the impact of the change to future periods is uncertain at the end of the reporting period.

3. Summary of significant accounting policies

The accounting policies set out below have been applied consistently by the Corporation and its subsidiaries to all periods presented in the consolidated financial statements.

Certain comparative amounts in the consolidated statement of comprehensive income have been reclassified to conform with the current fiscal year's presentation (Note 23).

a. Changes in accounting policies

Effective January 1, 2015, the Corporation adopted the following amended IFRS on a prospective basis:

IAS 19 *Employee benefits*

The adoption of this amended standard had no impact on the consolidated financial statements for the period ended March 31, 2016.

b. Basis of consolidation

Subsidiaries are entities controlled by SaskEnergy. The results of operations of subsidiaries are included in the consolidated financial statements from the date control commences until the date control ceases. All intra-group balances and transactions are eliminated in preparing the consolidated financial statements. The Corporation's direct and indirect subsidiaries, which are wholly owned by SaskEnergy, are as follows:

Subsidiary	Principal Activity
Bayhurst Energy Services Corporation	Energy services company
Bayhurst Gas Limited	Natural gas storage company
BG Storage Inc.	Natural gas storage company
Many Islands Pipe Lines (Canada) Limited	Natural gas transmission company
Saskatchewan First Call Corporation	Underground infrastructure database company
TransGas Limited	Natural gas transmission and storage company

3. Summary of significant accounting policies (continued)

c. Joint arrangements

When assessing whether a joint arrangement is in the form of a joint operation or a joint venture, the Corporation considers the arrangement's structure, legal form and contractual terms as well as any other relevant factors. The Corporation's existing joint arrangements, which are identified below, are in the form of joint operations as the Corporation has the rights to the assets, and obligations for the liabilities, relating to the arrangements. The consolidated financial statements include the Corporation's share of jointly controlled assets, incurred liabilities, revenue and expenses as well as any liabilities and expenses that the Corporation has incurred directly in respect of its joint arrangements.

Joint Arrangement	Operating Jurisdiction	Interest	Principal Activity
Kisbey Gas Gathering and Processing Facility	Saskatchewan, Canada	50.0%	Natural gas processing
Totnes Natural Gas Storage Facility	Saskatchewan, Canada	50.0%	Natural gas storage

d. Cash and cash equivalents

The Corporation does not hold any short-term investments that would be classified as cash equivalents.

Bank indebtedness forms part of the Corporation's cash management and is included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

e. Natural gas in storage held for resale

Natural gas in storage is stated at the lower of weighted average cost and net realizable value. Net realizable value is determined using natural gas market prices based on anticipated delivery dates.

f. Inventory of supplies

Inventory of supplies consist primarily of pipe and general stock for construction and maintenance and are stated at the lower of weighted average cost and net realizable value. Replacement value is used as management's best estimate of net realizable value. When estimating the net realizable value, the Corporation also considers any obsolescence that may exist due to changes in technology.

g. Debt retirement funds

Under conditions attached to certain advances from the Province of Saskatchewan's General Revenue Fund, the Corporation is required, on an annual basis, to invest an amount equal to one per cent of the related outstanding debt. These investments are referred to as debt retirement funds and are administered by Saskatchewan's Ministry of Finance. Debt retirement funds are classified as financial instruments and are designated as at fair value through profit or loss, which are recorded at fair value in the consolidated statement of financial position. The investment and income earned on the investment is returned to the Corporation upon maturity of the related debt.

h. Financial and derivative instruments

The Corporation classifies its financial instruments into one of the following categories: financial assets and financial liabilities at fair value through profit or loss, held-to-maturity, loans and receivables, available-for-sale and other liabilities. During the reported periods, the Corporation did not have any financial instruments in the categories of held-to-maturity, and available-for-sale.

All financial instruments are measured at fair value on initial recognition. Transaction costs are included in the initial carrying amount of financial instruments, except for financial assets and financial liabilities at fair value through profit or loss, in which case the transaction costs are expensed as incurred. Measurement in subsequent periods depends on the classification of the financial instrument.

3. Summary of significant accounting policies (continued)

i. Financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities are classified as at fair value through profit or loss if they are held for trading or designated as such upon initial recognition. A financial asset or financial liability is classified as held for trading if it has been acquired with the intention of generating profits in the near term, is part of a portfolio of financial instruments that are managed together where there is evidence of a recent pattern of short-term profit taking or is a derivative. A financial asset or financial liability is designated as at fair value through profit or loss if the Corporation manages such instruments and makes decisions based on their fair value in accordance with the Corporation's documented risk management or investment strategy. Subsequent to initial recognition, financial assets and financial liabilities at fair value through profit or loss are measured at fair value with any revaluation gains and losses recognized in net income.

ii. Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. These financial assets are accounted for at amortized cost using the effective interest method.

iii. Other liabilities

Other liabilities are non-derivative financial liabilities that are not designated as at fair value through profit or loss. These financial liabilities are accounted for at amortized cost using the effective interest method.

iv. Derivative instruments

The Corporation utilizes a variety of derivative instruments to manage its exposure to natural gas price risk. Derivative instruments are classified as at fair value through profit or loss and are recorded at fair value within current assets or current liabilities, as applicable, commencing on the trade date. The change in the fair value is recorded in net income and classified within the revenue or expense category to which it relates.

Derivatives may be embedded in other host instruments. Embedded derivatives are treated as separate derivatives when the economic characteristics and risks are not closely related to those of the host instrument, the embedded derivative has the same terms as those of a stand-alone derivative and the combined contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with subsequent changes recognized in net income and classified within the revenue or expense category to which it relates. The Corporation enters into natural gas sales contracts with embedded derivatives for non-regulated contract sales to large end-use customers.

i. 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 instruments.

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.

j. Intangible assets

Intangible assets, which include computer software and mineral rights, are recorded at cost less accumulated amortization and any accumulated impairment losses. Intangible assets are capitalized if it is probable that the asset acquired or developed will generate future economic benefits. The costs incurred to establish technological feasibility or to maintain existing levels of performance are recognized in operating and maintenance expense as incurred.

Cost includes expenditures that are directly attributable to the acquisition or development of the asset. The cost of self-developed assets includes materials, services, direct labour and directly attributable overheads. Borrowing costs associated with major projects are capitalized during the development period. Major projects (or qualifying assets) are those projects that are under development for a period greater than six months. Assets under development are recorded as in progress until they are available for use.

Amortization of computer software is based on the cost of the asset and is calculated using the straight-line method over the estimated useful life of the asset from the date the asset is available for use. The amortization rates range from 10.0% to 20.0% annually. The estimated useful lives, residual values and method of amortization are reviewed annually for reasonableness.

Amortization (or depletion) of mineral rights and prepaid royalties is calculated using the unit of production method based on estimated proven and probable reserves. Depletion is considered a cost of natural gas in storage when the natural gas is produced. When the natural gas in storage is sold the depletion is charged to depreciation and amortization expense. The estimated proven and probable reserves, residual values and method of depletion are reviewed annually for reasonableness.

3. Summary of significant accounting policies (continued)

k. Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated depreciation and any accumulated impairment losses. When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment. The cost of major inspections or overhauls is capitalized. The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the specific item if it is probable that the part will generate future economic benefits, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The cost of regular servicing of property, plant and equipment is recognized in operating and maintenance expense as incurred.

Cost includes expenditures that are directly attributable to the acquisition or construction of the asset. The cost of self-constructed assets includes materials, services, direct labour and directly attributable overheads. Borrowing costs associated with major projects are capitalized during the construction period. Major projects (or qualifying assets) are those projects that are under construction for a period greater than six months. Assets under construction are recorded as in progress until they are available for use.

When property, plant and equipment is disposed of or retired, the related cost, accumulated depreciation and any accumulated impairment losses are eliminated. Any resulting gains or losses are reflected in net income in the period the asset is disposed of or retired.

Depreciation is based on the cost of the asset less its residual value and is calculated using the straight-line method over the estimated useful life of the asset from the date the asset is available for use at the following annual rates (per cent):

Distribution	1.5 to 5.3
Transmission and storage	2.0 to 20.0
Gathering, treatment and compression	2.0 to 33.0
Vehicles, equipment and other	2.5 to 20.0
Computer hardware	20.0 to 33.3

The estimated useful lives, residual values and method of depreciation are based on periodic depreciation studies with annual reviews for reasonableness.

l. Impairment

i. Financial assets

Financial assets, other than those classified as at fair value through profit or loss, are reviewed at each reporting date to determine whether there is any indication of impairment. Financial assets are impaired when there is objective evidence that the estimated future cash flows have been affected. Objective evidence of impairment could include significant financial difficulty, default, delinquency, indication of bankruptcy, or financial reorganization of a counterparty.

The Corporation considers evidence of impairment for trade and other receivables on both an individual and a collective basis. In assessing collective impairment, the Corporation uses historical trends of the likelihood of default, timing of recoveries and the amount of losses incurred, adjusted for management's judgment as to the impact of current economic and credit conditions.

The carrying amount of trade and other receivables is reduced through the use of an allowance account. Once reasonable collection efforts have been exhausted, and a trade and other receivable balance is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized immediately in operating and maintenance expense.

3. Summary of significant accounting policies (continued)

ii. Non-financial assets

At each reporting date, the Corporation reviews the carrying amount of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated. The recoverable amount of an asset is the higher of fair value less costs of disposal and value in use. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount, and an impairment loss is recognized immediately in net income. Assets that cannot be tested individually, including corporate assets, are grouped together into cash-generating units (CGUs), the smallest group of assets that generates cash inflow from continuing use.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the carrying amount of the asset (or CGU) does not exceed the carrying amount that would have been determined, net of amortization or depreciation, if no impairment loss had been recognized.

m. Employee benefits

i. Short-term employee benefits

Short-term employee benefits obligations are measured on an undiscounted basis and are expensed as the related service is provided. When the service of employees is used directly in the construction of an asset, the associated short-term employee benefits cost is recognized within the cost of the property, plant and equipment or intangible assets.

ii. Pension plans

The Corporation provides pension plans for all eligible employees through its participation in both a defined contribution plan and a defined benefit plan.

Under the defined contribution plan, the Corporation makes regular payments to a separate entity for current service and has no obligation to pay further amounts. Contributions are recognized within employee benefits expense during the period in which services are rendered by employees.

The defined benefit plan is administered by Saskatchewan Power Corporation (SaskPower), a Crown corporation under the common control of CIC. Employees that transferred employment from SaskPower upon establishment of SaskEnergy were eligible to remain members of the plan for the maximum contribution period of 35 years. A contractual agreement is in place stating that the Corporation's future contributions to the plan will not be affected by any plan surplus or deficiency. As a result, the Corporation's obligations related to the defined benefit plan was limited to making regular payments to the plan for current service, similar to a defined contribution plan. As all eligible employees reached the maximum contribution period of 35 years in 2013, the Corporation is no longer required to make contributions to the plan.

iii. Retiring allowance plan

Certain employees of the Corporation are members of a retiring allowance plan. The Corporation's obligation is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The future benefit is actuarially determined using the projected unit credit method. Any actuarial gains or losses are recognized in other comprehensive income while all current service costs and interest expense are recognized in net income. The Corporation transfers any actuarial gains and losses from other equity to retained earnings in the year it is recognized in other comprehensive income.

The Corporation measures its future benefit obligations for accounting purposes at March 31.

The Corporation has not established a trust nor does it hold property for the specific purpose of providing benefits to the participants of the plan. Benefits are funded by the current operations of the Corporation.

3. Summary of significant accounting policies (continued)

n. Provisions

Provisions are recognized when the Corporation has a present obligation, legal or constructive, as a result of a past event, it is probable that the Corporation will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

i. Decommissioning liability

A decommissioning liability is a legal or constructive obligation associated with the decommissioning of certain natural gas facilities. The Corporation recognizes a decommissioning liability, with a corresponding increase to property, plant and equipment, in the period the facility is commissioned, provided a reasonable estimate of the expenditure required to settle the present obligation can be determined. The estimated expenditure of a decommissioning liability is based on detailed studies that take into account various assumptions regarding the anticipated future cash flows, including the method and timing of decommissioning. The Corporation discounts the future cash flows at a credit-adjusted risk free rate based on the yield of Government of Canada bonds. The unwinding of the discount on provisions is recognized in net income as finance expense over the estimated time period until settlement of the obligation. The corresponding increase to property, plant and equipment is depreciated on a straight-line basis over the estimated useful life of the related asset. At each reporting date, the estimated fair value of a decommissioning liability is reviewed with any changes recognized in the consolidated financial statements.

o. Revenue

Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognized when it is probable that future economic benefits will flow to the Corporation and these benefits can be measured reliably.

i. Natural gas sales and delivery revenue

Revenue is recognized when natural gas is delivered to the customer. An estimate of natural gas delivered but not billed is included in revenue.

ii. Transportation and storage revenue

Revenue is recognized when transportation, storage and related services are provided to the customer. An estimate of transportation, storage and related services rendered but not billed is included in revenue.

iii. Customer capital contribution revenue

The Corporation receives customer capital contributions related to the construction of new service connections. Customer capital contributions are recognized initially as deferred revenue and are recognized as revenue once the related property, plant and equipment is available for use. 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.

iv. Revenue collected for municipalities

In accordance with *The SaskEnergy Act*, the Corporation is required to collect amounts on behalf of certain municipalities. The Corporation acts in the capacity of an agent rather than as the principal in the collection of these amounts. Therefore, the revenue collected for and paid to municipalities is recognized on a net basis in operating and maintenance expense.

v. Government grants

Government grants are recognized initially as deferred revenue when there is reasonable assurance that the Corporation will comply with the relevant conditions of the grant and the grant will be received. Grants that compensate the Corporation for expenses incurred are recognized in other revenue in the same period the related expenses are recognized. Grants that compensate the Corporation for the cost of an asset are recognized in other revenue on a straight-line basis over the estimated useful life of the asset.

3. Summary of significant accounting policies (continued)

vi. Other revenue

Natural gas and liquid sales are recognized when natural gas and natural gas liquids are delivered to the customer. Compression and gathering revenue is recognized when compression and gathering services are provided to the customer. An estimate of natural gas and natural gas liquids delivered and compression and gathering services rendered but not billed is included in other revenue.

p. Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or development of a qualifying asset are added to the cost of that asset, until it is available for use. Qualifying assets are those assets that take a substantial period of time to get ready for their intended use. As the Corporation borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Corporation capitalizes borrowing costs by applying its weighted average cost of debt. All other borrowing costs are recognized in finance expense in the period in which they are incurred.

q. Leased assets

The Corporation has assets that are leased. Leased assets are classified as finance leases when the Corporation acquires substantially all of the risks and rewards of ownership. All other leases are classified as operating.

Assets held under finance leases are initially recognized at the lower of their fair value at inception of the lease or the present value of the minimum lease payments. The corresponding liability is recorded as a finance lease obligation. Each lease payment is allocated between the liability and interest so as to achieve a constant rate of interest on the remaining balance of the liability. The interest component is included in finance expenses. During the reported periods, the Corporation did not have a material amount of assets held under a finance lease.

Leased assets classified as operating leases are not recognized in the Corporation's consolidated statement of financial position. Lease payments are recognized in operating and maintenance expense on a straight-line basis over the period of the lease.

r. Future changes in accounting policies

The following new 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.

IFRS 16 *Leases* – broadens the definition of a lease and increases transparency regarding a Corporation's leasing obligations. Under the new standard, an asset and liability is recognized on the consolidated statement of financial position for all material contracts that meet the definition of a lease. This standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted if IFRS 15 *Revenue from Contracts with Customers* has also been applied.

3. Summary of significant accounting policies (continued)

The Corporation is continuing to review the new standards and has completed a preliminary assessment of the impact on its consolidated financial statements for IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*. The anticipated impacts are as follows:

IFRS 9 *Financial Instruments* – under the new financial asset classifications, the Corporation's debt retirement funds may qualify to 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 not yet determined the impact of the new standard to customer capital contribution revenue. Changes to the recognition of customer capital contribution revenue are contingent on the Corporation's identification of performance obligations within the underlying customer contracts.

4. Capital management

The Corporation's objective when managing its capital is to maintain financial stability through the effective management of liquidity and capital structure.

The Corporation finances its capital requirements through internally generated funds and injections of capital from the Government of Saskatchewan's General Revenue Fund, typically in the form of debt. Under *The SaskEnergy Act*, the Corporation may borrow up to $1,700 million of debt upon approval of the Lieutenant Governor in Council (2014 – $1,700 million). Within this limit, the Corporation may borrow up to $500 million in temporary loans (2014 – $400 million), including a $35 million uncommitted line of credit with Toronto-Dominion Bank (2014 – $35 million). As at March 31, 2016, the Corporation had $1,269 million of debt outstanding (2014 – $1,257 million), including $299 million in temporary loans (2014 – $299 million), leaving $201 million of remaining short-term borrowing capacity (2014 – $101 million).

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

The Corporation monitors capital on the basis of the proportion of debt in the capital structure, with a long-term target range of 58.0% to 63.0%. The purpose of this strategy is to ensure the Corporation's debt is self-supporting and does not adversely affect the Province's access to capital markets. The debt ratio was calculated as net debt divided by total capital at the end of the period as follows:

(millions)	**March 31, 2016**	**December 31, 2014**
Long-term debt	**$ 970**	$ 958
Short-term debt	**299**	299
Debt retirement funds	**(102)**	(93)
Cash	**(11)**	(5)
Total net debt	**1,156**	1,159
Equity advances	**72**	72
Retained earnings	**669**	623
Total capital	**$ 1,897**	$ 1,854
	60.9%	62.5%

4. Capital management (continued)

The Corporation's objectives, policies and processes for managing its capital were consistent with the prior period. The Corporation complied with all externally imposed requirements for its capital throughout the period, which include compliance with the approved borrowing limits for short-term and long-term debt, and the annual investment requirement to the debt retirement funds.

5. Trade and other receivables

(millions)	March 31, 2016	December 31, 2014
Unbilled revenue	$ 35	$ 71
Trade receivables	62	60
Other receivables	13	21
	110	152
Allowance for doubtful accounts	(6)	(4)
	$ 104	$ 148

6. Natural gas in storage held for resale

(millions)	March 31, 2016	December 31, 2014
Cost	$ 120	$ 163
Revaluation to net realizable value	(34)	(23)
	$ 86	$ 140

With the decline in natural gas market prices over recent years, the net realizable value of natural gas in storage as at March 31, 2016 was $34 million below cost (2014 – $23 million). As at March 31, 2016, the Corporation expects that $44 million of the current inventory value will be sold or consumed within the next fiscal year and $42 million of the current inventory value will be sold or consumed after more than one fiscal year.

7. Inventory of supplies

The cost of inventory of supplies recognized as operating and maintenance expense during the period ended March 31, 2016 was $19 million (2014 – $17 million). There was no revaluation of inventory of supplies and no reversal of any prior period revaluation during the period.

8. Debt retirement funds

(millions)	March 31, 2016	December 31, 2014
Balance, beginning of period	$ 93	$ 78
Installments	12	10
Redemptions	(7)	(6)
Earnings	6	4
Change in fair value	(2)	7
Balance, end of period	102	93
Less: Current portion of debt retirement funds	(10)	(7)
	$ 92	$ 86

8. Debt retirement funds (continued)

The investments held in debt retirement funds are primarily Federal and Provincial Government debt instruments. The average return on these investments was 5.3% for the period (2014 – 4.3%). As at March 31, 2016 amounts required to be invested in debt retirement funds in each of the next five fiscal years were as follows:

(millions)	2017	2018	2019	2020	2021
Installments	$ 10	$ 9	$ 8	$ 8	$ 7

9. Financial and derivative instruments

			March 31, 2016		December 31, 2014	
(millions)	Classification	Fair Value Hierarchy	Carrying Amount	Fair Value	Carrying Amount	Fair Value
FINANCIAL AND DERIVATIVE ASSETS						
Cash	FVTPL	n/a	$ 11	$ 11	$ 5	$ 5
Trade and other receivables	LAR	n/a	104	104	148	148
Debt retirement funds	FVTPL	Level 2	102	102	93	93
Fair value of derivative instrument assets	FVTPL	Level 2	11	11	21	21
FINANCIAL AND DERIVATIVE LIABILITIES						
Short-term debt	OL	n/a	299	299	299	299
Trade and other payables	OL	n/a	105	105	117	117
Dividends payable	OL	n/a	21	21	3	3
Long-term debt	OL	Level 2	970	1,099	958	1,145
Fair value of derivative instrument liabilities	FVTPL	Level 2	109	109	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.

9. Financial and derivative instruments (continued)

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 March 31, 2016 natural gas derivative instruments had the following fair values, notional values and maturities in the next five fiscal years:

(millions)	2017	2018	2019	2020	2021	Total
PHYSICAL NATURAL GAS CONTRACTS						
Fair value	$ (52)	$ (15)	$ (8)	$ (1)	$ –	$ (76)
Notional value	(116)	(42)	(32)	(2)	–	(192)
NATURAL GAS PRICE SWAPS						
Fair value	(15)	(7)	–	–	–	(22)
Notional value	(15)	(7)	–	–	–	(22)
TOTAL						
Fair value	$ (67)	$ (22)	$ (8)	$ (1)	$ –	$ (98)
Notional value	$ (131)	$ (49)	$ (32)	$ (2)	$ –	$ (214)

Fair value – increase (decrease) in net income

Notional value – estimated undiscounted net cash inflow (outflow)

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

(millions)	March 31, 2016	December 31, 2014
Fair value of derivative instrument assets	$ 11	$ 21
Fair value of derivative instrument liabilities	(109)	(107)
	$ (98)	$ (86)

Financial assets and liabilities are offset within the 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. The following amounts were netted within the consolidated statement of financial position:

(millions)	March 31, 2016	December 31, 2014
TRADE AND OTHER RECEIVABLES		
Gross amount recognized	$ 10	$ 21
Amount offset	(7)	(13)
Net amount presented in the consolidated statement of financial position	$ 3	$ 8
TRADE AND OTHER PAYABLES		
Gross amount recognized	$ 29	$ 37
Amount offset	(7)	(13)
Net amount presented in the consolidated statement of financial position	$ 22	$ 24

10. 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.

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 cost of gas variability 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 $60 million (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 $61 million (2014 – $87 million).

b. Interest rate risk

The Corporation's significant interest-bearing financial instruments are short-term variable rate debt and long-term fixed rate debt. Consequently, the Corporation is subject to interest rate risk on outstanding short-term debt balances as well as on future short-term and long-term borrowings. Interest rate risk is managed by adjusting the relative levels of short- and long-term debt depending on current market conditions. The Corporation monitors long-term debt levels by maintaining an industry-comparable long-term debt to long-term capital requirements ratio. The Corporation also prepares an annual corporate debt management plan which includes forecasts of borrowing requirements, financing strategies and target rates for interest rate risk management activities.

As at March 31, 2016, the Corporation had $299 million of short-term debt outstanding, and $100 million of long-term debt that will mature within the next fiscal year and may be refinanced. Based on these amounts, a 1.0% change in interest rates would increase or decrease the annual finance expense by approximately $4 million (2014 – $3 million).

The Corporation is also subject to interest rate risk related to debt retirement funds as the recorded fair value is driven by market prices which are largely determined by interest rates. Fluctuations in fair value of debt retirement funds can have an impact on the Corporation. The estimated impact of a 1.0% change in interest rates, assuming no change in the amount of debt retirement funds, would increase or decrease the market value of the debt retirement funds by approximately $9 million (2014 – $8 million).

10. Financial risk management (continued)

c. Foreign currency risk

The Corporation is exposed to foreign currency risk primarily through the purchase of goods and services that are payable in foreign currency. The Corporation monitors foreign currency requirements and utilizes financial instruments to manage risk when a foreign currency obligation exceeds a predetermined amount. As at March 31, 2016, the Corporation had $2 million (2014 – $7 million) in a United States dollar (USD) bank account to meet expected future USD expenditures. A five cent change in the exchange rate between the USD and the Canadian dollar as at March 31, 2016 would have had an insignificant impact on net income.

d. Liquidity risk

Liquidity risk is the risk that the Corporation is unable to meet its financial obligations as they become due. The Corporation has credit facilities available to refinance maturities in excess of anticipated operating cash flows. The contractual maturities of the Corporation's financial obligations, including interest payments and the impact of netting agreements, as at March 31, 2016 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	$ 299	$ 299	$ –	$ –	$ –
Trade and other payables	105	105	–	–	–
Dividends payable	21	21	–	–	–
Long-term debt	970	143	98	226	1,150
Derivative instruments	109	131	49	34	–
	$ 1,504	$ 699	$ 147	$ 260	$ 1,150

As at March 31, 2016, 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 $15 million (2014 – $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.

10. Financial risk management (continued)

e. Credit risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial or derivative instrument fails to meet its contractual obligations. The Corporation is exposed to credit risk through cash, trade and other receivables, debt retirement funds and derivative instrument assets. Credit risk related to cash and debt retirement funds is minimized by dealing with institutions that have strong credit ratings and holding highly-rated financial securities.

The Corporation extends credit to its customers in the normal course of business and is at risk of loss in the event of non-performance by counterparties on certain of the financial and derivative instruments. To reduce its credit risk, the Corporation has established policies and procedures to monitor and limit the amount of credit extended to its customers and counterparties and may require letters of credit and other forms of security. As at March 31, 2016, the maximum credit exposure to a single counterparty was $1 million (2014 – $5 million).

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

(millions)	March 31, 2016	December 31, 2014
Cash	$ 11	$ 5
Trade and other receivables	104	148
Debt retirement funds	102	93
Fair value of derivative instrument assets	11	21
	$ 228	$ 267

The following reflects an aging summary of the Corporation's trade and other receivables. All trade and other receivables not classified as current at the end of the reporting period are considered past due.

(millions)	March 31, 2016	December 31, 2014
Current	$ 92	$ 138
30 - 59 days	7	6
60 - 89 days	4	2
Greater than 90 days	7	6
	110	152
Allowance for doubtful accounts	(6)	(4)
	$ 104	$ 148

The change in the allowance for doubtful accounts in respect of trade and other receivables was as follows:

(millions)	March 31, 2016	December 31, 2014
Balance, beginning of period	$ 4	$ 1
Provision	3	3
Write-offs	(1)	–
Balance, end of period	$ 6	$ 4

11. Intangible assets

(millions)	Computer Software	Mineral Rights and Prepaid Royalties	Under Development	Total
COST				
Balance, January 1, 2014	$ 85	$ 3	$ 4	$ 92
Additions	1	–	2	3
Additions through internal development	4	–	5	9
Transfers	–	–	(5)	(5)
Balance, December 31, 2014	90	3	6	99
Additions	1	–	3	4
Additions through internal development	5	–	12	17
Disposals	(1)	–	–	(1)
Transfers	–	–	(6)	(6)
Balance, March 31, 2016	95	3	15	113
ACCUMULATED AMORTIZATION				
Balance, January 1, 2014	44	1	–	45
Amortization	5	–	–	5
Balance, December 31, 2014	49	1	–	50
Amortization	7	–	–	7
Disposals	(1)	–	–	(1)
Balance, March 31, 2016	55	1	–	56
CARRYING AMOUNTS				
Balance, December 31, 2014	$ 41	$ 2	$ 6	$ 49
Balance, March 31, 2016	$ 40	$ 2	$ 15	$ 57

12. Property, plant and equipment

(millions)	Distribution	Transmission and Storage	Gathering, Treatment and Compression	Vehicles, Equipment and Other	Computer Hardware	Construction in Progress	Total
COST							
Balance, January 1, 2014	$ 1,061	$ 1,025	$ 267	$ 148	$ 16	$ 71	**$ 2,588**
Additions	145	150	36	10	2	293	**636**
Disposals	(3)	(10)	(1)	(5)	–	(3)	**(22)**
Impairment	–	–	(3)	–	–	–	**(3)**
Transfers	–	(10)	10	–	–	(320)	**(320)**
Balance, December 31, 2014	1,203	1,155	309	153	18	41	**2,879**
Additions	148	49	49	12	1	268	**527**
Disposals	(5)	(13)	(1)	(3)	(2)	–	**(24)**
Impairment	(3)	–	(3)	–	–	–	**(6)**
Transfers	7	(4)	4	(7)	–	(259)	**(259)**
Balance, March 31, 2016	1,350	1,187	358	155	17	50	**3,117**
ACCUMULATED DEPRECIATION							
Balance, January 1, 2014	351	356	119	69	11	–	**906**
Depreciation	25	31	11	8	3	–	**78**
Disposals	(3)	(9)	–	(5)	–	–	**(17)**
Balance, December 31, 2014	373	378	130	72	14	–	**967**
Depreciation	36	39	15	10	3	–	**103**
Disposals	(5)	(11)	–	(3)	(2)	–	**(21)**
Balance, March 31, 2016	404	406	145	79	15	–	**1,049**
CARRYING AMOUNTS							
Balance, December 31, 2014	$ 830	$ 777	$ 179	$ 81	$ 4	$ 41	**$ 1,912**
Balance, March 31, 2016	$ 946	$ 781	$ 213	$ 76	$ 2	$ 50	**$ 2,068**

12. Property, plant and equipment (continued)

a. Impairment on gathering, treatment and compression assets

As at March 31, 2016, as a result of a decline in natural gas liquid prices, the Corporation has recorded an overall impairment on its gas gathering and processing assets of $6 million. 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 losses have been recognized within net income, with $3 million recognized in both the current and prior period.

Future natural gas liquid prices are the main source of estimation uncertainty in determining the recoverable amount of the Corporation's gas gathering and processing assets. As at March 31, 2016, a five per cent increase in future natural gas liquid prices would have increased the recoverable amount by $1 million and reduced the impairment loss recognized in the period by $1 million. In future periods, any increases to future natural gas liquid prices will result in the reversal of previously incurred impairment losses, up to the carrying value of the associated gas gathering and compression assets.

b. Impairment on distribution assets

As at March 31, 2016, as a result of lower than expected economic performance, the Corporation has recorded a $3 million impairment loss on its distribution 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 6.1%, and adjusted for future market prices. The impairment loss has been recognized within net income during the period.

13. Short-term debt

The Corporation's short-term debt is unsecured. As at March 31, 2016, short-term debt of $299 million (2014 – $299 million) was due to the Province of Saskatchewan's General Revenue Fund with an average interest rate of 0.6% (2014 – 1.0%).

14. Trade and other payables

(millions)	March 31, 2016	December 31, 2014
Trade payables	$ 65	$ 83
Interest payable	10	9
Other payables	30	25
	$ 105	$ 117

15. Long-term debt

(millions)	March 31, 2016	December 31, 2014
Balance, beginning of period	$ 958	$ 762
Proceeds	62	246
Repayments	(50)	(50)
Balance, end of period	$ 970	$ 958

15. Long-term debt (continued)

The Corporation's long-term debt consisted of the following:

	March 31, 2016		December 31, 2014	
	Principal Outstanding *(millions)*	Effective Interest Rate	Principal Outstanding *(millions)*	Effective Interest Rate
GENERAL REVENUE FUND				
1 - 5 years	$ 276	4.3%	$ 292	4.0%
6 - 10 years	175	5.6%	134	4.1%
11 - 15 years	50	5.7%	125	7.5%
16 - 20 years	60	6.4%	60	6.4%
21 - 25 years	100	5.1%	25	5.0%
26 - 30 years	300	3.7%	225	4.0%
31 plus years	–	–	100	3.9%
	961		961	
Unamortized debt premium/discount and issue costs	4		(8)	
	965		953	
OTHER LONG-TERM DEBT				
26 - 30 years	5	13.5%	5	13.5%
	970		958	
Less: Current portion of long-term debt	(100)		(50)	
	$ 870		$ 908	

The Corporation's long-term debt is unsecured. As at March 31, 2016 principal repayments due in each of the next five fiscal years were as follows:

(millions)	2017	2018	2019	2020	2021
Principal repayments	$ 100	$ 59	$ 50	$ 33	$ 34

16. Deferred revenue

(millions)	March 31, 2016	December 31, 2014
CURRENT		
Unearned customer capital contributions	$ 61	$ 90
NON-CURRENT		
Unearned government grants	6	6
	$ 67	$ 96

16. Deferred revenue (continued)

a. Unearned customer capital contributions

(millions)	March 31, 2016	December 31, 2014
Balance, beginning of period	$ 90	$ 59
Additions	34	66
Refunds	(2)	(2)
Revenue	(61)	(33)
Balance, end of period	$ 61	$ 90

b. Unearned government grants

(millions)	March 31, 2016	December 31, 2014
Balance, beginning of period	$ 6	$ 9
Amortization	–	(3)
Balance, end of period	$ 6	$ 6

Unearned government grants represent amounts received to compensate the Corporation for the cost of certain items of property, plant and equipment. There are no unfulfilled conditions or other contingencies attached to these government grants.

17. Employee future benefits

a. Pension plans

During the period, the Corporation contributed $7 million (2014 – $6 million) to pension plans on behalf of employees for current services.

The Corporation made no contributions to the defined benefit plan during the period, as all members had reached 35 years of service in 2013. While the Corporation no longer makes contributions, a number of employees still remain members of the plan until retirement.

b. Retiring allowance plan

(millions)	March 31, 2016	December 31, 2014
Balance, beginning of period	$ 10	$ 10
Benefits paid	(2)	–
Balance, end of period	$ 8	$ 10

No funds have been set aside to settle these obligations; therefore, there are no retiring allowance plan assets. Benefits paid are funded by the Corporation's current operations.

17. Employee future benefits (continued)

The Corporation measures its accrued employee benefits liability with an annual actuarial valuation, with the results of the annual valuation updated for any material transactions and other material changes in circumstances up to the end of the reporting period. The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit liability were as follows:

	March 31, 2016	December 31, 2014
Discount rate	2.7%	2.9%
Long-term rate of compensation increases	3.0%	3.0%
Long-term rate of inflation	2.5%	2.5%
Annual termination rate		
Up to age 49	3.0%	3.0%
Thereafter	0.0%	0.0%
Average remaining employee service life	4.9 years	5.4 years

As part of the actuarial valuation, sensitivity analysis was performed to assess the impact of a change in key actuarial assumptions. The impact on the accrued employee benefits liability as at March 31, 2016 of changing the following assumptions 0.5% was as follows:

	March 31, 2016	December 31, 2014
DISCOUNT RATE		
Plus 0.5%	-1.8%	-2.0%
Minus 0.5%	1.9%	2.1%
LONG-TERM RATE OF COMPENSATION INCREASES		
Plus 0.5%	1.6%	1.6%
Minus 0.5%	-1.5%	-1.6%
ANNUAL TERMINATION RATE		
Plus 0.5%	-0.2%	-0.3%
Minus 0.5%	0.2%	0.3%

For employees who are members of Unifor, the length of service earned for the purpose of the retiring allowance plan is equal to their service up to and including December 31, 2004 less service time converted to other employee benefits. Remaining entitlements, if any, under the retiring allowance plan will be paid out to Unifor members upon retirement in accordance with the terms of the plan.

For management employees, the length of service earned for the purpose of the retiring allowance plan is equal to their service up to and including December 31, 2005. Entitlements under the retiring allowance plan will be paid out to management employees upon retirement in accordance with the terms of the plan.

For Executive, the length of service earned for the purpose of the retiring allowance plan is equal to their service up to the date of retirement. Entitlements under the retiring allowance plan will be paid out to Executive upon retirement in accordance with the terms of the plan.

18. Provisions

(millions)	March 31, 2016	December 31, 2014
Balance, beginning of period	$ 95	$ 71
Provisions made	7	7
Provisions settled	(3)	(3)
Change in discount rate	28	18
Unwinding of discount	3	2
Balance, end of period	$ 130	$ 95

The Corporation has estimated the future cost of decommissioning certain natural gas facilities. For the purposes of estimating the fair value of these decommissioning obligations, it was assumed that the costs will be incurred between April 1, 2016 and March 31, 2109. The undiscounted cash flows required to settle the obligations total $276 million (2014 – $253 million). Discount rates between 0.9% and 2.1% were used to calculate the carrying amount of the obligation (2014 – 1.0% and 2.9%). No funds have been set aside by the Corporation to settle these obligations.

19. Equity advances

The Corporation does not have share capital. However, the Corporation has received advances from CIC, which reflect an equity investment in the Corporation, to form its equity capitalization.

20. Commitments and contingencies

a. Commitments

As at March 31, 2016, the Corporation forecasted to spend $292 million (2014 – $238 million) on capital projects during the 2017 fiscal year, and the Corporation had $136 million (2014 – $51 million) of outstanding contractual commitments for the procurement of goods and services in the future.

b. Leases

As at March 31, 2016 future minimum lease payments for operating leases entered into by the Corporation, as the lessee, for the next five fiscal years were as follows:

(millions)	2017	2018	2019	2020	2021	Thereafter
Minimum lease payments	$ 1	$ –	$ –	$ –	$ –	$ –

c. Contingencies

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

21. Unrealized market value adjustments

(millions)	15 Months Ended March 31, 2016	12 Months Ended December 31, 2014
Change in fair value of debt retirement funds	$ (2)	$ 7
Change in fair value of natural gas derivative instruments	(11)	(75)
Change in revaluation of natural gas in storage to net realizable value	(11)	(12)
	$ (24)	$ (80)

Unrealized market value adjustments represent the net income impact of measuring certain financial and derivative instruments at fair value subsequent to initial recognition (Note 9) and measuring natural gas in storage at the lower of weighted average cost and net realizable value (Note 6). These adjustments represent the change in the carrying amount of the related item during the period and are dependent on the market prices and expected delivery dates at the end of the reporting period.

22. Natural gas sales and purchases

(millions)	15 Months Ended March 31, 2016 Commodity	15 Months Ended March 31, 2016 Gas Marketing	15 Months Ended March 31, 2016 Total	12 Months Ended December 31, 2014 Commodity	12 Months Ended December 31, 2014 Gas Marketing	12 Months Ended December 31, 2014 Total
NATURAL GAS SALES						
Natural gas sales to commodity customers	$ 338	$ –	$ 338	$ 262	$ –	$ 262
Realized on natural gas derivative instruments	47	180	227	48	408	456
Change in fair value of natural gas derivative instruments	(1)	(9)	(10)	–	11	11
	384	171	555	310	419	729
NATURAL GAS PURCHASES						
Realized on natural gas derivative instruments	(338)	(156)	(494)	(301)	(394)	(695)
Change in fair value of natural gas derivative instruments	5	(6)	(1)	(83)	(3)	(86)
Change in revaluation of natural gas in storage to net realizable value	–	(11)	(11)	–	(12)	(12)
	(333)	(173)	(506)	(384)	(409)	(793)
	$ 51	$ (2)	$ 49	$ (74)	$ 10	$ (64)

23. Other revenue

(millions)	15 Months Ended March 31, 2016	12 Months Ended December 31, 2014
Natural gas liquid sales	$ 8	$ 11
Compression and gathering services	4	4
Royalty revenue	1	1
Other	1	–
	$ 14	$ 16

During the period, 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 increase to other revenue in the 2014 comparative figures.

24. Revenue collected for and paid to municipalities

The Corporation is required to remit to 109 urban municipalities, in accordance with the provisions of *The SaskEnergy Act*, an amount calculated as either three per cent or five per cent of natural gas sales to customers within the respective municipality. These municipal payments are charged to customers and are then remitted to the respective municipalities. During the period, the amount collected for and paid to municipalities, which was recognized on a net basis in operating and maintenance expense, was $26 million (2014 – $19 million).

In accordance with the provisions of *The SaskEnergy Act*, the Corporation is required to collect, from specific customers, an amount based on the value of natural gas transported on their behalf. The Corporation in turn pays the amount collected to the related municipalities. During the period, the amount collected for and paid to municipalities, which was recognized on a net basis in operating and maintenance expense, was $2 million (2014 – $2 million).

25. Depreciation and amortization

(millions)	15 Months Ended March 31, 2016	12 Months Ended December 31, 2014
Depreciation of property, plant and equipment	$ 103	$ 78
Amortization of intangible assets	7	5
	$ 110	$ 83

The annualized composite rate of depreciation was 2.8% during the period (2014 – 2.9%), and the annualized composite rate of amortization was 5.9% during the period (2014 – 5.7%).

26. Saskatchewan taxes

(millions)	15 Months Ended March 31, 2016	12 Months Ended December 31, 2014
Corporate capital tax	$ 11	$ 8
Property taxes and other	4	3
	$ 15	$ 11

27. Net finance expenses

(millions)	15 Months Ended March 31, 2016	12 Months Ended December 31, 2014
Debt retirement funds earnings	$ 6	$ 4
Change in fair value of debt retirement funds	(2)	7
Finance income	4	11
Interest expense on short-term debt	(2)	(3)
Interest expense on long-term debt	(59)	(45)
Unwinding of discount on provisions	(3)	(2)
Borrowing costs capitalized to qualifying assets	2	2
Finance expenses	(62)	(48)
Net finance expenses	$ (58)	$ (37)

Borrowing costs were capitalized to qualifying assets using the weighted average cost of debt of 3.7% during the period (2014 – 3.8%).

28. Other (losses) gains

(millions)	15 Months Ended March 31, 2016	12 Months Ended December 31, 2014
Net gain on assets held for sale	$ –	$ 3
Loss on impairment of assets	(6)	(3)
Gain on insurance proceeds	4	–
Net (loss) gain on disposal of assets	(1)	1
	$ (3)	$ 1

28. Other (losses) gains (continued)

The insurance proceeds recognized in other (losses) gains are related to a cavern wellhead fire that occurred in the latter part of 2014. The insurance proceeds received during the period are a reimbursement for assets lost and costs incurred in the previous reporting period. Prior period costs were recognized within operating and maintenance expense, net of the first interim insurance payment of $5 million, in the 2014 consolidated financial statements.

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

(millions)	15 Months Ended March 31, 2016	12 Months Ended December 31, 2014
Trade and other receivables	$ 44	$ –
Natural gas in storage held for resale	43	56
Inventory of supplies	1	–
Trade and other payables	(19)	(6)
Deferred revenue	(28)	26
	$ 41	$ 76

30. Related party transactions

Balances and transactions between SaskEnergy and its wholly owned subsidiaries, which are related parties of SaskEnergy, have been eliminated upon consolidation and are not disclosed in this note. Details of transactions between the Corporation and other related parties are disclosed below.

a. Transactions with key management personnel

Key management personnel include directors and executive officers. The compensation paid to key management for employee services was as follows:

(millions)	15 Months Ended March 31, 2016	12 Months Ended December 31, 2014
Short-term benefits	$ 4	$ 3

b. Other related party transactions

As a Crown corporation, the Corporation is ultimately controlled by the Government of Saskatchewan. Included in the consolidated financial statements are transactions with various Saskatchewan Crown corporations, ministries, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as related parties).

Government-related entities are exempt from providing disclosure about individual related party transactions, other than the transactions with key management personnel disclosed above. Instead, government-related entities are required to disclose the types and extent of individually or collectively significant transactions with related parties. In determining individually significant transactions, the Corporation considers the size, type and terms of the transaction.

There were no other individually or collectively significant transactions with related parties for the period. All other transactions with related parties were routine operating transactions that were settled at prevailing market prices under normal trade terms.

CORPORATE GOVERNANCE

BOARD OF DIRECTORS

Susan Barber, Q.C.

McDougall Gauley LLP
Board Chair, SaskEnergy
Regina, Saskatchewan

Ms. Barber is a partner at McDougall Gauley LLP and is one of Canada's leading practitioners in labour and employment law. She holds both a Bachelor of Arts and Law Degree and brings a wealth of experience to the SaskEnergy Board of Directors, having previously served in leadership roles with many of Saskatchewan's most prominent companies and organizations. Ms. Barber is designated in the Canadian Lexpert directory as a leading practitioner in labour and in "The Best Lawyers in Canada" in the area of labour and employment law, chosen by her peers across the country. She was also named the Best Lawyers' 2014 Regina Labour and Employment Law "Lawyer of the Year". Ms. Barber has served as Chair of the SaskEnergy Board of Directors since 2013 and is a member of the Audit and Finance Committee and the Human Resources/Compensation Committee.

Victor Thomas

Global Bridgeway Inc.
Vice Chair, SaskEnergy
Regina, Saskatchewan

Mr. Thomas is President of Global Bridgeway Inc., a boutique firm that works with companies in the areas of global business development, corporate governance and strategy in Canada, Australia, the United States, India, China and the UAE. He has been acknowledged both locally and nationally for his leadership, including being bestowed with the Order of Red Cross — the Canadian Red Cross' highest recognition for his leadership within the organization. Mr. Thomas has a Masters of Administration in Leadership from the University of Regina, and obtained the Chartered Director as well as the Human Resources and Compensation Committee Certified designations from The Directors College (a joint venture of McMaster University and The Conference Board of Canada). He also holds the Chartered Director reciprocal designation of Administrateur de Sociétés Certifié from Laval University. Mr. Thomas has served on the Board of Directors since 2008 and is Chair of the Human Resources/Compensation Committee and a member of the Governance Committee.

James Baker

J. P. Baker Management Inc.
Regina, Saskatchewan

Mr. Baker is President of J. P. Baker Management Inc. and has extensive experience in the oil and gas industry. He has served on numerous industry boards and is currently a director for Keystone Royalty Corp., a private junior oil company based in Regina. His experience includes operating a consulting business specializing in the business development of oil- and gas-related initiatives in Saskatchewan and Alberta. Mr. Baker has served on the SaskEnergy Board since 2008. He is Chair of the Business Development Committee and a member of the Human Resources/Compensation Committee.

Kelly Bannister

McFaull Consulting
Saskatoon, Saskatchewan

Ms. Bannister works with McFaull Consulting as a Financial Advisor and has more than 20 years of experience as a Certified Financial Planner. She has completed the Registered Retirement Consultant (RRC) designation, holds the Chartered Financial Divorce Specialist (CFDS) designation, and is a member of the Collaborative Professionals of Saskatchewan and the North Saskatoon Business Association (NSBA). She is a Saskatchewan Life Licensed Agent and mutual funds licensed representative with Manulife Securities Investment Services Inc. In 2015, Ms. Bannister obtained the Chartered Director (C.Dir.) designation from The Directors College (a joint venture of The Conference Board of Canada and McMaster University). She joined the SaskEnergy Board of Directors in February 2014 and is a member of the Governance Committee and the Safety and Corporate Social Responsibility Committee.

Norm Beug

N.B. Beug Consulting Inc.
Regina, Saskatchewan

Mr. Beug is President of N.B. Beug Consulting Inc. and previously worked as a Senior Advisor with The Mosaic Company while enjoying semi-retirement. Prior to that, he was Mosaic's Senior Vice President of Potash Operations, in which he was responsible for the Potash Business Unit's six North American mining operations. Mr. Beug earned a Bachelor's Degree in Mechanical Engineering from the University of Saskatchewan and has served on various community and industry boards and committees, and is currently Chairperson of Tourism Saskatchewan. He has served on the Board of Directors since 2013 and is a member of the Business Development Committee and the Human Resources/Compensation Committee.

David Bishop

McKercher LLP
Regina, Saskatchewan

Mr. Bishop is a partner at McKercher LLP where he practices commercial and residential real estate law, business law, criminal defence, criminal prosecution (as an agent of the Attorney General for Canada) and elder law. Actively involved in the legal community, he holds a Bachelor of Arts Degree, a Bachelor of Law Degree and a Chartered Director designation from The Directors College program of McMaster University. Mr. Bishop has served on the Board of Directors since 2008. He is Chair of the Governance Committee and a member of the Audit and Finance Committee.

Curt Chickoski

Martens Ranch Ltd./MCM Ranching Ltd.
Swift Current, Saskatchewan

Mr. Chickoski owns and manages two successful cattle and horse operations. He also serves on the Canadian Agri-Stability Appeals Committee, the Swift Current Creek Watershed Board and as local supervisor for the Saskatchewan Cattle Feeders Association. Mr. Chickoski joined SaskEnergy's Board of Directors in 2010 and is a member of the Business Development Committee and the Human Resources/Compensation Committee

Linda Clavelle

Prince Albert, Saskatchewan

Ms. Clavelle serves as a Director for the North Saskatchewan River Basin Council, a non-profit organization that seeks to protect the North Saskatchewan River as a water source. She started her career as an Executive Assistant in the Finance and Planning Department at Weyerhauser before moving her way up to a position as Operations Analyst, handling multi-million dollar projects along the way. Ms. Clavelle has also worked as a coordinator for the Northern Regional Recreation Centre and currently serves as a Councillor for the RM of Buckland. She joined the SaskEnergy Board of Directors in February 2014 and is a member of Governance Committee and the Safety and Corporate Social Responsibility Committee.

Grant Gayton

Regina, Saskatchewan

Mr. Gayton has been a successful CEO and investor in information technology, publishing and printing. He co-founded and developed Management Systems Limited, which became Saskatchewan's largest independent systems company and is now part of ISM Canada Ltd, a wholly owned subsidiary of IBM. As CEO of DirectWest Publishers and, later, of PrintWest Communications, he increased profitability and positioned both companies for future success. Past Chair of the Information Services Corporation Board of Directors and a past member of the Saskatchewan Roughriders Board, Mr. Gayton holds a Chartered Director designation from The Directors College program of McMaster University. He was appointed to the SaskEnergy Board of Directors in 2010 and is a member of the Business Development Committee and the Safety and Corporate Social Responsibility Committee.

Nola Joorisity

Paul J. Hill School of Business
Regina, Saskatchewan

Ms. Joorisity is involved in the education of adult learners through her work as a lecturer at the University of Regina Paul J. Hill School of Business and a facilitator for the Chartered Professional Accountants Western School of Business. She has also worked as the Chief Financial Officer and Managing Director of Greystone Managed Investments Inc., and as the Chief Executive Officer and Director of Education at the Institute of Chartered Accountants of Saskatchewan. She holds Chartered Accountant, Fellow Chartered Accountant, Certified Management Accountant and Fellow Chartered Professional Accountant designations and has a Bachelor of Commerce from the University of Saskatchewan. Ms. Joorisity has been a member of SaskEnergy's Board of Directors since June 2013, and is the Chair of the Audit and Finance Committee and a member of the Safety and Corporate Social Responsibility Committee.

Neal Krawchuk

Mega Group Inc.
Saskatoon, Saskatchewan

Mr. Krawchuk is Vice President of Credit and Administration of Mega Group Inc., a privately held management and marketing company servicing the home furnishing industry throughout Canada and the United States. During his 18 years with Mega Group, Mr. Krawchuk has gained extensive experience in commercial finance, strategic planning, business management and development. He continues to dedicate time to the community and was recognized with the Saskatchewan Centennial Medal for his community service contributions. Mr. Krawchuk was appointed to SaskEnergy's Board of Directors in 2009 and is Chair of the Safety and Corporate Responsibility Committee and a member of the Audit and Finance Committee.

Terry Ross

Crown Investments Corporation of Saskatchewan
Board Secretary
Regina, Saskatchewan

Mr. Ross has been an employee of CIC since 2005. He has prior experience at Natural Resources Canada, Saskatchewan Environment and is a former member of the Canadian Armed Forces. His academic achievements include a Bachelor of Arts degree from the University of Saskatchewan and a Diploma in Resource Management from the Saskatchewan Institute of Applied Science and Technology. He is also an avid community and fundraising volunteer with organizations including the United Way, Habitat for Humanity and Easter Seals Canada. Mr. Ross has been the Board Secretary since June 2011.

OTHER 2015-16 BOARD MEMBERS

Dr. Denis Jones

Devereux Developments
Regina, Saskatchewan

Dr. Jones is the President and CEO of Devereux Developments, which he co-founded in 2008, and is also President and CEO of Altern Properties, Auctus Property Income Fund and the Knysna Management Group. He is currently a practicing physician in Regina, specializing in pulmonary and critical care medicine. Dr. Jones obtained his medical degree in South Africa and went on to do his specialty training in Miami and San Diego. Dr. Jones served on SaskEnergy's Board of Directors from February 2014 until he completed his term in February 2016.

EXECUTIVE COMMITTEE

Back row: Dennis Terry, Robert Haynes, Mark Guillet, Dean Reeve. Front row: Phil Sandham, Christine Short, Doug Kelln, Colleen Huber.

Doug Kelln

President and Chief Executive Officer

Mr. Kelln brought a wide range of company knowledge when he was appointed President and CEO of SaskEnergy in 2004. Since starting with SaskPower's natural gas division in 1982, he has had increasing levels of responsibility in the areas of engineering, construction, planning, customer services, distribution operations, marketing and business development within SaskEnergy and TransGas. Mr. Kelln has a Bachelor of Civil Engineering degree.

Mark Guillet, Q.C.

Vice President, General Counsel and Corporate Secretary

Mr. Guillet is the Vice President, General Counsel and Corporate Secretary for the Corporation and is responsible for the Legal and Land Departments. He is also the Chief Privacy Officer. Mr. Guillet is a graduate of the University of Saskatchewan, a member of the Law Society of Saskatchewan, the Canadian Bar Association, the Association of Corporate Counsel and has the Certified In-house Counsel Canada designation. He has experience in corporate, commercial, governance and privacy legal issues.

Robert Haynes

Senior Vice President, Human Resources, Environment and Corporate Affairs

Mr. Haynes joined SaskEnergy in 1988 when he was appointed to the position of General Counsel and Corporate Secretary. In 1995, he became Vice President of Human Resources, adding Corporate Affairs responsibilities in 2011 and Environment responsibilities in 2015. In this role, Mr. Haynes is responsible for all aspects of the Corporation's human resources policies and practices, including the Corporation's Safety, Health and Environment area, as well as strategic corporate communication with key stakeholders, including employees, the media and government. Mr. Haynes has a Bachelor of Administration Degree, Public Policy and a Juris Doctor.

Colleen Huber

Vice President, Corporate Support

Ms. Huber is responsible for corporate technology, corporate procurement and inventory, buildings and security as well as vehicles and equipment. She joined the Executive in 2000 after successfully progressing through various management positions within TransGas and SaskEnergy. She is a graduate of the University of Regina.

Dean Reeve

Executive Vice President, SaskEnergy

Mr. Reeve has worked in a number of financial, business development and customer service functions within SaskEnergy and TransGas and is currently the Executive Vice President responsible for SaskEnergy's Distribution Utility, Gas Supply, Distribution Systems and Customer Solutions areas. In this role, he leads the customer service functions, business and marketing initiatives of SaskEnergy. Mr. Reeve has a Bachelor of Administration degree, as well as a Chartered Professional Accountant and Chartered Accountant designation.

Phil Sandham

Vice President, Engineering, Construction and TransGas Operations

Mr. Sandham brings leadership and experience from his previous senior positions in Transmission Operations, Engineering and Technology, and Customer Services, to his current role as Vice President of Engineering, Construction and TransGas Operations. He is responsible for the engineering and construction services for SaskEnergy and TransGas, as well as ensuring the safe and reliable operation of the transmission system and overseeing the environmental initiatives for the Corporation. Mr. Sandham has a Bachelor of Science in Civil Engineering.

Christine Short

Vice President, Finance and Chief Financial Officer

Ms. Short joined SaskEnergy in August 2013. In her role, she is responsible for the strategic leadership and direction of the Corporation's financial reporting, treasury, billing services, payroll and financial planning activities. Prior to joining SaskEnergy, she was Vice President and Controller for Farm Credit Canada, responsible for the leadership of the Corporation's financial management, financial reporting, financial systems and procurement functions. Ms. Short has a Chartered Professional Accountant and Certified Management Accountant designation and is a member of Financial Executives International.

Dennis Terry

Senior Vice President, TransGas and Bayhurst Gas Business Services

Mr. Terry joined SaskEnergy in 2009 and was the Corporation's Vice President, Finance and Chief Financial Officer before accepting his current role in 2013. Prior to joining SaskEnergy, he was Chief Financial Officer for Yara Belle Plaine Inc. and gained experience in gas price management strategy development and oversight related to significant natural gas commodity purchases and hedging activities. Mr. Terry has a Bachelor of Administration degree and a Chartered Professional Accountant and Chartered Accountant designation.

CORPORATE GOVERNANCE DISCLOSURE

SaskEnergy's commitment to advanced governance practices demonstrates accountability to the Owner and its customers. Effective governance helps ensure that SaskEnergy operates as both a financially viable organization and a responsible Corporation.

SaskEnergy governance practices ensure that the Corporation's customers and employees are provided with fair and equitable treatment and that the correct levels of authority and accountability are established so that all employees can accomplish their work without unnecessary limitations or risks.

Board Stewardship/Mandate

The SaskEnergy Board of Directors (the Board) is responsible for the stewardship of the Corporation, and oversees and closely monitors the Corporation's adherence to provisions of *The SaskEnergy Act* and its Regulations. The Board has adopted written Terms of Reference which state that the Board sets the strategic direction, ensures the integrity and adequacy of the Corporation's systems and management practices, and periodically examines the objectives and mandates of its structure. The Board promotes a culture of integrity, ensures that the principal corporate risks are managed, evaluates the Corporation's performance and monitors financial results. The Board meets outside the presence of management at each meeting.

Board Composition

SaskEnergy's Board is representative of the Saskatchewan community and industry. The Lieutenant Governor in Council, pursuant to *The SaskEnergy Act*, appoints up to 12 members, and designates a Chair and a Vice Chair. Members are representative of diversity, and they possess a variety of attributes, including industry expertise, strategic leadership, entrepreneurial and communication skills, integrity, flexibility, initiative and sound judgment. Members are appointed to a fixed term, and terms may be renewed by the Lieutenant Governor in Council. There are currently 11 people appointed to SaskEnergy's Board of Directors. These same 11 people are also appointed as members for the Boards of Directors for each of SaskEnergy's six subsidiary companies. Four members (36 per cent) are women. The Board Chair is Ms. Susan Barber, Q.C. and the Vice Chair is Mr. Victor Thomas.

Independence

The matter of "independence from management" is based upon the definition set by Canadian Securities Administrators (CSA) and utilized by publicly traded companies in the industry. None of the Directors have been employed with the Corporation. In this reporting period, none of the Directors have direct material contracts or relationships with the Corporation, or have received remuneration from the Corporation in excess of the fees and compensation as Directors and Committee members or as Directors of subsidiaries of the Corporation. However, two Directors are partners in law firms that have performed legal services for the Corporation in the 15-month reporting period, and are thereby deemed to have a material indirect relationship with the Corporation under the above standard. The majority of Directors are independent; however, the Corporation is not in strict compliance with the CSA independence standard. The Corporation's statutory holding company, Crown Investments Corporation of Saskatchewan (CIC), has managed this independence issue through the development of a Protocol Regarding Lawyers Serving on Subsidiary Crown Corporation Boards of Directors. This Protocol adopts the principle that Directors must be free from any material relationship that may interfere with the Director's ability to exercise independent judgment in the best interests of the Corporation, or to influence the choice of law firms. Given the smaller local market in Saskatchewan for legal services, the Protocol restricts Directors from any direct material relationship, but allows a limited indirect relationship subject to the qualifications of the Protocol such as pre-approval of legal services by an independent Board Committee, declarations of conflict, no direct benefit to the Director, and restriction of information to that Director. The Board has appointed a special ad hoc Committee of independent non-lawyer Board members to review and approve the Corporation's external legal service providers in accordance with this Protocol on an as-required basis and to review the total services being provided by these firms. This ad hoc Committee met twice in the 15-month reporting period for this purpose. The Board Chair, Ms. Susan Barber, Q.C., and Governance Committee Chair, Mr. David Bishop, are lawyers who are subject to this Protocol and throughout this disclosure are indicated by an asterisk to reflect that they are not independent, due to the deemed material indirect relationship. All other Directors, including the Vice Chair of the Board, are independent of management.

Committee Mandates and Membership

The Board fulfills its oversight responsibilities for the operation of SaskEnergy by utilizing its five Board Committees. The Terms of Reference or mandates of the Committees are reviewed annually, and updated where required. The Terms of Reference for each Committee establish the constitution, operations and areas of responsibility over which that Committee makes recommendations to the Board. Full details of the Terms of Reference for each Committee can be found on SaskEnergy's corporate website at www.saskenergy.com/about_saskenergy/governance.asp. Committees have also adopted work calendars to schedule and fulfill specific tasks and assigned responsibilities. Each Committee has the authority to engage and compensate outside advisors that it deems necessary to assist with its mandate.

Audit and Finance Committee

Chair: Nola Joorisity

Members: Susan Barber, Q.C.*, David Bishop*, Dr. Denis Jones+, Neal Krawchuk

The Audit and Finance Committee oversees the financial performance and ensures the integrity, effectiveness and accuracy of the Corporation's financial reporting, control systems, risk management and audit functions. The Committee ensures that the Board is provided with financial plans and proposals consistent with the Corporation's overall Strategic Plan, annual Business Plan and public policy objectives. The Committee meets regularly outside the presence of management with the appointed external auditor, the Provincial Auditor and internal auditors.

Except as qualified previously, all members of the Audit and Finance Committee are independent of management. All Committee members are financially literate, as that term is commonly defined with respect to the composition of audit committees within the CSA Multilateral Instrument 52-110, and their education and experience in understanding financial matters is addressed in their biographies on the governance portion of the SaskEnergy website.

The Committee had 11 meetings in the 15-month reporting period. Important issues dealt with included the development of various Commodity Strategies to cover all natural gas transactions, SaskEnergy commodity rates, TransGas and Many Islands Pipe Lines (Canada) Limited service rates, payee disclosure report, the Automated Metering Infrastructure System updates, the corporate insurance review, review of corporate Accounts Receivable, review of Audit Services reports and various risk management activities and policies review.

*Non-independent Board Member
+Board Member resigned as of February 5, 2016

Business Development Committee

Chair: Jim Baker

Members: Norm Beug, Curt Chickoski, Grant Gayton, Dr. Denis Jones+

The Business Development Committee provides guidance that enables SaskEnergy to grow in a strategic direction in alignment with the Crown Sector Strategic Priorities established by the Owner and SaskEnergy's expertise and mandate. The Committee is comprised of members who assist the Board in oversight of new strategic and tactical Saskatchewan investments and business opportunities.

The Committee had five meetings in the 15-month reporting period. Notable work of the Committee included review of the growth plan for unregulated business initiatives, the portable pipeline opportunities, gas processing plant activities and gas storage services. The Committee monitored the Corporation's investments in joint operations with third parties in a natural gas storage field and in a southeast Saskatchewan gas processing facility.

+Board Member resigned as of February 5, 2016

Governance Committee

Chair: David Bishop*

Members: Kelly Bannister, Linda Clavelle, Victor Thomas

The Governance Committee is responsible for matters relating to SaskEnergy's corporate governance regime. It has input into the selection criteria for candidates for Board members, Chairs, and creates profiles of the desired skills, experience and competencies required of Directors. This Committee monitors compliance with the Corporation's Code of Business Conduct and Ethics, including waivers therefrom, the Corporation's Whistle Blower Policy and the Reporting of Losses Policy. The Committee is charged with planning orientation and education programs to keep Directors informed and current with business and ethical requirements.

The Committee had six meetings in the 15-month reporting period. Key work of the Committee included coordinating the 2014 Board and Board Chair evaluation process and development of the 2015 Committees, Committee Chairs and peers evaluation process; review of existing Committee structures, composition and mandates; the development of a revised potential qualified Board candidate list; the review of disclosures under the Corporation's Whistleblower Policy; the business/industry training for Directors and review of Board policies.

*Non-independent Board Member

Human Resources/Compensation Committee

Chair: Victor Thomas

Members: Jim Baker, Susan Barber, Q.C.*, Norm Beug, Curt Chickoski

The Human Resources/Compensation Committee is responsible for and assists the Board in overseeing the management of SaskEnergy's human resource strategic planning, programs and practices for the development and implementation of fair compensation, performance management and succession planning. The Committee also sets the CEO's performance goals and objectives, and conducts a semi-annual and annual assessment of the CEO's performance through the Committee Chair and Board Chair.

The findings of this evaluation and any changes to the CEO's compensation as a result of the review are recommended to the Board. Further, the Committee makes recommendations to the Board regarding the approval of employee and Executive compensation, including measures and targets, and receiving direction on its mandate through communication with CIC. An ad hoc Board Committee is created, when necessary, to identify and recommend to the Board candidates for the position of CEO, while the Human Resources/Compensation Committee oversees that the incumbent fulfills the role set out in the CEO Mandate.

The Committee had five meetings in the 15-month reporting period. Important issues dealt with included the Corporate Compensation Strategy; CEO objective setting, performance evaluation and compensation adjustments; Executive officers merit adjustments; succession management updates; review of the Executive total compensation results; Competency Assessment Plan update; compensation and benefits plans review and policies updates and compliance with legislation update.

*Non-independent Board Member

Safety and Corporate Social Responsibility Committee

Chair: Neal Krawchuk

Members: Kelly Bannister, Grant Gayton, Linda Clavelle, Nola Joorisity

The Safety and Corporate Social Responsibility Committee has a mandate to proactively address safety and corporate social responsibility (CSR) matters to assist the Corporation in being a corporate leader. The Corporation considers CSR to include: conducting business in a safe, socially responsible, ethical and transparent manner; protecting the environment and safety of all individuals affected by its activities; listening and responding to community or stakeholder concerns; supporting human rights and engaging, learning from, respecting and supporting the communities and culture with which it works. The Committee mandate includes the obligation to ensure that adequate and effective controls are in place to monitor CSR risk and compliance with regulatory and statutory requirements.

The Committee had five meetings in the 15-month reporting period. Important issues dealt with included the external, independent Health & Safety Audit, which benchmarked SaskEnergy's safety management system favourably against industry norms and maintained its Certificate of Recognition, the review of third-party contractors' involvement with employee attendance and disability management program, and the review of the Corporation's system integrity program activities. The Committee reviewed the Corporate Environmental Risk Management Site Remediation program, the Corporate Emergency Management program, the Corporate Safety program, corporate branding strategies and customer satisfaction survey results. The Committee received a presentation on safety from a third-party representative group.

Roles and Responsibilities

Written Position Descriptions posted on SaskEnergy's website, set out the roles and responsibilities of the Chair, Committee Chairs and individual Directors. The role of the Chair provides leadership in Board organization, processes, effectiveness and renewal, and balances the roles of the Board and management in the course of the Board discharging its fiduciary and legal responsibilities.

The Position Description for Directors sets out their roles and responsibilities, including legal requirements, accountability, stewardship, knowledge and education, conflicts, confidentiality as well as expectations for attendance and review of materials in preparation for meetings.

The CEO's Mandate sets out the principal duties and responsibilities for the CEO. This Mandate forms the basis for the goals and objectives of the CEO and is incorporated into annual performance objectives against which the Human Resources/Compensation Committee measures the CEO's performance. The CEO Mandate was last reviewed by the Governance Committee in 2014.

Through a series of execution and expenditure authorization policies that are reviewed regularly with consideration for changes in organizational and business circumstances, the Board delineates the roles and responsibilities assigned to management. Additional limits are placed upon both management and the Board through legislation requiring Orders in Council, compliance with investment requirements or changes to legislative mandate through *The SaskEnergy Act*. The Board has also approved a Bright Line Mandate, which is a decision-making matrix that defines the ultimate decision-making body on key matters and is validated by the Board.

Strategic Planning and Reporting

One of the Board's principal duties is to provide leadership in setting the long-range strategic direction and to approve SaskEnergy's overall Strategic Plan. This comprehensive strategic planning process results in the Board's review and approval of the Corporation's Strategic Plan, annual operating and capital budgets, and annual Business Plan.

The Board of Directors participates with management to identify and set long-term goals for SaskEnergy through the strategic planning and business planning process. The corporate Business Plan involves a five-year rolling projection, updated annually. The Board oversees this process, providing input, guidance, validation, and critical evaluation of the Business Plan, Strategic Plan and its initiatives. The Board continues to provide oversight and support in the implementation of the plans and initiatives and to measure their success. Each year, the Board and senior management meet jointly to identify strategic risks, and to review strategies and measurable targets to gauge performance in managing those risks.

Public Policy Role

SaskEnergy is a statutory Crown corporation governed by *The SaskEnergy Act* and Regulations. By legislation, CIC is the statutory holding corporation for all of Saskatchewan's commercial Crown corporations. CIC has the authority to establish direction for SaskEnergy related to matters set out in legislation.

As a provincial Crown corporation, SaskEnergy serves a public policy role. Its mission is to develop and deliver safe, reliable natural gas solutions that benefit its customers and Saskatchewan through its team of engaged employees and business alliances. SaskEnergy and its subsidiaries fulfill this mission through the operation of systems for natural gas distribution, transmission, storage, line locating and other related activities to promote the conservation and safe use of natural gas; while contributing to, and promoting, the economy of the Province. CIC approves SaskEnergy's Business Plan annually and sets any other strategic priorities against which CIC and the Owner will measure the Corporation's performance. SaskEnergy collaborates with other Saskatchewan Crown corporations to further CIC's stated priorities of enhancing efficiency gains through joint initiatives, and promoting an open business environment.

Approach to Governance

SaskEnergy is not legally obligated to comply with the CSA governance guidelines, as it does not have share capital and is not a reporting issuer. However, it works toward those guidelines that are applicable and has benchmarked its governance practices against the CSA National Policy and Instrument Guidelines, guidelines of the Chartered Professional Accountants of Canada, and observations of the Office of the Auditor General of Canada, Treasury Board of Canada Secretariat and Conference Board of Canada, to address key performance indicators in the measurement of governance. The practices of SaskEnergy are substantially consistent with the foregoing standards as published.

Integrity and Ethics

SaskEnergy promotes a strong culture of ethical business conduct at all levels of the Corporation. The Board has approved and adopted a written Code of Business Conduct and Ethics (the Code) that applies to employees, officers and Directors of SaskEnergy. The Code – designed to promote integrity and deter wrongdoing – is based on values of fairness and honesty, equal treatment and accountability. It provides guidelines on handling information and protecting or using corporate assets, confidentiality, conduct with suppliers and customers, business hosting, international business, conflicts of interest, compliance with laws and policies and reporting.

To further promote public confidence in the integrity of SaskEnergy and its employees, a Whistleblower Policy was adopted, which sets out a formal process for the reporting, investigation and appropriate follow-up for actual or potential wrongdoing. The Public Interest Disclosure Act provides employees with an additional mechanism to disclose wrongdoing. In addition, SaskEnergy's Owner requires disclosure to the police of all losses in excess of $200, and disclosure to the Board, CIC Board, and Minister of all losses over $500, pursuant to the Reporting of Losses Policy and processes.

Compliance with the Code is reinforced through mandatory training of all employees, and confirmed through the use of an online tool. The Code and the Whistleblower and Reporting of Losses Policies are posted on the SaskEnergy intranet site for employees, and the Code and Whistleblower Policies are on SaskEnergy's website for public access. A process is also posted on the website for members of the public to contact the Chair of the Governance Committee of the Board, in confidence, to report any potential violation of the Code or Whistleblower Policy.

Management monitors and reports on any issues arising under the Code annually, the Whistleblower Policy semi-annually and the Reporting of Losses Policy quarterly, to the Governance and Human Resources/Compensation Committees who are charged with oversight of compliance with these policies.

In addition to the Code, SaskEnergy's Directors are required to abide by CIC's Directors' Code of Conduct. The Governance Committee, appointed as Ethics Advisor for this purpose, is required to administer, monitor and enforce the Directors' Code of Conduct, which includes reporting annually to the Board concerning compliance. It is also standard procedure to commence all Board and Committee meetings with an incamera agenda item providing Directors with an opportunity to declare any conflicts of interest or any changes to outside employment or directorships they hold that may create a potential or perceived conflict of interest. Upon appointment, Directors declare directorships on, and material interests in, other business and any material contract entered into with SaskEnergy or its subsidiaries to the Governance Committee who works proactively to address any potential conflicts of interest. Agenda items are monitored by management, and those containing any item that a Director has disclosed a material interest in are not distributed to the Director. Likewise, any Director subject to CIC's Protocol Regarding Lawyers Serving on Subsidiary Crown Corporation Boards of Directors will recuse themselves from consideration of any item creating a potential conflict of interest. This reporting period there were no waivers granted by the Board to any Directors or Officers authorizing non-compliance with these policies.

Risk Identification and Management

SaskEnergy has a formal Enterprise Risk Management Policy that was developed by management and approved by the Board of Directors. SaskEnergy's risk management process is designed to identify potential events that may impact SaskEnergy and manage the risk presented within accepted tolerance levels. Senior management holds primary responsibility for identifying inherent risks and for designing and implementing mitigation initiatives. The Board expects management to use appropriate controls to manage risk and delegate responsibility and authority as required.

Each year, the Board and senior management independently follow a process led by Internal Audit to identify and prioritize significant risks. The Director of Audit Services prepares a report summarizing the independent risk assessments completed by the Board and management. This report is discussed at a Board meeting where senior management and the Board align on corporate risks and the plans to mitigate or manage the residual risks.

Through the Business Plan, the Corporation implements plans to address the key risks. The Board monitors the risk management programs and oversees the implementation of appropriate systems to manage identified risks either directly, or through the Audit and Finance Committee. The Audit and Finance Committee regularly reviews the Audit Services reports and discusses significant risk areas with the internal and external auditors.

Integrity of Internal Controls and Management Systems

The Board and Audit and Finance Committee receive reports from, and work closely with, the internal and external auditors to promote financial transparency and ensure the integrity, effectiveness and adequacy of SaskEnergy's internal controls and management information systems.

As part of the Corporation's commitment to accountability, the Audit and Finance Committee reviews the financial performance of the Corporation quarterly. Natural gas purchase transactions and credit risk are reported by management and actively monitored by the Audit and Finance Committee. Pursuant to the directive of CIC, SaskEnergy has in place a process regarding internal controls certification by the CEO and CFO. This process is designed to provide reasonable assurance regarding the effectiveness of SaskEnergy's internal controls over financial reporting.

SaskEnergy's financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). As part of the March 31 year-end audit, the external auditors have provided an opinion that the Corporation's financial statements have been prepared in accordance with IFRS.

The Board oversees the annual external audit plan of the appointed external auditor for the audit of the Corporation's annual financial statements, and the annual Internal Audit plan carried out by SaskEnergy's Internal Audit group. To preserve the independence of the role of the external auditors, the Audit and Finance Committee must pre-approve all non-audit services undertaken by the external auditor in accordance with the Corporation's Non-Audit Services Policy.

Robust Succession Process

The SaskEnergy Executive team uses a quarterly review process to address strategic positions, keep the succession plan current, respond to human resource developments, focus on continuous employee development and mitigate succession risks. The Executive considers various strategic options to address short-term needs (emergency or unforeseen personal circumstances) and longer-term needs (business structural changes and planned retirements).

The Human Resources/Compensation Committee of the Board of Directors receives a succession plan update at each of their quarterly meetings and reports to the Board quarterly on the succession management process. The Board of Directors and CEO directly oversee the succession plans for the CEO and the Executive.

Communications (with the Shareholder and Stakeholders)

SaskEnergy is committed to the principles of transparency, openness and timeliness in communication with its Owner, CIC, employees, stakeholders and the public. SaskEnergy regularly surveys employees and external stakeholders for feedback on its corporate activities and more information on these communications can be found in the MD&A section. The Corporation complies with the communication requirements set by the shareholder and by statute, in accordance with the Board-approved external communications policy. Through the Board Chair, the Board is accountable to the Minister Responsible for SaskEnergy. The Minister functions as a communication liaison among the Corporation, CIC, Cabinet, the Provincial Legislature and the public.

SaskEnergy strives to strike a balance between transparency and maintaining customer confidentiality in matters of communication and disclosure, as an entity subject to *The Freedom of Information and Protection of Privacy Act*. The Corporation is subject to annual disclosure requirements of the Legislative Committee regarding Crown Payee Disclosure on all payments over $50,000 to employees and suppliers, and for all grants, donations and sponsorships over $5,000. All major public disclosures of corporate performance of the Corporation are subject to prior approval of the Board. Senior Executive members of SaskEnergy also appear before Legislative Committees to answer questions relating to the business of the Corporation in preceding years.

To facilitate feedback to and from the statutory Owner, the Board Chair communicates with CIC, and also participates in a CIC Chairs forum where communication and feedback is provided on the Owner's expectations of all Saskatchewan Crown corporations. SaskEnergy's CEO regularly provides briefings to the Minister of Crown Investments and the Minister Responsible for SaskEnergy.

CEO Assessment, Executive Compensation and Executive Diversity

The Human Resources/Compensation Committee assesses the CEO's performance semi-annually and annually against the approved objectives, which are related to the CEO Position Description and aligned with shareholder public policy objectives, the annual Business Plan and the corporate Strategic Plan.

The governance standard established by the CSA for Executive compensation disclosure is to report by summary compensation table, complete with detailed formulas. However, the mandate for Executive compensation for Saskatchewan Crown corporations is established and monitored by the Owner – CIC. As such, senior management compensation aligns with the guidelines established by CIC. Given these controls on Executive compensation, both the Board and senior management seek to provide information to the Owner, and any management compensation adjustments must fit within the parameters established by the Owner. The philosophy of providing market based compensation is applicable throughout the Corporation – from senior management downwards – to set performance objectives and expectations at individual, departmental and corporate levels, and to work towards and measure the achievement of these performance objectives. A key principle in SaskEnergy's compensation strategy is to provide fair and equitable pay representative of the individual performance of management employees with a target at the 50th percentile of the Western Canadian marketplace. The Human Resources/ Compensation Committee and the Board approve CEO and Executive compensation.

Direct reports of the CEO, including all Executive members, are required by legislation to file and report the details of their compensation and benefits and any changes to the Clerk of the Saskatchewan Legislature. In addition, the Crown and Central Agencies Committee of the Legislative Assembly of Saskatchewan has, by policy, required Crown corporations, including SaskEnergy, to file an annual payee list that includes the total compensation of Executive members. The report is available on CIC's website at www.cicorp.sk.ca in the Media Releases section. The Human Resources/Compensation Committee and the Board annually review the details of these compensation payment reports.

The Corporation does not have a formal policy or targets regarding the representation of women in Executive officer positions. SaskEnergy is committed to equality of opportunity and has taken steps to increase the representation of women in management and in non-traditional roles within the Corporation. These include: proactively identifying talented individuals for leadership training programs and encouraging them to apply for more senior roles; tracking and reporting on diversity metrics; managing succession plan process; identifying top talent and implementing formal personal development plans and establishing mentorship relationships for women aspiring to management positions. There are two women (25 per cent) in Executive officer positions.

Board Renewal and Appointment

Appointment of Directors is ultimately made by the Government by Order in Council, upon recommendation of CIC and the Board of Directors. The Board – through the Governance Committee – undertakes an analysis of the skills and experience necessary for the composite blend and full functioning of the Board and its Committees, and makes nomination recommendations through the Board to the Minister of Crown Investments. The Governance Committee is charged with leading the process to identify, recruit and recommend qualified candidates for appointment to the Board, and assessing the skills and competencies for the Board and its Committees to support the strategic direction and operational needs of the Corporation. The Committee performs a skills gap analysis intended to assist in achieving a balance of the skills of Board members through the recruitment/appointment of new members. The Governance Committee may meet with potential candidates to assess the overall fit with the blend of skills and experience of the current Board, time availability or any potential conflicts that could limit their full participation. The Governance Committee also makes annual recommendations to the Board regarding the appropriate structure, size and composition of the Board and its Committees, as well as the required qualifications.

Board Orientation and Education

The Governance Committee and the Corporation, under its Board of Directors Training Policy, has a comprehensive orientation curriculum and training sessions to ensure that new and continuing Directors develop a strong understanding of SaskEnergy's business and current challenges, as well as the roles of the Board and Committees and the individual contributions Directors are expected to make. Board members also participate in continuing education on industry issues, financial reporting, business operations, procedural issues and ethical obligations to enhance their skills and knowledge. In 2015, the Board of Directors received training from management on the Corporation's system integrity programs. This training included a brief history of system integrity within the pipeline industry along with detailed presentations on the areas of pipeline integrity, distribution integrity, damage prevention and storage and facility integrity.

Board members interact with management and employees attending functions such as employee service awards, or touring corporate offices or business units at Board meetings.

CIC also facilitates additional Director training as part of its Subsidiary Crown Directors Training Program. In 2015, CIC held two director training sessions that included one session facilitated by the Directors College. CIC also hosts meetings periodically through the year for the Chair of the Board and the Chairs of each of the Committees to discuss issues with the Chairs from other Saskatchewan Crown corporations. These meetings serve as forums to look at matters such as best practices and efficiencies, and to receive messaging from the Owner.

Board and Director Performance Assessment

To ensure adequate Board renewal, the Governance Committee conducts annual performance reviews for the Board, Committees, Chairs and individual Directors. It surveys the Directors to obtain feedback on the effectiveness and contribution of the Board, Committees, Chairs and individual Directors on a rotational, biannual basis. Assessments by the Committee include a skills matrix to ensure the Board possesses the requisite experience, expertise and business and operational insight for effective stewardship of the Corporation. Assessments also consider diversity and representation of women on the Board and its Committees, and proactively identifying potential female candidates. These results are summarized and reported to the Board as well as to the CIC Board. The Governance Committee may utilize the assistance of an external consultant to conduct the survey task.

This year, the process consisted of a Directors survey on the performance and effectiveness of Committee Chairs and peers.

Director Remuneration

Compensation received by Directors is fixed by CIC under the *Crown Corporations Act, 1993*. The Governance Committee has authority to recommend to the Board (and the Board to CIC) adjustments to such compensation. The Audit and Finance Committee receives quarterly reports respecting the remuneration of Directors and reports any anomalies to the Board. The Committee reviews the annual payee disclosure report that includes total remuneration paid to Directors. Directors are paid an annual retainer for their services on SaskEnergy's Board, as well as a set per diem fee for travel time and attendance at Committee and Board meetings as follows:

- Chair of the Board: annual retainer of $40,000;
- Other Directors: annual retainer of $25,000;
- Chair of Audit and Finance Committee: annual retainer of $3,500;
- Chairs of other Committees: annual retainer of $2,500;
- Committee members: $750 per day meeting fee; and
- Directors also receive reimbursement for their reasonable out-of-pocket expenses including travel, meals and accommodations while performing their duties.

Most Board members sit on two Committees. There were 13 Board meetings and 34 Committee meetings this reporting period. The total remuneration paid to Directors (annual retainers, pro-rated for the portion of the reporting period each Director was a member of or chaired a Committee, plus Committee per diems) was $479,922+ compared to $404,644** in 2014. The total business travel and meeting expenses++ paid to members of the Board were $21,621+ compared to $29,519** in 2014.

\+ This amount was for the 15-month reporting period of January 1, 2015 to March 31, 2016, to coincide with the fiscal year-end change. The fiscal year-end was changed to March 31.

++ The Corporation implemented fiscal restraint measures in 2015.

** The 2014 amount was for a 12-month period from January 1, 2014 to December 31, 2014.

Membership and Attendance at Meetings of the Board and Board Committees

from January 1, 2015, to March 31, 2016

Member	Board (13)	Audit (11)	Bus. Dev. (5)	Gov. (6)	HR/Comp (5)	SCSR (5)	Legal Serv. (2)	Total	%
Barber (Chair)	13/13	6/11			4/5			29	79
Baker	12/13		5/5		5/5		2/2	25	96
Bannister	13/13			4/6		4/5		24	88
Beug	10/13		4/5		5/5			23	83
Bishop	12/13	11/11		6/6				30	97
Chickoski	13/13		5/5		5/5		2/2	25	100
Clavelle	13/13			6/6		5/5		24	100
Gayton	13/13		5/5			5/5		23	100
Jones*	9/12**	8/10**	5/5				0/2	29	76
Joorisity	13/13	11/11				5/5		29	100
Krawchuk	9/13	10/11				5/5		29	83
Thomas	13/13			6/6	5/5		2/2	26	100

*On February 5, 2016, Jones' resignation from the Board was accepted after serving on the Board for his initial two-year term.

**Total possible meetings to attend.

For purposes of this report, Directors who attended meetings in part were considered to be present.

STAKEHOLDER ENGAGEMENT

Communications Models Employed at SaskEnergy

Strong two-way communications models support the achievement of business and corporate results. The Corporation is committed to rigorous and professional communications practices that support the principles of timeliness, openness and transparency with its stakeholder.

Customer and Public Communications

Continued business growth at SaskEnergy has entailed continued contact with the Corporation's base of nearly 387,000 customers. To this end, an estimated more than one million direct interactions occur annually between the Corporation and its customers. In addition to standard customer billing and meter reading inquiries, growth has occurred relative to the *Sask 1st Call* service, which provides initial customer contact for more than 70 companies with underground facilities, including SaskEnergy and TransGas. To successfully manage increasing levels of customer contact within the existing cost structure, SaskEnergy's customer service team has developed specialization of certain functions in individual locations. Enabled by networking technology, this structure allows the province-wide group to form a virtual call centre.

TransGas fosters personal contact with its smaller transportation and storage customer base of less than 200 through dedicated account representatives. It also promotes contact through the TransGas Customer Dialogue Process, where customer rates and operational policies are jointly addressed before recommended implementation.

SaskEnergy also effectively works with the plumbing, heating and mechanical contracting industry, which is highlighted by the Industry Dialogue process and the creation of the SaskEnergy Network, through which nearly 170 private sector plumbing and heating contractors use the SaskEnergy Network brand to deliver downstream services to natural gas customers.

Critical corporate initiatives, such as creating public awareness around energy efficiency and public safety ("Call Before You Dig"), are also promoted through multi-media advertising and communications campaigns, as well as direct-contact programs, such as contractor safety breakfasts, first responder training sessions and landowner mail-outs.

SaskEnergy has a strong commitment to providing safe and reliable service to customers, ensuring they understand how to use natural gas safely and that the Corporation responds in a timely manner. This includes public awareness about what customers should do if they smell natural gas.

Major corporate initiatives, such as changes to the Corporation's delivery or commodity rates, are communicated through news conferences and public events, and are supported through information distributed through SaskEnergy's website and on customer bills. Enhanced tools – such as e-billing and equalized payment plans – allow customers greater control over the management of their natural gas bills. The Corporation continues to analyze the usage of social media tools in its utility business context.

The SaskEnergy website also provides access to corporate information, such as quarterly financial updates and annual reports, energy efficiency and safety-related information, as well as career opportunities and a streamlined process for charities and non-profits to request financial support through the Corporation's community investment program.

The high level of efficacy and support for SaskEnergy's and TransGas' customer communications approach is reflected through ongoing high levels of customer satisfaction in its independent surveys.

Shareholder Communications

As a Crown corporation, SaskEnergy complies with the communications requirements set by the shareholder and by statute, in accordance with the Board-approved external communications policy. Through the Board Chair, the Board is accountable to the Minister Responsible for SaskEnergy. The Minister functions as a communications liaison among the Corporation, CIC, Cabinet, the Provincial Legislature and the public.

SaskEnergy fully complies with its statutory obligations for approval and disclosure of information. These responsibilities include:

- Annual approval of the Corporation's business/performance management plan, including capital expenditures through its shareholder, CIC;
- Annual disclosure through Crown and Central Agencies, a public legislative committee of government, of all payments of over $50,000 to employees and suppliers, and of all grants, donations and sponsorships of over $5,000;
- Appearances before public committees of the legislature, including Crown and Central Agencies, by senior executive to answer questions relating to the business of the Corporation in preceding years;
- Compliance with public requests for information, balancing the interests of *The Freedom of Information and Protection of Privacy Act*.

SaskEnergy also works cooperatively with CIC, the office of the Minister Responsible for SaskEnergy and Executive Council Communications to generate dialogue, understanding and support for corporate initiatives that affect stakeholders. These communications tools include briefing notes, face-to-face meetings and other information packages to ensure elected officials are able to represent the Corporation in the public and through the media, by speaking knowledgably on issues regarding the business operations of SaskEnergy. The Corporation is also expected to respond expediently to correspondence and case work submitted by the office of the Minister Responsible for SaskEnergy.

Project-based Communications

SaskEnergy's distribution, transmission and storage projects can impact the communities in which they are occurring. In addition to fully complying with all legal and regulatory considerations, SaskEnergy will typically hold consultations with affected stakeholders in areas where projects are of greater scope or longer duration. Such communications initiatives include public open houses and meetings with local municipal councils, First Nations representatives and other stakeholders. These initiatives allow company officials to explain the environmental impacts of proposed activities, including proposed mitigation plans. They also provide opportunities to enhance general understanding of the projects economic benefits and of natural gas as a heating source. Because Saskatchewan has approximately 75 First Nations Bands and 11 Métis Regions, a dedicated Aboriginal Relations group exists to better foster consultation, dialogue and relations.

Regulatory Communications

SaskEnergy is required to file any applications for delivery and commodity rate changes with the Saskatchewan Rate Review Panel (SRRP), an advisory panel that provides formal recommendations to the Provincial Cabinet. The applications are available to the public. Typically, the SRRP will ask for additional information to assist in its review, and a public interaction component is provided through public meetings. SaskEnergy filed a commodity rate decrease application in June of 2015, seeking a $0.54/GJ decrease, while simultaneously applying for a delivery rate increase of 4.5 per cent. After review, the application was recommended to, and approved by, Cabinet effective January 1, 2016.

TransGas' proposed rate changes are discussed through the TransGas Customer Dialogue – a proxy with representatives from the producer, industrial end-user and gas marketer communities. After rate changes are discussed through Dialogue, they are provided to the Provincial Cabinet for approval. TransGas' latest rate change was effective January 1, 2016, with an average rate increase of 3.0 per cent.

Employee Communications

SaskEnergy regularly communicates with its workforce of approximately 1,100 employees to ensure prompt and accurate delivery of corporate information.

A primary method of communication is the InfoFlash (a corporate memo containing relevant, business-related information) that is delivered via e-mail to all employees within the Corporation. In addition, SaskEnergy also employs a corporate Intranet site (innergy). This communication medium allows employees to access information related to the Corporation, stay informed on upcoming events and initiatives and link to internal departmental sites for specific department-related information. To ensure the accuracy and quality of information provided, innergy offers a two-way communication medium for employees to submit feedback regarding information on the website.

SaskEnergy produces a semi-annual newsletter called Our Energy. Issues are delivered to all employees, as well as to superannuates, upon request. The Our Energy newsletter features articles related to corporate and employee initiatives that are taking place throughout the Province. SaskEnergy also produces corporate videos that serve as informative, educational tools to keep employees up-to-date on major projects that are taking place within the Corporation.

The Corporation also maintains an "Open Line to the President", a forum whereby employees are able to submit questions or comments for Executive response. Posted responses are available for all employees to view.

In addition to the mediums mentioned above, SaskEnergy supports the use of meetings, presentations and face-to-face communication to deliver important messages to employees, such as safety messages, business and strategic plan information and employee survey results.

SUPPLEMENTARY INFORMATION

FIVE YEAR CONSOLIDATED FINANCIAL SUMMARY

Consolidated Statement of Financial Position

(millions)	March 31, 2016[1]	December 31, 2015	December 31, 2014	December 31, 2013	December 31, 2012	December 31, 2011
	Audited	Unaudited	Audited	Audited	Audited	Audited
ASSETS						
Current assets						
Cash	$ 11	$ 3	$ 5	$ –	$ 2	$ 21
Trade and other receivables	104	116	148	148	119	103
Natural gas in storage held for resale	86	123	140	208	238	214
Inventory of supplies	11	12	12	12	11	10
Debt retirement funds	10	8	7	6	2	6
Assets held for sale	–	–	–	4	–	–
Fair value of derivative instruments	11	7	21	28	53	78
	233	269	333	406	425	432
Intangible assets	57	56	49	47	37	30
Property, plant and equipment	2,068	2,050	1,912	1,682	1,501	1,395
Debt retirement funds	92	89	86	72	74	67
	$ 2,450	$ 2,464	$ 2,380	$ 2,207	$ 2,037	$ 1,924
LIABILITIES AND PROVINCE'S EQUITY						
Current liabilities						
Short-term debt	$ 299	$ 325	$ 299	$ 380	$ 275	$ 314
Trade and other payables	105	121	117	122	105	101
Dividends payable	21	14	3	10	11	9
Current portion of long-term debt	100	83	50	50	50	50
Deferred revenue	61	77	90	59	41	32
Fair value of derivative instruments	109	93	107	39	58	98
	695	713	666	660	540	604
Employee future benefits	8	9	10	10	12	13
Provisions	130	113	95	71	18	17
Deferred revenue	6	6	6	9	9	9
Long-term debt	870	887	908	712	762	665
	1,709	1,728	1,685	1,462	1,341	1,308
Province's equity						
Equity advances	72	72	72	72	72	72
Retained earnings	669	664	623	673	624	544
	741	736	695	745	696	616
	$ 2,450	$ 2,464	$ 2,380	$ 2,207	$ 2,037	$ 1,924

[1] On November 30, 2015, the Government of Saskatchewan announced a change in the year end for CIC and its subsidiaries from December 31 to March 31, commencing with the 2015-16 fiscal year. Accordingly, for the 2015-16 fiscal year the Corporation reported a 15-month fiscal period ended March 31, 2016, shown here compared to fiscal periods ended December 31.

Consolidated Statement of Comprehensive Income

(millions)	15 Months Ended March 31, 2016[1]	12 Months Ended December 31, 2015	12 Months Ended December 31, 2014[2]	12 Months Ended December 31, 2013	12 Months Ended December 31, 2012	12 Months Ended December 31, 2011
	Audited	Unaudited	Audited	Audited	Audited	Audited
REVENUE						
Natural gas sales	$ 565	$ 440	$ 718	$ 600	$ 510	$ 569
Delivery	289	215	232	217	194	187
Transportation and storage	151	119	98	92	85	77
Customer capital contributions	61	37	33	24	29	43
Other	14	12	16	12	12	12
	1,080	823	1,097	945	830	888
EXPENSES						
Natural gas purchases	494	381	695	550	465	518
Employee benefits	115	91	92	89	85	82
Operating and maintenance	152	118	126	97	85	83
Depreciation and amortization	110	87	83	77	73	68
Saskatchewan taxes	15	12	11	11	10	10
	886	689	1,007	824	718	761
INCOME BEFORE THE FOLLOWING	194	134	90	121	112	127
NET FINANCE EXPENSES						
Finance income	6	5	4	4	5	5
Finance expenses	(62)	(51)	(48)	(44)	(44)	(40)
	(56)	(46)	(44)	(40)	(39)	(35)
OTHER (LOSSES) GAINS	(3)	–	1	(2)	–	(8)
NET INCOME BEFORE MARKET VALUE ADJUSTMENTS	135	88	47	79	73	84
MARKET VALUE ADJUSTMENTS						
Commodity	4	15	(83)	27	47	(43)
Gas marketing	(15)	(14)	8	(33)	(32)	7
Net realizable value on natural gas in storage	(11)	(1)	(12)	13	21	(24)
Debt retirement funds	(2)	(3)	7	(7)	(2)	2
	(24)	(3)	(80)	–	34	(58)
TOTAL NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	$ 111	$ 85	$ (33)	$ 79	$ 107	$ 26
CONSOLIDATED STATEMENT OF CASH FLOWS						
Cash provided by operating activities	$ 347	$ 260	$ 248	$ 244	$ 172	$ 195
Cash used in investing activities	(241)	(215)	(283)	(221)	(181)	(150)
Cash (used in) provided by financing activities	(100)	(47)	40	(25)	(10)	(25)
INCREASE (DECREASE) IN CASH POSITION	$ 6	$ (2)	$ 5	$ (2)	$ (19)	$ 20

[1] On November 30, 2015, the Government of Saskatchewan announced a change in the year end for CIC and its subsidiaries from December 31 to March 31, commencing with the 2015-16 fiscal year. Accordingly, for the 2015-16 fiscal year the Corporation reported a 15-month fiscal period ended March 31, 2016, shown here compared to 12-month fiscal periods ended December 31.

[2] Certain comparative amounts in the consolidated statement of comprehensive income have been reclassified to conform with the current fiscal year's presentation.

GLOSSARY OF KEY SUCCESS MEASURES

SERVICE EXCELLENCE

Efficient Operations

Distribution Operation, Maintenance and Administration (OM&A) per Customer	The Operation, Maintenance and Administration (OM&A) Costs per Customer measure is a proxy for the relative efficiency of the Distribution Utility's operations and is calculated using OM&A expenses (excludes transportation and storage charges) divided by the total number of distribution customers (385,858 customers at December 31, 2015). This measure is comparable to other Canadian gas utilities.
Competitive Residential Delivery Rates	The Competitive Residential Delivery Rates measure reports the ranking of SaskEnergy's natural gas distribution delivery service rates, relative to the rates charged by other major Canadian utilities. The cost comparison is based on a benchmark level of consumption upon which the published rates of other service providers are applied to determine SaskEnergy's relative ranking. The calculations also factor in all temporary and one-time refunds, rebates, rate riders or surcharges approved by the utility's regulator. Federal, provincial and municipal taxes are excluded from the comparison as are any government rebates that are not directly approved by the utility's regulator.
Transmission OM&A per Book Value of Assets Managed	The OM&A Costs per Book Value of Assets Managed measure is a proxy for the relative efficiency of the Transmission Utility's operations and is calculated using OM&A expenses (excludes third-party transportation charges) divided by the total value of the assets managed as part of the TransGas transmission system.

Safety/Vigilance

SaskEnergy Leaks per 1,000 kilometres of Mains	The term "leak" is defined as any unplanned release of product from the distribution system. The methodology for this metric was developed and standardized during 2013 by the Canadian Gas Association (CGA) for inter-jurisdictional comparison purposes, and the SaskEnergy data on leaks per 1,000 km of pipe has been revised to align with CGA reporting methodology.
TransGas Pipeline Failures per 1,000 kilometres of Pipe	The term "failure" is defined as any unplanned release of product from the pipe body. This measure aligns with the Canadian Energy Pipeline Association's (CEPA) definition and statistics, which the Corporation will use as a benchmark. The definition does not include small leaks on fittings and valve bodies. For reference, the CEPA five-year average is 0.153.
Safety and Integrity	This measure reflects, as a percentage, the current year of integrity capital spending against the Corporation's assets as of 15 years ago. In general, older assets require greater attention from an integrity perspective, and thus it is appropriate to measure integrity spending against these older assets. This metric reflects the Corporation's focus on safety and integrity efforts and helps ensure integrity programming remains consistent with industry best practice.

Customer Satisfaction

SaskEnergy	The SaskEnergy customer satisfaction measure expresses, in percentage terms, the proportion of customers surveyed who rated their overall satisfaction with SaskEnergy's service as a 5, 6, or 7 on a 7-point scale. Positive responses such as these indicate that customers view SaskEnergy service positively and provide a strong indication that the customer service tools, policies and staff are effectively meeting the needs of customers. The data for this measure is obtained from annual customer surveys conducted by independent market research firms.
TransGas	This number is derived from an annual online survey that is provided to all TransGas customers. Customer satisfaction is measured on a scale of 0 to 5, with 5 being the highest level of satisfaction. The survey contains 15 questions which, in turn, are subdivided to gain detailed feedback on various aspects of the service being evaluated. An average is taken on the responses to all questions and reported as a percentage.

ACHIEVING GROWTH

Business Growth Investment

Core Growth – SaskEnergy and TransGas Revenue Growth	This measures the level of growth in the Corporation's revenues from its core business operations. The SaskEnergy portion of this measure is calculated based on the number of new customers times the average delivery revenue per customer. The TransGas portion of this measure is the incremental revenue growth in the core business. The total incremental revenue is reported as a percentage of the core revenue in the previous year.

Diversified Non-Core Business

Return on Equity	This measure is calculated as the return earned by the Corporation on the equity that has been invested in non-core business activities. This metric has been discontinued and is replaced by the Return on Non-Core Assets metric starting in 2016-17.
Return on Non-Core Assets	This metric tracks the return earned by the Corporation from its investment in non-core assets. The return is defined as earnings before interest and taxes. The fixed assets includes all of Bayhurst, BESCO & BGSI fixed assets plus gas inventory. Inventory value was included given that the returns generated by Bayhurst gas marketing & BGSI are inventory dependent.
Total Capital Investment	This measure tracks the capital invested in non-core business activities by SaskEnergy and its subsidiaries as well as third parties.
Percentage of Third-Party Capital Investment	The percentage that is third-party capital has also been identified.
Associated Gas Capture as a Percentage of 2014 Saskatchewan Sourced Volumes	This is a new metric for 2016 that reflects the Corporation's efforts related to increasing natural gas supply through associated gas capture. It is reported as a percentage of 2014 Saskatchewan Sourced Volumes as a base year to mitigate the impact of declining Saskatchewan natural gas production. The result will be reported using actual natural gas volumes as provided by the Saskatchewan Ministry of Economy.
Net Revenue	This measure is calculated as the net revenue from Bayhurst Gas Limited (including BGSI and BESCO). In aggregate, this metric represents the value being generated by the non-regulated business activities that leverage corporate expertise and private sector alliances.

OUR TEAM

Physical Safety

Total Recordable Injury Frequency Rate	This measure is a composite of two separate metrics: Lost Time Frequency Rate – measures the frequency in which lost time injuries have occurred. A standard duration is used to normalize the results so that company comparisons can be made despite differing workforce sizes. A lost time injury is an injury that resulted in lost work time following the day of the injury. Medical Aid Frequency Rate – records the frequency of injuries that require medical attention. Results are normalized so that company comparisons can be made despite differing workforce sizes. A medical aid injury is an injury that requires medical attention, but no working time is lost beyond the day of the injury.

Employee Engagement

Employee Survey	SaskEnergy measures employee engagement through employee surveys. Prior to 2015, the Corporation used the Hay Survey administered by the Hay Group and results were benchmarked to the "Hay norm" as defined by a five-year rolling average of Hay Survey respondents. In 2015, the use of the Hay Survey tool was discontinued for cost savings purposes although employees continue to be surveyed annually to gauge employee engagement levels.

Workforce Diversity

Youth, First Nations/Métis	The workforce diversity measures provide quantitative data for the employment of Aboriginal individuals, recognized by the Saskatchewan Human Rights Commission as being either underemployed or minimally employed within the Province. SaskEnergy also tracks the percentage of "Youth" in the workforce, which is defined as employees who are 30 years of age or less. The measures are calculated by comparing the number of employees from these groups relative to the number of total employees that comprise the workforce. SaskEnergy statistics related to employment equity are tracked and reported internally and are also reported to the Saskatchewan Human Rights Commission annually.

CREATING VALUE

Financial Strength

Debt/Equity Ratio	This measure is calculated by dividing total net debt by the sum of total net debt plus total Province's equity.
Consolidated Return on Equity	The consolidated rate of return on equity is measured by dividing the income before unrealized market value adjustments by the average Province's equity over the year. The average is determined as the simple average of the opening Province's equity and the closing Province's equity.
Income before Unrealized Market Value Adjustments	This measure removes unrealized market value adjustments from consolidated net income. Market value adjustments include fair value adjustments on financial and derivative instruments and the revaluation of natural gas in storage to net realizable value.

Environmental

Greenhouse Gas Emissions – Tonnes of CO_2e/million Running Horsepower Hours	This measure represents the intensity of greenhouse gas emissions produced per unit of natural gas compression, measured in tonnes CO_2e per million running horsepower hours.

Community Relationship

Community Sponsorships as a Percentage of Net Income	This measure is based on the forecast five-year rolling average of net income of $70 million per year. The long-term target for this measure would see SaskEnergy achieve an annual community sponsorship level consistent with one per cent of net income.
Total Contracts – Percentage of Aboriginal Labour Content	This measure tracks the percentage of Aboriginal labour content in the Corporation's labour service contracts managed by the Purchasing Department.

GLOSSARY OF NATURAL GAS MEASUREMENTS

Joule (J) – a base metric measure of energy. One J is the equivalent of the energy required to raise the temperature of one gram of water by approximately one quarter of one degree Celsius.

Gigajoule (GJ) – a measure used to express the energy value of natural gas or of energy consumed. One GJ is equivalent to one billion J. A typical home in Saskatchewan uses about 105 GJ of natural gas per year.

Terajoule (TJ) – a unit of energy equivalent to 1,000 GJ.

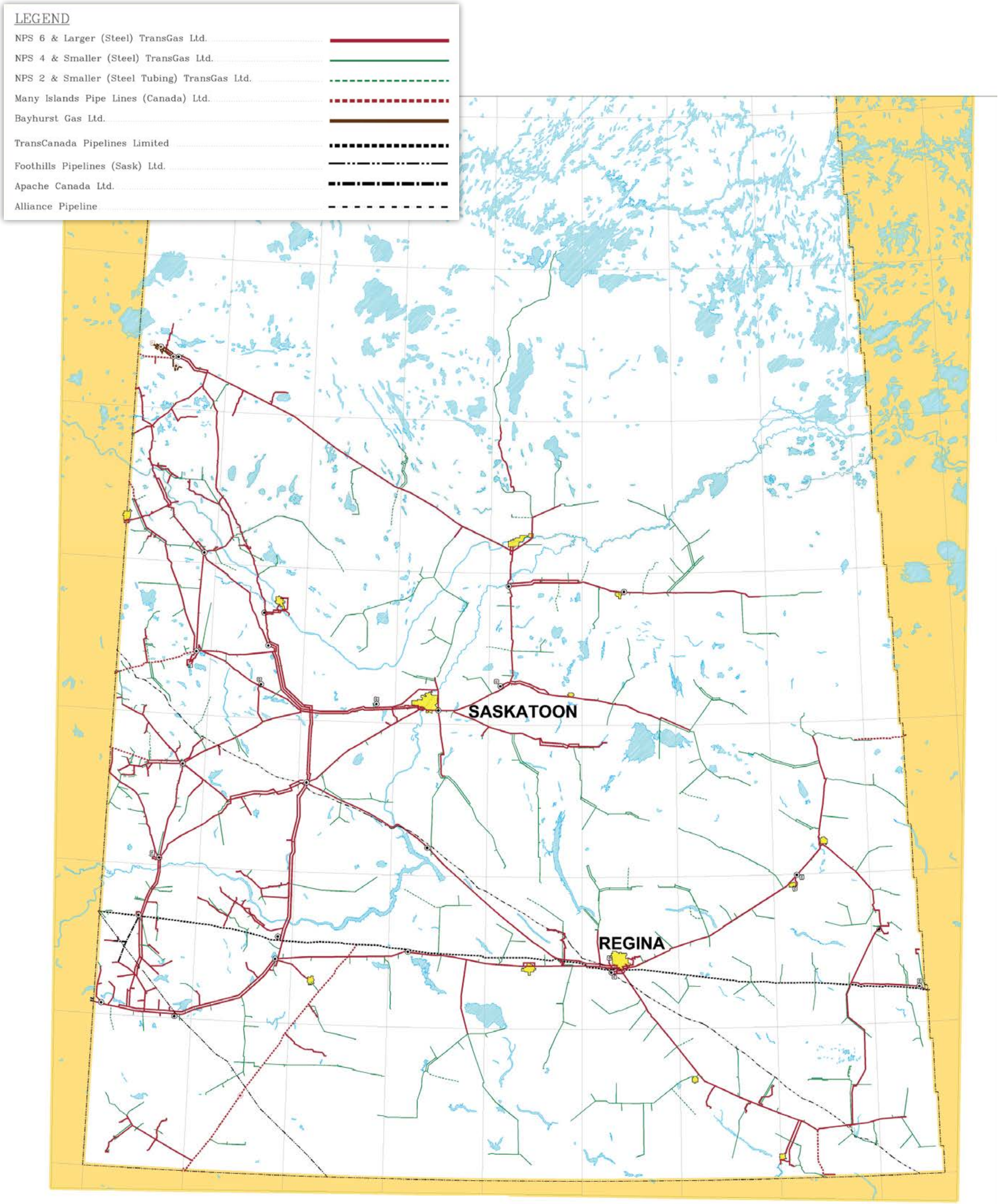
Petajoule (PJ) – a unit of energy equivalent to 1,000,000 GJ.

Cubic metre (m^3) – a unit of volume measurement commonly used to express the amount of natural gas sold to consumers. The typical home in Saskatchewan uses about 2,800 m^3 of natural gas per year.

Natural Gas Volume Equivalents at Normal Atmospheric Pressure

- One GJ of natural gas would approximately fill an 11-foot by 11-foot by 8-foot room (approximately 1,000 cubic feet).
- One TJ of natural gas would fill a typical professional hockey arena (approximately 1,000,000 cubic feet).
- One PJ is enough natural gas to fill 17 sports stadiums the size of the Rogers Centre in Toronto (approximately 1,000,000,000 cubic feet).

SASKENERGY INCORPORATED NATURAL GAS TRANSMISSION PIPELINES



1000-1777 VICTORIA AVENUE REGINA, SASKATCHEWAN S4P 4K5

SASKENERGY.COM