ANNUAL REPORT

2017-18

SaskEnergy

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MISSION

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

VISION

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

VALUES

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

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

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

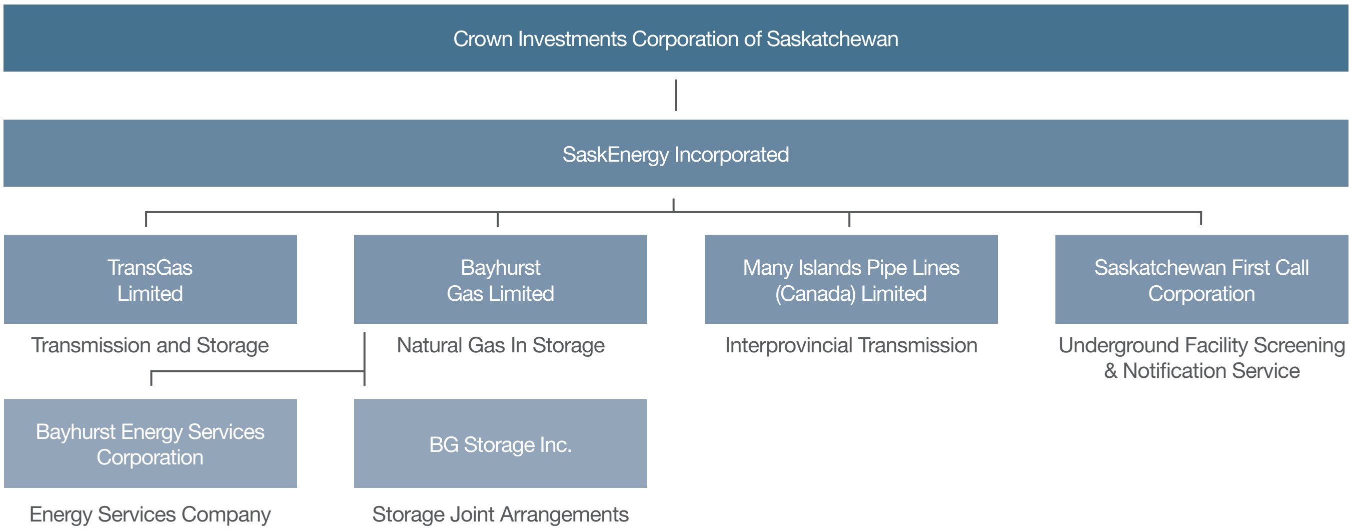
ACCOUNTABILITY
We are accountable for our decisions, our actions and the results.

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

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

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 storage facility in the western area of Saskatchewan.

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 Steel Reef Infrastructure Corp. BESCO is also the sole owner and operator of a gathering and processing facility in Coleville, Saskatchewan.

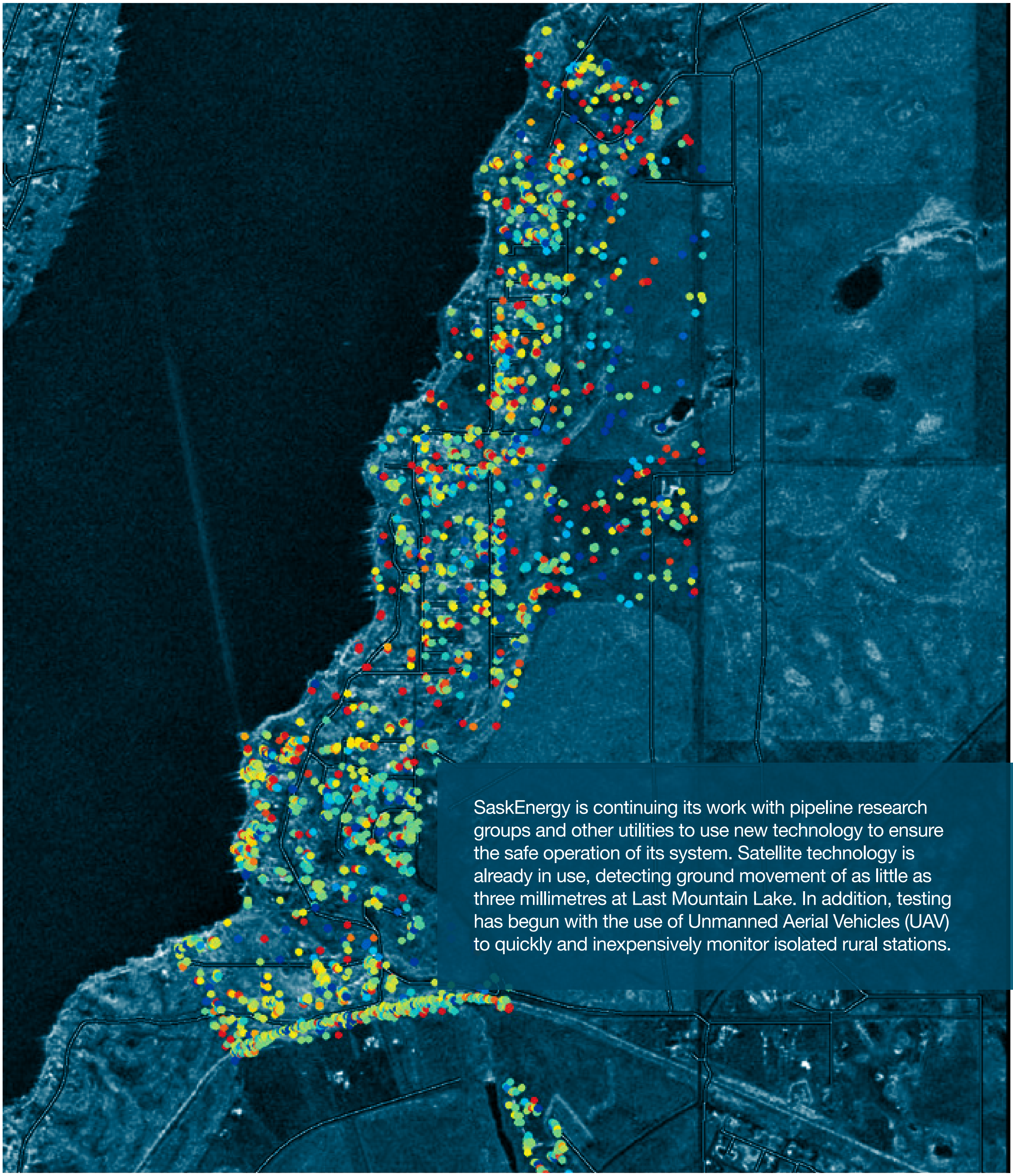
BG Storage Inc. (BGSI), a wholly owned subsidiary of Bayhurst Gas Limited, owns a 50 per cent interest in a natural gas storage business, which is operated through a joint arrangement with Faro Energy Ventures Ltd.

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 planning any ground disturbance 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.

MAKING COMMUNITIES SAFER



SaskEnergy is continuing its work with pipeline research groups and other utilities to use new technology to ensure the safe operation of its system. Satellite technology is already in use, detecting ground movement of as little as three millimetres at Last Mountain Lake. In addition, testing has begun with the use of Unmanned Aerial Vehicles (UAV) to quickly and inexpensively monitor isolated rural stations.

LETTER OF TRANSMITTAL

May 24, 2018

His Honour the Honourable W. Thomas Molloy, O.C., S.O.M.

Lieutenant Governor of Saskatchewan

Sir:

I respectfully submit the annual report of SaskEnergy Incorporated for the fiscal period ending March 31, 2018, 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 B. Eyre]

Honourable Bronwyn Eyre
Minister Responsible for SaskEnergy

MINISTER'S MESSAGE

On behalf of Premier Scott Moe and the Government of Saskatchewan, I am pleased to present the SaskEnergy 2017-18 Annual Report.

Over the past year, SaskEnergy has continued to show solid alignment with our government's established Crown Sector Priorities by providing safe, reliable, high quality products and services to support Saskatchewan's economy. SaskEnergy has also been effective in identifying and implementing ways to deliver its services more efficiently to keep service levels high and rates as low as possible.

As a government, we have emphasized the strategic execution of capital investment plans across the Crown sector, and SaskEnergy should be commended for its efforts to increase public safety, ensure energy security, and support economic growth through major capital work over the past year.

As the dynamics of the energy sector shift in response to market forces, Saskatchewan companies will require well-planned and well-executed pipeline infrastructure projects both within and outside the borders of our province. To this end, the Government of Saskatchewan will continue to do its part in supporting and standing up for our energy sector.

I would like to thank all SaskEnergy employees, management and the Board of Directors for their contributions to the company in 2017-18.

[Original signed by B. Eyre]

Honourable Bronwyn Eyre
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 Bronwyn Eyre, in presenting the SaskEnergy 2017-18 Annual Report.

SaskEnergy delivered strong financial results in 2017-18, including $110 million in income before unrealized market value adjustments, a 12.2 per cent consolidated return on equity, and a strong debt-to-equity ratio. Annual measures related to operational efficiency, customer satisfaction and greenhouse gas reductions also exceeded targets.

Certainly, these outcome-based metrics provide a measure of corporate performance. However, they can be heavily affected, positively or negatively, by factors outside of SaskEnergy's control — weather, natural gas market conditions, and decisions by regulators, customers and third-party transporters, among others.

In many ways, an analysis of specific actions over the past year paints a more meaningful picture of SaskEnergy's chosen focus areas. In 2017-18, the Corporation dedicated $109 million toward system integrity initiatives across its more than 85,000 kilometres of pipeline. After weighing a range of options, SaskEnergy leadership made the difficult decision to remove natural gas service from customers in sections of the Last Mountain Lake area where frequent ground movement had created unsafe conditions. Finally, in January, 150 employees and managers delivered an outstanding effort to restore natural gas service in the Melfort area after the largest outage in SaskEnergy history, deemed to be the result of unreported third-party infrastructure damage.

As Board Chair over the last five years, I have consistently noted the desire to increase the safety of Saskatchewan communities as a motivating factor for projects and recommendations brought before the SaskEnergy Board of Directors, and we are proud to support these efforts. This focus is fundamental to SaskEnergy and well-embedded within decision-making processes and operational practices across the company, regardless of financial conditions, market changes or other variables in the business environment.

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

Any analysis of SaskEnergy's annual performance should begin with the headings of "safety", "reliability", and "affordability" — the three pillars of our commitment to customers across Saskatchewan.

Safety-related efforts in 2017-18 led to a reduction in third-party contacts with SaskEnergy's gas pipelines, which are now down a total of 37 per cent since 2013. SaskEnergy also continued work to systematically upgrade service connections in communities prone to ground shifting and move high pressure pipelines away from developed areas in growing cities. Meanwhile, overall system reliability has increased, thanks to the continued development of capital plans to increase flexibility in acquiring and transporting gas supply.

Throughout the year, approximately $4.2 million in savings was realized through various efficiency and process improvements. These efforts contributed to SaskEnergy's ability to provide the lowest residential delivery rate in Western Canada, while also achieving high levels of satisfaction from our residential, commercial and industrial customers.

Building on this foundation of success, the SaskEnergy Board of Directors and leadership came together in 2017-18 to develop the SaskEnergy 2018-2023 Strategic Plan. That process highlighted how significantly SaskEnergy's business environment has changed in recent years and the accompanying changes that will be required for our company to continue to meet customer and stakeholder demands.

Primary among the factors driving SaskEnergy's business decisions is the ongoing shift in provincial gas supply and demand. In 2017-18, approximately 65 per cent of the gas consumed in the province was imported from Alberta and that figure is expected to grow each year, increasing our reliance on interconnecting pipelines. Meeting provincial demand also requires investment in our own infrastructure, as SaskEnergy's pipeline system is now being re-configured in certain areas of the province. While these investments will contribute to higher income, they will also increase operating costs and put pressure on delivery and transportation rates.

To meet SaskEnergy's mission of safe, reliable and affordable natural gas delivery, a focus on SaskEnergy's core operations will be required.

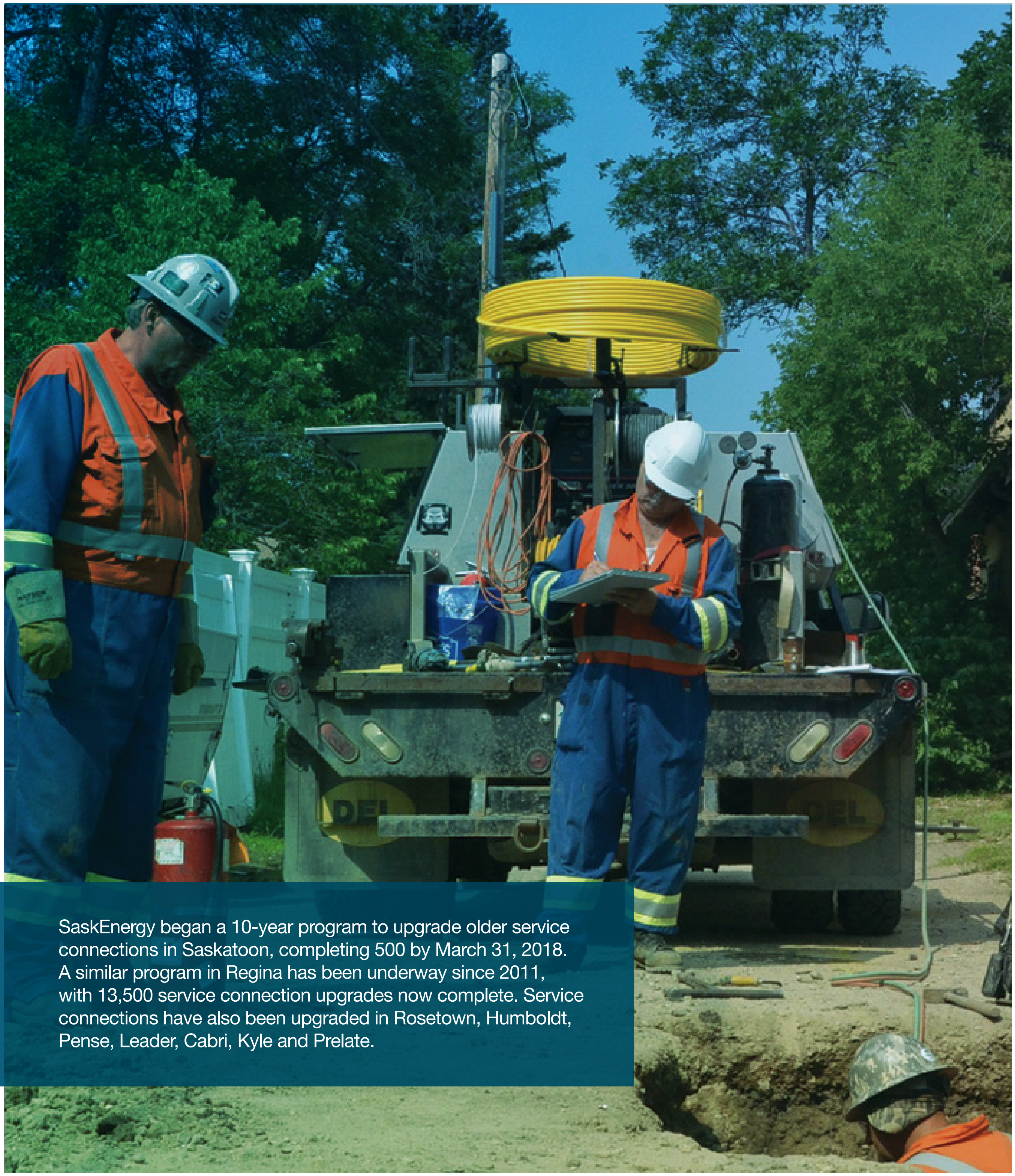
Along with the other members of the SaskEnergy Executive team, I extend my thanks to our skilled, dedicated and professional teams across the province for their contributions in 2017-18. Amid ever-changing market factors and economic conditions, our people have been the constant factor and remain the cornerstone of our future success.

[Original signed by K. From]

Ken From

President and Chief Executive Officer, SaskEnergy

SUSTAINABLE INFRASTRUCTURE



SaskEnergy began a 10-year program to upgrade older service connections in Saskatoon, completing 500 by March 31, 2018. A similar program in Regina has been underway since 2011, with 13,500 service connection upgrades now complete. Service connections have also been upgraded in Rosetown, Humboldt, Pense, Leader, Cabri, Kyle and Prelate.

FINANCIAL AND OPERATING HIGHLIGHTS

CONSOLIDATED FINANCIAL INFORMATION

($ millions)	2017-18	2016-17	2015-16[1] 12-month period	2014	2013
Delivery	271	240	209	232	217
Transportation and storage	137	134	121	98	92
Commodity margin	41	25	28	9	18
Gas marketing margin	26	14	20	14	32
Customer contributions	21	55	58	33	24
Other revenue	7	10	12	16	12
Total revenue and margins	503	478	448	402	395
Employee benefits	86	87	90	92	89
Operating and maintenance	132	134	124	126	97
Depreciation and amortization	100	96	89	83	77
Saskatchewan taxes	14	12	12	11	11
Net finance expense	48	46	47	44	40
Other losses (gains)	13	33	0	(1)	2
Total expenses	393	408	362	355	316
Income before unrealized market value adjustments	110	70	86	47	79
Market value adjustments	34	76	30	(80)	-
CONSOLIDATED NET INCOME (LOSS)	**144**	**146**	**56**	**(33)**	**79**
Dividends declared	39	29	55	17	30
Total assets	2,688	2,505	2,450	2,380	2,207
Cash provided by operating activities	312	225	258	248	244
Cash used in investing activities	(258)	(198)	(210)	(283)	(221)
Cash (used in) provided by financing activities	(58)	(37)	(47)	40	(25)
Capital expenditures	255	198	212	299	224
Total net debt	1,232	1,210	1,156	1,159	1,064
Debt/Equity ratio	56/44	59/41	61/39	63/37	59/41
Rate of return on equity	12.2%	8.8%	11.6%	6.5%	11.0%
OPERATING STATISTICS					
Distribution energy (petajoules)					
Residential/Farm	39	34	32	39	37
Commercial	33	30	27	34	33
Industrial	147	129	127	111	108
TOTAL	**219**	**193**	**186**	**184**	**178**
Transmission energy (petajoules)					
Domestic	325	308	280	275	265
Export	25	18	24	7	3
TOTAL	**350**	**326**	**304**	**282**	**268**
Number of customers					
Distribution	394,592	390,886	386,886	380,768	373,436
Transmission	119	117	123	153	153

[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. For comparative purposes, the unaudited 12-month period ending March 31, 2016 is shown.

OPERATING SUMMARY — DISTRIBUTION

	2017-18	2016-17	2015-16[1] 12-month period	2014	2013
Sales in million cubic metres[2]	**5,607**	5,004	4,785	4,881	4,639
Residential annual average usage (cubic metres)	**2,736**	2,543	2,387	3,006	3,020
Degree days[3]	**5,787**	5,155	4,901	6,039	6,193
Percentage (colder) warmer than normal	**(4.8%)**	6.7%	12.2%	(9.0%)	(12.5%)
PIPELINE (kilometres)					
SaskEnergy Incorporated	**70,180**	69,870	69,547	69,015	68,612

[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. For comparative purposes, the unaudited 12-month period ending March 31, 2016 is shown.

[2] Retail, industrial and natural gas marketing.

[3] A unit measuring the extent to which the temperature falls below 18° Celsius. Normal weather in 2017-18 (12 months ending March 31, 2018) would have been 5,522 degree days.

OPERATING SUMMARY — TRANSMISSION

	2017-18	2016-17	2015-16[1] 12-month period	2014	2013
Peak day natural gas flows (petajoules)	**1.50**	1.36	1.35	1.42	1.26
Date of peak day flow	**Dec. 29**	Jan. 12	Jan. 16	Feb. 6	Dec. 6
Storage cavern sites	**6**	6	6	6	6
Storage caverns	**18**	18	22	24	26
Storage field sites[2]	**4**	4	4	4	4
Producing field sites[2]	**1**	1	1	1	1
PIPELINE (kilometres)					
TransGas Limited					
Transmission	**14,373**	14,465	14,397	14,423	14,291
Gathering	**289**	297	297	203	203
Many Islands Pipe Lines (Canada) Limited	**443**	445	441	435	435
Bayhurst Gas Limited	**22**	21	21	113	113
TOTAL	**15,127**	15,228	15,156	15,174	15,042
SYSTEM COMPRESSION					
TransGas Limited Stations	**25**	25	24	23	24
Bayhurst Gas Limited Stations	**3**	3	3	3	3
Mobile Compressor Units	**17**	17	13	7	3
COMPRESSION HORSEPOWER					
TransGas Limited[3]	**82,841**	79,765	76,315	89,360	87,720
Bayhurst Gas Limited	**6,300**	6,300	6,300	6,300	6,300
TOTAL	**89,141**	86,065	82,615	95,660	94,020

[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. For comparative purposes, the unaudited 12-month period ending March 31, 2016 is shown.

[2] Includes Bayhurst Gas Limited.

[3] Includes BESCO assets.

QUARTERLY FINANCIAL AND OPERATING HIGHLIGHTS

2017-18 Financial Highlights ($ millions)	Q1	Q2	Q3	Q4	March 31, 2018
Total revenue	166	145	271	330	**912**
Total expenses	172	143	203	250	**768**
Consolidated net income (loss)	(6)	2	68	81	**144**
Market value adjustments	2	(3)	8	27	**34**
Income (loss) before unrealized market value adjustments	(8)	5	60	54	**110**
Dividends	-	-	16	23	**39**
Cash provided by operating activities	73	39	61	139	**312**
Capital expenditures	37	65	81	72	**255**
OPERATING HIGHLIGHTS					
Distribution					
Energy distributed (petajoules)	37	37	66	79	**219**
Weather (compared to last 30 years)	3% warmer	22% warmer	6% colder	9% colder	**5% colder**
Transmission					
Energy transported (petajoules)	68	76	100	106	**350**

2016-17 Financial Highlights ($ millions)	Q1	Q2	Q3	Q4	March 31, 2017
Total revenue	118	146	233	298	**795**
Total expenses	64	140	162	283	**649**
Consolidated net income (loss)	54	6	71	15	**146**
Market value adjustments	57	13	26	(20)	**76**
Income (loss) before unrealized market value adjustments	(3)	(7)	45	35	**70**
Dividends	-	-	14	15	**29**
Cash provided by operating activities	54	27	39	105	**225**
Capital expenditures	29	55	72	42	**198**
OPERATING HIGHLIGHTS					
Distribution					
Energy distributed (petajoules)	38	35	55	65	**193**
Weather (compared to last 30 years)	17% warmer	7% warmer	5% warmer	5% warmer	**7% warmer**
Transmission					
Energy transported (petajoules)	65	74	90	97	**326**

RECORD NATURAL GAS CONSUMPTION

SaskEnergy set three new natural gas consumption records in 2017-18, driven by distribution customer growth as well as increased industrial sector demand for enhanced oil recovery and power production. SaskEnergy has plans for continued investment in pipeline capacity and compressor stations, which will provide additional horsepower to move larger volumes of gas to where it is needed by customers.

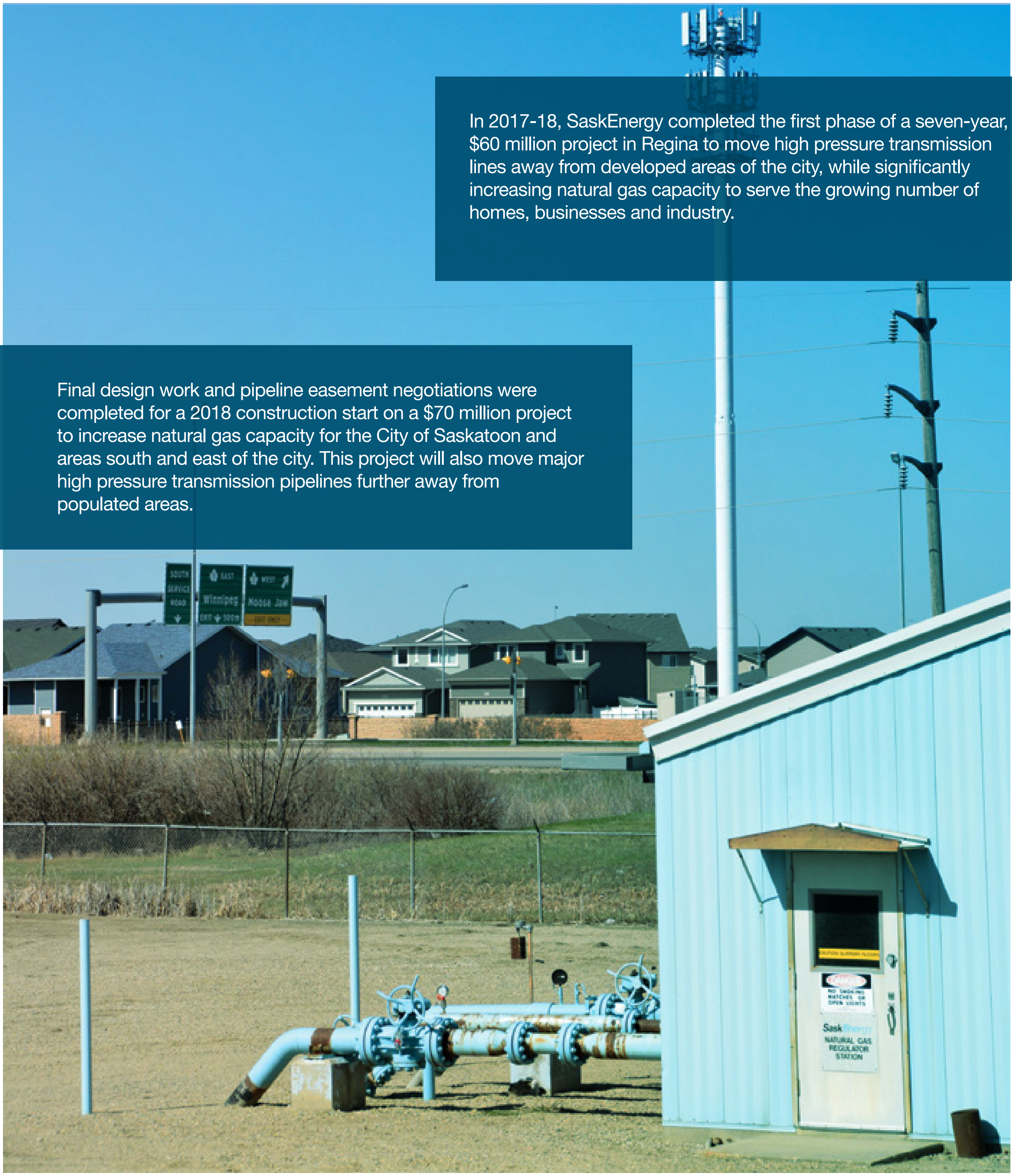
2017-18 YEAR AT A GLANCE

- **Achieved** a 3.5 per cent reduction in third-party line hits, marking the fourth consecutive year of decreased facility damage as a result of public awareness initiatives.
- **Completed** the installation of a new 16-kilometre transmission pipeline to provide an additional 10 terajoules (TJ) per day of system capacity for the Success-to-Rosetown intersystem. Another 50 TJ per day will be available once compression is added at the Success Compressor Station in 2019.
- **Launched** the new ExpressAddress website — a collaborative eSask initiative with SaskEnergy managing operations — that allows residents to notify multiple organizations of upcoming moves. This service has grown significantly, with nearly 28,000 requests received in 2017-18 compared to 11,479 in 2007.
- **Dedicated** $109 million toward system integrity initiatives, reflecting SaskEnergy's commitment to safety across its more than 85,000 kilometres of pipeline.
- **Installed** 31,773 Advanced Metering Infrastructure (AMI) gas modules throughout the province, bringing the total to nearly 373,000 or 94 per cent of SaskEnergy distribution meters. SaskEnergy's AMI modules provide customer service benefits including billing based on the amount of actual gas consumption, rather than estimated consumption, and automatic and secure meter readings.
- **Celebrated** 20 years of the SaskEnergy Network, a collaboration between SaskEnergy and independent contractors and retailers that sell and install natural gas equipment and appliances. Through this initiative, SaskEnergy and industry serve mutual customers with better services, information and tools to help customers understand the advantages of natural gas and choose the best appliances or equipment for their homes and businesses.
- **Reduced** the amount of risk to the distribution system, and to the public, associated with high levels of ground movement within six Last Mountain Lake communities. While these efforts resulted in a total of 230 customers having their natural gas service permanently removed, affected customers were offered a fuel transition allowance to assist in transitioning appliances to alternate fuel sources.
- **Provided** competitive residential delivery rates to customers, offering among the lowest rates in the country and the lowest delivery rate in Western Canada.
- **Added** 3,706 customers to the SaskEnergy distribution system, bringing total customers to 394,592.
- **Obtained** an overall audit score of 90 per cent in the Energy Safety Canada Certificate of Recognition (COR) program, which evaluates an organization's safety programs against provincial and industry standards.
- **Completed** two transmission pipeline projects to support enhanced oil recovery activities in the province, providing customers with increased receipt capacities and the capacity for future developments in the areas.
- **Committed** to the Truth & Reconciliation Calls to Action for the corporate sector, which include ensuring Aboriginal peoples have access to jobs, training and education opportunities, and that Aboriginal communities gain long-term benefits from projects related to economic development.
- **Completed** the Distribution Foundation Project, which converted computer-aided design (CAD) files into Geographic Information Systems (GIS) databases to allow SaskEnergy to leverage the data related to its assets, make the data more accessible, increase analytical capabilities and provide future savings.
- **Developed** a standard for installing slipstream technology on new mobile compressor units to capture vented gas and redirect it back into the engine air intake for use as a supplemental fuel source, thereby reducing greenhouse gas emissions and operating costs.

LAYING THE GROUNDWORK FOR GROWTH

In 2017-18, SaskEnergy completed the first phase of a seven-year, $60 million project in Regina to move high pressure transmission lines away from developed areas of the city, while significantly increasing natural gas capacity to serve the growing number of homes, businesses and industry.

Final design work and pipeline easement negotiations were completed for a 2018 construction start on a $70 million project to increase natural gas capacity for the City of Saskatoon and areas south and east of the city. This project will also move major high pressure transmission pipelines further away from populated areas.



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 ending March 31, 2018. 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 24, 2018, 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 MD&A contains certain forward-looking statements that are subject to inherent uncertainties and risks. Many of these risks 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 variation, 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. Unrealized market value adjustments vary considerably with the market prices of natural gas, drive significant changes in the Corporation's consolidated net income and may obscure other business factors that are also important to understanding the Corporation's financial results. The measures referred to above are non-IFRS measures, in that there is no standardized definition, and may not be comparable to similar measures presented by other entities.

STRATEGIC SCORECARD MEASURES

SaskEnergy's four strategic mandates — Service Excellence, Achieving Growth, Our Team and Creating Value — as set out in the Business Plan, support the vision, mission and values of the Corporation. They also align with the Crown Sector Strategic Priorities as identified by CIC. These mandates and strategic priorities provide guidance to SaskEnergy in its business planning process as well as its performance management and reporting. These strategic priorities and mandates also assist employees in making a link between their everyday efforts and their contribution to the Strategic Plan and the overall direction of the Corporation.

The Crown Sector Strategic Priorities and the Saskatchewan Plan for Growth convey shareholder strategic direction for the Province's Crown corporations.

The government's strategic plan identified five strategic priorities based on the principle of Keeping Saskatchewan Strong.

Strategic Priorities:

- Customer Focus
- Financial Sustainability
- Infrastructure Investment
- Private Sector Engagement
- Labour Force

In addition, the Provincial Government has issued messaging around the need for transformational change. Crown corporations are expected to consider all potential structure, administration and operational changes in order to achieve financial sustainability and the sustainability of high-quality service delivery to the people of Saskatchewan.

For the 2017-18 fiscal year, SaskEnergy received three specific directives to support the Province's priorities.

- Continue to monitor and manage the time it takes to complete new connect requests for customers;
- Continue to meet the needs of a growing residential, commercial and industrial customer base through upgrades to SaskEnergy's distribution and transmission network; and,
- Recommend rate adjustments that continue to take long-term return targets into consideration.

During 2017-18, SaskEnergy made progress on all of these directives. The distribution utility set a target to complete the average customer connection request within the customer's required timeline. This target was achieved in most instances and opportunities for improvement continue to be identified. With respect to transmission upgrades and expansion, the operations and system planning groups work together to ensure the safe and reliable operation of the natural gas system and strategize on how best to respond to anticipated load growth in the coming years in a timely and cost effective manner. SaskEnergy's rate strategy continues to be driven by delivering high quality customer service in a cost effective manner. This continues to be achieved while providing safe and reliable management of the Corporation's extensive natural gas infrastructure, while maintaining industry comparable rate of return targets.

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 annual business plan approval. The CIC Board reviews the business plan and confirms compliance with the Crown Sector Strategic Priorities prior to its 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.

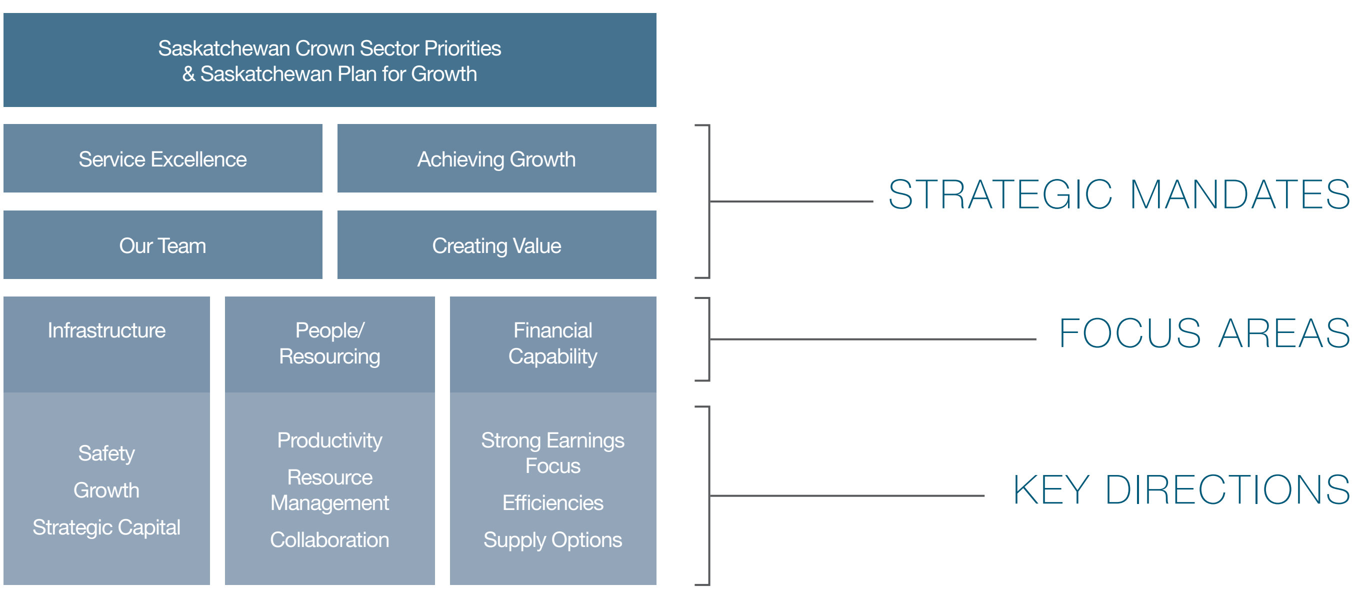
The following discussion outlines the Corporation's 2017-18 performance relative to its strategic scorecard targets for the 12 months ending March 31, 2018, which are further defined in the Glossary of Key Success Measures.

MISSION

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

VISION

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



SERVICE EXCELLENCE

SaskEnergy continued its commitment to provide safe and reliable service to customers through effective customer solutions and responsiveness as evidenced by the Corporation's Service Excellence mandate. In alignment with the Crown Sector Strategic Priorities, SaskEnergy focuses on timely completion of new customer connection requests.

Success in Service Excellence is measured by three areas categorized as Efficient Operations, Safety/Vigilance and Customer Satisfaction. Industry benchmarking and customer surveys are also tools used by the Corporation to analyze results and gauge the level of success.

Strategic Measure	March 31, 2017 Actual	March 31, 2018 Actual	March 31, 2018 Target	March 31, 2019 Target	March 31, 2020 Target	March 31, 2021 Target	March 31, 2022 Target
Efficient Operations							
Distribution							
Operation, Maintenance and Administration Costs per Customer	$298	**$290**	$322	$327	$331	$335	$338
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
Transmission							
Operation, Maintenance and Administration Costs per Book Value of Assets Managed	7.0%	**6.5%**	7.1%	6.8%	6.7%	6.6%	6.4%
Safety/Vigilance							
SaskEnergy Leaks per 1,000 kilometres of Mains	5.25	**12.79**	5.7	5.6	5.5	5.4	5.4
TransGas Pipeline Failures per 1,000 kilometres of Pipe	0.00	**0.14**	0.07	0.07	0.07	0.07	0.07
Safety and Integrity	5.8%	**6.7%**	6.9%	6.0%	6.0%	6.0%	6.0%
Customer Satisfaction							
SaskEnergy	89%	**90%**	89%	89%	89%	89%	89%
TransGas	94%	**92%**	93%	93%	93%	93%	93%

Efficient Operations

Continued focus on efficiency initiatives and aggressive cost management favourably impacted the results for the efficiency metrics in 2017-18. However, many of the initiatives implemented in response to the provincial government's directive for fiscal restraint in the past few years were deemed to be temporary in nature. The Corporation will need to return to a more sustainable level for certain operating expenses for future years in order to maintain customer service levels.

In alignment with the Crown Sector Priority of financial stability and a continued emphasis on operational efficiency, SaskEnergy is committed to the cost-effective delivery of natural gas services to its customers. The Corporation realized approximately $4.2 million in 2017-18 ($4.0 million in 2016-17) in efficiency and process improvement savings. These efforts are reflected in the measure Operation, Maintenance and Administration Costs per Customer and SaskEnergy's continued ability to successfully offer competitive residential delivery rates to its customers.

A typical residential customer in Saskatchewan paid $529 for delivery service in 2017-18 ($500 in 2016-17), which is the second lowest of the major utilities across Canada. Residents of Hamilton, Ontario paid the lowest rate at $409. SaskEnergy had the fourth lowest total residential natural gas utility rate (delivery and commodity combined) in Canada. SaskEnergy provides its distribution customers with price protection through the practice of hedging natural gas purchases. As a result, in a low and declining natural gas price environment, customers typically pay higher costs for natural gas but are not subject to the volatility of market prices. SaskEnergy does not earn a profit or incur losses on the sale of natural gas to its customers; therefore, the costs associated with the supply of natural gas are recovered over time. Customers have consistently provided very positive survey responses to questions about stable natural gas prices as opposed to prices that move with the market.

The TransGas metric Operation, Maintenance and Administration Costs (OM&A) per Book Value of Assets Managed is a proxy for the relative efficiency of the transmission utility operations. In 2017-18, TransGas OM&A results continued to reflect strong resource management efforts and a commitment to efficient operations throughout the year.

Safety/Vigilance

The Corporation's efficiency focus does not conflict with its ongoing commitment to maintaining a safe and reliable system. System integrity programming is actively managed to maintain positive results in the areas of gas leaks, pipeline failures, third-party line hits and other integrity measures. The Corporation participates in industry working groups to ensure its operations reflect industry best practice.

One of the key initiatives SaskEnergy continued in 2017-18 was the service upgrade program. This major integrity initiative inspects and upgrades service lines to ensure safe and reliable gas service to communities. This program, together with enhanced leak survey processes and damage prevention initiatives, is aimed at reducing leaks. Despite these efforts, the unique ground conditions of a long winter with many freeze and thaw cycles started to cause failures of a certain type of fitting used during early system installations. This resulted in the metric for leaks being higher than target.

TransGas continued to reduce risks for its transmission pipelines through in-line inspections, visual inspections, damage prevention initiatives and the cathodic protection program. In 2017-18, there were two specialized inspections performed for cracking and corrosion. One of these was a first for the TransGas system, utilizing innovation and technology to ensure a safe and reliable system. Pipeline failures on the transmission system were higher than target for 2017-18. There were two leaks reported, up from the one in the previous year. The first leak was a pinhole leak detected through an on-site inspection and was repaired immediately. The second was an unreported line hit and was not detected until it ruptured.

SaskEnergy and TransGas invested $109 million toward safety and integrity initiatives in 2017-18, including capital and operating ($91 million in 2016-17).

Customer Satisfaction

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

In 2017-18, overall customer satisfaction with SaskEnergy remained high at 90 per cent. The highest rated area in relation to SaskEnergy's customer service continues to be 'providing reliable service' at 95 per cent satisfaction. 'Being a company that takes initiative to meet customer needs' and 'being committed to helping customers use energy efficiently' rank lower in satisfaction at 83 per cent and 80 per cent, respectively. The lower percentages are a result of longer wait times for customers in the phone queue as resources to address customer calls were strained due to efforts required to manage vacancies as well as issues associated with higher call volumes. This has resulted in an increase in the rate of 'dropped calls' or customers who hang up before they speak to a customer service representative.

The TransGas customer survey results in 2017-18 continued to reflect strong satisfaction with TransGas customer services and interactions with the customer service team on a day-to-day basis. As a result of feedback from the survey, TransGas will continue to explore opportunities for improvements to the customer service business system, through system builds and enhancements.

ACHIEVING GROWTH

SaskEnergy's growth strategy continues to build on the foundation of its core businesses of transmission, distribution and storage services to support a growing residential, commercial and industrial customer base. In addition, the Corporation seeks new opportunities to facilitate provincial economic growth through partnerships and technology developments. The measures within the mandate of Achieving Growth represent the Corporation's commitment to facilitating growth in Saskatchewan.

Strategic Measure	March 31, 2017 Actual	March 31, 2018 Actual	March 31, 2018 Target	March 31, 2019 Target	March 31, 2020 Target	March 31, 2021 Target	March 31, 2022 Target
Business Growth Investment							
Core Growth – SaskEnergy and TransGas Revenue Growth	2.9%	**1.5%**	2.1%	3.0%	3.0%	3.0%	3.0%
Diversified Non-Core Business							
Return on Non-Core Assets	1%	**(5.5%)**	(1.4%)	(1.0%)	1.5%	4.9%	11.2%
Total Capital Investment (millions)	$5.9	**$2.7**	$12.7	$41.0	$15.6	$6.8	$3.2
Percentage of Third-Party Capital Investment	2%	**6%**	20%	59%	41%	2%	0%
Associated Gas Capture as a Percentage of 2014 Saskatchewan Sourced Volume	31%	**31%**	35%	36%	36%	37%	37%

Business Growth Investment

The Core Growth 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 prior years, it was the growth in the provincial economy that directly contributed to a larger distribution customer base and greater demand for natural gas from industrial facilities. In 2017-18, the distribution utility increased its active customer base by 3,706 customers (4,000 customers in 2016-17) and the transmission utility increased provincial load by 2.3 per cent from 2016-17. The slowdown in provincial growth continued to impact the rate of growth in the Corporation's utility businesses in 2017-18 as reflected in the result for the Core Growth metric.

Diversified Non-Core Business

The Non-Core Business measures reflect the value of developing new revenue streams within the commodity and unregulated business environment. Efforts in this area have historically created a wider revenue base; however, the low natural gas price environment and a general lack of optimism in forward pricing of the natural gas commodity have limited opportunities in recent years.

The Return on Non-Core Assets metric tracks the return earned by the Corporation from its investment in non-core assets. The lack of optimism in future gas prices resulted in further write-downs of the Corporation's natural gas storage assets in Bayhurst, negatively impacting this metric.

During 2017-18, SaskEnergy reviewed the future prospects of its non-core business with the objective to maximize enterprise value. As a result, certain gathering, treatment and compression assets are being marketed for sale.

SaskEnergy endeavors to work with private sector partners to grow its non-core business. However, the economic climate continues to cause those in the industry to proceed cautiously, resulting in very little activity in the sector in 2017-18. The results for the metric related to third-party capital investment are a reflection of this environment. The slowdown in the oil industry also impacted the Corporation's plans for liquefied natural gas (LNG) and compressed natural gas (CNG) initiatives.

The metric for Associated Gas Capture as a Percentage of Saskatchewan Sourced Volume is designed to reflect the efforts being undertaken on flare gas capture to satisfy some of the Saskatchewan demand for natural gas while reducing greenhouse gas emissions. Further upside comes from the opportunity to mitigate third-party transport costs to import supply from Alberta. Although progress is being made on projects to acquire associated gas and convert it into CNG or LNG at the wellhead, the low price environment for natural gas is causing third-party investors to proceed slowly and with caution.

OUR TEAM

Our Team is comprised of employees, contractors and business partners. These groups work collaboratively to develop mutually beneficial solutions for customers while improving the efficiency and effectiveness of work processes.

With the provincial government's mandate to demonstrate cost restraints, SaskEnergy continued aggressive vacancy management in 2017-18. While significant savings have been realized in the short term, aggressive vacancy management will continue to impact customer service levels. Retirements in key operating areas are further exacerbating the longer-term impacts of vacancy management as the experience and knowledge of those retirees is lost. However, efforts to foster a results-focused culture, along with effective leadership development and succession management practices, continue to provide positive results.

The Our Team 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.

Strategic Measure	March 31, 2017 Actual	March 31, 2018 Actual	March 31, 2018 Target	March 31, 2019 Target	March 31, 2020 Target	March 31, 2021 Target	March 31, 2022 Target
Physical Safety							
Total Recordable Injury Frequency Rate	Second Quartile	**Third Quartile**	Second Quartile	Second Quartile	Second Quartile	Second Quartile	Second Quartile
Employee Engagement							
Employee Survey	N/A	**N/A**	At or above Survey Norm	At or above Survey Norm	At or above Survey Norm	At or above Survey Norm	At or above Survey Norm
Workforce Diversity							
Youth (30 years of age or less)	12.6%	**11.5%**	16.0%	17.0%	18.0%	18.0%	18.0%
First Nations/Métis	15.1%	**15.4%**	16.0%	16.0%	17.0%	17.0%	17.0%

Physical Safety

SaskEnergy continually strives to develop a 'safety first' work environment. Employee and public safety are at the core of every activity at SaskEnergy. Having each employee home safely at the end of every day is the Corporation's top priority. SaskEnergy utilizes collaboration with industry peers and associations to understand best practices and uses this information to adopt new processes and procedures that align with leading practices.

Safety culture is a growing area of focus for SaskEnergy and understanding how safety culture can be measured and effectively managed is pertinent. The Corporation's approach is to utilize collaboration and the assistance of third-party consultants to accomplish this. Process Safety continues to be another area of emphasis by improving investigation processes to learn from incidents in order to prevent recurrences. A project is also underway to upgrade and enhance the corporate hazard reporting application.

The Total Recordable Injury Frequency (TRIF) rate was 2.43 at the end of March 2018 (1.63 in 2016-17). This means there were 2.43 reportable injuries for every 100 employees. Based on the Canadian Gas Association (CGA) benchmark information, this result places SaskEnergy in the third quartile relative to its CGA counterparts.

Employee Engagement

SaskEnergy is striving to enhance and unify a positive culture with a more consistent 'One Company, One Team' approach after reorganizing and streamlining several business units around common work objectives. With the success built on having an aligned and engaged team, there is continued focus on building strong leaders and providing an overall positive employee experience.

Employee engagement was last formally measured in 2013. An RFP process was recently completed with Executive Council to select a new service for gathering employee feedback. Plans are now underway to use a new survey tool to help focus efforts related to employee engagement and overall employee experience. SaskEnergy is evolving to a continuous feedback model beginning with a benchmarking survey and followed by ongoing feedback opportunities on a variety of topics through the entire employee lifecycle.

Overall, employee performance remains strong, but management's current sense is that resourcing limitations may be impacting energy levels, capacity and engagement.

As part of the ongoing efforts to focus and develop leaders, SaskEnergy continues to use a variety of options including stretch assignments, coaching, mentoring, Leadership Network discussions and internal learning sessions. As well as job-specific required training, certain discretionary job and competency-related training is also being selectively provided to support the ongoing development of employees. The Corporation plans to launch another intake of its internal Leadership Development Program later this year. As well, all employees are encouraged to have a personal development plan that targets specific areas for growth.

Workforce Diversity

In line with Crown Sector Strategic Priorities, SaskEnergy strives to build a workforce reflective of Saskatchewan's population by providing equal opportunity to qualified people, recognizing that First Nations, Métis and youth represent a large portion of Saskatchewan's current and 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 strategic focus for the Corporation for several years; however, 2017-18 results are lower than target as the focus on vacancy management has limited opportunities to hire employees.

CREATING VALUE

SaskEnergy is focused on creating value through financial results, ensuring efficient and effective service to customers and providing a reasonable return to the shareholder. SaskEnergy's metrics related to the Creating Value mandate are in place to ensure the Corporation is adding value for its shareholder, customers and employees through financially strong and sustainable operations, sound corporate governance and fostering positive relationships within the communities we serve. Within Creating Value, there are three categories of measures — Financial Strength, Environmental and Community Relationship.

Strategic Measure	March 31, 2017 Actual	March 31, 2018 Actual	March 31, 2018 Target	March 31, 2019 Target	March 31, 2020 Target	March 31, 2021 Target	March 31, 2022 Target
Financial Strength							
Debt/Equity Ratio	59/41	**56/44**	60/40	61/39	61/39	61/39	60/40
Consolidated Return on Equity	8.8%	**12.2%**	10.5%	6.9%	7.3%	8.0%	8.5%
Income Before Unrealized Market Value Adjustments (millions)	$70	**$110**	$91	$63	$70	$80	$90
Environmental							
Greenhouse Gas Emissions (Tonnes of CO_2e/ million Running Horsepower Hours)	338	**324**	410	395	395	395	395
Community Relationship							
Total Contracts – Percentage of Aboriginal Labour Content	14%	**16%**	14%	15%	16%	16%	16%

Financial Strength

SaskEnergy maintains an appropriate capital structure while providing reasonable financial returns to its holding company, CIC, and competitive rates to customers. The Corporation works hard to balance the interests of both CIC and its customers, while focusing on annual profitability and efficient operations with a long-term view of financial sustainability.

Income from operations was positively affected by the colder than normal weather and increased load growth in 2017-18. In addition, by utilizing off peak transportation and storage capacity, the Corporation was able to generate gas marketing margins that were higher than planned. Continued focus on cost management resulted in lower operating costs; however, these savings were partially offset by an increase in TransCanada Pipeline (TCPL) Mainline contracts to ensure adequate capacity for the 2017-18 winter heating season. Due to the current low natural gas price environment, SaskEnergy recognized impairments on its gathering and processing assets, which also negatively impacted financial results.

Capital investment levels during the year were less than planned due to a lower amount of spending in pipeline and storage facility integrity, operations system improvements, and geographical information. As a result, the Corporation's debt levels were also lower than planned for the period.

Environmental

In 2017-18, SaskEnergy continued to focus on environmental sustainability throughout its operations, measuring results through the intensity of its greenhouse gas (GHG) emissions relative to the amount of compression used to transport natural gas. This measure is calculated using a cumulative average at the end of each quarter. As the compressor fleet is modernized, increased operating efficiency is being reflected through decreased emissions intensity. The Corporation exceeded its compressor emissions reduction target for 2017-18 by 21 per cent.

The federal government plans to reduce oil and gas industry methane emissions that contribute to climate change were announced in March 2016, targeting a 40-45 per cent reduction in methane levels by 2025, using 2012 levels as a baseline. Environment and Climate Change Canada (ECCC) published the first draft regulation in May 2017. ECCC plans to publish the final regulation in spring/summer 2018. Regulatory requirements are expected to be focused on reducing fugitive emissions at compressor stations, and include more frequent compressor station leak surveys, venting restrictions, and equipment modifications to reduce and/or capture leaks.

The federal government is also consulting with industry on the Carbon Pricing Backstop Regulations and Clean Fuel Standard Regulations. SaskEnergy has been involved in regulatory development through engagement with industry associations (Canadian Energy Pipeline Association and the Canadian Gas Association) and ECCC. ECCC published the Multi-Sector Air Pollutant Regulations for stationary combustion engines on June 28, 2016, which sets mandatory limits for nitrogen oxide emissions that impact air quality. The Corporation is working with consultants and other internal departments to ensure compliance with these new regulations.

Community Relationship

The Total Contracts as a Percentage of Aboriginal Labour Content metric is above target and higher than 2016-17 due to significant payments made to Aboriginal businesses. The commitment of Aboriginal content on the awards of large construction projects also contributed to these results.

INDUSTRY OVERVIEW

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

Natural Gas Prices

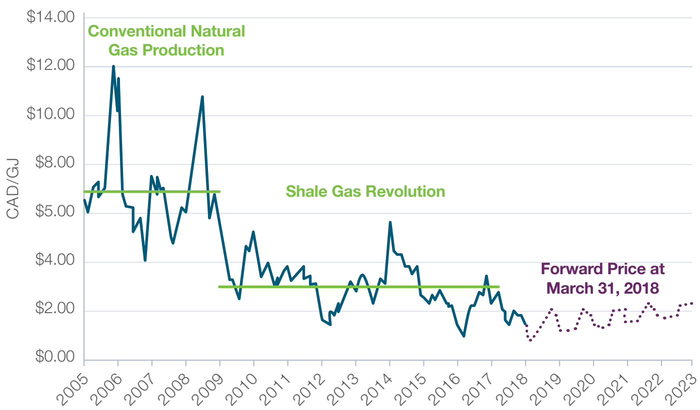
Natural gas prices are set in an open market and influenced by a number of factors including production, demand, natural gas storage levels, pipeline takeaway capacity and economic conditions. Given the high demand for natural gas to heat homes and businesses during the cold winter months and the demand for natural gas to produce electricity for air conditioning, weather typically has a significant impact on prices in the near term. Due to the high degree of uncertainty associated with weather, natural gas prices can be very volatile, which both the Saskatchewan and Alberta markets experienced this past year.

Natural gas market fundamentals remained in a strong supply position relative to demand over the last number of years due to the advancements in shale gas production. The AECO average natural gas settlement price in Western Canada was $1.91 per gigajoule (GJ) throughout the 12 months ended March 31, 2018 compared to $2.27 for the year prior.

Throughout the fiscal year, pipeline maintenance in Alberta limited transportation available from AECO (Alberta) to the Saskatchewan border. In addition, a transformational change occurred in the fall of 2017, when the National Energy Board approved a long-term fixed price contract from Empress (Alberta/Saskatchewan border) to Dawn (Ontario) on TCPL's mainline. This event resulted in any excess transportation capacity within Alberta to the Saskatchewan border being fully contracted. An Alberta infrastructure shortage is evident by the decreased average daily settlement prices at AECO. The increased supply in conjunction with limited pipeline takeaway capacity resulted in select days of negative prices at AECO during the year. Until more takeaway capacity is available, large volumes of natural gas are likely to be trapped in Alberta, prolonging decreased AECO prices.

The following chart shows AECO natural gas prices:

AECO MONTHLY INDEX HISTORICAL PRICES



Traditionally, most natural gas in Saskatchewan is priced at a differential to the AECO price. This AECO to TEP (Saskatchewan) differential for the 12 months ending March 31, 2018 averaged $0.87 compared to $0.13 for the year prior. This created an average increased price of $2.78 per GJ at TEP versus $2.40 per GJ the fiscal year prior. With the NGTL system constrained, the AECO to TEP differential settled higher and had increased volatility.

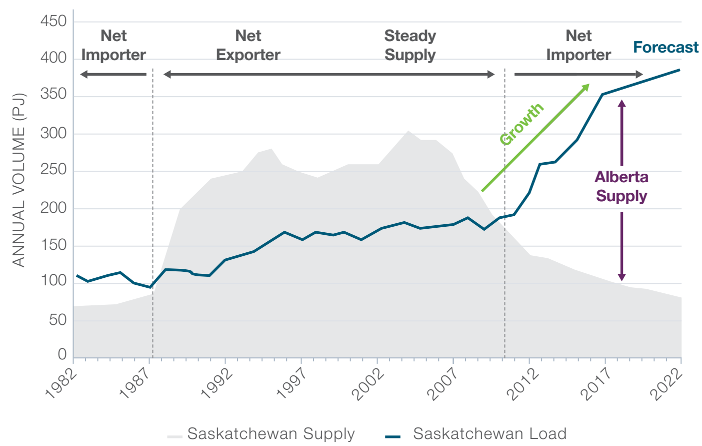
Production Continues Despite Low Market Prices

Since the beginning of the shale gas production revolution, approximately eight years ago, horizontal drilling and hydraulic fracturing technologies continue to advance and have allowed producers to continue to drill despite low natural gas prices. This cost effective production has resulted in North American supply actually increasing slightly despite the strong supply position. The relative low, flat shape of the forward price curve suggests that the market expects the excess supply to remain for the foreseeable future. However, a fundamental shift in demand is in progress as new gas-fired power generation and other natural gas intensive industries have experienced substantial growth in recent years.

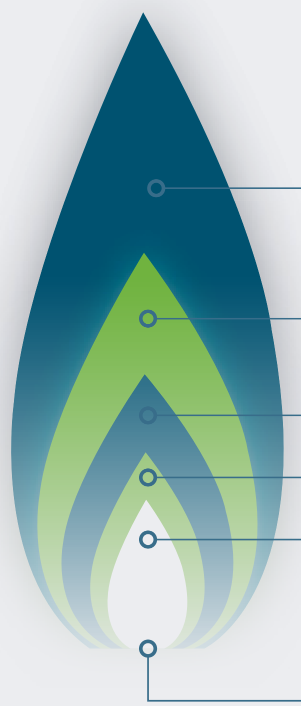
Changing Saskatchewan Natural Gas Supply

Saskatchewan is a net importer of natural gas. Annual demand exceeds production within the province and in 2017-18, approximately 65 per cent of gas consumed in the province was imported from Alberta. Saskatchewan had been a net exporter of natural gas and through the shale gas revolution, transitioned to a net importer of natural gas. In addition to the natural gas production decline within the province, a growing demand sector is significantly increasing the year-over-year gas supply requirement that must come from outside of Saskatchewan.

CHANGE IN SASKATCHEWAN SUPPLY & DEMAND



Common Components of Unprocessed Natural Gas



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.

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. In a low price environment it is not always economical to remove the natural gas liquids from the natural gas stream. 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 seven 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.

In 2017-18, the average heat value of natural gas delivered in Saskatchewan was relatively stable compared to 2016-17.

CONSOLIDATED FINANCIAL RESULTS

Consolidated Net Income

(millions)	March 31, 2018	March 31, 2017	Change
Income before unrealized market value adjustments	$ 110	$ 70	$ 40
Impact of fair value adjustments	46	63	(17)
Revaluation of natural gas in storage	(12)	13	(25)
Consolidated net income	$ 144	$ 146	$ (2)

Excluding market value adjustments, financial results for 2017-18 are $40 million higher than the same period ending March 31, 2017. The increase in net income is due to improved returns on the commodity margin, gas marketing margin and delivery revenue. Weather was five per cent colder than normal in 2017-18 (12 per cent colder in comparison to the same period in 2016-17) and was the primary driver of increasing delivery revenue. For both transportation and delivery services, the number of customers and customer load continued to grow. To illustrate, on December 29, 2017 the provincial maximum daily consumption was 1.50 petajoules (PJ), a new record that is 13 per cent higher than the maximum daily consumption recorded in the prior year. These incremental loads contribute to additional transportation and delivery revenue relative to 2016-17.

CONSOLIDATED FINANCIAL RESULTS

Much of the load growth is the result of continued economic growth in the province. SaskEnergy has seen an increase of 3,706 customers during the year and while the number of transportation customers has not increased significantly, existing customers continue to increase their level of activity driving additional load growth. While serving this increase in load requires additional expenditures, continued focus on efficiency and cost management have resulted in a $1 million reduction to employee benefits and a $2 million reduction to operating and maintenance expenses over the prior year. In addition, a decrease in operating expenses was due to a reduction of transportation capacity available on the TransCanada pipeline system. Instead, transportation capacity was secured through gas marketing transportation contracts to bring gas into the province from Alberta, as Saskatchewan's gas production is not increasing fast enough to accommodate the incremental provincial demand for natural gas.

Market value adjustments contributed $34 million to SaskEnergy's consolidated net income. During the year, a significant number of higher priced natural gas purchase contracts related to the Corporation's commodity business expired, which had a positive impact on unrealized market value adjustments. Generally, short-term natural gas prices at the end of March 31, 2018 slightly recovered from the lows experienced throughout 2017-18, creating a favourable impact on unrealized market value adjustments as gas marketing contracts entered into during 2017-18 were at lower prices than natural gas market prices at March 31, 2018. On March 31, 2018, the natural gas price for gas to be delivered in April 2018 was $2.68 per GJ compared to $2.40 per GJ as at March 31, 2017. During the course of the year, higher volumes of gas marketing purchases and sales were contracted as prices were quite volatile and allowed for advantageous short-term pricing differentials.

The value of natural gas in storage is sensitive to gas prices. At the end of March 2018, the value of gas in storage was $37 million, or $33 million below cost. At the end of March 2017, the value of natural gas in storage was $86 million, or $21 million below cost, due to the decline in gas prices in the last quarter of the 2016-17 fiscal year. The volume of natural gas in storage declined, improving the impact of the adjustment to net realizable value; however, the differential between the average cost of gas and the expected selling prices expanded, offsetting the impact of decreased volumes. The expansion in this differential was due to the recovery of market prices from the lows during the year. The difference between the $21 million adjustment at the end of the previous fiscal year and the current $33 million adjustment to the cost of gas in storage has been reported as a $12 million unfavourable market value adjustment during the current fiscal year.

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.

With the exception of those contracts entered into for an entity's own usage, IFRS requires derivative instruments such as natural gas purchase and sales contracts to be 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 (SRRP). 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 the sale of natural gas to distribution customers. Regulatory principles require that utilities do not earn a profit or realize losses on the sale of gas to customers over the long term. Consequently, 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 included in SaskEnergy's financial statements, 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.

For financial reporting purposes, the Corporation prepares its financial statements on a consolidated basis while applying IFRS. Consequently, the amounts determined for rate-setting purposes are different than those reported within its consolidated financial statements. The most notable differences are the elimination of intercompany transportation costs in the preparation of the consolidated financial statements and how derivative instrument settlements are recognized in the cost of gas.

A gain or loss reported in the Corporation's consolidated financial statements may not indicate a similar adjustment to the GCVA.

SaskEnergy's natural gas price risk management program has two objectives: to reduce the impact of natural gas price volatility on the cost of gas and to support rates that are competitive with other utilities. The two objectives direct activities that naturally oppose each other. Reducing the impact of price volatility requires establishing certainty in the cost of gas, while supporting competitive rates often means allowing purchase prices to follow market prices. As a result, the balance between the two objectives may change depending on current 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 may use financial derivatives and physical swaps to manage the future purchase price of natural gas.

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

(millions)	March 31, 2018	March 31, 2017	Change
Commodity sales	$ 225	$ 217	$ 8
Commodity purchases	184	192	8
Realized margin on commodity sales	41	25	16
Impact of fair value adjustments	(2)	65	(67)
Margin on commodity sales	$ 39	$ 90	$ (51)

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. The Corporation realized a $41 million margin on commodity sales for the 12 months ending March 31, 2018 compared to the $25 million margin for the same period ending March 31, 2017. Average revenue was $3.34 per GJ and average cost of gas sold was $2.73 per GJ, resulting in a margin of $0.61 per GJ. This compared to an average commodity margin of $0.41 per GJ through the same 12-month period in 2017. Higher margins in 2017-18 were a result of lower prices on natural gas purchases. Commodity rates remained unchanged from November 1, 2016 at $3.65 per GJ. Meanwhile the GCVA balance has decreased to $3 million owing to customers, down $16 million from the balance owing from customers at March 31, 2017.

Commodity Fair Value Adjustments

The fair value adjustments at March 31, 2018 decreased the margin on commodity sales by $2 million as the $35 million unfavourable fair value position at March 31, 2017 increased to $37 million unfavourable at March 31, 2018. The settlement of higher priced natural gas purchase contracts during the year reduced the volume of contracts outstanding from 49 PJ to 30 PJ, which was offset by the differential between the contract price and market prices increasing from $0.72 per GJ to $1.26 per GJ during 2017-18. SaskEnergy segregates a portion of its natural gas purchase contracts where the gas will ultimately be sold to commodity customers. Under IFRS, such contracts are not required to be reported at market value. The volume of contracts identified and segregated for the purpose of expected commodity sales was 134 PJ, compared to 36 PJ at March 31, 2017. The increase is a result of the Corporation's ability to enter into more purchase contracts at lower natural gas prices.

Gas Marketing Margin

SaskEnergy uses its access to natural gas markets to execute purchases and sales of natural gas to generate margins. By utilizing off peak transportation and storage capacity to help mitigate transportation constraints, SaskEnergy is able to find opportunities in the market to take advantage of pricing differentials between transportation hubs, delivery points and time periods while minimizing its exposure to price risk. In most cases the purchases and sales are executed at the same time, thereby mitigating much of the price risk that would normally be associated with such transactions.

During 2017-18, SaskEnergy's gas marketing activities included the purchase of 93 PJ (62 PJ in 2016-17) of natural gas at an average price of $2.05 per GJ, the sale of 106 PJ (60 PJ in 2016-17) at an average price of $2.34 per GJ and a decrease to gas in storage of 13 PJ.

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

(millions)	March 31, 2018	March 31, 2017	Change
Gas marketing sales	$ 249	$ 147	$ 102
Gas marketing purchases	223	133	(90)
Realized margin on gas marketing sales	26	14	12
Impact of fair value adjustments	48	(2)	50
Revaluation of natural gas in storage	(12)	13	(25)
Margin on gas marketing sales	$ 62	$ 25	$ 37

The realized margin on gas marketing sales at March 31, 2018, which removes fair value adjustments on derivative instruments and the revaluation of natural gas in storage, was $26 million. This is $12 million higher than the $14 million margin for the period ending March 31, 2017, as market conditions created opportunities for the Corporation to transact significant volumes of purchases and sales at higher margins.

Gas Marketing Fair Value Adjustments

The Corporation enters into various natural gas contracts (swaps and forwards) in its gas marketing strategies, which are subject to volatility of natural gas market prices. The fair value adjustment at March 31, 2018 on gas marketing derivative instruments increased the gas marketing margin by $48 million compared to a decrease of $2 million for the same period in 2016-17. Between April 2017 and the end of March 2018, natural gas market prices were volatile, allowing the Corporation to enter into buy/sell transactions, utilizing the favourable price differential between spot prices and forward prices. The volume of purchase contracts outstanding at March 31, 2018 was 103 PJ higher than at March 31, 2017. These purchase contracts outstanding at March 31, 2018 were $0.37 less than market price, resulting in a favourable fair value adjustment, while purchase contracts outstanding at the end of March 31, 2017 were $0.05 higher than market price, resulting in an unfavourable fair value adjustment in the prior year.

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. Purchases made in the low market price environment throughout the year 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 $33 million below cost at March 31, 2018, which is a $12 million decline from the revaluation adjustment at March 31, 2017.

Revenue

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

(millions)	March 31, 2018	March 31, 2017	Change
Delivery revenue	$ 271	$ 240	$ 31
Transportation and storage revenue	137	134	3
Customer capital contributions	21	55	(34)
Other revenue	7	10	(3)
Revenue	$ 436	$ 439	$ (3)

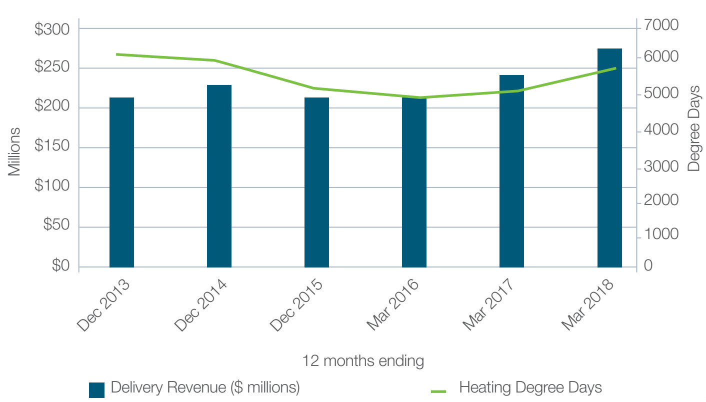
Delivery Revenue

Delivery revenue is driven by the number of customers and the amount of 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. The weather in 2017-18 was five per cent colder than normal, but 12 per cent colder than 2016-17, which was a warmer than normal year. The colder weather and distribution system growth were the primary drivers contributing to delivery revenue of $271 million for the 12 months ending March 31, 2018, which was $31 million higher than the 12-month period ending March 31, 2017.

The Corporation added 3,706 customers through the 12 months of 2017-18, which was less than the 4,000 customers added during the previous fiscal period; however, the addition of new customers is estimated to have contributed an additional $3 million of revenue in the current year.

A 3.6 per cent rate increase in 2017-18 and an 8.6 per cent increase in 2016-17 also contributed to the favourable variance. Delivery rate increases are implemented to address growing capital and operating costs incurred to continue providing high quality, safe and reliable service to customers. In alignment with the Crown Sector Strategic Priorities, the Corporation continues to focus on providing the province's growing population with efficient and timely access to natural gas service while keeping rates competitive.

DELIVERY REVENUE



Transportation and Storage Revenue

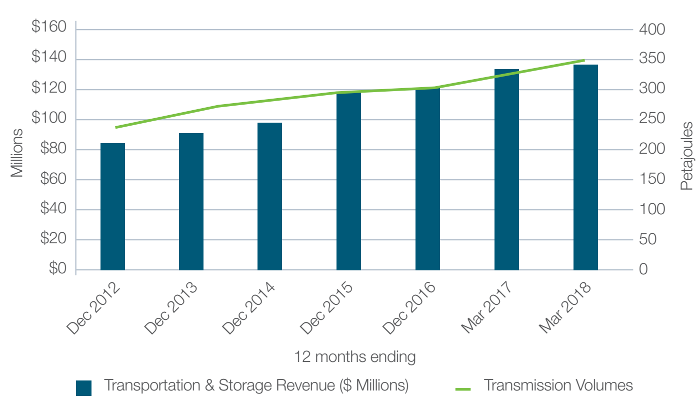
The Corporation generates transportation revenue by receiving gas from customers at various receipt points in Saskatchewan and Alberta, and delivering natural gas to customers at various delivery points in the province. The transportation toll structure consists of a receipt service charge that customers pay when they put gas on to the pipeline transportation system, and a delivery service charge, which customers pay when they take delivery off of the pipeline transportation system. Gas delivered to the system by customers is considered to be part of the TransGas Energy Pool (a notional point where producers, marketers and end users can match supplies to demand) until it is delivered to the end-use customer. For receipt and delivery services, 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. With a firm contract, customers pay for the amount of capacity they have contracted for whether they use it or not. Under an interruptible contract, customers may deliver or receive gas only when there is available capacity on the system and 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.

Transportation and storage revenue was $137 million for the 12 months ending March 31, 2018, $3 million higher than in 2016-17. Industrial customer and power generation related load growth continues to increase demand for natural gas within the province and is driving higher transportation revenue. Transportation revenue rates remain unchanged since January 1, 2016.

Storage revenue is down slightly compared to the previous year due to a continuing decline in the contracted demand for storage services. The apparent abundance of natural gas, coupled with small or even negative differentials between current and forward gas prices, limits the demand for natural gas storage to those customers with relatively low load factors who use the service to mitigate receipt transportation charges.

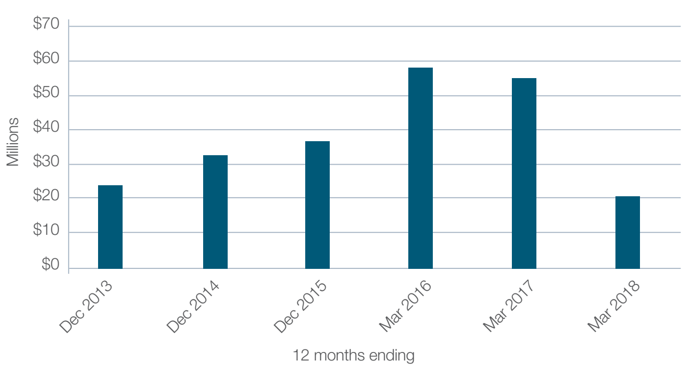
TRANSPORTATION AND STORAGE REVENUE



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 various factors influence their receipt and recognition as revenue. The contributions received, less potential refunds, are recognized as revenue once the related property, plant and equipment is available for use. The Corporation may refund a customer for some or all of the contributions they make depending on how much gas the customer consumes or transports through the system. The amount of contributions expected to be refunded is estimated and recorded in deferred revenue until the eligible refund period expires or a refund is earned by the customer. Customer capital contribution revenue for the 12 months ending March 31, 2018 was $34 million below 2016-17 with lower distribution and transmission customer connections year-over-year. Also, customer capital contribution revenue in 2016-17 includes a $27 million customer contribution relating to a potash production plant project. There were no projects of comparable size in 2017-18 in which customer contribution revenue was recognized.

CUSTOMER CAPITAL CONTRIBUTIONS



Other Revenue

Other revenue primarily consists of gas processing fees and natural gas liquids sales from two natural gas liquids 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 and as a result of low natural gas prices. Other revenue of $7 million for the 12 months ending March 31, 2018 was $3 million lower than 2016-17, a result of lower throughput on gas processing plants.

Other Expenses

SaskEnergy's expenses are driven to a large degree by its investment in its transmission, distribution and storage systems. Depreciation expense, net finance expense and Saskatchewan taxes are directly tied to the investment in facilities. As the level of investment in pipeline facilities increases, these expenses also increase.

Employee benefit costs and operating and maintenance costs are also driven by the investment in assets, although less directly. As the number of customers increases, and infrastructure to serve those customers grows, the costs to operate and maintain the system increases. These expenses increase primarily because the amount of work to service and maintain the pipeline system increases as the kilometres of pipeline, number of service connections, and compression equipment increases. The cost of maintaining the safety, integrity and reliability of the Corporation's transmission, storage and distribution systems increases with the age of the pipeline system and adds pressure to transmission, distribution and storage rates.

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

(millions)	March 31, 2018	March 31, 2017	Change
Employee benefits	$ 86	$ 87	$ 1
Operating and maintenance	127	129	2
Depreciation and amortization	100	96	(4)
Saskatchewan taxes	14	12	(2)
Impairment loss on trade and other receivables	5	5	-
	$ 330	$ 329	$ (1)
Net finance expenses (before FVA)	$ 48	$ 46	$ (2)
Other (losses) gains	$ (13)	$ (33)	$ (20)

Employee Benefits

Investments in technology, productivity and efficiency initiatives such as the customer service information system, AMI and work management systems, as well as streamlining business process helped to reduce staffing levels, resulting in an overall reduction in employee benefit costs. In 2014, SaskEnergy began implementing AMI technology, which collects customer consumption information electronically, thereby eliminating the need to manually read customer meters and estimate customer consumption for the purpose of billing. Throughout 2017-18, nearly 32,000 AMI meters were installed, bringing the total to 373,000 AMI customers or approximately 94 per cent of total distribution customers. Ongoing efficiency efforts, and a significant effort to manage with fewer people in support of aggressive cost management, resulted in employee benefit costs of $86 million, which was $1 million lower than in 2016-17.

Operating and Maintenance

Safety and integrity expenditures increased in 2017-18, compared to the prior year, to address an aging infrastructure. This was fully offset by lower transportation charges on the TCPL transportation system, resulting in an overall decrease in operating and maintenance expenses to $127 million in 2017-18, $2 million lower than in 2016-17. SaskEnergy was also able to mitigate the impact of higher safety and integrity expenditures through continued efficiency efforts and cost saving measures. This resulted in reduced costs for operating materials and supplies and communication charges.

Depreciation and Amortization

Balancing safety and system integrity with the growing demand for service continued through 2017-18. Strategic capital investments to meet increasing load growth and transportation requirements, plus replacing aging infrastructure, has increased the capital asset base, resulting in increased depreciation and amortization. In 2017-18, depreciation and amortization was $100 million, $4 million higher than the same period in 2016-17.

Net Finance Expense

Net finance expenses before the impact of fair value adjustments were $48 million in 2017-18 compared to $46 million in 2016-17. The increase in finance expenses that resulted from increased investment was partly offset by lower interest rates. The low interest rate environment has allowed the Corporation to replace maturing long-term debt with lower cost debt. Effective April 1, 2017, the Corporation early adopted IFRS 9 Financial Instruments. Under the new financial instruments standard, debt retirement funds are classified as fair value through other comprehensive income. As a result any market value adjustments associated with debt retirement funds no longer impact net income as they are recorded in other comprehensive income.

Other Gains and Losses

Other losses for the 12 months ending March 31, 2018 of $13 million were $20 million lower compared to the loss of $33 million for the same period in 2016-17. The Corporation transferred a non-core storage asset from a single cash generating unit into a larger cash generating unit of storage assets, a result of changing corporate strategy. The reversal of a $15 million impairment loss taken on the non-core storage asset is fully offset by other storage and processing asset impairments.

The Corporation recorded a $25 million impairment charge against its treatment and compression facilities and a $6 million impairment was recorded on one of its non-core storage facilities during 2017-18. Through an assessment of recoverable amounts from future operations, it was determined that the estimated recoverable amounts are less than the net book values of these assets.

Over the previous five years, non-core storage facilities have generally been profitable; however, with the continued development of shale gas, the differentials between current and future prices of natural gas have disappeared. Forward price differentials have slowly diminished such that the current differentials are insufficient to support the book value of non-core storage assets.

Offsetting the impairments was insurance proceeds of $2 million to settle the remainder of the outstanding claim relating to a cavern wellhead fire that occurred in 2014.

LIQUIDITY AND CAPITAL RESOURCES

As a Crown corporation, SaskEnergy's primary sources of capital are cash from operations, debt — which is borrowed through the province's General Revenue Fund — and equity advances from CIC, the Province's Crown corporation holding company. Equity advances are rarely used to finance Crown corporations as CIC prefers to use its Subsidiary Crown Dividend Policy to manage its equity interests in its commercial enterprises. Cash from operations is SaskEnergy's most important source of capital. As a utility, cash from operations is relatively stable and the Corporation relies upon it to fund dividends, debt servicing costs, and a significant proportion of its investment in pipeline facilities. Long and short-term debt can be borrowed through the Province of Saskatchewan to meet any long or short-term incremental capital requirements, and to repay debt as it matures. Sources of liquidity include Order in Council authority to borrow up to $500 million in short-term loans, and a $35 million uncommitted line of credit with the Toronto-Dominion Bank. By borrowing through the Province, SaskEnergy has access to the Province's borrowing capacity and North American capital markets. *The SaskEnergy Act* allows the Corporation to borrow up to $1,700 million.

(millions)	March 31, 2018	March 31, 2017	Change
Cash provided by operating activities	**$ 312**	$ 225	$ 87
Cash used in investing activities	**(258)**	(198)	(60)
Cash used in financing activities	**(58)**	(37)	(21)
Decrease in cash and cash equivalents	**$ (4)**	$ (10)	$ 6

Operating Activities

Cash provided by operating activities was $312 million for the 12 months ending March 31, 2018, an increase of $87 million from 2016-17. Cash flows from operation are up due to the impact of higher commodity and gas marketing margins, along with the cash flow impact of a colder winter that resulted in higher delivery revenue.

Investing Activities

Cash used in investing activities totalled $258 million for the 12 months ending March 31, 2018, $60 million higher than the 12-month period ending March 31, 2017. Capital investment levels increased in 2017-18 due to higher system growth and customer connection spending requirements combined with higher system integrity spending compared to 2016-17. The majority of capital investment to the end of March 2018 focused on $138 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 $93 million — a sign of the Corporation's ongoing commitment to a safe, reliable system.

Financing Activities

Cash used in financing activities was $58 million through the 12 months ending March 31, 2018, which is $21 million higher than the $37 million used in financing activities in 2016-17. The Corporation used $49 million for interest payments, $30 million for dividends, and $100 million to pay debt and debt retirement fund obligations. As a result, the Corporation required an additional $121 million in long-term debt. SaskEnergy's debt ratio at the end of March 31, 2018 of 56 per cent debt and 44 per cent equity improved from 59 per cent debt and 41 per cent equity at the end of 2016-17. This is slightly better than the Corporation's long-term target range of 58 to 63 per cent debt.

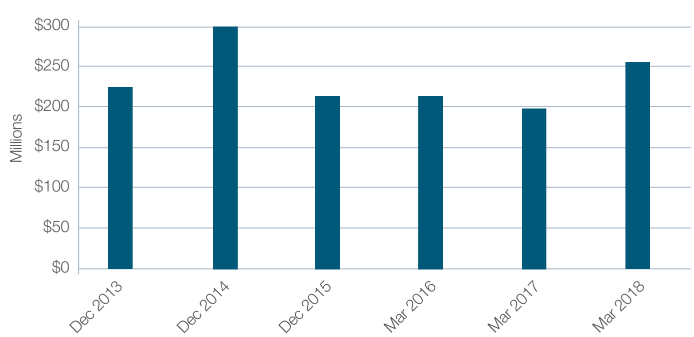
CAPITAL EXPENDITURES

Capital expenditures, as reported in the consolidated financial statements, were as follows:

(millions)	March 31, 2018	March 31, 2017	Change
Customer growth and system expansion	$ 138	$ 96	$ 42
Safety and system integrity	93	83	10
Information systems	13	14	(1)
Vehicle & equipment, buildings, furniture	11	5	6
	$ 255	$ 198	$ 57

Capital expenditures during 2017-18 of $255 million were higher than in the prior year due in part to economic growth increasing the requirements for new facilities, as well as increasing costs of building new infrastructure. SaskEnergy has continued its focus on upgrading its aging infrastructure. Capital expenditures of $138 million for 2017-18 on customer growth and system expansion are $42 million higher than the prior year. Of the current year expenditures, $24 million was spent on a pipeline project to expand the north-south system interconnection, allowing for the movement of additional gas to the northern pipeline system and to address increasing load growth in the northern part of the province. Increased spending on compression in the same area will also enable additional transportation at a nearby Alberta receipt point. These growth expenditures and investment in compression assets facilitated the revitalization of operations at Success and Unity as well as additions to the compressor fleet. Growth in Saskatoon and Regina also led to additional spending on city bypasses and urban pipeline infrastructure projects.

CAPITAL EXPENDITURES



OUTLOOK

Factors that are expected to affect SaskEnergy in the near future include the growth of the provincial economy, a declining supply of natural gas in the province resulting in increased reliance on imported natural gas, and rising customer expectations for safe, reliable natural gas services.

Assuming normal weather conditions through 2018-19, net income before market value adjustments is expected to be approximately $68 million, a decrease of $42 million over the 2017-18 actual result. The decrease is primarily due to the return to normal weather, as 2017-18 was five per cent colder than normal, and lower anticipated gas marketing margins. While SaskEnergy continues to effectively manage expenses, increased transportation costs to move natural gas into and throughout the province will create cost pressure.

The continued growth in natural gas demand combined with declining conventional gas production means that more gas will be imported or acquired from gas production associated with oil production. This shift in source of supply, together with an aging pipeline system, will require incremental investments in pipeline facilities. SaskEnergy is projecting to invest more than $755 million over the next three years. This additional investment will be primarily funded through cash from operations, with an additional $330 million to be financed with net 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 work with other Crown corporations, and other business enterprises, to investigate technological solutions to more efficiently serve customers and maintain facilities. Since 2009, SaskEnergy has achieved $48 million of operating efficiency savings and another $4 million has been targeted for 2018-19.

Operating Expenses

As the number of customers increase, the natural gas pipeline infrastructure required to serve those customers grows, and the cost of operating the pipeline system rises. Generally, the addition of new customers and load reduces the average cost to serve 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 investments are required that do not generate additional revenue. Expenditures to address safety and system integrity do not increase revenues and therefore add pressure to utility rates. Consequently, the average cost of serving customers is expected to rise. Depreciation expense and finance expense are expected to rise by $5 million as a direct result of capital expenditures, while operating expenses (employee benefits and operating and maintenance) are expected to rise by $23 million even with projected efficiency savings of $4 million in 2018-19. The cost increases are primarily due to rising third-party transportation costs related to importing natural gas to meet growing load requirements. Plus the capacity constraints on the TransCanada Mainline will increase the transportation related costs.

Revenue

The delivery rate increase effective November 1, 2017 will provide additional delivery 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 increase modestly to 4,000 new customers through 2018-19. Industrial and commercial demand for service is expected to continue to grow. SaskEnergy currently expects delivery and transportation and storage revenue to increase by $11 million in 2018-19. Transportation rates have remained unchanged since January 1, 2016 and increases are expected to help mitigate increasing third-party transportation rate increases.

Commodity Margins

Natural gas prices reached record lows during 2017-18, although short-term gas prices have since slightly recovered. Prices further into the future have continued to fall throughout most of 2017-18 but are beginning to increase. This suggests that the market believes the likelihood of higher prices in the future is small. Currently, the differential between current and forward prices, a driver for much of SaskEnergy's gas marketing activity, is relatively flat. These market conditions adversely affect the prospect for generating the margins required to support SaskEnergy's non-core storage business. Other gas marketing activities, which leverage off-peak transportation and storage capacity in the distribution utility, are expected to continue to generate margins; however, the potential for gas marketing margins is expected to be lower than it has been in the past.

Lower natural gas market prices are expected to reduce the average cost of gas, which could result in a lower commodity rate for customers in 2018-19. As part of the normal course of business, commodity rates are reviewed regularly and adjusted as required.

Consolidated net income, including the impact of fair value adjustments, is expected to be $68 million in 2018-19. Natural gas prices are a key risk to this forecast. A $1.00 per GJ increase in the price of natural gas will allow SaskEnergy to recover $19 million of the $33 million net realizable value adjustment reported at the end of March 31, 2018 on natural gas in storage and would allow SaskEnergy to increase the $12 million market value adjustment reported on natural gas contracts to $41 million. Conversely, a $1.00 per GJ decline in natural gas prices would adversely affect net income to a similar degree. During 2018-19, a number of derivative instruments are expected to expire resulting in a reversal of the favourable fair market value adjustments reported in the prior period. Further declines in natural gas prices could contribute negatively to the unfavourable impact that is expected from the fair market value reversal.

Weather will be another key factor affecting 2018-19 financial results. Forecasted results are based on normal weather as defined by the 30-year average. 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 items are typically not impacted by weather, as is the case with operating expenses. Commodity revenue and gas purchases are both 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 requirements 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. 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

SaskEnergy is subject to a number of risks in transmission, storage, distribution and sale of natural gas as well as its business development activities. The Corporation's effectiveness at managing risk directly affects its performance. The nature of natural gas, and the operation of high pressure pipelines, means that risk management is a critical operational focus for all employees at SaskEnergy. SaskEnergy's approach to risk management is to thoroughly examine its operating activities to identify existing and emerging risks, effectively communicate those risks throughout the organization and actively manage them through its Enterprise Risk Management (ERM) process. SaskEnergy undertakes annual risk assessments that are used as inputs to the strategic and business planning process. The ERM process establishes roles and responsibilities as well as a general strategy for the Corporation to manage its risks.

While risk management is the responsibility of all levels of management, the Board of Directors and Executive Committee set the tone and provide leadership direction for ERM. The Executive Committee is responsible for formally identifying strategic risks that impact the Corporation's goals, participating in the risk assessment process and developing strategic risk management plans. As many of the risks facing the organization change frequently, the Corporation's risk management plans remain adaptive and flexible in addressing risks. The Board of Directors is responsible for the risk management policy and framework. The Board oversees risk management efforts by reviewing annual reports on risk management processes and controls, and ensuring that key corporate initiatives appropriately address the identified risks.

At the beginning of the fiscal year, the following risks were identified as those requiring strategic focus:

Interest Groups

Public objection to industry infrastructure development from a cultural, safety, environmental, or societal perspective exposes SaskEnergy to the risk of higher costs, delays or even project cancellations. 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 the natural gas pipeline distribution system. Through various programs and strategies, including stakeholder engagement, Aboriginal consultation, environmental assessments and public awareness, SaskEnergy works with landowners and other interest groups to identify and develop appropriate responses to concerns regarding expansion and development of infrastructure.

Pipeline, Facility or Operational Failure

Pipeline, facility or operational failure could disrupt the effective operation of SaskEnergy's natural gas storage, distribution and transmission infrastructure, and have potentially negative effects on employee and 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 not within control of the Corporation, could increase operating costs or reduce revenues. Some of the primary processes used to mitigate the Corporation's pipeline, facility and operational risks 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.

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.

Supply Access

As natural gas production within Saskatchewan declines, SaskEnergy becomes increasingly reliant on importing natural gas from outside the province. Importing natural gas creates a reliance on interconnecting pipelines, which becomes more critical as the amount of imported gas increases. It also increases the complexity of supply planning, increases operating costs, and has potentially negative impacts on Saskatchewan end users. SaskEnergy manages this risk through long-term supply and demand forecasting, and consultation with large existing and potential customers. For the distribution utility, declining provincial natural gas production adds complexity to the supply planning process that is managed through the natural gas procurement strategy. Specific strategic initiatives undertaken to mitigate this risk include utilization of storage facilities to support transmission capabilities, development of a provincial flare gas capture strategy, and utilization of liquefied natural gas to meet peak demand.

Cyber, Physical and Operational Security

Cyber security comprises technologies, processes and controls that are designed to protect systems, networks and data from cyber attacks. Effective cyber security reduces the risk of cyber attacks, and protects organizations and individuals from the unauthorized exploitation of systems, networks and technologies. Cyber-attacks can disrupt and cause considerable financial and reputational damage to even the most resilient organization. In a cyber attack, a Corporation may lose assets, reputation and business, and potentially face regulatory fines and litigation — as well as the costs of remediation.

Physical security measures are designed to deny unauthorized access to facilities, equipment and resources and to protect personnel and property from damage or harm. Physical security is the protection of personnel, hardware, software, networks and data from physical actions and events that could cause serious loss or damage to the Corporation. This includes protection from fire, flood, natural disasters, burglary, theft, vandalism and terrorism.

Operational security is a risk management process that encourages managers to view operations from the perspective of an adversary in order to protect sensitive information from falling into the wrong hands. Strategic initiatives undertaken to mitigate cyber, physical and operational risks include business continuity and disaster recovery plans, IT security processes and a security threat response plan.

Systemic Health and Safety

There are new ways to interpret human behaviors that participate in the causes of accidents. A 'systemic' failure is when there is a failure of a specific system. More broadly, it is a failure by an organization to establish good health and safety systems. One belief is that a systemic failure should be found in relation to a single failure to carry out a risk assessment. A corporation requires a systemic approach to the management of health and safety in the workplace, as set out particularly within the requirement to conduct risk assessments under the Health and Safety of Work Regulations. An adequate risk assessment of all the risks to which employees and non-employees may be exposed must be carried out. The Corporation has identified and implemented appropriate steps to control the risks identified. The Corporation ensures that a safe system of work is established through providing appropriate training, instruction, information, supervision and monitoring.

Decision Making Process

Despite constant demands for change, the decision making process grows in importance since a corporation operates by people making decisions. The entire decision making process is dependent upon the right information being available to the right people at the right times. Managers plan, organize, staff, lead, and control teams by executing decisions. The effectiveness and quality of those decisions determine how successful a corporation will be.

For making routine operational decisions, related to well known and well defined problems, standard operating procedures are applicable. This type of decision may be made by managers at lower organizational levels, immediate managers, and even non-managers. For adaptive decision making, referring to moderately unspecified problems and alternative solutions, analysis of critical points are pertinent. These decisions are mostly made by functional managers at the middle management level. For innovative or strategic decisions, referring to unusual and unspecified problems, decisions are made by managing authorities and managers at higher organizational levels. The Corporation has appropriate decentralization and great autonomy in decision making along with clearly defined tasks, controls, and accountability of each employee.

Emerging Strategic Business Landscape

Inadequate assessment and response to the emerging strategic business landscape, including disruptive change, significant economic volatility, and stakeholder and customer expectations, can significantly affect the Corporation's future success. Recent transformations in the natural gas business landscape present both uncertainties and opportunities that affect SaskEnergy's short and long-term plans. If business conditions are not well understood, SaskEnergy risks making strategic investments in short-term initiatives that do not advance its long-term goals, and could harm financial performance. Through its strategic and business planning processes, the Corporation develops integrated strategies to mitigate business risks using information acquired through customer consultation, and relationships with industry associations. The Corporation's strategic plans identify and evaluate emerging risks, advances in technology and changing customer expectations. Strategies now rely less on historical data and increasingly on strategic risk factors that may deter the Corporation from its ability to realize strategic objectives.

Integrated Information Systems

As SaskEnergy increasingly relies on integrated information systems to meet its business requirements, the reliability, security and effectiveness of those systems becomes more important. External threats such as phishing, whaling attempts, spam, and malware may disrupt the reliable operation of information systems. These threats are addressed through security processes and controls. Internally, the Corporation's various information systems are becoming increasingly integrated, which increases the risk that a failure in one system could lead to a failure in another system and harm the Corporation's ability to meet operational requirements. The Corporation mitigates this risk by applying an information technology project prioritization process and project management methodology for developing and integrating new systems. The Corporation also has up-to-date business continuity and disaster recovery plans for critical information technology operations processes.

Commodity and Delivery Rate Pressure

The rates SaskEnergy charges to customers for the sale and delivery of natural gas is subject to review by the SRRP and the Provincial Cabinet of the Government of Saskatchewan. Delivery and commodity rates are designed to recover the actual costs SaskEnergy incurs for these services to customers. In evaluating SaskEnergy's commodity and delivery rates, the SRRP considers not only the cost of providing service to customers but also the impact that the proposed rates have on customers. Significant increases to rates create more hardship for customers and increase the risk of the SRRP not supporting the proposed rate increases. Consequently, it is incumbent upon SaskEnergy to effectively manage costs and manage gas purchase costs to emphasize price stability and minimize the potential for significant increases. To mitigate the risk of having rate requests rejected or rolled back, SaskEnergy takes a long-term perspective when buying natural gas to mitigate short-term market price movements and promotes natural gas as a reliable and relatively low cost source of energy. In addition, SaskEnergy works cooperatively with the SRRP and closely follows regulatory principles through the commodity rate application process. To assist customers in managing their energy costs, SaskEnergy offers a number of energy efficiency programs.

Transportation Rate Adjustment

Transportation rates cover the operating costs SaskEnergy incurs to provide transportation service to its natural gas customers. Operating costs have and will continue to rise as the province is now a net importer of natural gas. In addition, public safety requirements, capital expenditures required to maintain the safety and reliability of the system, and accommodating customer load growth increase interest and depreciation expenses. These higher 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 SRRP, shareholders and a strong Customer Dialogue process.

In addition to the top strategic risks identified above, the Corporation's financial results are subject to the following risks:

Weather

SaskEnergy has designed its pipeline and distribution system, and operating plans, based on a severely cold winter that is expected to occur once every 20 years. Financial projections, as well as commodity and delivery rates, are based on a "normal" or typical winter. To the extent that weather differs from normal, SaskEnergy will generate more revenue (colder than normal) or less revenue (warmer than normal). A severely cold winter can also result in significantly higher operating costs, as such a winter puts more stress on equipment and requires more labour and material to manage. SaskEnergy has mitigated some of the risk of weather by increasing the amount of delivery revenue recovered through the basic monthly charge to customers but still retains a significant amount of this risk.

Natural Gas Prices

Natural gas prices can change significantly and often do over a short period of time. As selling prices are set in advance of gas purchases, it is possible that commodity rates do not generate enough revenue to cover the cost of gas purchased or, alternatively, that the commodity rate recovers more than the cost of gas. Under the current regulatory model, SaskEnergy is not allowed to earn a margin on the sale of gas to customers, nor is it subject to realized losses. Differences between the cost of gas purchased and the revenue earned on the sale of gas to customers are collected in the GCVA and incorporated into the calculation of the commodity rate when rates are reset, usually in April or November each year.

Gas prices also have a significant impact on market value adjustments. Market value adjustments represent the change in value of gas purchase or gas sales contracts from one reporting period to the next. In addition, gas prices can affect the net realizable value of natural gas in storage, as it is valued at the lesser of cost or what could be realized in the market when it is sold.

As discussed in the financial risk management section of the financial statements, SaskEnergy has risk management policies in place to limit the impact that market prices can have on the financial results.

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. 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, 2018, the unbilled revenue related to commodity sales and delivery revenue was $29 million. Upon completion of the AMI project, SaskEnergy will be able to acquire meter reads on almost all services at the end of each reporting period, eliminating the need for estimating unbilled revenue.

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, 2018, the revaluation decreased the carrying amount of natural gas in storage by $12 million. A $1.69 per GJ improvement in the differential between the weighted average cost and net realizable value would completely eliminate the $33 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, 2018, 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 $29 million. Conversely, a decrease of $1.00 per GJ would have decreased the fair value of natural gas derivative instruments by $30 million.

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

With a combined carrying amount of $2,324 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 expense may have a significant impact on SaskEnergy's net income. At March 31, 2018, 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 expense by approximately $2 million.

The Corporation's property, plant and equipment, and its 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 periodic depreciation studies with annual reviews for reasonability. Any changes in the estimated service life of assets are treated as prospective adjustments to depreciation and amortization. The next depreciation study will be implemented in 2018.

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, 2018, the Corporation estimated $35 million in customer capital contributions related to either facilities not yet available for use, or amounts subject to refund 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, 2018, the Corporation's provisions were estimated at $128 million. A one per cent increase in the discount rates used to determine the provisions would have resulted in a $31 million decrease in provisions at the end of March 31, 2018. A one per cent decrease would have resulted in a $47 million increase.

ACCOUNTING POLICY CHANGES

New and amended standards, issued by the International Accounting Standards Board (IASB), became effective April 1, 2017. The impact of the adoption of these standards has been discussed in Note 3 of 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.

CONSOLIDATED FINANCIAL STATEMENTS

Management's Responsibility For 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 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, 2018, 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, 2018.

The consolidated financial statements have been audited by Deloitte LLP, 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 financial statements prepared by management.

[Original signed by K. From]	***[Original signed by C. Short]***
Ken From **President and Chief Executive Officer**	Christine Short **Vice President, Finance and Chief Financial Officer**

Management's Report on Internal Control Over Financial Reporting

I, Ken From, 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, 2018.

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, 2018 were operating effectively and no material weaknesses were found in the design or operation of the internal controls over financial reporting.

[Original signed by K. From]

Ken From
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 statement of financial position as at March 31, 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year 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, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

[Original signed by Deloitte LLP]

Chartered Professional Accountants
Licensed Professional Accountants

May 24, 2018
Regina, Saskatchewan

Consolidated Statement of Financial Position

AS AT MARCH 31

(millions)	Notes	2018	2017
ASSETS			
Current assets			
Cash		$ -	$ 1
Trade and other receivables	5	141	111
Natural gas in storage held for resale	6	37	86
Inventory of supplies		11	12
Debt retirement funds	7	-	7
Assets held for sale	8	8	-
Fair value of derivative instruments	9	61	5
		258	222
Intangible assets	11	64	60
Property, plant and equipment	12	2,260	2,129
Debt retirement funds	7	106	94
		$ 2,688	$ 2,505
LIABILITIES AND PROVINCE'S EQUITY			
Current liabilities			
Bank indebtedness		$ 3	$ -
Short-term debt		254	293
Trade and other payables	13	127	104
Dividends payable		23	14
Current portion of long-term debt	14	50	59
Deferred revenue	15	35	32
Fair value of derivative instruments	9	50	40
Current portion of finance lease obligation	16	2	-
		544	542
Finance lease obligation	16	9	5
Employee future benefits		6	7
Provisions	17	128	127
Deferred revenue		5	6
Long-term debt	14	1,031	960
		1,723	1,647
Province's equity			
Equity advances		72	72
Other components of equity		(1)	-
Retained earnings		894	786
		965	858
		$ 2,688	$ 2,505

(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 YEARS ENDED MARCH 31

		2018			2017		
(millions)	Notes	Income Before Unrealized Market Value Adjustments	Unrealized Market Value Adjustments (Note 19)	Total	Income Before Unrealized Market Value Adjustments	Unrealized Market Value Adjustments (Note 19)	Total
REVENUE							
Natural gas sales	20	$ 474	$ 2	$ 476	$ 364	$ (8)	$ 356
Delivery		271	-	271	240	-	240
Transportation and storage		137	-	137	134	-	134
Customer capital contributions	15	21	-	21	55	-	55
Other		7	-	7	10	-	10
		910	2	912	803	(8)	795
EXPENSES							
Natural gas purchases (net of change in inventory)	20	407	(32)	375	325	(84)	241
Employee benefits		86	-	86	87	-	87
Operating and maintenance		127	-	127	129	-	129
Depreciation and amortization		100	-	100	96	-	96
Saskatchewan taxes	21	14	-	14	12	-	12
Impairment loss on trade and other receivables		5	-	5	5	-	5
		739	(32)	707	654	(84)	570
NET INCOME BEFORE THE FOLLOWING		171	34	205	149	76	225
Finance income	22	2	-	2	2	-	2
Finance expenses	22	(50)	-	(50)	(48)	-	(48)
NET FINANCE EXPENSES	22	(48)	-	(48)	(46)	-	(46)
Other losses	23	(13)	-	(13)	(33)	-	(33)
TOTAL NET INCOME		$ 110	$ 34	$ 144	$ 70	$ 76	$ 146
ITEMS THAT CANNOT BE RECLASSIFIED BACK TO PROFIT OR LOSS							
Change in fair value of debt retirement funds designated as FVOCI		-	1	1	-	-	-
COMPREHENSIVE INCOME		$ 110	$ 35	$ 145	$ 70	$ 76	$ 146

(See accompanying notes)

Consolidated Statement of Changes in Equity

FOR THE YEARS ENDED

(millions)	Notes	Retained Earnings	Equity Advances	Other Components of Equity	Total
BALANCE AS AT APRIL 1, 2016		$ 669	$ 72	$ -	**$ 741**
Total comprehensive income		146	-	-	**146**
Dividends		(29)	-	-	**(29)**
BALANCE AS AT MARCH 31, 2017		786	72	-	**858**
BALANCE AS AT APRIL 1, 2017		786	72	-	**858**
IFRS 9 opening adjustments:	3				
Reclassification of fair value losses		2	-	(2)	**-**
Recognition of expected credit losses		1	-	-	**1**
		789	72	(2)	**859**
Comprehensive income		144	-	1	**145**
Dividends		(39)	-	-	**(39)**
BALANCE AS AT MARCH 31, 2018		$ 894	$ 72	$ (1)	**$ 965**

(See accompanying notes)

Consolidated Statement of Cash Flows

FOR THE YEARS ENDED MARCH 31

(millions)	Notes	2018	2017
OPERATING ACTIVITIES			
Net income		**$ 144**	$ 146
Add (deduct) items not requiring an outlay of cash			
Net change in fair value of derivative instrument assets and liabilities	19	**(46)**	(63)
Change in revaluation of natural gas in storage to net realizable value	19	**12**	(13)
Depreciation and amortization		**100**	96
Net finance expenses	22	**48**	46
Other gains and losses on disposal and impairment of assets		**15**	36
Employee future benefits paid in excess of expense		**(1)**	(1)
		272	247
Net change in non-cash working capital related to operations		**40**	(22)
Cash provided by operating activities		**312**	225
INVESTING ACTIVITIES			
Additions to intangible assets		**(12)**	(12)
Additions to property, plant and equipment		**(243)**	(183)
Proceeds on disposal of assets		**2**	1
Decommissioning costs		**(5)**	(4)
Cash used in investing activities		**(258)**	(198)
FINANCING ACTIVITIES			
Debt retirement funds redemptions	7	**7**	12
Debt retirement funds installments	7	**(9)**	(9)
Repayment of short-term debt		**(39)**	(6)
Proceeds of long-term debt	14	**121**	149
Repayment of long-term debt	14	**(59)**	(100)
Interest paid		**(49)**	(47)
Dividends paid		**(30)**	(36)
Cash used in financing activities		**(58)**	(37)
DECREASE IN CASH AND CASH EQUIVALENTS		**$ (4)**	$ (10)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		**$ 1**	$ 11
DECREASE IN CASH AND CASH EQUIVALENTS		**(4)**	(10)
CASH AND CASH EQUIVALENTS, END OF PERIOD		**$ (3)**	$ 1

(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.

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 24, 2018.

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
- Financial instruments classified as at fair value through other comprehensive income
- Employee future benefits
- Provisions
- Natural gas in storage held for resale
- Property, plant and equipment

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 17)
- Designation of own-use derivative contracts (Note 18)

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)
- Recoverable amount of non-financial assets (Note 12)
- Estimated unearned customer capital contributions (Note 15)
- Estimated future cost of decommissioning liabilities (Note 17)

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.

a. Changes in accounting policies

Effective April 1, 2017, the Corporation early adopted IFRS 9 *Financial Instruments* on a retrospective basis. As a result of the adoption of IFRS 9, consequential amendments to IAS 1 *Presentation of Financial Statements* were adopted, which requires impairment of financial assets to be presented in a separate line item in the consolidated statement of comprehensive income. Previously, the approach was to include the impairment of trade receivables in other expenses. The Corporation also adopted consequential amendments to IFRS 7 *Financial Instruments: Disclosures*. These amendments were applied to 2017-18 disclosures but have generally not been applied to comparative information. The key changes as a result of adoption are summarized below.

i. Classification of financial assets and financial liabilities

IFRS 9 *Financial Instruments* includes three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under the new standard is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the previous IAS 39 *Financial Instruments: Recognition and Measurement* categories of held to maturity, loans and receivables and available for sale.

The debt retirement funds were classified as FVTPL under IAS 39. The debt retirement funds are administered and managed by the Ministry of Finance. The business model objective is to hold the underlying investments in debt retirement funds to collect contractual cash flows to provide funds at the debt maturity. The contractual terms of the debt retirement funds give rise to earnings that are amounts for principal and the interest on the principal amount outstanding. As a result of the business model in which debt retirement funds are managed, they are now classified as financial assets at FVOCI under IFRS 9.

The adoption of IFRS 9 has not had a significant effect on the Corporation's accounting policies for financial assets or liabilities.

ii. Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The expected credit loss model requires the Corporation to account for expected credit losses, and changes in those expected credit losses, at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. The new impairment model applies to financial assets measured at amortized cost and debt instruments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than under IAS 39. IFRS 9 also provides a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL's for trade receivables in certain circumstances.

iii. Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, while comparative periods have not been restated for retrospective application. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings as at April 1, 2017.

The following table summarizes the impact of transition to IFRS 9 as at April 1, 2017:

(millions)		Total
OTHER COMPONENTS OF EQUITY		
Closing balance under IAS 39 as at March 31, 2017	$	-
Reclassification of market value losses on debt retirement funds under IFRS 9		(2)
Opening balance under IFRS 9 as at April 1, 2017	$	(2)
RETAINED EARNINGS		
Closing balance under IAS 39 as March 31, 2017	$	786
Reclassification of market value losses on debt retirement funds under IFRS 9		2
Recognition of expected credit losses under IFRS 9		1
Opening balance under IFRS 9 as at April 1, 2017	$	789

iv. Classification of financial assets and financial liabilities upon initial application of IFRS 9

Effective April 1, 2017, each class of financial assets and financial liabilities has maintained the same measurement category under IFRS 9 as its original measurement category under IAS 39. The exceptions are financial assets previously classified as loans and receivables, which are now classified as amortized cost, and debt retirement funds, which were previously classified as FVTPL and are now classified as FVOCI.

The following table summarizes the changes to the financial assets and financial liabilities measurement category under IFRS 9 compared to its original measurement category under IAS 39:

	IFRS 9			IAS 39		
(millions)	Classification		Carrying Amount	Classification		Carrying Amount
FINANCIAL AND DERIVATIVE ASSETS						
Cash	FVTPL	$	1	FVTPL	$	1
Trade and other receivables	AC		112	LAR		111
Debt retirement funds	FVOCI		101	FVTPL		101
Fair value of derivative instrument assets	FVTPL		5	FVTPL		5
FINANCIAL AND DERIVATIVE LIABILITIES						
Short-term debt	OL	$	293	OL	$	293
Trade and other payables	OL		109	OL		109
Dividends payable	OL		14	OL		14
Long-term debt	OL		1,019	OL		1,019
Fair value of derivative instrument liabilities	FVTPL		40	FVTPL		40

Classification details:
FVTPL – fair value through profit or loss
AC – amortized cost
FVOCI – fair value through other comprehensive income
OL – other liabilities

b. Basis of consolidation

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

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 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 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

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 Province), 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 other comprehensive income, 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

Financial instruments are classified into one of the following categories: financial assets and financial liabilities at fair value through profit or loss, amortized cost, financial assets and financial liabilities at fair value through other comprehensive income, and other liabilities. During the reporting periods, financial instruments were classified in each of these four categories.

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.

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 its 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. Financial assets and financial liabilities at fair value through other comprehensive income

Debt retirement funds represent investments that the Corporation intends to hold for the long term for strategic purposes. As permitted by IFRS 9, these investments have been designated at the date of initial application as measured at fair value through other comprehensive income. Under IAS 39, these investments were designated as at fair value through profit or loss because they were managed on a fair value basis and their performance was monitored on this basis.

iii. Amortized cost

Trade and other receivables that were classified as loans and receivables under IAS 39 are now classified at amortized cost. The amortized cost category consists of 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.

iv. 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.

v. Derivative instruments

A variety of derivative instruments are utilized to manage exposure to natural gas price risk. Derivative instruments are classified as 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.

Certain commodity contracts for the physical purchase of natural gas qualify as own-use contracts. The Corporation entered into these contracts for the purpose of physical receipt of natural gas in accordance with its own expected sales requirements for commodity customers. As such, these non-financial derivative contracts are not recorded at fair value on the consolidated statement of financial position; rather, the contracts are accounted for as a purchase at the time of delivery.

i. Intangible assets

Intangible assets 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 rate is 10.0 per cent annually. The estimated useful lives, residual values and method of amortization are reviewed annually for reasonableness.

j. 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 100.0
Vehicles, equipment and other	2.5 to 20.0
Computer hardware	20.0

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

k. 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. Loss allowances are recognized for ECLs on financial assets measured at amortized cost and debt instruments designated as FVOCI. Loss allowances for trade receivables are measured at an amount equal to lifetime ECL. Debt instruments and other receivables that are determined to have low credit risk at the reporting date are measured at 12-month ECL. Impairment is the financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from receivables from customers.

The Corporation considers 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 and future 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 as an impairment loss on trade and other receivables in the consolidated statement of comprehensive income.

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 other losses. 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.

l. 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, regular payments are made to a separate entity for current service with no obligation to pay further amounts. Contributions are recognized within employee benefits expense during the period in which services are rendered by employees. During the period, the Corporation contributed $6 million (2017 - $6 million) to pension plans on behalf of employees for current service.

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, obligations related to the defined benefit plan are 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. Actuarial gains and losses are transferred 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 accrued employee benefits liability at March 31, 2018 was $6 million (2017 - $7 million).

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.

m. 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 liabilities

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 future cash flows are discounted 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.

n. 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 contributions 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. 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. Other revenue

Other revenue consists of natural gas liquid sales and compression and gathering services. Natural gas liquid sales are recognized when 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.

o. 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 borrowing costs are capitalized 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.

p. 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. 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 within trade and other payables. 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.

q. Future changes in accounting policies

The following new standards are not yet effective and have not been applied in preparing the Consolidated Financial Statements:

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.

The Corporation is continuing to review the new standards and has completed a preliminary assessment of the impact on its consolidated financial statements IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases*. The anticipated impacts are as follows:

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.

The new leasing standard is expected to have minimal impacts on leases but the Corporation has not yet determined the full impact of the new standard.

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 Province, 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 (2017 - $1,700 million). Within this limit, the Corporation may borrow up to $500 million in temporary loans (2017 - $500 million), including a $35 million uncommitted line of credit with Toronto-Dominion Bank (2017 - $35 million). As at March 31, 2018, the Corporation had $1,335 million of debt outstanding (2017 - $1,312 million), including $254 million in temporary loans (2017 - $293 million), leaving $246 million of remaining short-term borrowing capacity (2017 - $207 million). The Corporation's short-term debt is unsecured, with an average interest rate of 1.4 per cent (2017 - 0.6 per cent).

The Corporation borrows all its capital, with the exception of occasional overnight loans from the Toronto-Dominion Bank, from 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 does not have share capital. However, it has received advances from CIC, which reflect an equity investment in the Corporation, to form its equity capitalization.

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 per cent to 63.0 per cent. 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 fiscal year as follows:

(millions)	2018	2017
Long-term debt	$ 1,081	$ 1,019
Short-term debt	254	293
Debt retirement funds	(106)	(101)
Cash and cash equivalents	3	(1)
Total net debt	1,232	1,210
Equity advances	72	72
Retained earnings	894	786
Total capital	$ 2,198	$ 2,086
Debt ratio	56.1%	58.5%

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)	2018	2017
Unbilled revenue	**$ 41**	$ 34
Trade receivables	**88**	63
Other receivables	**17**	19
	146	116
Allowance for doubtful accounts	**(5)**	(5)
	$ 141	$ 111

The following reflects an aging summary of 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)	2018	2017
Current	**$ 129**	$ 98
30-59 days	**8**	7
60-89 days	**3**	5
Greater than 90 days	**6**	6
	146	116
Allowance for doubtful accounts	**(5)**	(5)
	$ 141	$ 111

The following table provides information about the ECLs for trade and other receivables from individual customers as at March 31, 2018.

(millions)	Gross Carrying Amount	Weighted Average Loss Rate	Loss Allowance
Current	$ 129	2%	**$ 2**
30-59 days	8	13%	**1**
60-89 days	3	33%	**1**
Greater than 90 days	6	17%	**1**
Allowance for doubtful accounts	$ 146		**$ 5**

The Corporation will record lifetime ECLs on the Distribution customer receivables based on a developed provision matrix. The ECLs for gas marketing accounts receivables and other customer receivables were deemed immaterial and therefore, no adjustments will be recognized upon year of adoption. They will continue to be monitored annually to ensure the circumstances have not changed.

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

(millions)	2018	2017
Closing balance under IAS 39 as at March 31, 2017	**$ 5**	-
Adjustment on initial application of IFRS 9	**(1)**	-
Opening balance under IFRS 9 as at April 1, 2017	**$ 4**	$ 6
Provision	**3**	1
Write-offs	**(2)**	(2)
Closing balance under IFRS 9 as at March 31, 2018	**$ 5**	$ 5

6. NATURAL GAS IN STORAGE HELD FOR RESALE

(millions)	2018	2017
Cost	$ 70	$ 107
Revaluation to net realizable value	(33)	(21)
	$ 37	$ 86

With the decline in natural gas market prices over recent years, the net realizable value of natural gas in storage as at March 31, 2018 was $33 million below cost (2017 - $21 million). As at March 31, 2018, the Corporation expects that $22 million of the current inventory value will be sold or consumed within the next fiscal year and $15 million of the current inventory value will be sold or consumed after more than one fiscal year.

7. DEBT RETIREMENT FUNDS

(millions)	2018	2017
Balance, beginning of period	$ 101	$ 102
Installments	9	9
Redemptions	(7)	(12)
Earnings	2	2
Balance, end of period	105	101
Less: Current portion of debt retirement funds	-	(7)
	$ 105	$ 94
Change in fair value through OCI	1	-
	$ 106	$ 94

The investments held in debt retirement funds are primarily Federal and Provincial Government debt instruments. The average return on these investments was 2.1 per cent for the period (2017 - 2.3 per cent). As at March 31, 2018 approximately $10 million is required to be invested in debt retirement funds on an annual basis.

8. ASSETS HELD FOR SALE

As at March 31, 2018, a non-current asset was classified as held for sale within the consolidated statement of financial position. During 2017-18 the Corporation committed to a plan to sell a natural gas processing plant within the next 12-month period. The assets are measured at carrying amount, which is also equal to their fair value less costs to sell and were no longer depreciated. The carrying amount of the natural gas processing plant assets held for sale as at year end was $8 million.

9. FINANCIAL AND DERIVATIVE INSTRUMENTS

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 fair value hierarchy based on the amount of observable inputs.

Level 1 valuations use quoted prices (unadjusted) that 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.

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

Level 3 inputs are unobservable for the particular assets and liabilities as at the reporting date.

			2018		2017	
(millions)	Class-ification	Fair Value Hierarchy	Carrying Amount	Fair Value	Carrying Amount	Fair Value
FINANCIAL AND DERIVATIVE ASSETS						
Cash	FVTPL	Level 3	$ -	$ -	$ 1	$ 1
Trade and other receivables	AC	Level 3	141	141	112	112
Debt retirement funds	FVOCI	Level 2	106	106	101	101
Fair value of derivative instrument assets	FVTPL	Level 2	61	61	5	5
FINANCIAL AND DERIVATIVE LIABILITIES						
Bank indebtedness	FVTPL	Level 3	3	3	-	-
Short-term debt	OL	Level 3	254	254	293	293
Trade and other payables	OL	Level 3	127	127	104	104
Finance lease obligation	OL	Level 3	11	11	5	5
Dividends payable	OL	Level 3	23	23	14	14
Long-term debt	OL	Level 2	1,081	1,207	1,019	1,050
Fair value of derivative instrument liabilities	FVTPL	Level 2	50	50	40	40

Classification details:
FVTPL – fair value through profit or loss
AC – amortized cost
FVOCI – fair value through other comprehensive income
OL – other liabilities

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 Canadian Gas Price Reporter 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.

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. 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, 2018 natural gas derivative instruments had the following fair values, notional values and maturities in the next five fiscal years:

(millions)	2019	2020	2021	2022	2023	Total
Fair value	$ 13	$ (1)	$ (2)	$ -	$ -	$ 10
Notional value	$ (67)	$ (14)	$ (7)	$ 1	$ -	$ (87)

Fair value – decrease in net income
Notional value – estimated undiscounted net cash outflow

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 amount due to or from counterparties is recorded 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 expected future cash flows from settling its natural gas contracts. The following amounts were netted within the consolidated statement of financial position:

(millions)	2018	2017
TRADE AND OTHER RECEIVABLES		
Gross amount recognized	$ 28	$ 15
Amount offset	(20)	(10)
Net amount presented in the consolidated statement of financial position	8	5
TRADE AND OTHER PAYABLES		
Gross amount recognized	$ 39	$ 27
Amount offset	(20)	(10)
Net amount presented in the consolidated statement of financial position	$ 19	$ 17

10. FINANCIAL RISK MANAGEMENT

Through the normal course of business, the Corporation has exposure to market risk (natural gas price risk and interest rate 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 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 financial and derivative instruments may be used 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 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 strategy, derivative instruments are used to manage the price of the natural gas it buys. The 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 that may be used 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 period-end closing positions, an increase of $1.00 per GJ in natural gas prices would have increased net income, through an increase in the fair value of natural gas derivative instruments, by $29 million (2017 - $19 million). Conversely, a decrease of $1.00 per GJ would have decreased net income, through a decrease in the fair value of natural gas derivative instruments, by $30 million (2017 - $20 million).

Based on the period closing positions, an increase of $1.00 per GJ in natural gas prices would have a positive impact on uncontracted natural gas in storage, by $18 million (2017 - $21 million). Conversely, a decrease of $1.00 per GJ would have a negative impact on uncontracted natural gas in storage, by $15 million (2017 - $18 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, 2018, the Corporation had $254 million of short-term debt outstanding, and $50 million of long-term debt that will mature within the next fiscal year and may be refinanced. Based on these amounts, a 1.0 per cent change in interest rates would increase or decrease the annual finance expense by approximately $3 million (2017 - $4 million).

The Corporation is also subject to interest rate risk related to debt retirement funds and provisions, as the recorded values are driven by market prices which are largely determined by interest rates. Fluctuations in the interest rates of debt retirement funds and provisions can have an impact on the Corporation. The estimated impact of a 1.0 per cent 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 recorded through OCI by approximately $8 million (2017 - $8 million). The estimated impact of a 1.0 per cent increase in interest rates, assuming no change in the amount of provisions, would have decreased the value of the provision by approximately $31 million. Conversely, a 1.0 per cent decrease in interest rates, assuming no change in the amount of provisions, would have increased the value of the provision by approximately $47 million.

c. 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, 2018 were as follows:

		Contractual Maturities			
(millions)	Carrying Amount	Less Than 1 Year	1-2 Years	3-5 Years	More Than 5 Years
Bank indebtedness	$ 3	$ 3	$ -	$ -	$ -
Short-term debt	254	254	-	-	-
Trade and other payables	138	129	6	3	-
Dividends payable	23	23	-	-	-
Long-term debt	1,081	96	78	159	1,532
Derivative instruments	50	67	14	6	-
Notional value	$ 1,549	$ 572	$ 98	$ 168	$ 1,532

As at March 31, 2018, 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 $12 million (2017 - $10 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.

d. Credit risk

Credit risk is the risk of financial loss 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, 2018, the maximum credit exposure to a single counterparty was $47 million (2017 - $5 million) relating to a derivative intended to be settled physically in 2019.

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

(millions)	2018	2017
Cash	$ -	$ 1
Trade and other receivables	141	111
Debt retirement funds	106	101
Fair value of derivative instrument assets	61	5
	$ 308	$ 218

At March 31, 2018, the exposure to credit risk for trade receivables by type of customer was as follows:

(millions)	2018	2017
Distribution customers	$ 93	$ 64
Transmission and storage customers	22	22
Gas Marketing customers	9	5
Other customers	17	20
Trade and other receivables	$ 141	$ 111

11. INTANGIBLE ASSETS

(millions)	Computer Software	Under Development	Total
COST			
Balance, April 1, 2016	$ 95	$ 15	$ 110
Additions	19	12	31
Transfers	-	(19)	(19)
Balance, March 31, 2017	114	8	122
Additions	12	12	24
Transfers	-	(12)	(12)
Balance, March 31, 2018	126	8	134
ACCUMULATED AMORTIZATION			
Balance, April 1, 2016	55	-	55
Amortization	7	-	7
Balance, March 31, 2017	62	-	62
Amortization	8	-	8
Balance, March 31, 2018	70	-	70
CARRYING AMOUNTS			
Balance, March 31, 2017	$ 52	$ 8	$ 60
Balance, March 31, 2018	$ 56	$ 8	$ 64

The annualized composite rate of amortization was 7.0 per cent during the period (2017 – 7.0 per cent).

12. PROPERTY, PLANT AND EQUIPMENT

(millions)	Distribution	Transmission & Storage	Gathering, Treatment & Compression	Vehicles, Equipment & Other	Computer Hardware	Construction in Progress	Total
COST							
Balance, April 1, 2016	$ 1,350	$ 1,189	$ 358	$ 155	$ 17	$ 50	**$ 3,119**
Additions	87	63	19	9	3	187	**368**
Disposals	(4)	(14)	(8)	(4)	(1)	(3)	**(34)**
Impairment	(3)	(21)	(5)	-	-	-	**(29)**
Transfers	-	-	-	-	-	(183)	**(183)**
Balance, March 31, 2017	1,430	1,217	364	160	19	51	**3,241**
Additions	100	89	31	12	2	277	**511**
Disposals	(7)	(41)	(4)	(6)	-	-	**(58)**
Impairment	-	11	(27)	-	-	-	**(16)**
Transfers	-	-	-	-	-	(229)	**(229)**
Balance, March 31, 2018	1,523	1,276	364	166	21	99	**3,449**
ACCUMULATED DEPRECIATION							
Balance, April 1, 2016	404	406	145	79	15	-	**1,049**
Depreciation	32	34	13	8	2	-	**89**
Disposals	(4)	(11)	(6)	(4)	(1)	-	**(26)**
Balance, March 31, 2017	432	429	152	83	16	-	**1,112**
Depreciation	34	34	13	9	2	-	**92**
Disposals	(5)	(11)	(1)	(6)	-	-	**(23)**
Balance, March 31, 2018	461	452	164	86	18	-	**1,181**
CARRYING AMOUNTS							
Balance, March 31, 2017	$ 998	$ 788	$ 212	$ 77	$ 3	$ 51	**$ 2,129**
Balance, March 31, 2018	$ 1,062	$ 824	$ 200	$ 80	$ 3	$ 99	**$ 2,268**

Included within the carrying amount for property, plant and equipment is $98 million related to decommissioning assets.

The annualized composite rate of depreciation was 2.8 per cent during the period (2017 - 2.8 per cent).

a. Impairment losses due to market conditions

The Corporation has two cash generating units that are adversely impacted by market conditions, its non-core gas storage facilities that support gas marketing activities and a gas processing plant.

At March 31, 2018, as a result of a decline in natural gas prices, the Corporation has recorded a cumulative impairment on its non-core gas storage facilities of $13 million. During 2017-18, a $15 million impairment reversal was recorded. This relates to a storage field asset, which due to a change in corporate strategy moved from the non-core gas storage facility cash generating unit, into a larger pool of core storage assets, where it will be used to provide storage service and transmission avoidance to customers within a regulatory framework. The remaining non-core gas storage facilities are fully impaired. The impairments on the remaining storage assets were recognized as the carrying value of the assets exceeded the recoverable amounts.

The recoverable amount was the value in use determined using cash flows attributed to probable production and adjusted for future market prices, discounted at 6.9 per cent. The impairment losses have been recognized within other gains and losses.

At March 31, 2018, also as a result of a decline in natural gas and natural gas liquid prices, the Corporation has recorded a cumulative impairment on one of its treatment and compression facilities of $10 million. The impairments were recognized as the carrying value of the assets exceeded the recoverable amounts of $8 million for its gas processing plant and gathering facilities. The recoverable amount was the value in use determined using cash flows attributed to probable production and adjusted for future market prices, discounted at 8.2 per cent. The impairment losses have been recognized within other gains and losses.

The Corporation does not anticipate recovery of the impairments unless there is a significant change in current and forward natural gas and natural gas liquid prices. Future natural gas prices are the main source of estimation uncertainty in determining the recoverable amount of the Corporation's assets. As at March 31, 2018, a five per cent increase in future natural gas and natural gas liquid prices would have increased the recoverable amount and reduced the impairment loss by $4 million. In future periods, any increases to future natural gas and natural gas liquid prices will result in the reversal of previously incurred impairment losses, up to the carrying value of the associated assets.

b. Impairment loss due to performance of assets

At March 31, 2018, as a result of lower than expected economic performance, the Corporation has recorded a cumulative impairment of $6 million on its energy services assets which are categorized within the Corporation’s 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 and adjusted for future market prices, discounted at 6.9 per cent (2017 - 6.9 per cent). The impairment losses have been recognized within other gains and losses, with the full $6 million recognized in the prior year. The Corporation does not expect recovery of these impairments.

At March 31, 2018, also as a result of lower than expected economic performance, the Corporation has recorded an impairment of $22 million on one of its treatment and compression facilities. 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 and adjusted for future market prices, discounted at 7.0 per cent. The impairment losses have been recognized within other gains and losses, with the full $22 million recognized in the current year. The Corporation does not expect recovery of these impairments.

13. TRADE AND OTHER PAYABLES

(millions)	2018	2017
Trade payables	$ 66	$ 64
Interest payable	12	10
Other payables	49	30
	$ 127	$ 104

14. LONG-TERM DEBT

(millions)	2018	2017
Balance, beginning of period	$ 1,019	$ 970
Proceeds	121	149
Repayments	(59)	(100)
Balance, end of period	$ 1,081	$ 1,019

Long-term debt consists of the following:

	2018		2017	
	Principal Outstanding (millions)	Effective Interest Rate	Principal Outstanding (millions)	Effective Interest Rate
GENERAL REVENUE FUND				
1-5 years	$ 116	3.9%	$ 176	4.2%
6-10 years	192	5.3%	192	5.3%
11-15 years	110	6.1%	110	6.1%
16-20 years	82	3.6%	62	3.8%
21-25 years	225	4.0%	225	4.0%
26-30 years	250	3.4%	250	3.4%
31 plus years	100	3.3%	-	N/A
	1,075		1,015	
Unamortized debt premium/ discount and issue costs	1		(1)	
	1,076		1,014	
OTHER LONG-TERM DEBT				
26-30 years	5	13.5%	5	13.5%
	1,081		1,019	
Less: Current portion of long-term debt	(50)		(59)	
	$ 1,031		$ 960	

Long-term debt is unsecured. As at March 31, 2018 principal repayments due in each of the next five fiscal years are as follows:

(millions)	2019	2020	2021	2022	2023
Principal repayments	$ 50	$ 33	$ 33	$ -	$ -

15. DEFERRED REVENUE

Unearned customer capital contributions

(millions)	2018	2017
Balance, beginning of period	$ 32	$ 61
Additions	29	29
Refunds	(5)	(3)
Revenue	(21)	(55)
Balance, end of period	$ 35	$ 32

16. FINANCE LEASE OBLIGATION

(millions)	2018	2017
Total future minimum lease payments	$ 12	$ 6
Less: Future finance charges on finance lease	(1)	(1)
Present value of finance lease obligation	11	5
Less: Current portion of finance lease obligation	(2)	-
	$ 9	$ 5

As at March 31, 2018, scheduled future minimum lease payments and the present value of the finance lease obligation are as follows for the next five fiscal years:

(millions)	2019	2020	2021	2022	2023
Future minimum lease payments	$ 2	$ 7	$ 1	$ 1	$ 1
Present value of finance lease obligation	$ 2	$ 6	$ 1	$ 1	$ 1

17. PROVISIONS

(millions)	2018	2017
Balance, beginning of period	$ 127	$ 130
Provisions made	6	6
Provisions settled	(5)	(4)
Change in discount rate	(3)	(7)
Unwinding of discount	3	2
Balance, end of period	$ 128	$ 127

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, 2018 and March 31, 2109. The undiscounted cash flows required to settle the obligations total $318 million (2017 - $294 million). Discount rates between 1.3 per cent and 2.4 per cent were used to calculate the carrying amount of the obligation (2017 – 1.1 per cent and 2.4 per cent). No funds have been set aside by the Corporation to settle these obligations.

18. COMMITMENTS AND CONTINGENCIES

a. Commitments

As at March 31, 2018, the Corporation had $83 million (2017 - $77 million) of outstanding contractual commitments for the procurement of goods and services in the future.

During the period, the Corporation entered into commodity contracts for the physical purchase of natural gas that qualify as own-use contracts. As at March 31, 2018, own-use natural gas derivative instruments had the following notional values and maturities for the next five fiscal years:

(millions)	2019	2020	2021	2022	2023	Total
OWN-USE PHYSICAL NATURAL GAS CONTRACTS						
Notional value	$ (46)	$ (60)	$ (64)	$ (59)	$ (49)	**$ (278)**

Notional value – estimated undiscounted net cash outflow

b. Contingencies

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

19. UNREALIZED MARKET VALUE ADJUSTMENTS

(millions)	2018	2017
Change in fair value of natural gas derivative instruments	**$ 46**	$ 63
Change in revaluation of natural gas in storage to net realizable value	**(12)**	13
	$ 34	$ 76

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.

20. NATURAL GAS SALES AND PURCHASES

	2018			2017		
(millions)	Commodity	Gas Marketing	Total	Commodity	Gas Marketing	Total
NATURAL GAS SALES						
Natural gas sales to commodity customers	$ 207	$ -	$ 207	$ 198	$ -	$ 198
Realized on natural gas derivative instruments	18	249	267	19	147	166
Change in fair value of natural gas derivative instruments	-	2	2	-	(8)	(8)
	225	251	476	217	139	356
NATURAL GAS PURCHASES						
Realized on natural gas derivative instruments	(184)	(223)	(407)	(192)	(133)	(325)
Change in fair value of natural gas derivative instruments	(2)	46	44	65	6	71
Change in revaluation of natural gas in storage to net realizable value	-	(12)	(12)	-	13	13
	(186)	(189)	(375)	(127)	(114)	(241)
	$ 39	$ 62	$ 101	$ 90	$ 25	$ 115

21. SASKATCHEWAN TAXES

(millions)	2018	2017
Corporate capital tax	$ 11	$ 9
Property taxes and other	3	3
	$ 14	$ 12

22. NET FINANCE EXPENSES

(millions)	2018	2017
Debt retirement funds earnings	$ 2	$ 2
Finance income	2	2
Interest expense on short-term debt	(2)	(2)
Interest expense on long-term debt	(47)	(45)
Unwinding of discount on provisions	(3)	(2)
Borrowing costs capitalized to qualifying assets	2	1
Finance expenses	(50)	(48)
Net finance expenses	$ (48)	$ (46)

Borrowing costs were capitalized to qualifying assets using the weighted average cost of debt of 4.0 per cent during the period (2017 - 3.7 per cent).

23. OTHER GAINS AND LOSSES

(millions)	2018	2017
Net loss on impairment of assets	$ (14)	$ (29)
Fair value adjustment to assets held for sale	(2)	-
Gain on insurance proceeds	2	3
Net gains (and losses) on disposal of assets	1	(7)
	$ (13)	$ (33)

The insurance proceeds recognized in other gains and losses are related to a cavern wellhead fire that occurred in 2014. The insurance proceeds received during the period are a reimbursement for assets lost and costs incurred in previous reporting periods. The Corporation received $2 million during the first quarter of 2017-18 to settle the remainder of the outstanding claim.

24. 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)	2018	2017
Short-term benefits	$ 4	$ 4

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

McDougall Gauley LLP
Board Chair, SaskEnergy
Regina, Saskatchewan

SUSAN BARBER, Q.C., C.DIR.

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.

Paul J. Hill School of Business
Vice Chair, SaskEnergy
Regina, Saskatchewan

NOLA JOORISITY, C.DIR.

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, has a Bachelor of Commerce from the University of Saskatchewan and has a Chartered Director's designation. 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.

J. P. Baker Management Inc.
Regina, Saskatchewan

JAMES BAKER

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, Kineticor Resource Corp. and the Nature Conservancy of Canada. His experience also 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 a member of the Audit and Finance Committee.

McFaull Consulting
Saskatoon, Saskatchewan

KELLY BANNISTER, CFP, RRC, CEA, C.DIR.

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 between The Conference Board of Canada and McMaster University). She joined the SaskEnergy Board of Directors in 2014 and is Chair of the Human Resources and Safety Committee.

Saskatoon, Saskatchewan

RON BARSI, P.GEO.

Mr. Barsi recently retired from his role as a principal, Global Mining Services, with Golder Associates Limited where he led a group of senior individuals working toward the sustainable development of Saskatchewan's mining industry. He has a Bachelor of Science degree from the University of Regina, along with education in Contaminant Hydrogeology from the Department of Earth Sciences at the University of Waterloo and Engineering of Waste Management Systems from the Department of Civil Engineering at the University of Saskatchewan. He has spent more than 38 years working domestically and internationally as an integrated environmental risk management specialist, with the majority of his career associated with northern Saskatchewan's uranium industry. Mr. Barsi joined SaskEnergy's Board of Directors in 2016 and is a member of the Governance and Social Responsibility Committee.

McKercher LLP
Regina, Saskatchewan

DAVID BISHOP, C.DIR.

Mr. Bishop is a partner at McKercher LLP where he practices commercial and residential real estate law, as well as business law. He is the Chair of McKercher LLP Real Estate Practise Group and was elected as a Bencher of the Law Society of Saskatchewan in 2015 and continues to serve in that capacity. 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 a member of the Human Resources and Safety Committee.

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

CURT CHICKOSKI

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 Human Resources and Safety Committee.

Prince Albert, Saskatchewan

LINDA CLAVELLE, C.DIR.

Ms. Clavelle holds a Chartered Director designation from The Directors College program of McMaster University and serves her community through involvement in numerous boards: Mann Art Gallery, Community Futures and the Library Boards. 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 Maintenance Operations Analyst, handling multi-million dollar projects along the way. Ms. Clavelle has also served as a councillor in the R.M. of Buckland and actively volunteers with the Y.W.C.A. Newcomer Settlement initiative. She joined the SaskEnergy Board of Directors in 2014 and is Chair of the Governance and Social Responsibility Committee.

Mega Group Inc.
Saskatoon, Saskatchewan

NEAL KRAWCHUK

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 23 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 a member of the Governance and Social Responsibility Committee.

Conexus Credit Union
Regina, Saskatchewan

ANNETTE REVET, MBA, C.DIR.

Ms. Revet is Chief Transformation Officer at Conexus Credit Union. In her role, she leads high-performance teams in strategy, human resources, corporate governance, project management and government relations. Throughout her 25-year career, Ms. Revet has gained progressive experience as an executive, manager, executive facilitator and multi-disciplinary team leader with organizations such as The Mosaic Company, Farm Credit Canada and the University of Regina. She holds a Bachelor of Science (Honours) degree and a Master's degree in Business Administration from the University of Regina and became a Chartered Director in 2010. Ms. Revet joined SaskEnergy's Board of Director in 2016 and is a member of the Governance and Social Responsibility Committee.

Harvard Developments Inc
Regina, Saskatchewan

TINA SVEDAHL, CPA, CMA ICD.D

As Vice President of Investments at Harvard Developments Inc., Ms. Svedahl provides strategic expertise, governance oversight and leadership regarding mergers, acquisitions and operations of The Hill Companies' diverse interests in broadcasting, manufacturing, insurance and real estate. She has more than 25 years of experience in the real estate industry, is a Chartered Professional Accountant (CPA, CMA) and holds her Canadian Securities Certificate and the Institute of Corporate Directors' Designation. Ms. Svedahl has served as Chair of the Globe Theatre Board of Directors since 2014 and is a Director of One Life Makes a Difference and Harvard Western Insurance. She joined SaskEnergy's Board of Directors in 2016 and is a member of the Audit and Finance Committee.

Cameco Corporation
Saskatoon, Saskatchewan

ALICE WONG, ICD.D

Ms. Wong has served as the Senior Vice President and Chief Corporate Officer at Cameco Corporation since 2011. In this role, she provides executive oversight for human resources, information technology, supply chain management, safety, health, environment, quality, regulatory and government relations, communications and corporate responsibility. Ms. Wong has a Masters of Arts degree in Economics and a Bachelor of Commerce degree from the University of Saskatchewan. She has also obtained her Institute of Corporate Directors Designation (ICD.D). She currently serves on the boards of the Canadian Nuclear Association, the Saskatchewan Mining Association and Uranium Producers of America. Ms. Wong joined SaskEnergy's Board of Directors in 2016 and is a member of the Human Resources and Safety Committee.

Crown Investments
Corporation of Saskatchewan
Board Secretary
Regina, Saskatchewan

TERRY ROSS

Mr. Ross has been an employee of CIC since 2005, with prior experience at Natural Resources Canada and 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 2011.

Executive Committee

Ken From

President and Chief Executive Officer

Mr. From, P. Eng., became SaskEnergy President and Chief Executive Officer effective January 2017. He began his career with the Gas Division of SaskPower in 1981 and moved over to the company that would become SaskEnergy in 1988, taking on a number of roles within Engineering and Gas Supply, culminating as Senior Vice President of Gas Supply and Business Development. In 2007, he co-founded and led Prairie Hunter Energy Corporation, a Saskatchewan-based junior oil exploration company. After the sale of Prairie Hunter, Mr. From was recruited as CEO of the Technical Safety Authority of Saskatchewan in 2010. In 2014, he became CEO of the Petroleum Technology Research Centre. Mr. From holds a degree in Mechanical Engineering from the University of Saskatchewan and has been designated a Fellow of Engineers Canada, a Fellow of the Canadian Society of Senior Engineers and a Fellow of Geoscientists Canada (Honorary).

Lori Christie

Vice President, Customer Services, Gas Supply & Rates

Ms. Christie began her career with SaskEnergy in 2001, responsible for credit and natural gas market risk management. In 2003, she moved to the Gas Supply department and, as her responsibilities increased to include delivery service rates and applications, Ms. Christie served as Executive Director of Gas Supply and Rates. In her role as Vice President of Customer Services, Gas Supply & Rates, she is responsible for the procurement of natural gas supply for customers, gas marketing activities and overseeing customer services for the distribution utility as well as TransGas Customer Services and Policy, Rates & Regulations. Ms. Christie is a Chartered Financial Analyst (CFA) and is a member of the CFA Society of Saskatchewan and the CFA Institute.

Randy Greggains

Vice President, SaskEnergy & TransGas Operations

Mr. Greggains joined SaskEnergy in 1998 after having worked for 16 years in various roles with increasing responsibility with Saskatchewan Energy and Mines. He has worked in a number of financial and customer service functions within SaskEnergy and TransGas. In his role as Vice President responsible for SaskEnergy and TransGas operations, he leads the transmission and distribution operations groups, which maintain and operate the natural gas system. Mr. Greggains is a graduate of the University of Saskatchewan, obtaining a Bachelor of Science in Engineering in 1982, and of the University of Regina, earning a Master of Public Administration degree in 1993.

Shawn Grice

Vice President, Corporate Support

Mr. Grice joined SaskEnergy in 2017 as Vice President, Corporate Support. He is responsible for corporate technology, facilities, security, vehicles and equipment, inventory and corporate procurement. Prior to joining SaskEnergy, he spent 19 years at Saskatchewan Transportation Company (STC) as President & CEO (2010 to 2017) and Chief Financial Officer (1998 to 2010). Prior to STC, he held roles with Crown Investments Corporation of Saskatchewan (CIC), the Saskatchewan Department of Finance and KPMG Peat Marwick Thorne. Mr. Grice graduated with a Bachelor of Commerce (Great Distinction) from the University of Saskatchewan, and holds both Chartered Professional Accountant (CPA, CA) and Chartered Director (C.Dir.) designations.

Mark Guillet, Q.C.

Vice President, General Counsel & 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.

Derrick Mann

Vice President, Engineering, Integrity & Construction

Mr. Mann began his career with TransGas in 1999 as a co-op student while completing his Bachelor of Applied Science Industrial Systems Engineering degree at the University of Regina. He joined SaskEnergy/TransGas full-time in 2001 and has since held roles in many areas of the company, including Integrity, Engineering and Operations. Mr. Mann is responsible for the engineering, technology, integrity and construction of SaskEnergy and TransGas facilities and brings leadership and experience from various industry associations. He has also worked extensively with other government entities to improve and safety and reliability of energy systems in Saskatchewan communities.

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 designation and is a member of Financial Executives International.

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 stating that the Board sets the strategic direction, ensures the integrity and adequacy of the Corporation's systems and management practices, recommends the appointment or termination of the President and Chief Executive Officer 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 12 people appointed to SaskEnergy's Board of Directors. These same 12 people are also appointed as members for the Boards of Directors for each of SaskEnergy's six subsidiary companies. Seven members (58 per cent) are women. The Board Chair is Ms. Susan Barber, Q.C. and the Vice Chair is Ms. Nola Joorisity.

INDEPENDENCE

The matter of "independence from management" is based on 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 12 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 Governance and Social Responsibility Committee of the Board, consisting of independent non-lawyer Board members, reviews and approves the Corporation's external legal service providers in accordance with this Protocol on an as-required basis and reviews the total services being provided by these firms. The Board Chair, Ms. Susan Barber, Q.C., and 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 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. The Board Committee structure and composition is listed below:

Audit and Finance Committee

Chair: Nola Joorisity
Members: Jim Baker, Susan Barber, Q.C.*, Tina Svedahl

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 http://www.saskenergy.com/about_saskenergy/governance.asp.

The Committee had six meetings this fiscal year. Important issues included the review and approval of financial statements; development of various Commodity Strategies to cover all natural gas transactions; SaskEnergy commodity and delivery rates; payee disclosure report; review of various technology projects; the corporate insurance review; review of corporate Accounts Receivable; review of Audit Services reports; information technology strategy review; Business Plan, budget and financial targets review; and various risk management activities and policies review.

*Non-independent Board Member

Governance and Social Responsibility Committee

Chair: Linda Clavelle
Members: Ron Barsi, Neal Krawchuk, Annette Revet

The Governance and Social Responsibility Committee is responsible for matters relating to SaskEnergy's corporate governance regime and corporate social responsibility (CSR). It has input into the selection criteria for Board member and Committee Chair candidates, 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 Whistleblower 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 Corporation considers CSR to include: conducting business in a safe, socially responsible, ethical and transparent manner; protecting the environment and the 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 four meetings this fiscal year. Key work of the Committee included reviewing the results of the prior year Board and Board Chair evaluations; coordinating and developing of the current year Committees and Committee Chairs evaluation process; the review of disclosures under the Corporation's Whistleblower Policy; business/industry training for Directors; review of Board policies; review management's corporate system integrity program; Legal Services review; review of the Corporation's environmental risk management site remediation program; review of the Corporation's environmental management system compliance; and review of the Corporation's greenhouse gas emissions management program.

Human Resources and Safety Committee

Chair: Kelly Bannister
Members: David Bishop*, Curt Chickoski, Alice Wong

The Human Resources and Safety 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 has the mandate to proactively address safety matters and to assist the corporation in making safety a priority and focus of the organization. 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 and Safety Committee oversees that the incumbent fulfills the role set out in the CEO Mandate.

The Committee had four meetings this fiscal year. Important issues included Collective Bargaining, management and Executive compensation plans; succession management updates; review of the Executive total compensation results; compensation and benefits plans review and policies updates; and compliance with legislation update.

*Non-independent Board Member

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 is to provide 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 and Safety Committee measures the CEO's performance. The CEO Mandate was reviewed by the Governance and Social Responsibility Committee this fiscal year.

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 delegated 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, including National Policy 58-201 and National Instrument 58-101, 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 and 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 and Social Responsibility 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 Social Responsibility and Human Resources and Safety committees, which 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 and Social Responsibility 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 in-camera 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 and Social Responsibility Committee, which 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.

CYBER SECURITY RISK

SaskEnergy relies on its information and operations technology systems to safely operate corporate assets. These systems are subject to cyber security risks. Cyber security risks include but are not limited to targeted attacks, exposure to computer viruses and breaches of corporate information and technology systems by internal or external parties. A cyber security event could expose the Corporation to loss or misuse of critical data and information leading to property damage, disruptions to its operations, loss of confidentiality and financial or reputational losses. In order to manage cyber risk, SaskEnergy has developed a cyber security strategy whereby the Corporation tests its systems, build controls and conducts investigations. SaskEnergy has proactive continuous monitoring of its systems in order to identify and address malicious activity, as well as potential or emerging threats.

INTEGRITY OF INTERNAL CONTROLS AND MANAGEMENT SYSTEMS

The Board and the Audit and Finance Committee receive reports from, and work closely with, 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 Committee. Pursuant to the directive of CIC, SaskEnergy has a process in place 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 semi-annual 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 long-term needs (business structural changes and planned retirements).

The Human Resources and Safety Committee of the Board of Directors receives a succession plan update semi-annually and reports to the Board 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 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 Corporation and the Minister Responsible for SaskEnergy.

CEO ASSESSMENT, EXECUTIVE COMPENSATION AND EXECUTIVE DIVERSITY

The Human Resources and Safety 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, and 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 toward 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 and Safety 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 and Safety 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 currently 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 and Social Responsibility 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 to the Minister of Crown Investments. If required by the Shareholder or directed by Government, the Governance and Social Responsibility Committee is charged with leading the process to identify, recruit and recommend qualified candidates for appointment to the Board. The Committee continues to assess 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 and Social Responsibility 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 and Social Responsibility 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 and Social Responsibility 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. This year, the Board of Directors received training from management on the Corporation's Emergency Management Program for Public Safety and its emergency response process. Board members interact with management and employees attending such functions 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. This year, CIC held one director training session due to fiscal restraint measures. CIC also hosts meetings periodically throughout 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 and Social Responsibility 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 and Social Responsibility 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 the Committees and Committee Chairs.

DIRECTOR REMUNERATION

Compensation received by Directors is fixed by CIC under *The Crown Corporations Act, 1993*. The Governance and Social Responsibility 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 with respect to 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 $38,600;
- Other Directors: annual retainer of $24,124;
- Chair of Audit and Finance Committee: annual retainer of $3,376;
- Chairs of other Committees: annual retainer of $2,412;
- Committee members: $724 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.

As part of fiscal restraint, Board members took a 3.5 per cent rollback on all of their retainers and meeting fees.

Board members each sit on one of the three Committees. There were seven Board meetings and 14 Committee meetings this reporting period. The total remuneration paid to Directors (annual retainers, pro-rated for the portion of the fiscal year each Director was a member of or chaired a Committee, plus Committee per diems) was $351,780+ compared to $363,362** in 2016-17. The total business travel and meeting expenses paid to members of the Board were $15,666+ compared to $9,551** in 2016-17.

+This amount was for the 12-month reporting period of April 1, 2017 to March 31, 2018.

**The 2016-17 amount was for the 12-month period from April 1, 2016 to March 31, 2017.

Membership and Attendance at Meetings of the Board and Board Committees from April 1, 2017 to March 31, 2018

Member	Board (7 mtgs)	Audit (6 mtgs)	Gov/Sr (4 mtgs)	Hrs (4 mtgs)	Legal Serv. (0)	Total Possible	Total Attended	%
Barber (Chair)	7	5				13	12	92
Baker	6	6				13	12	92
Bannister	6			4		11	10	91
Barsi	7		2*	2*		11	11	100
Chickoski	7			4		11	11	100
Clavelle	7		4			11	11	100
Joorisity	7	6				13	13	100
Krawchuck	4	4				11	8	73
Revet	7		4			11	11	100
Svedahl	7	5				13	12	92
Wong	6		2*	2*		11	10	91

*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 395,000 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 80 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 119 transportation and storage customers through dedicated account representatives that meet each customer's needs. It also promotes contact through the TransGas Customer Dialogue Process, where customer rates and operational policies are jointly addressed before recommended implementation.

SaskEnergy works effectively with the plumbing, heating and mechanical contracting industry, which is highlighted by the Industry Dialogue process resulting in the creation of the SaskEnergy Network. There are 151 Residential Network Members in 57 communities and 64 Commercial Network Members in 19 communities. These 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 respond 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 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 delivery service rate increase application in July 2017, seeking a 3.6 per cent increase, with no change to the commodity rate. After SRRP review, the SaskEnergy application was recommended to, and approved, by Cabinet in October.

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 did not introduce any rate changes during 2017-18; the most recent 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 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)	Mar. 31, 2018	Mar. 31, 2017	Mar. 31, 2016[1]	Dec. 31, 2014	Dec. 31, 2013
	Audited	Audited	Audited	Audited	Audited
ASSETS					
Current assets					
Cash	$ -	$ 1	$ 11	$ 5	$ -
Trade and other receivables	141	111	104	148	148
Natural gas in storage held for resale	37	86	86	140	208
Inventory of supplies	11	12	11	12	12
Debt retirement funds	-	7	10	7	6
Assets held of sale	8	-	-	-	4
Fair value of derivative instruments	61	5	11	21	28
	258	222	233	333	406
Intangible assets	64	60	55	49	47
Property, plant and equipment	2,260	2,129	2,070	1,912	1,682
Debt retirement funds	106	94	92	86	72
	$ 2,688	$ 2,505	$ 2,450	$ 2,380	$ 2,207
LIABILITIES AND PROVINCE'S EQUITY					
Current liabilities					
Bank indebtedness	$ 3	$ -	$ -	$ -	$ -
Short-term debt	254	293	299	299	380
Trade and other payables	127	104	101	117	122
Dividendes payable	23	14	21	3	10
Current portion of long-term debt	50	59	100	50	50
Deferred revenue	35	32	61	90	59
Fair value of derivative instruments	50	40	109	107	39
Current portion of finance lease obligation	2	-	-	-	-
	544	542	691	666	660
Other Payables	9	5	4		
Employee future benefits	6	7	8	10	10
Provisions	128	127	130	95	71
Deferred revenue	5	6	6	6	9
Long-term debt	1,031	960	870	908	712
	1,723	1,647	1,709	1,685	1,462
Province's equity					
Equity advances	72	72	72	72	72
Other components of equity	(1)	-	-	-	-
Retained earnings	894	786	669	623	673
	965	858	741	695	745
	$ 2,688	$ 2,505	$ 2,450	$ 2,380	$ 2,207

[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 are fiscal periods ending December 31 and March 31.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

($ millions)	12 Months Ended Mar. 31, 2018	12 Months Ended Mar. 31, 2017	12 Months Ended Mar. 31, 2016[1]	12 Months Ended Dec. 31, 2014	12 Months Ended Dec. 31, 2013
	Audited	Audited	Unaudited	Audited	Audited
REVENUE					
Natural gas sales	$ 474	$ 364	$ 402	$ 718	$ 600
Delivery	271	240	209	232	217
Transportation and storage	137	134	121	98	92
Customer capital contributions	21	55	58	33	24
Other	7	10	12	16	12
	910	803	802	1,097	945
EXPENSES					
Natural gas purchases	407	325	354	695	550
Employee benefits	86	87	90	92	89
Operating and maintenance	127	134	124	126	97
Depreciation and amortization	100	96	89	83	77
Saskatchewan taxes	14	12	12	11	11
Impairment loss on trade and other receivables	5	-	-	-	-
	739	654	669	1,007	824
INCOME BEFORE THE FOLLOWING	171	149	133	90	121
NET FINANCE EXPENSES					
Finance income	2	2	3	4	4
Finance expenses	(50)	(48)	(50)	(48)	(44)
	(48)	(46)	(47)	(44)	(40)
OTHER (LOSSES) GAINS	(13)	(33)	-	1	(2)
NET INCOME BEFORE MARKET VALUE ADJUSTMENTS	110	70	86	47	79
MARKET VALUE ADJUSTMENTS					
Commodity	(2)	65	(4)	(83)	27
Gas marketing	48	(2)	(12)	8	(33)
Net realizable value on natural gas in storage	(12)	13	(10)	(12)	13
Debt retirement funds	1	-	(3)	7	(7)
	35	76	(29)	(80)	-
TOTAL NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	$ 145	$ 146	$ 57	$ (33)	$ 79
CONSOLIDATED STATEMENT CASH FLOWS					
Cash provided by operating activities	312	225	258	248	244
Cash used in investing activities	(258)	(198)	(210)	(283)	(221)
Cash (used in) provided by financing activities	(58)	(37)	(47)	40	(25)
INCREASE (DECREASE) IN CASH POSITION	$ (4)	$ (10)	$ 1	$ 5	$ (2)

[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 are fiscal periods ending December 31 and March 31.

Glossary of Key Success Measures

SERVICE EXCELLENCE

Efficient Operations	
Distribution Operation, Maintenance and Administration (OM&A) per Customer	This metric 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 (394,000 customers at March 31, 2018). This measure is comparable to other Canadian gas utilities.
Competitive Residential Delivery Rates	This 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	This metric 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. This metric was standardized by the Canadian Gas Association (CGA) in late 2012 for inter-jurisdictional comparison purposes. The SaskEnergy data on leaks per 1,000 km of pipe are aligned 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 metric 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 metric reflects, as a percentage, the current year of integrity capital spending against the book value of the Corporation's assets 15 years prior. Typically, older assets require greater attention from an integrity perspective, and thus it is appropriate to measure integrity spending against these older assets. However, it is important to understand that much of this infrastructure was placed into service in large amounts at varying intervals which does impact the metric results. 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	This 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 measure 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 and 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 metric measures the level of growth in the Corporation's revenues from its core transmission and distribution 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 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 non-core asset component of the metric includes Bayhurst Gas Limited, Bayhurst Energy Services Corporation (BESCO) & BG Storage Inc. (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, its subsidiaries and third parties.
Percentage of Third-Party Capital Investment	This measure calculates the proportion of total capital invested that is provided by a third-party.
Associated Gas Capture as a Percentage of 2014 Saskatchewan Sourced Volumes	This metric 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 is reported using actual natural gas volumes as provided by the Saskatchewan Ministry of Economy.

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 and SaskEnergy is now in the process of selecting a new survey service and establishing new benchmarks.

Workforce Diversity	
Youth, First Nations/Métis	This measure provides 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	
Debt/Equity Ratio	This measure is calculated by dividing total net debt by the sum of total net debt plus total shareholder'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 shareholder's equity over the year. The average is determined as the simple average of the opening shareholder's equity and the closing shareholder'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 CO2e/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. By measuring tonnes of carbon dioxide per million running horse power hours generated from the Corporation's fleet of compressor units, the Corporation will be better able to gauge the success of its emission reduction efforts. The focus of those efforts over the five-year forecast period will be on fuel gas and energy efficiency improvements. Beyond the metric, SaskEnergy and TransGas will strive to reduce overall carbon dioxide and equivalent emissions from fuel combustion and reduce methane emissions from pipeline and compressor station operations.

Community Relationship	
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.

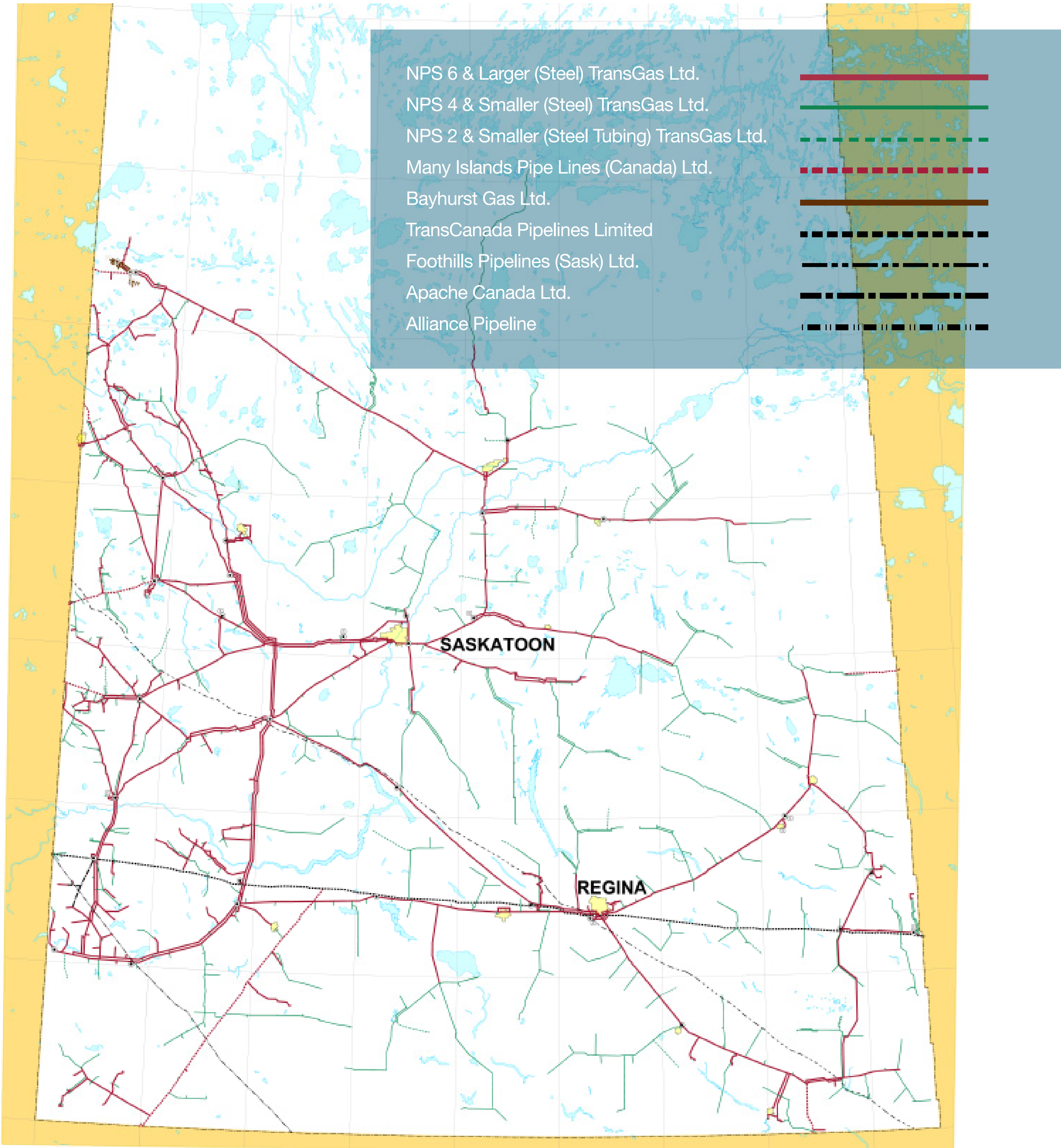
Petajoule (PJ) – a unit of energy equivalent to 1,000,000 GJ.

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