2014 ANNUAL REPORT

SaskEnergy

VISION

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

MISSION

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

VALUES

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

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

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

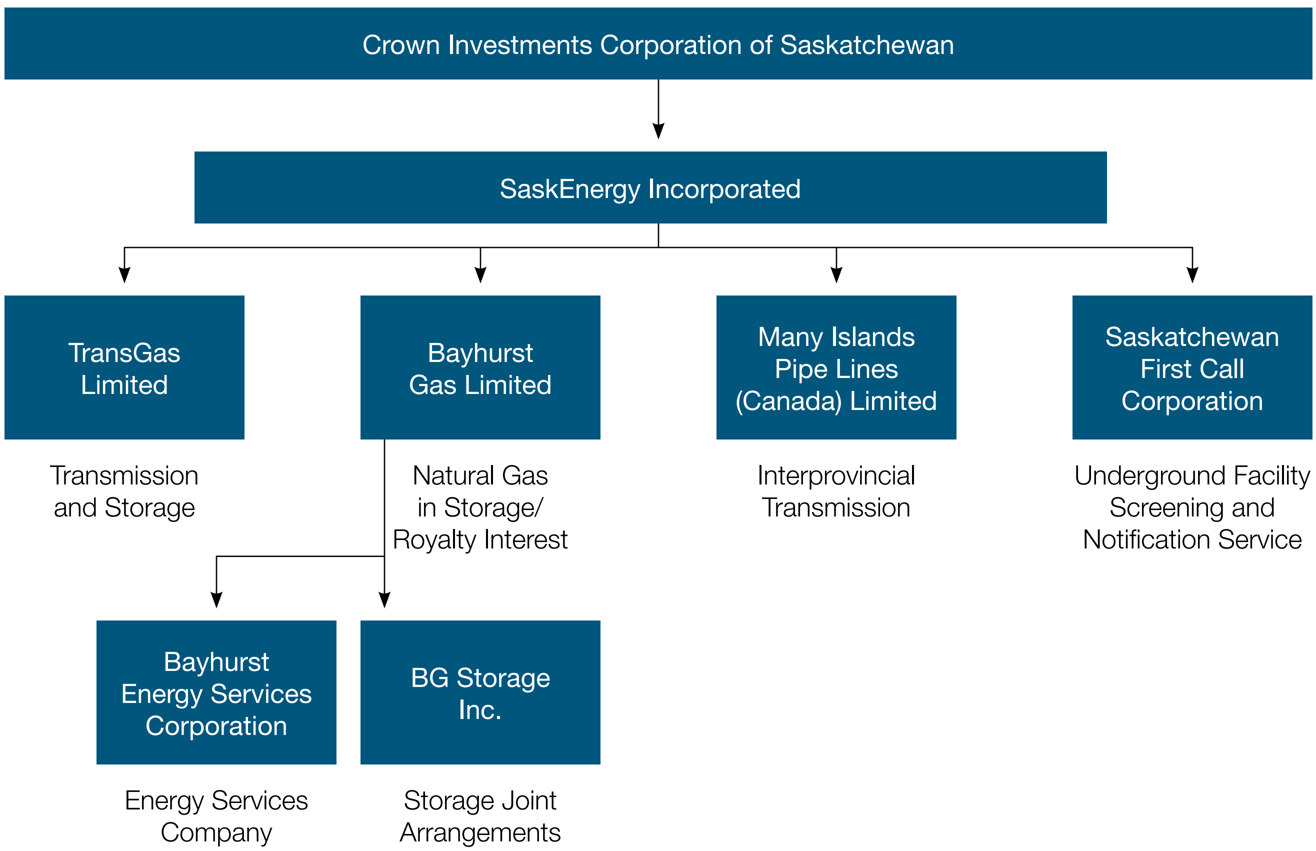
SAFETY
We never compromise the safety of our employees and the public.

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

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

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

CORPORATE PROFILE



SaskEnergy Incorporated (SaskEnergy or the Corporation) is a Saskatchewan Crown corporation governed by *The SaskEnergy Act*. It is a designated subsidiary of Crown Investments Corporation of Saskatchewan (CIC). CIC is also a Crown corporation and effectively operates as the Province's holding company for commercial Crown corporations (such as SaskEnergy, SaskPower, SaskTel and SGI) and various commercial investments.

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

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

Bayhurst Gas Limited (Bayhurst) owns, produces and sells natural gas from its storage facility in the west-central area of Saskatchewan. Bayhurst also owns a gross overriding royalty on several properties in Saskatchewan and Alberta.

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

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 an unincorporated joint arrangement with Faro Energy Ventures Ltd.

Many Islands Pipe Lines (Canada) Limited (MIPL) is a transmission company that owns nine transmission pipeline interconnections to Alberta, two into the United States, and one into Manitoba, all of which connect to the TransGas system. MIPL is regulated by the National Energy Board.

Saskatchewan First Call Corporation (*Sask 1st Call*) provides a centralized "Call Before You Dig" underground facility screening and notification service. *Sask 1st Call* was established primarily for safety reasons to maintain a database of oil, natural gas and other underground infrastructures. *Sask 1st Call* provides a service whereby landowners and other stakeholders can contact *Sask 1st Call* to request the location of pipeline- and non-pipeline-related facilities of its subscribers. *Sask 1st Call's* rate structure is intended to recover all operational costs and operate on a break-even basis.

TransGas Limited (TransGas) owns and operates the Transmission Utility and has the exclusive legislated franchise to transport natural gas within the Province of Saskatchewan. It also owns and operates a non-regulated natural gas storage business as well as gathering and processing facilities, which are integrated with the transmission pipeline system. TransGas' transportation and storage rates are subject to Provincial Cabinet approval. TransGas has a Customer Dialogue process where business, operational and rate matters are openly discussed with a representative group of customers.

ACHIEVING GROWTH

The 132-kilometre Bayhurst-to-Rosetown transmission pipeline project increased capacity to meet growing provincial load requirements, driven largely by potash mining, power production facilities and enhanced oil recovery.

LETTER OF TRANSMITTAL

February 27, 2015

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

Lieutenant Governor of Saskatchewan

Madam:

I respectfully submit the annual report of SaskEnergy Incorporated for the year ended December 31, 2014, in accordance with *The SaskEnergy Act*. The Consolidated Financial Statements are in the form approved by the Treasury Board, and have been reported on by the Corporation's auditors.

[Original signed by J. Reiter]

Honourable Jim Reiter
Minister Responsible for SaskEnergy

MINISTER'S MESSAGE

On behalf of Premier Brad Wall and the Government of Saskatchewan, I present the SaskEnergy 2014 Annual Report.

I was proud to be appointed Minister Responsible for SaskEnergy in mid-2014, supporting the Corporation as it provides essential infrastructure and energy services to support the provincial economy.

My interactions with SaskEnergy leadership and employees leave me impressed with the organization's commitment to public safety and timely, cost-effective service delivery, benefiting both its customers and the Province of Saskatchewan. These efforts directly support our Government's long-term commitment to steady economic growth and shared prosperity.

In the coming years, SaskEnergy will continue to align with Crown Sector Priorities and support the Saskatchewan Growth Plan by making strategic investments in both infrastructure and human capital. Within an ever-changing business environment, the Corporation's continuing focus on operational efficiency and prudent capital spending has it well-positioned to meet its mandates.

I would like to thank all SaskEnergy employees, management and the Board of Directors for their contributions to the company in 2014.

Sincerely,

[Original signed by J. Reiter]

Honourable Jim Reiter
Minister Responsible for SaskEnergy

CHAIR'S MESSAGE

On behalf of the SaskEnergy Board of Directors, it is my pleasure to join the Minister Responsible for SaskEnergy, the Honourable Jim Reiter, in presenting the SaskEnergy 2014 Annual Report.

As outlined within this report, 2014 saw SaskEnergy deliver on initiatives and produce strong results in its fundamental mandates of public safety, timely service delivery and effective rate management. Aligned closely with the Government of Saskatchewan's Crown Sector Priorities, these focus areas are clearly established and well-communicated across all levels of the Corporation.

This clear business alignment and the teamwork it enables were evident in the Corporation's co-ordinated response to the bitterly cold temperatures of winter 2013/2014 and other weather-related situations throughout the year. On behalf of the Board, I express my thanks to the employees across the Province who came together in an extended team effort to keep our natural gas system running smoothly and our customers safe.

This clarity of purpose is also evident at the Board table, where we rely on the SaskEnergy Executive and management — and, by extension, employees — to provide the information we need to make decisions. In that regard, we have been pleased with the knowledge, professionalism and diligence of everyone with whom we have worked.

Looking ahead, SaskEnergy will continue to build on its successful efficiency and productivity initiatives to deliver value to customers and to the Government of Saskatchewan. As part of this ongoing effort, the Corporation recently completed a thorough review of its five-year capital investment plan to sharpen its focus on those key infrastructure projects which will most efficiently accommodate provincial growth and improve service delivery.

I would like to recognize the contributions of Sharon Hodgson, Alfred Labas and Allan Kerpan, who left the Board in 2014, and welcome Kelly Bannister, Linda Clavelle and Dr. Denis Jones as new members. 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

"Through a variety of innovative safety programs, SaskEnergy saw provincial line contact numbers drop by 23 per cent…"

SaskEnergy/TransGas celebrated many accomplishments throughout 2014, a year which also saw some significant challenges for our teams across the Province, and the company as a whole.

Provincial growth was strong once again in 2014, resulting in 7,332 new distribution customers and a four per cent increase in the volume of gas transported within the Province (a 34 per cent increase since 2009). Within this context of high customer activity levels, SaskEnergy was able to deliver value from a number of planned initiatives while maintaining a strong focus on safe, reliable service to customers amid challenging circumstances.

These included one of the coldest winters Saskatchewan has experienced in the past 30 years. The unprecedented demand for natural gas from the onset of the winter heating season required tremendous flexibility from our teams to make the operational adjustments and system enhancements necessary to maintain service to customers. The support provided by industrial customers in the Province was also appreciated. Overall, the increased commitment to third-party transmission capacity to transport additional volumes, together with the higher costs of natural gas purchases in winter, raised capital and operating expenses and adversely affected our 2014 financial metrics.

MEETING OPERATIONAL CHALLENGES

Summer saw flooding in a number of communities in southeastern Saskatchewan and a well co-ordinated emergency response from SaskEnergy field and office staff in the area. The significant rainfall over this period also accelerated ground shifting in communities where certain soil conditions are present, including resort communities along Last Mountain Lake. Even with increased monitoring of buried infrastructure within those communities, significant effort was required later in the year to respond to an incident at Regina Beach, upgrade pipeline infrastructure and develop longer-term plans to mitigate the risks presented by ongoing ground movement. The discussion and collaborative efforts with these communities were valued.

Finally, a system failure at the Prud'homme Storage Cavern in October resulted in infrastructure damage and the unplanned release of approximately 650 terajoules of gas, a situation effectively managed through our Incident Command System and resolved with the assistance of expert third-party contractors.

My thanks to everyone — employees, contractors, emergency responders, local officials and residents of the affected communities — involved in overcoming each of these challenges. The spirit of teamwork and co-operation is greatly appreciated, and the lessons learned from each of these circumstances have been captured and included as part of SaskEnergy's future direction.

PUBLIC AND EMPLOYEE SAFETY RESULTS

Proactive efforts yielded favourable results for SaskEnergy/TransGas in 2014, most notably in safety-related initiatives. On the public safety front, the Corporation collaborated with SaskPower and SaskTel to reduce dangerous third-party contacts with buried infrastructure. Through a variety of innovative programs, SaskEnergy saw provincial line contact numbers drop by 23 per cent from 2013 rates — a notable accomplishment, which will be shared with our Canadian Gas Association peer companies.

The Corporation also continued to see positive trending in reducing workplace injuries and accidents, recording its best-ever corporate safety performance in 2014, with a Total Recordable Injury Frequency Rate of 2.22. This accomplishment builds on our commitment to the provincial *Mission: Zero* target and validates the proactive safety programs and processes in place across SaskEnergy and TransGas.

EFFICIENCIES THROUGH COLLABORATION

Thanks to an ongoing focus on efficiency/productivity initiatives, SaskEnergy has realized $32 million in incremental savings over the last five years including $4.6 million in 2014, maintaining a flat internal resourcing level while effectively meeting the demands of a growing provincial economy. These savings have been key in allowing SaskEnergy to offer the lowest residential delivery levels in Canada for the better part of the last decade.

Many of these savings are the result of collaborative initiatives, including work with SaskPower and SaskTel to streamline a joint servicing approach in the development of new residential subdivisions, and expansion of the joint line locating program, which sees one qualified technician locating multiple buried lines, rather than each company performing this service individually. Over the coming years, these collaboration efforts — whether with peer Crown corporations, private sector companies, technology partners, industrial customers or urban developers — represent continued opportunities for SaskEnergy and TransGas to enhance service delivery and increase the value we provide.

IDENTIFYING AND MITIGATING RISK

From a leadership perspective, 2014 reinforced the need for a continued proactive approach in risk identification and mitigation, an area where SaskEnergy/TransGas has shown favourable results related to system integrity programming, damage prevention initiatives and strategic projects to actively upgrade infrastructure. While ongoing success in this endeavor requires constant vigilance and mobilization of our entire team, I am confident that SaskEnergy is up to the challenge.

The past year also provided numerous opportunities to appreciate the men and women of SaskEnergy/TransGas for their skill, ingenuity and ability to work together to deliver results. I am proud to support the excellent work done by these teams across Saskatchewan.

Sincerely,

[Original signed by D. Kelln]

Doug Kelln
President and Chief Executive Officer, SaskEnergy

CREATING VALUE

Technology solutions and process service optimization have enabled front-line employees to be more efficient as they manage the Corporation’s more than 380,000 customer accounts.

FINANCIAL AND OPERATING HIGHLIGHTS

CONSOLIDATED FINANCIAL INFORMATION	2014	2013	2012	2011	2010
($ millions)					
Total revenue	**1,108**	908	798	890	953
Total expenses	**1,141**	829	690	864	903
Consolidated net (loss) income	**(33)**	79	108	26	50
Market value adjustments	**(80)**	–	34	(58)	(18)
Income before unrealized market value adjustments	**47**	79	74	84	68
Dividends	**17**	30	27	39	49
Total assets	**2,380**	2,207	2,037	1,924	1,858
Cash provided by operating activities	**248**	244	172	195	185
Capital expenditures	**299**	224	187	172	144
Total net debt	**1,159**	1,064	1,009	935	894
Debt/Equity ratio	**63/37**	59/41	59/41	60/40	59/41
Rate of return on equity	**6.5%**	11.0%	11.0%	13.6%	10.8%
OPERATING STATISTICS					
Distribution volumes *(petajoules)*					
Residential/Farm	**39**	37	34	34	34
Commercial	**34**	33	29	29	30
Industrial	**111**	108	90	82	82
TOTAL	**184**	178	153	145	146
Transmission volumes *(petajoules)*					
Domestic	**275**	265	237	226	215
Export	**7**	3	4	5	24
TOTAL	**282**	268	241	231	239
Number of customers					
Distribution	**380,768**	373,436	365,749	358,363	352,560
Transmission	**153**	153	148	137	135

FIVE-YEAR OPERATING SUMMARY – DISTRIBUTION	2014	2013	2012	2011	2010
Sales in million cubic metres[1]	**4,792**	4,639	3,985	3,803	3,794
Residential annual average usage *(cubic metres)*	**3,006**	3,020	2,696	2,851	2,856
Degree days[2]	**6,039**	6,193	5,415	5,564	5,531
Percentage (colder) warmer than normal	**(9.0%)**	(12.5%)	2.4%	(0.5%)	0.1%
PIPELINE *(kilometres)*					
Distribution Utility					
SaskEnergy Incorporated	**69,015**	68,612	68,092	67,692	67,342

[1] Retail, industrial and natural gas marketing.

[2] A unit measuring the extent to which the temperature falls below 18° Celsius. Normal weather in 2014 would have been 5,529 degree days.

FIVE-YEAR OPERATING SUMMARY – TRANSMISSION	2014	2013	2012	2011	2010
Peak day natural gas flows *(petajoules)*	**1.42**	1.26	1.20	1.09	1.07
Date of peak day flow	**Feb. 6**	Dec. 6	Jan. 18	Jan. 31	Jan. 7
Storage cavern sites	**6**	6	6	7	8
Storage caverns	**24**	26	27	27	27
Storage field sites[1]	**4**	4	4	3	3
Producing field sites[1]	**1**	1	1	2	1
PIPELINE *(kilometres)*					
TransGas Limited					
Transmission	**14,423**	14,291	14,230	14,048	13,889
Gathering	**203**	203	201	201	201
Many Islands Pipe Lines (Canada) Limited	**435**	435	435	435	435
Bayhurst Gas Limited	**113**	113	113	113	113
TOTAL	**15,174**	15,042	14,979	14,797	14,638
SYSTEM COMPRESSION					
TransGas Limited Stations	**23**	24	24	24	22
Bayhurst Gas Limited Stations	**3**	3	3	3	3
Mobile Compressor Units	**7**	3	1	1	1
COMPRESSION HORSEPOWER					
TransGas Limited	**89,360**	87,720	86,270	85,120	82,250
Bayhurst Gas Limited	**6,300**	6,300	6,300	6,300	6,300
TOTAL	**95,660**	94,020	92,570	91,420	88,550

[1] Includes Bayhurst Gas Limited.

SERVICE EXCELLENCE

SaskEnergy's focus on employee and public safety resulted in strong 2014 results, including the Corporation's lowest Total Recordable Injury Frequency Rate and a 23 per cent province-wide reduction in the number of third-party line hits.

CORPORATE HIGHLIGHTS

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

SERVICE EXCELLENCE

Damage Prevention Initiatives

In addition to its ongoing support of the *Sask 1st Call* service, SaskEnergy engaged in a number of new initiatives in 2014 to reduce damage to its buried infrastructure. Partnering with *Sask 1st Call*, the Saskatchewan Common Ground Alliance (SCGA), SaskPower and SaskTel, SaskEnergy launched safety patrols to target neighbourhoods in Regina and Saskatoon where Crown utilities have reported higher percentages of facility contacts. Face-to-face contact was initiated between patrollers and homeowners or local contractors to ensure contact was made with *Sask 1st Call* for line locates before projects got underway. The Corporation also adopted a line supervision practice in which operations personnel were present during excavations near critical transmission infrastructure in Regina and Saskatoon. As a result of these programs, there was a 23 per cent reduction in third-party line hits (60 fewer line hits province-wide in 2014 compared to 2013), six straight months of reduced line hit damage during the 2014 construction season, and significant damage reduction in Safety Patrol areas.

Corporate Safety Performance

Safety is the core focus of SaskEnergy/TransGas, and in 2014, the Corporation achieved its best-ever corporate safety performance with a Total Recordable Injury Frequency Rate (TRIR) of 2.22. This is down from 2.46 in 2013, which was also a record year. As part of its continued commitment to safety, SaskEnergy/TransGas also launched its new incident reporting system, Report Everything Online (REO), which combined several safety recording databases into one, easy-to-use platform. REO streamlines the process of reporting hazards, near-misses, and incidents by making the system more accessible through employees' computer systems and allows the Corporation to ensure that accurate and complete information is being reported to all applicable provincial and federal governing bodies. In addition, through SaskEnergy's Competency Assessment Program, the Corporation is committed to safe pipeline operations and alignment with Canadian Gas Association directions through formal evaluations of worker skill sets and knowledge, to confirm that SaskEnergy/TransGas employees are well-trained and prepared to work safely on pipelines.

System Integrity and Risk Management Initiatives

SaskEnergy is committed to safety across its more than 84,000 kilometres of pipeline by leveraging industry best practices with a risk-based asset management system, which is evidenced by its $101 million in 2014 system integrity spending. To maintain the safe and reliable operation of the distribution and transmission networks, the Corporation invested in a number of initiatives throughout the year, including upgrades to 2,349 gas service connections in Regina and Rosetown at a cost of $12.8 million. In addition, TransGas successfully used ultrasonic Electro Magnetic Acoustic Transducer (EMAT) technology for the first time to detect stress, corrosion and cracking in its Beacon Hill-to-Prince Albert pipeline, resulting in the identification of deficiencies and their ultimate management. The Corporation also removed pipelines from bridges in Saskatoon and Moose Jaw, replacing them with underground facilities, in an effort to mitigate ongoing risk associated with the integrity of the bridge structures themselves.

ACHIEVING GROWTH

Distribution and Transmission Growth

In 2014, economic and population growth in Saskatchewan benefited SaskEnergy, as the Corporation added 7,332 customers to its distribution base, bringing total customers to 380,768. With the continued expansion of its system, SaskEnergy has added, on average, approximately 5,300 customers per year during the past 10 years. Transmission volume in 2014 increased by 14 petajoules (PJ), or 5.2 per cent, from 2013. SaskEnergy has made significant investments in its distribution and transmission system to connect customers in a wide range of key Saskatchewan industries, including power production, potash mining and enhanced oil recovery.

Bayhurst-to-Rosetown Pipeline Project

In 2014, TransGas completed the 132-kilometre Bayhurst-to-Rosetown pipeline project. This pipeline increases gas receipt capacity from Alberta while adding storage cycling capacity at the Bayhurst Gas Field and helps to manage increasing supply requirements as natural gas production in Saskatchewan declines. The pipeline also will allow TransGas to meet growing load requirements on the northern part of its system, which have been driven by added industrial activity, namely potash mines, new gas-fired power plants and enhanced oil recovery projects. With an investment of $70 million, half of the 2014 TransGas capital budget, the Bayhurst-to-Rosetown pipeline project was the Corporation's largest capital project in 2014, and one of its largest pipeline projects in recent history.

OUR TEAM

Response to Extreme Weather Conditions

SaskEnergy and TransGas employees showed their commitment to safe, reliable service delivery throughout extreme weather conditions in 2014. With the first quarter of the year marked by sustained periods of intense cold, teams across the Province implemented flexible solutions to ensure the provincial gas system was meeting the high levels of customer demand. In mid-summer, heavy rain affected several communities in the Province, creating flooding conditions and washing away portions of highway in some areas. With the destruction of property came the loss of power and natural gas services for many residents, requiring emergency response from SaskEnergy field staff. The volunteer effort continued at flood recovery centres, where employees went above and beyond to address the concerns of affected customers. The significant rainfall throughout the summer also triggered increased ground shifting in many Saskatchewan communities, requiring elevated system integrity efforts throughout the year.

Meter Exchanges

To comply with Measurement Canada regulations and ensure safe and reliable service to customers, SaskEnergy exchanges a number of customer meters each year. SaskEnergy, along with third-party contractor teams, removed and replaced approximately 37,000 meters throughout the Province in 2014 — a record number and 12,000 more than in 2013. SaskEnergy accelerated the rate of meter replacements due to the introduction of stricter Measurement Canada compliance requirements that were implemented in 2014. The larger number of meter replacements was achieved through effective planning of internal and external resources to maximize field technician productivity, and greater coordination with customers.

Joint Servicing Collaboration Project

In collaboration with SaskPower and SaskTel, SaskEnergy initiated a Joint Servicing project in 2014 to streamline the process for installing service line facilities to urban residences in Regina and Saskatoon. Building on the success of the collaborative Joint Trenching project, which started four years ago to streamline the installations of gas distribution mains, joint servicing ensures a more efficient approach to installing the services to homes. Plans are now in place to streamline the application process to allow customers to make one-time applications to both SaskEnergy and SaskPower for service, using either company's online application form.

CREATING VALUE

Productivity and Efficiency Initiatives

In 2014, SaskEnergy realized $4.6 million in efficiency savings and process improvements through a combination of business process changes and new technologies, the expanded deployment of mobile compression, improved external resource procurement strategies and the increased use of natural gas vehicles. In the coming years, efficiency savings will be realized through collaboration efforts, further deployment of mobile compression, and continued strides toward effectively managing current interconnections for importing Alberta supply.

Champion of Volunteers for the 2014 North American Indigenous Games

SaskEnergy's Champion of Volunteers program is an example of the Corporation's efforts to support communities across Saskatchewan. As the Champion of Volunteers for the 2014 North American Indigenous Games in Regina, SaskEnergy was proud to lead a group of volunteers that came together to support participants and proudly showcase Aboriginal sport, culture, unity and teamwork.

Liquefied Natural Gas (LNG) Pilot Project

SaskEnergy began a pilot project with Ferus Natural Gas Fuels for the use of LNG to serve the town of Aberdeen and surrounding rural customers throughout the 2014/15 winter. The project, which commenced in November, will evaluate the capability of LNG as an extra source of gas supply when winter system demands peak, and to assess opportunities where LNG or compressed natural gas (CNG) can be used as a portable pipeline alternative to the financial commitment required for looping existing pipelines. The operation involves a mobile LNG storage and vaporization unit, which serves as a secure source of supply during peak demand loads. The LNG trailer allowed SaskEnergy to postpone the estimated $5 million in capital costs that would be required to loop the transmission line to meet demand in this growing area.

OUR TEAM

In response to one of the coldest winters Saskatchewan has experienced in the past 30 years, SaskEnergy and TransGas teams worked long hours to ensure the provincial gas system was meeting the high levels of customer demand.

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 year ended December 31, 2014. Using financial and operating results as its basis, the MD&A describes the Corporation's past performance and future prospects, enabling readers to view SaskEnergy from the perspective of management. The MD&A is presented as at February 27, 2015, and should be read in conjunction with the Corporation's audited consolidated financial statements, which have been prepared in accordance with International Financial Reporting Standards (IFRS).

The following discussion contains certain forward-looking statements that are subject to inherent uncertainties and risks, which are described in the Risk Management and Disclosure section of the MD&A. All forward-looking statements reflect the Corporation's best estimates and assumptions based on information available at the time the statements were made. However, actual results and events may vary significantly from those included in, contemplated by or implied by such statements.

The Corporation's financial results are subject to fluctuations, especially given the volatility of natural gas prices. In order to compare financial performance from period to period, the Corporation uses the following measures: income before unrealized market value adjustments, realized margin on commodity sales and realized margin on gas marketing sales. Each measure removes the impact of fair value adjustments on financial and derivative instruments and the revaluation of natural gas in storage to the lower of cost and net realizable value. These unrealized market value adjustments vary considerably with the market prices of natural gas, drive significant changes in the Corporation's consolidated net income and may obscure other business factors that are also important to understanding the Corporation's financial results. The measures referred to above are non-IFRS measures, in that there is no standardized definition, and 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 — were set out in the 2014 Business Plan and support the vision, mission and values of the Corporation. They play a vital role in SaskEnergy's business planning and reporting, and help employees determine how their everyday work and effort contribute to the Strategic Plan and overall direction of the Corporation.

Each year, SaskEnergy comprehensively sets, measures and reports on specific scorecard targets within its strategic mandates. The following discussion outlines the Corporation's 2014 performance relative to its strategic scorecard measures, which are further defined in the Glossary of Key Success Measures.

Service Excellence

SaskEnergy is committed to providing high standards of safe and reliable service with effective customer solutions, as evidenced by its Service Excellence mandate. Within Service Excellence, there are three categories of measures — Efficient Operations, Safety/Vigilance and Customer Satisfaction, with our success measured by industry benchmarking and customer surveys.

In alignment with the Crown Sector Priority of financial stability and a continued emphasis on operational efficiency, SaskEnergy and TransGas are committed to the cost-effective delivery of natural gas services to all customers in Saskatchewan. The Corporation realized $4.6 million in efficiency savings and process improvements in 2014. These efforts are reflected within the annual scorecard measures, most prominently in SaskEnergy's ability to successfully offer competitive delivery rates to its customers each year.

Efficiency does not come at the expense of a safe and reliable system, as acknowledged by the Corporation's $101 million in 2014 system integrity spending. Integrity-related budgets are being actively managed over the coming years while continuing to maintain strong results in the areas of gas leaks, failures, third-party contacts and other integrity measures. Continued commitment to system integrity and asset management efforts will always be a key focus area for SaskEnergy/TransGas.

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

SERVICE EXCELLENCE

Strategic Measure	2013 Actual	2014 Actual	2014 Target	Comments	2015 Target
Efficient Operations					
• Distribution					
◦ Operation, Maintenance and Administration (OM&A) Costs per Customer	$307	**$316**	$304	Increased activity levels for response to extreme weather events as well as safety and integrity initiatives increased costs in 2014.	$305
◦ Competitive Residential Delivery Rates	Competitive with Industry	**Competitive with Industry**	Competitive with Industry	A typical residential customer in Saskatchewan paid $446 for delivery service in 2014, which was the lowest amount across Canada.	Competitive with Industry
• TransGas					
◦ Operation, Maintenance and Administration Costs per Book Value of Assets Managed	7.8%	**7.4%**	7.1%	This metric is a proxy for the relative efficiency of the Transmission Utility operations. TransGas OM&A reflected strong resource management, particularly in light of the efforts related to the response to the extreme cold weather that characterized the early part of 2014.	7.1%
Safety/Vigilance					
• SaskEnergy Leaks per 1,000 kilometres of Mains	5.99	**5.99**	6.90	The target was achieved as a result of system integrity programs, which proactively identify and recommend replacement of service connections flagged as "high risk" (2,349 service upgrades in 2014).	6.00
• TransGas Pipeline Failures per 1,000 kilometres of Pipe	0.07	**0.07**	0.13	Mitigated through mature Plant Integrity, In-Line Inspection and Cathodic Protection programs, reportable pipeline failures for 2014 were well below the Canadian Energy Pipeline Association (CEPA) industry failure rate of 0.476.	0.11
• Safety and Integrity	6.2%	**6.2%**	6.0%	The metric finished the year in the target range given the focus placed on risk-based integrity programming ($101 million) in 2014.	5.2%
Customer Satisfaction					
• SaskEnergy	88%	**86%**	89%	The 2014 SaskEnergy survey results show strong levels of customer satisfaction in virtually all areas, including safety and reliability.	89%
• TransGas	94%	**93%**	90%	Customer survey results in 2014 reflect continued strong satisfaction with TransGas business services despite the challenges that the extreme cold in early 2014 created for TransGas and its customers.	93%

Achieving Growth

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

The Business Growth Investment measure recognizes the fundamental importance of core revenue growth in the Corporation's two utilities as a key indicator of the success of the business. In this regard, provincial growth has directly contributed to an increased distribution customer base and increased demand for natural gas from industrial facilities.

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

ACHIEVING GROWTH

Strategic Measure	2013 Actual	2014 Actual	2014 Target	Comments	2015 Target
Business Growth Investment					
• Core Growth – SaskEnergy and TransGas Revenue Growth	4.3%	**3.6%**	2.8%	Target was exceeded, as the Distribution Utility earned additional delivery revenues as a result of the colder than normal weather in 2014.	2.2%
Diversified Non-Core Business					
• Net Revenue *(millions)*	$28.0	**$22.1**	$22.9	Net revenue was generated primarily from unregulated businesses in the areas of gas storage/commodity activities at the Pierceland and Totnes facilities, gas processing at the Kisbey Gas Processing Plant, and the CNG fuelling station in Weyburn.	$30.5
• Total Capital Investment *(millions)*	$6.9	**$87.0**	$62.0	Total capital investment in non-core projects is above the target due primarily to the increased third-party capital investment in the southeast Saskatchewan ethane extraction plant during 2014.	$45.6
Percentage of Third-Party Capital Investment	26%	**87%**	83%		66%
• Return on Equity	20.1%	**10.6%**	12.5%	The impairment of gas processing assets reduced 2014 income and lowered the Return on Equity below target. The 2013 result was favourable given the previous volatility in the natural gas commodity price, which allowed for gas marketing transactions to be undertaken at a significant margin.	19.6%

Our Team

Our Team, a broad and diverse group that includes our employees, contractors and business partners, develops mutually beneficial solutions to manage the pile of work. With an increasingly competitive labour market and high levels of retirements, attention to a performance culture and our reputation for leadership development are fundamental to success. The Our Team mandate 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.

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

SaskEnergy also recognizes the importance of engaged employees to a successful organization. Through initiatives like the Leadership Network and Leadership Development Program, as well as all-employee meetings and various training and development opportunities, the Corporation has made positive strides in developing leadership skills at all levels and, by extension, overall employee engagement has improved. Given the competitive nature of the Saskatchewan job market, this will remain a key focus in coming years.

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

OUR TEAM

Strategic Measure	2013 Actual	2014 Actual	2014 Target	Comments	2015 Target
Physical Safety					
• Total Recordable Injury Frequency Rate	Third Quartile	**Second Quartile**	Second Quartile	The Total Recordable Injury Frequency rate was 2.22. This represents the Corporation's best-ever recorded rate.	Second Quartile
Employee Engagement					
• Employee Survey	-3%	**-3%**	At or above Hay Survey Norm	While a major survey is conducted every two years, with the last being in 2013, a brief 'pulse' survey of employees was conducted in 2014. It showed continued strong pride in working for SaskEnergy and positive trending across several factors that impact engagement. "Open Communication" and "Accountability" remain as potential areas for improvement.	At or above Hay Survey Norm
Workforce Diversity					
• Youth (30 years of age or less)	19.0%	**18.9%**	17.0%	SaskEnergy's successful workforce transition strategies are reflected in the consistently strong results related to the percentage of youth employed by the Corporation. This has been an area of focus for the Corporation for several years.	18.0%
• First Nations/Métis	14.6%	**15.0%**	15.5%	The 2014 results exceed the Saskatchewan Human Rights Commission target of 13.1 per cent. First Nations/Métis representation has been a focus of the Corporation for several years.	15.5%

Creating Value

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

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

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

Recognizing the Corporation's opportunity to play a key role in a province-wide strategy related to GHG reductions, SaskEnergy developed a new intensity-based performance measure for 2014. The new measure tracks tonnes of carbon dioxide per million running horsepower hours, to reflect the efforts SaskEnergy has undertaken, and will continue to undertake, to reduce GHG emissions by operating more efficiently while delivering increased volumes of natural gas to customers.

Acting as a responsible and contributing member of the communities it serves is an essential part of SaskEnergy's business strategy. Working closely with customers and Saskatchewan communities helps ensure successful business operations and is consistently noted in SaskEnergy Customer Satisfaction surveys as a key strength for the Corporation. SaskEnergy continues to work with CIC to align its Community Relationship scorecard measures with industry best practices and Crown Sector Priorities.

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

CREATING VALUE

Strategic Measure	2013 Actual	2014 Actual	2014 Target	Comments	2015 Target
Financial Strength					
• Debt/Equity Ratio	59/41	**63/37**	61/39	Equity levels were impacted by the unfavourable market value adjustments as well as lower earnings levels than anticipated. Outstanding debt was on target due to capital expenditures finishing the year at planned amounts.	63/37
• Consolidated Return on Equity	11.0%	**6.5%**	8.0%	Lower earnings than planned impacted this metric; however, that impact was partially offset by the lower equity level (see above).	10.2%
• Income Before Unrealized Market Value Adjustments *(millions)*	$79	**$47**	$62	Delaying the commodity rate change until natural gas prices stabilized negatively impacted earnings. The extreme cold weather in early 2014 led to higher expenses, which more than offset the associated additional delivery revenue.	$73
Environmental					
• Internal Energy Efficiencies (in $ millions, assuming $4 per GJ)[1]	$0.05	**$0.21**	$0.15	The Corporation exceeded its target, achieving $205,000 in energy efficiencies, due to the implementation of energy saving technologies such as LED lighting retrofits and industrial equipment upgrades.	N/A
• Greenhouse Gas Emissions (Tonnes of CO_2e/ million running horsepower hours)	New for 2014	**390**	355	This new measure reflects the intensity of greenhouse gas emissions relative to the amount of compression used to transport natural gas. With the extreme weather experienced in the first quarter of 2014, the Corporation was forced to utilize older compression units to move the necessary amounts of natural gas. These units are less efficient than the newer compressors in the fleet.	440
Community Relationship					
• Community Sponsorships as a Percentage of Net Income	New for 2014	**1.3%**	1.3%	The target was achieved through completion of 558 events, projects or programs with 309 communities benefiting from SaskEnergy support.	1.1%
• Total Contracts – Percentage of Aboriginal Labour Content	21%	**15%**	12%	The 2014 result was favourably impacted by a few large contracts awarded within the construction and communications areas to companies with significant Aboriginal employee representation.	13%

[1] This measure has been discontinued for the 2015 Business Plan.

2015 Outlook

SaskEnergy plays a vital role in providing key infrastructure for new homes, subdivisions, businesses and industrial facilities. At a time when pipeline and energy companies across North America are facing high expectations related to safety, customer service and environmental stewardship, SaskEnergy will continue to develop processes and procedures that meet or exceed evolving industry standards.

While growth of the distribution customer base is anticipated to slow slightly from recent years, new customers are still being added at a higher rate than the 10-year average, with another 5,500 customers expected in 2015. Meanwhile, industrial sector strength in the Province has contributed to increased demand for natural gas transmission service. Potash mines, fertilizer plants and enhanced oil recovery are expected to be continued major areas of industrial load growth for TransGas, and will require that the Corporation continues to be nimble to ensure delivery needs are met.

To meet customer expectations, SaskEnergy has developed effective processes to manage growth in its core lines of business. The Corporation expects stable earnings from core operations and non-regulated gas marketing activity, and will continue to focus on service delivery efficiencies and on effectively managing capital deployment. In alignment with the Government of Saskatchewan's Crown Sector Priorities, this includes effective Crown collaboration and continued work with private sector partners to pursue new energy-related growth opportunities and accelerate capital investments in Saskatchewan.

As Saskatchewan natural gas production declines and demand for gas grows, SaskEnergy is committed to diversifying access to gas supply. This includes managing current interconnections for importing supply from Alberta, exploring new import options, and pursuing additional associated gas, and flare gas capture, in Saskatchewan.

Within the competitive provincial labour market, SaskEnergy will continue to develop its recruitment, employee development and engagement strategies for 2015. The Corporation will also collaborate with other Crown corporations to assist with workload resourcing and achieving efficiencies. At the same time, SaskEnergy will continue to balance internal and external resources to effectively meet customer needs and complete priority work.

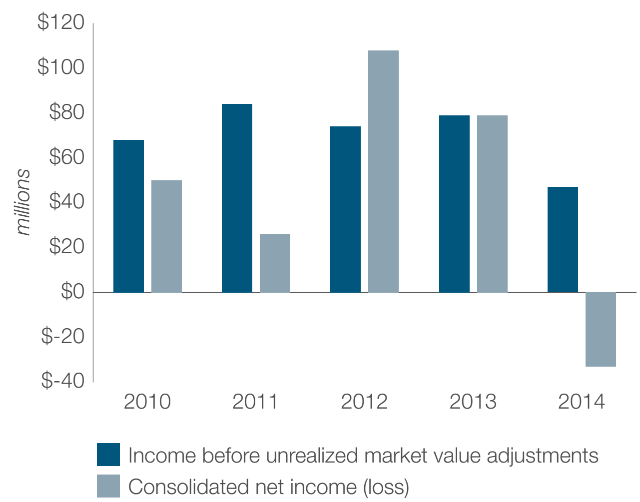
CONSOLIDATED FINANCIAL RESULTS

Consolidated Net (Loss) Income

(millions)	2014	2013	Change
Income before unrealized market value adjustments	$ 47	$ 79	$ (32)
Impact of fair value adjustments	(68)	(13)	(55)
Revaluation of natural gas in storage	(12)	13	(25)
Consolidated net (loss) income	$ (33)	$ 79	$ (112)

The winter of 2013/14 was one of the coldest Saskatchewan has experienced in the past 30 years and it has impacted almost all business components of the 2014 financial results. Saskatchewan's 2014 winter was not only significantly colder than normal but longer than normal with cold weather persisting through April (22 per cent colder than normal), and into June (36 per cent colder than normal). Typically, such conditions would generate positive results for the Corporation as additional natural gas is delivered to residential and commercial customers to meet heating requirements. While the cold weather impact is evident in the $15 million growth in delivery revenue, the system and supply challenges associated with such conditions also led to additional costs, contributing to a $32 million decline in income before unrealized market value adjustments.

Consolidated Financial Results



The cold weather was not isolated to Saskatchewan; it was experienced across North America and resulted in significant natural gas price increases. For Western Canada, the high demand challenged the ability of pipeline systems to meet customer requirements, creating temporary shortages that drove up gas prices. Consequently, the cold resulted in SaskEnergy purchasing more gas than expected at prices that were higher than the approved commodity rate. These circumstances negatively impacted the Corporation's realized margin on commodity sales by $9 million compared to 2013.

To meet the additional weather-driven demand, the Corporation increased storage withdrawals and imported more gas from Alberta, which increased operating costs and transportation charges from interconnecting pipeline systems. Capital spending on the transmission and distribution infrastructure was also increased to improve operating flexibility during the types of load experienced during the winter of 2013/14. Additionally, the Corporation's team of dedicated employees and contractors worked long hours to ensure customers' natural gas requirements were served; however, this effort also contributed to higher operating costs.

The natural gas price volatility that was experienced in 2014 resulted in significant fluctuations in unrealized market value adjustments as evidenced by the $80 million adjustment at December 31, 2014. The significant adjustment is due to greater price differentials on a larger number of forward gas contracts outstanding at the end of 2014 compared to 2013. The decline in market prices at the end of the year also generated a $23 million net realizable value adjustment to natural gas in storage compared to $11 million at the end of 2013. The $87 million unrealized market value adjustment on natural gas contracts and inventory revaluation was a major contributor to the consolidated net loss of $33 million, which was $112 million below the 2013 result. While these purchase contracts were negatively impacted by lower prices in December 2014, SaskEnergy's approved commodity rate is designed to recover these purchase costs. The Corporation expects to recover approximately $55 million in 2015.

In October, a situation involving the release of gas and subsequent fire at a storage cavern wellhead occurred at the Corporation's Prud'homme storage facility. In December, a ground movement-related natural gas leak in the community of Regina Beach resulted in a natural gas incident that damaged several buildings. Only minor injuries were reported at the incidents and the Corporation's employees and contractors responded in a professional and dedicated manner to ensure the safety of everyone impacted by the incidents.

The Prud'homme incident was caused by a wellhead failure and is estimated to cost approximately $11 million in emergency response, loss of gas, and damage to facilities. The Corporation is insured for such incidents and has received insurance proceeds of $5 million to offset the emergency response costs. The Corporation expects to claim for the remaining costs during 2015 once the ongoing investigation is finalized.

Early indications suggest the Regina Beach incident was the result of extreme soil movement experienced in the area. The company initiated a number of measures to address impacts to its gas system, including additional surveying and monitoring, upgrades of the pipeline systems in the areas of ground movement in December, and collaboration with Regina Beach and surrounding communities on additional safety vigilance efforts.

Both events resulted in additional operating costs and have contributed to the decline in the 2014 operating income.

Natural Gas Prices

Natural gas prices are set in an open market and are influenced by a number of variables including production, demand, natural gas storage levels and economic conditions. Given the high demand for natural gas to heat homes and businesses during the cold winter months and the demand for natural gas to generate incremental electricity for air conditioning in the summer, weather has the greatest impact on natural gas prices in the near term. Due to the high degree of uncertainty associated with weather, natural gas prices can be very volatile.

Extreme cold weather blanketed North America through the first few months of 2014 resulting in one of the coldest winters the continent has experienced. In highly populated natural gas consuming regions the severe winter was even more pronounced, leading to record consumption for heating homes and businesses. The cold weather resulted in the largest winter season storage drawdown in North America. By spring, natural gas in storage in the U.S. was 55 per cent below the five-year average and at its lowest level in 11 years.

Much to the surprise of market participants, a mild summer and prolific natural gas production led to the largest storage refill season on record. By the end of 2014, natural gas in storage was back to the five-year average, and U.S. natural gas production was setting new daily records.

In Saskatchewan, natural gas produced from conventional wells continued to decline but large gains in natural gas supply associated with oil production kept total provincial production near 2013 levels. Incremental demand for natural gas from the cold weather, as well as increased power generation and industrial growth, was met with increased imports of natural gas from Alberta. In 2014, 51 per cent of total Saskatchewan supply was imported from Alberta.

Natural Gas Prices

Throughout the extremely cold weather early in the year, natural gas prices increased and experienced high volatility. The AECO monthly index, the benchmark price for natural gas in Western Canada, reached a five-year high in March of $5.64 per gigajoule (GJ). As storage supplies were replenished, and U.S. natural gas production set new records late in the year, natural gas prices stabilized. The AECO monthly index remained in the $3.50 per GJ to $3.90 per GJ range during the last few months of 2014.

Natural Gas Sales and Purchases

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

Commodity Sales to Customers

SaskEnergy sells natural gas to its distribution customers at a commodity rate approved by Provincial Cabinet based on the recommendations of the Saskatchewan Rate Review Panel (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 natural gas sold to distribution customers without earning a profit or incurring a loss over the long-term. For rate-setting purposes, SaskEnergy accumulates differences between the commodity revenue earned and the cost of natural gas sold in a Gas Cost Variance Account (GCVA). The balance in the GCVA, which is not recorded for financial reporting purposes, is either recovered from or refunded to customers as part of future commodity rates.

For financial reporting purposes, the Corporation prepares its financial statements on a consolidated basis while applying IFRS. Consequently, the amounts determined for rate-setting purposes are different than those reported within its consolidated financial statements. While a profit or loss is commonly reported in the Corporation's consolidated financial statements, it should not be taken as indicative of the results recorded within the GCVA. The commodity sales to customers, as reported in the consolidated financial statements, were as follows:

Commodity Margin

(millions)	2014	2013	Change
Commodity sales	$ 310	$ 230	$ 80
Commodity purchases	301	212	89
Realized margin on commodity sales	9	18	(9)
Impact of fair value adjustments	(83)	27	(110)
Margin on commodity sales	$ (74)	$ 45	$ (119)

SaskEnergy manages the purchase price of natural gas it buys through its natural gas price risk management program with two objectives in mind — to reduce the volatility of natural gas prices, and to offer rates that are competitive to other utilities. The two objectives naturally oppose each other, and the balance between the two may change depending on 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. Prior to 2014, SaskEnergy used financial derivatives, primarily natural gas price swaps, to manage the future purchase price of natural gas. The proceeds or costs of settling financial derivatives are recorded as a cost of gas sold and have no impact on inventory cost or sales revenue. Effective July 1, 2014, the company began to use physical swaps as the primary means to manage the future price of natural gas. Physical gas swap settlements, in contrast to financial derivatives, increase reported revenue and inventory cost.

As derivative instruments, natural gas contracts are recorded at fair value until the date of settlement. Changes in the fair value of the derivative instruments, driven by changes in future natural gas prices, are recorded in either commodity sales or commodity purchases depending on the specific contract. Upon settlement of the contract, the amount paid or received by SaskEnergy becomes realized and is recorded in commodity sales or purchases. For 2014, fair value adjustments decreased the margin on commodity sales by $83 million as the $21 million unfavourable fair value position at the end of 2013 declined to $104 million at the end of 2014. The decline was attributable to an increase in the differential between the average purchase price and the average market price on outstanding natural gas contracts, meaning the price of the Corporation's committed future purchase contracts was higher than the year-end market prices. The market value adjustment at the end of 2014 will be unwound through 2015 and 2016 as natural gas contracts are settled and gas is sold to customers at SaskEnergy's approved commodity rate.

The realized margin on commodity sales excludes the impact of unrealized fair value adjustments on derivative instruments, as these adjustments can fluctuate significantly from one period to the next and do not necessarily represent the amount that will be paid upon settlement of the related natural gas contract. On a consolidated basis, the Corporation realized a $9 million margin on commodity sales, with average revenue of $4.20 per GJ and average cost of gas sold of $4.09 per GJ. This compared to an $18 million realized profit in 2013, with average revenue of $3.79 per GJ and average cost of gas sold of $3.48 per GJ. The higher average revenue per GJ was a result of the Corporation's first commodity rate increase in six years to $4.84 per GJ from $3.82 per GJ. The rate increase, which would normally be effective April 1, was deferred until July 1, 2014 to allow gas prices to stabilize after a volatile winter, thereby providing some rate stability for the Corporation's customers.

The volume of gas sold in the first half of 2014, prior to the commodity rate increase, was higher than normal as a result of the 2014 winter season being 25 per cent colder than normal. A sharp increase in natural gas market prices occurred as a result of strong demand for natural gas, which increased SaskEnergy's cost of gas sold above the $3.82 per GJ commodity rate that was in place prior to the rate increase. At the same time the Corporation, through its Natural Gas Price Risk Management Strategy, was able to secure a lower average cost of gas sold than what may have been transacted at market rates. With the commodity rate increase, SaskEnergy will, over the next two years, recover the amount by which the cost of gas sold exceeded the commodity rate during the first half of 2014.

Gas Marketing

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

Transactions undertaken through the Corporation's gas marketing strategies create risk, especially given the volatility of natural gas market prices. Similar to the discussion regarding commodity sales, the Corporation may enter into various natural gas contracts to manage natural gas price risk for its gas marketing activities. These contracts are derivative instruments and, as such, are recorded at fair value until the date of settlement. Changes in fair value are recorded in either gas marketing sales or gas marketing purchases, depending on the specific natural gas contract. Once settled, the amount paid or received for the contract is recorded in gas marketing sales or gas marketing purchases, as appropriate.

Gas Marketing Margin

(millions)	2014	2013	Change
Gas marketing sales	$ 408	$ 370	$ 38
Gas marketing purchases	394	338	56
Realized margin on gas marketing sales	14	32	(18)
Impact of fair value adjustments	8	(33)	41
Revaluation of natural gas in storage	(12)	13	(25)
Margin on gas marketing sales	$ 10	$ 12	$ (2)

The Corporation remained in an overall favourable position, as the fair value adjustments on derivative instruments increased the margin on gas marketing sales by $8 million to $17 million at the end of 2014, compared to $9 million at the end of 2013.

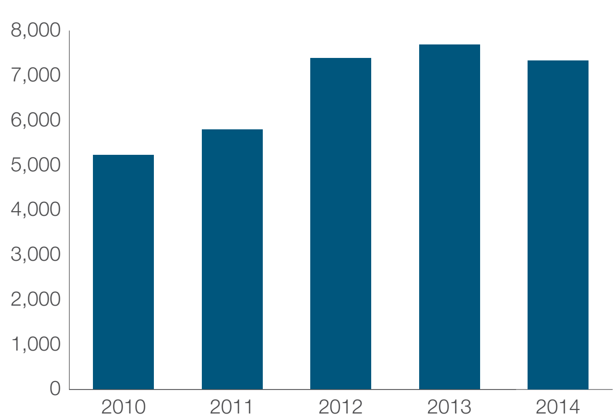
At each reporting period, the Corporation measures the net realizable value of gas marketing natural gas in storage based on forward market prices and anticipated delivery dates. The carrying amount of natural gas in storage inventory is then adjusted to reflect the lower of weighted average cost and net realizable value. In recent years, low natural gas prices have translated to reduced prices on the forward curve, and consequently, the net realizable value of gas marketing natural gas in storage was $23 million below cost, compared to $11 million below cost in 2013. The increased differential between the average cost and the average market price at the end of 2014, compared to 2013, resulted in a $12 million reduction in net income for the year. If forward natural gas prices improve in relation to the cost of the Corporation's inventory, SaskEnergy will record an additional upward revaluation to recognize the increase in net realizable value, up to a maximum of the original cost. Otherwise, the revaluation will result in improved margins in the future, as contracts are settled by virtue of the lower carrying value of natural gas in storage.

The realized margin on gas marketing sales, which removes fair value adjustments on derivative instruments and the revaluation of natural gas in storage, was $14 million. This was a decrease of $18 million from last year as low market prices for natural gas and forward market pricing limited the opportunity for the Corporation to realize significant margins. The lower realized margins are driven by the higher cost of gas.

Delivery Revenue

Cold weather, customer growth and delivery rate increases resulted in a $15 million increase in delivery revenue — from $217 million in 2013 to $232 million in 2014. The Corporation earns delivery revenue based on the volume of natural gas delivered to distribution customers plus a basic monthly charge. Customer growth directly impacts the basic monthly charge revenue and leads to additional delivery volumes. The Corporation experienced its third straight year of connecting more than 7,300 new residential, business and industrial customers to its distribution system. This is well above the 10-year average of approximately 5,300. Although customer growth is a significant driver in increased delivery volumes, advances in technology and energy conservation initiatives have partially offset the impact of incremental growth. The Corporation supports energy efficiency and emission reduction initiatives in order to limit the environmental impact of our customers.

Net New Customers



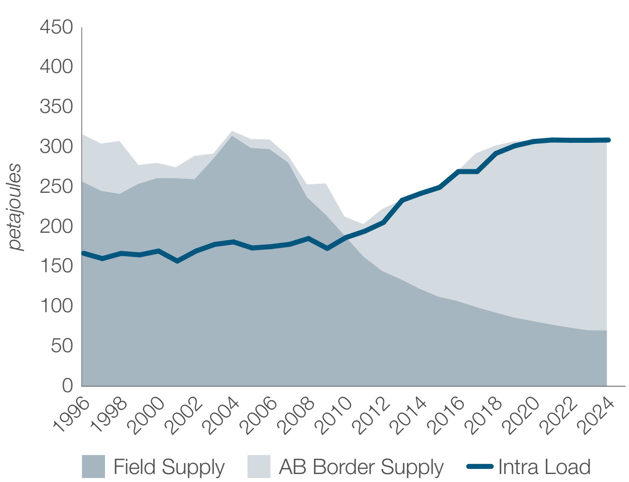
Delivery revenue is driven by residential and commercial heating, which is heavily influenced by weather. Weather throughout 2014 was 18 per cent colder than normal from January through June, based on weather data for the past 30 years. The colder than normal winter weather in 2013/14 resulted in SaskEnergy customers consuming approximately 25 per cent more natural gas.

Saskatchewan experienced strong economic growth in 2014, which led to greater demand for SaskEnergy's services, contributing not only to increased revenue but also to cost pressures. The Corporation continues to focus on safety and integrity programs, driving both capital investment and operating costs upward. These cost pressures were the primary drivers behind the increases in SaskEnergy's delivery service rates effective September 1, 2013 and September 1, 2014. As part of its recommendation that Cabinet approve the rate increase, the SRRP recognized SaskEnergy's significant progress on its productivity and efficiency programs intended to mitigate the magnitude of rate increases. The Corporation, through its alignment with the Crown Sector Priorities, remains committed to delivering safe, reliable services to its customers at competitive prices.

Transportation and Storage Revenue

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

Saskatchewan Gas Supply



The combination of the extremely cold weather, natural gas price volatility, high industrial usage, third-party restrictions at Alberta interconnect points, and a record level of storage withdrawals resulted in a number of system challenges for TransGas throughout the first quarter of 2014. In order to maintain firm delivery service to customers, TransGas introduced a number of key measures, such as system modifications, increased third-party transport contracts, and periodic curtailment of interruptible transportation service. The additional load did not have a substantial impact on total revenue for the first quarter of 2014, as the majority of the Corporation's customers transport natural gas under firm contracts and are able to increase their transport volumes up to their daily contract limit without incurring significant additional charges. However, during the early part of 2014 a number of customers that were impacted by curtailment of interruptible service moved from interruptible service to firm contracts. Not only does this increase demand revenue for TransGas, it also improves revenue certainty, which is more supportive of required pipeline expansions.

The low natural gas market prices continue to discourage natural gas drilling in Western Canadian conventional gas reservoirs, including those in Saskatchewan. At the same time, the low market prices and expansion of Saskatchewan's economy have increased demand within the industrial sector as natural gas continues to become an important energy source in manufacturing and processing. The growth in the provincial economy and low natural gas prices present both challenges and opportunities for the Corporation. Transportation and storage revenue increased from $92 million in 2013 to $102 million in 2014 mainly due to the impact of rate increases effective March 1, 2013 and January 1, 2014 ($5 million) and higher contracted demand volumes ($4 million). Projects and strategies to increase Alberta border capacity have allowed the Corporation to continue to meet customers' needs for greater natural gas receipts. At the same time, the Corporation's expanding pipeline integrity programs focus on providing a safe and reliable system.

Customer Capital Contributions

The Corporation receives capital contributions from customers in exchange for the construction of new, customer-specific service connections. These contributions, less potential refunds, are recognized as revenue once the related property, plant and equipment is available for use. The volume and magnitude of these contributions can vary significantly year over year as varying factors influence their receipt. Generally, customer capital contributions mirror the underlying construction projects — those related to the transmission system tend to be large but less frequent than contributions related to the distribution system. SaskEnergy's distribution system customer capital contribution revenue of $21 million was $3 million lower in 2014 due to customer connections declining from 7,687 in 2013 to 7,332 in 2014. Transmission system customer capital contribution revenue was $12 million in 2014, and zero in 2013 due to the timing of the recognition of contributions related to transmission projects. The transmission system contributions include $4 million of contributions recognized in 2014 that related to past expansions of storage services. With current natural gas prices, the likelihood of refunding the contributions received from customers for past storage service expansions is considered unlikely, therefore customer contributions that were deferred due to the possibility of refund have now been recognized as revenue.

Other Revenue

Other revenue of $12 million, primarily consisting of natural gas processing operations and royalty revenues, was consistent with prior years. The Corporation's natural gas processing operations include gas processing at two separate gas plants and the sale of natural gas liquids from the processing operations. Increased production volumes and processing fees were realized from a plant expansion that came online in October 2014 but were offset by lower market prices for the liquids that are extracted and sold. Royalty revenue from a gross overriding royalty on several natural gas-producing properties in Saskatchewan and Alberta was not significant due to the continuing decline in conventional natural gas production as a result of low natural gas prices.

Other Expenses

Sustained customer growth, changes in natural gas supply and enhanced focus on safety and integrity continue to place significant pressures on the Corporation's operating costs and across the pipeline and gas distribution industries. While this emphasis comes at a considerable cost, it is essential to the Corporation's successful operations and the safety of the people of Saskatchewan.

The Distribution Utility serves nearly 381,000 customers and has been experiencing significant growth while increasing system integrity initiatives along the way. Innovation, creativity and collaboration are key leadership qualities adopted at SaskEnergy while cost management and safety have been embraced as key strategies for the Corporation.

Becoming a net importer of natural gas has affected the operations of the transmission system. Load growth from industrial demand has required the Corporation to move more natural gas, and with a substantial amount of that natural gas coming from Alberta, the Corporation is now transporting natural gas further distances resulting in higher dependence on third-party transportation. To meet the demands on the system, the Corporation has implemented many operational changes to the transmission system and continues to focus on the development of mobile compression in order to improve operating efficiencies.

Operating costs for 2014, consisting of employee benefits, operating and maintenance, depreciation and amortization and Saskatchewan taxes resulted in a $38 million increase in expenses — from $274 million in 2013 to $312 million in 2014.

Employee benefits of $92 million were $3 million above 2013 as costs were impacted by additional overtime, most of which was incurred during the first quarter to ensure continued service to customers. The Corporation also experienced fewer staffing vacancies relative to the prior year, resulting in a modest increase in the level of full-time equivalents. As well, salary and wage rates increased during the year.

Operating and maintenance costs increased from $97 million in 2013 to $126 million in 2014 as the supply and system challenges experienced throughout the first quarter, together with customer driven activity, placed upward pressure on the Corporation's operating costs with the most significant impact related to transportation expense. In order to ensure a sufficient supply of natural gas to customers, the Corporation contracted additional third-party transport to import more natural gas from Alberta. As a consequence, third-party transportation expenses increased $15 million compared to 2013. TransGas had over 100 terajoules (TJ) per day of contracted firm TransCanada Pipelines (TCPL) mainline transport contracts in place as of November 1, 2014 compared to approximately 40 TJ per day of firm transport held on TCPL in November 2013.

During the year, SaskEnergy saw an increase in customer arrears due to the colder winter and the suspension of collection activities during the post implementation phases of the new customer billing system project. As a result, SaskEnergy has increased its allowance for doubtful accounts. With the resumption of collection activities, SaskEnergy anticipates that customer arrears will return to levels experienced in previous years.

Ongoing capital investment projects have increased the capital asset base, which results in additional depreciation and amortization expense. Depreciation and amortization expense of $83 million for 2014 was $6 million higher than the prior year as a result of SaskEnergy's new customer billing system going into service and capital additions to the transmission and distribution systems during 2013. Capital expenditures continued to increase throughout 2014 and reached a record level of $299 million, which is $75 million (33 per cent) higher than 2013 expenditures of $224 million, and $112 million (60 per cent) higher than 2012 expenditures of $187 million. The company spent $86 million on customer connection projects and $55 million related to system integrity projects in 2014. The Distribution Utility spent $20 million on the AMI project in 2014. These projects enable the Corporation to better align its operations with the demands of customer growth and continued system safety and reliability. As customer demand within the Province continues to grow at a faster rate than provincial natural gas production, the Corporation is required to expand its capacity to import gas from Alberta. As a result, the largest transmission system capital expenditure of 2014 was the Bayhurst-to-Rosetown pipeline project. This project added approximately 150 TJ per day of transport capacity to the northern part of the transmission system. In addition, TransGas invested approximately $15 million of new capital for mobile compression and other facilities designed to increase supply capacity, flexibility, and reliability. These projects will assist the Corporation in meeting system and customer demands.

A number of new industrial projects required increased transmission system connections within the Province. This included a $21 million project that was completed and put into service late in 2014 in central Saskatchewan. The Distribution Utility continued its multi-year AMI project, which increases the frequency and accuracy of natural gas meter reads and allows for the direct integration of customer meter reads into the Corporation's new customer billing system. The distribution system saw record numbers of province-wide meter exchanges and, at the end of 2014, more than 150,000 AMI modules had been installed and were being utilized in Regina and Saskatoon. In 2014, $20 million was spent on the project, bringing the total cost to $31 million, as planned.

Net Finance Expenses

Net finance expenses in 2014, before the impact of fair value adjustments, were $44 million compared to $40 million in 2013, a direct result of the additional debt required to fund the Corporation's growing capital expenditure requirements. There was also a $7 million favourable fair value adjustment on debt retirement funds during 2014, an outcome of lower interest rates affecting the value of primarily fixed-rate investments held within the debt retirement funds.

Other Gains (Losses)

In 2014, the Corporation had significant asset disposals and impairments that have been disclosed as other gains (losses) in the statement of consolidated comprehensive income. The Corporation recognized the sale of the assets of the Swan Valley Gas distribution system and some of the Melville storage caverns assets in 2014. The two separate sales transactions were identified as assets held for sale in the Corporation's December 31, 2013 consolidated financial statements. Also included in other gains (losses) are proceeds from the sale of SaskEnergy's interest in an ethane extraction plant and lateral pipeline that was under construction in southeast Saskatchewan, the impairment of gas processing plant assets, and the asset impairment costs related to the Prud'homme incident.

Recent changes in the oil and gas market have led to declining natural gas and natural gas liquid prices, which have adversely affected cash flows generated from gas processing plant assets. At year end, a $3 million impairment on gas processing plant assets was recorded to recognize the current decline in its value in use.

The Corporation recorded $2 million as disposal of assets in other gains (losses) consisting of $1 million related to the loss of cushion gas from the Prud'homme storage cavern and $1 million as a write-off of impaired assets at the facility. The costs of the emergency response efforts for the incident to the end of December 31, 2014 were $5 million and were accounted for in operating and maintenance expenses. The emergency response costs were offset by $5 million of insurance proceeds, of which $2 million was received in early January 2015 and is recorded in accounts receivable.

Another $6 million of insurance proceeds has been disclosed as a contingent asset in the Corporation's 2014 financial statements.

LIQUIDITY AND CAPITAL RESOURCES

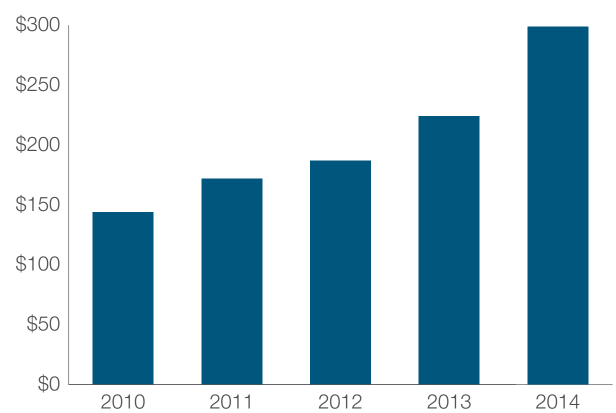
Cash from operations and debt borrowed from the Province of Saskatchewan's General Revenue Fund are the primary sources of liquidity and capital for SaskEnergy. Sources of liquidity include Order in Council authority to borrow up to $400 million in short-term loans from the Province's General Revenue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

Consolidated Statement of Cash Flows

(millions)	2014	2013	Change
Cash provided by operating activities	$ 248	$ 244	$ 4
Cash (used in) investing activities	(283)	(221)	(62)
Cash provided by (used) in financing activities	40	(25)	65
Increase (decrease) in cash during the period	$ 5	$ (2)	$ 7

Cash from operating activities was $248 million in 2014, an increase of $4 million from 2013. Colder than normal weather resulted in increased cash flow, despite additional costs to maintain the transmission and distribution system reliability and natural gas supply. With the surge in natural gas prices, the Corporation limited its gas marketing purchases, and as a result, the volume of gas marketing natural gas in storage declined by more than 22 PJ from 2013 as sales contracts were settled, contributing $56 million to cash from operating activities.

Capital Expenditures



Cash used in investing activities totaled $283 million, $62 million above 2013. The majority of the capital investment was focused on system expansion, which was a result of Saskatchewan residential and industrial growth as well as changes in natural gas supply, and safety and integrity programming. The Corporation funds its capital requirements with cash from operations and debt from the Province of Saskatchewan.

Cash received from financing activities was $40 million during 2014, as the Corporation increased its cash position by $64 million related to debt financing and paid dividends to CIC of $24 million. Given the Corporation's relatively high short-term debt balances at the end of 2013 and attractive rates on long-term debt, the Corporation converted $246 million of short-term debt to long-term debt during the first half of 2014 at a weighted average interest rate of 3.2%. The Corporation also repaid $50 million of long-term debt that matured during the second quarter. SaskEnergy's debt ratio at the end of the period was 63% debt and 37% equity, higher than the Corporation's long-term target of 57% debt and 43% equity, a result of the negative impact of market value adjustments on retained earnings and the increased debt to finance capital expenditures in 2014.

Outlook

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

The extreme weather in 2014 drove market volatility for the price of natural gas; however, that level of volatility is not expected to continue. The forecast period is characterized by a forward pricing curve for natural gas that shows very little differential between current market prices and future market prices, which is beneficial for customers and large consumers of natural gas who value stability and low prices. The $4.84 per GJ commodity rate approved on July 1, 2014, combined with a lower average cost of gas due to declines in market prices, will contribute to more favourable margins in 2015.

The Corporation's gas marketing activities are not expected to provide the high margins that were typical prior to 2014 when traditionally volatile natural gas prices allowed for price arbitrage transactions to be undertaken at relatively high margins. The gas marketing margin expected in 2015 is forecast to be slightly higher than the 2014 margin based on market conditions at the end of 2014. SaskEnergy will continue to look for opportunities throughout the year to extract additional value out of gas markets by leveraging its assets and expertise.

The Corporation expects to see the pace of Saskatchewan's economy slow to moderate levels in 2015 as commodity prices continue to decline. In light of this, SaskEnergy has tempered its expectations for customer connection rates to levels closer to the ten-year average. These lower expectations mean that delivery revenue and residential customer capital contribution levels are forecasted to be lower than 2014. Industrial and commercial demand for service is expected to continue at strong levels and exhibit steady growth through 2015, which will slightly mitigate the declines related to residential customers.

The heightened focus on security of natural gas supply and the need to look at cost effective options for sourcing that supply will continue in 2015. Saskatchewan production levels for conventional natural gas have been in steady decline for the past several years and are expected to remain at current levels going forward. As major industrial projects come on-line, load pressures will increase and operating costs to meet those loads will continue to increase, though not to the same degree as in 2014. Third-party transportation expenses, which were the key driver of higher operating costs in 2014, will decrease in 2015 as the investment in the Bayhurst-to-Rosetown pipeline will assist in managing third-party transportation requirements.

Labour markets and contractor demand are expected to remain tight over the near term. The Corporation will continue pursuing its resourcing strategy, which calls for relatively stable employee levels augmented by third-party contract resources. In addition, efficiency initiatives will enhance productivity and will allow SaskEnergy to meet its business commitments in a nimble and cost effective manner.

The 2015 outlook will include expenditures required to provide safe and reliable service to customers without creating undue rate pressure. Spending will focus on upgrading infrastructure to meet load and service requirements, as well as the integrity of transmission, distribution and storage systems. The 2015 capital plan also includes funding for growth-related projects such as gas processing and associated gas capture. The Corporation plans to spend $238 million on capital investment in 2015, which will be funded through operating cash flows and debt made available through the Province at what are expected to be historically low interest rates.

In summary, SaskEnergy will continue to focus on investing in safety and growth initiatives and realizing efficiencies while targeting an income before unrealized market value adjustments of $73 million in 2015.

RISK MANAGEMENT AND DISCLOSURE

The transmission, storage, distribution and sale of natural gas are subject to a number of risks that can affect SaskEnergy's success in achieving its business objectives. The Corporation does not seek to eliminate risk, but rather ensures existing and emerging risks are identified, communicated and effectively managed through its Enterprise Risk Management (ERM) Policy. The ERM Policy establishes roles and responsibilities, as well as a general strategy for the Corporation to manage its risks. The Corporation identifies and manages its risks in support of its vision, mission and values as set out in the Strategic Plan and throughout its operations.

Risk management is the responsibility of all levels of management in the Corporation; however, the Board of Directors and Executive Committee set the tone for

ERM. The Executive Committee is responsible for formally identifying strategic risks that impact the Corporation's goals, actively participating in the risk assessment process and developing strategic risk management plans. The Board of Directors is responsible for the Corporation's risk management policy and framework. The Board executes its role in the risk management process by participating in the risk assessment process. The Board also reviews an annual report that identifies the top corporate-wide risks, along with the processes and controls in place to manage and monitor each risk, the designated control owner(s) and the link to the Strategic Plan. The top risks as identified in this annual risk assessment process are discussed below.

Interest Groups

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

Security of Supply

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

Pipeline, Facility and Operational Failure

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

Commodity Rate

Over the last few years, SaskEnergy and its customers have enjoyed the benefits of relatively low natural gas prices as natural gas has traded in the open market at prices below the long-term average price. As natural gas prices, like other commodity prices, tend to be "mean reverting," the expectation is that prices will rise in the future. Natural gas prices are also characteristically volatile and unseasonal weather can result in rapid changes to natural gas prices. As SaskEnergy's commodity rates ultimately reflect the market price of natural gas, the commodity rate could increase. The magnitude of an increase in natural gas could drive increases that are seen as unacceptable or unmanageable from a customer's perspective. SaskEnergy cannot control or manage the market price of natural gas, but through its price risk management strategy it can minimize the short-term impact of price changes on customers by hedging the purchase price of natural gas and passing the benefits onto customers through the commodity rate.

Infrastructure Delivery

In recent years, economic growth has put pressure on the Corporation's capacity to deliver services and infrastructure on a timely basis to meet stakeholder and customer expectations. To reduce the risk on delivery of services and infrastructure, the Corporation has focused on building relationships with key industry associations, project execution processes and project management, tendering practices and advanced planning and preliminary design. SaskEnergy also has cost containment strategies to ensure that rising construction and maintenance costs do not significantly exceed the growth of the distribution and transmission systems. The Corporation has policies requiring new customers to contribute to the cost of service connections to ensure that existing customers are not unduly affected by the addition of new customers.

External Resource Management

Strong economic growth in the Province may result in a shortage of resources or expertise that could adversely affect the Corporation's ability to secure effective external resources. This could impact the execution of key projects or business strategy, leading to delays and cost overruns. As part of the Strategic Plan, SaskEnergy prioritizes activities in advance to ensure that resources are available when required. The Corporation then develops partnership agreements and long-term contracts, thereby reducing the risk of resource shortages on critical projects. In addition, the New West Partnership Trade Agreement and modifications to the tendering process have further assisted the Corporation in meeting its external resource requirements.

Integrated Information Systems

The Corporation's information systems are becoming increasingly integrated throughout operations, increasing the risk that a failure in one system could lead to a failure in another system, impacting the Corporation's ability to meet operational requirements. The Corporation mitigates this risk through its project prioritization process and project management methodology related to system development. The Corporation also has up-to-date business continuity and disaster recovery plans for critical operations as well as information technology processes.

Attraction and Retention of Skilled Employees

With Saskatchewan's growing economy, competition to attract and retain skilled employees has increased. This risk is compounded by the significant number of the Corporation's employees who will be eligible to retire over the next five years. SaskEnergy's ability to attract and retain a sufficient number of appropriately skilled, diverse and motivated people will affect its ability to execute its Business Plan. SaskEnergy manages this risk through its recruitment, hiring and training processes. The Corporation also conducts a quarterly succession planning assessment and utilizes a cross training strategy. In addition, SaskEnergy monitors, and adjusts when appropriate, compensation and benefits as part of the job evaluation process, utilizing industry comparisons.

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.

Contracts, Derivatives, Credit Policies

SaskEnergy's exposures to contractual obligations through its various contracts and natural gas derivatives are significant and if not actively managed through a proactive governance program could result in substantial monetary, reputational and legal loss. Corporate governance establishes the framework and principles to manage the known risks associated with the contracts and derivatives of a thriving natural gas utility. The management of these risks, reviewed and approved by the Board of Directors, are governed by numerous Executive and management committees as well as established, best practice tested policies which attempt to mitigate known risks of loss.

The Corporation is also subject to risks specifically related to financial instruments that, depending on the significance, may not have been discussed above. Risks specific to financial instruments are discussed in Note 11 of the consolidated financial statements.

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, those that 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 December 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 to the volume of natural gas billed to customers. Regular meter readings throughout the year are used to reconcile volumes purchased with volumes billed. At year end, the unbilled revenue related to commodity sales and delivery revenue was $61 million.

Net Realizable Value of Natural Gas in Storage Held for Resale

The Corporation's natural gas in storage is valued at the lower of weighted average cost and net realizable value. When determining the net realizable value, the Corporation uses quoted future market prices based on anticipated delivery dates, taking into account the Corporation's existing natural gas contracts, ability to withdraw natural gas from storage and management's intention. At year end, the revaluation reduced the carrying amount of natural gas in storage by $23 million. A $0.79 per GJ improvement in the differential between the weighted average cost and net realizable value would completely eliminate the $23 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 year end, 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 $87 million.

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

With a combined carrying amount of $1,961 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. As at December 31, 2014, 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 intangible assets are depreciated/amortized on a straight-line basis over the estimated service life of the asset. The estimated service lives are based on extensive studies with annual reviews for reasonability. Any changes in the estimated service life of assets are treated as prospective adjustments to depreciation and amortization.

Estimated Unearned Customer Capital Contributions

Customer capital contributions, related to the construction of new, customer-specific service connections, are recognized as deferred revenue until the related property, plant and equipment are available for use. The Corporation's customer capital contributions, particularly those related to the transmission system, are often subject to refunds over a certain period. Consequently, when the related property, plant and equipment are available for use, an estimate of the potential refund remains in deferred revenue until the refund period has passed. At year end, the Corporation estimated $90 million in customer capital contributions could be refunded in future periods.

Estimated Future Costs of Decommissioning Liabilities

The Corporation determines its obligations, legal and constructive, for the future costs of decommissioning certain natural gas facilities by estimating both the associated costs and timing of the necessary cash flows. The timing of future decommissioning is conditional upon the Corporation's anticipated ongoing use for these facilities, while future decommissioning costs are estimated based on the Corporation's experience and presented on a discounted basis. At year end, the Corporation's provisions were estimated at $95 million. A 0.5 per cent increase in the discount rates used to determine the provisions would have resulted in a $12 million decrease in provisions at the end of the year. A 0.5 per cent decrease would have resulted in a $15 million increase.

ACCOUNTING POLICY CHANGES

Several new and amended standards, issued by the International Accounting Standards Board (IASB), became effective January 1, 2014. The impact of the adoption of these standards has been discussed in Note 3 of Corporation's consolidated financial statements. Adoption of the new and amended standards resulted in no material impact on the Corporation's consolidated financial statements

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

CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

Financial Reporting

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

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

Internal Control over Financial Reporting

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

Management assessed the effectiveness of the Corporation's internal control over financial reporting as at December 31, 2014, 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 Corporation maintained effective control over financial reporting and that there were no material weaknesses in internal controls over financial reporting as at December 31, 2014.

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

[Original signed by D. Kelln]

Doug Kelln
President and Chief Executive Officer

[Original signed by C. Short]

Christine Short
Vice-President, Finance and Chief Financial Officer

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

a. That we have reviewed the consolidated financial statements included within the annual report of SaskEnergy. Based on our knowledge, having exercised reasonable diligence, the consolidated financial statements fairly present, in all material respects, the financial condition, results of operations, and cash flows as of December 31, 2014.

b. That based on our knowledge, having exercised reasonable diligence, the consolidated 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 December 31, 2014 were operating effectively and no material weaknesses were found in the design or operation of the internal controls over financial reporting.

[Original signed by D. Kelln]

Doug Kelln
President and Chief Executive Officer

[Original signed by C. Short]

Christine Short
Vice-President, Finance and Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

To the Members of the Legislative Assembly of Saskatchewan

We have audited the accompanying consolidated financial statements of SaskEnergy Incorporated and its subsidiaries which comprise the consolidated statement of financial position as at December 31, 2014, 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 and its subsidiaries as at December 31, 2014, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

[Original signed by Deloitte LLP]

Chartered Professional Accountants

February 27, 2015
Regina, Saskatchewan

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31

(millions)	Notes	2014	2013
ASSETS			
Current assets			
Cash		$ 5	$ –
Trade and other receivables	5	148	148
Natural gas in storage held for resale	6	140	208
Inventory of supplies	7	12	12
Debt retirement funds	8	7	6
Assets held for sale	9	–	4
Fair value of derivative instruments	10	21	28
		333	406
Intangible assets	12	49	47
Property, plant and equipment	13	1,912	1,682
Debt retirement funds	8	86	72
		$ 2,380	$ 2,207
LIABILITIES AND PROVINCE'S EQUITY			
Current liabilities			
Short-term debt	14	$ 299	$ 380
Trade and other payables	15	117	122
Dividends payable		3	10
Current portion of long-term debt	16	50	50
Deferred revenue	17	90	59
Fair value of derivative instruments	10	107	39
		666	660
Employee future benefits	18	10	10
Provisions	19	95	71
Deferred revenue	17	6	9
Long-term debt	16	908	712
		1,685	1,462
Province's equity			
Equity advances	20	72	72
Retained earnings		623	673
		695	745
		$ 2,380	$ 2,207

(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 December 31

		2014			2013		
(millions)	Notes	Income before Unrealized Market Value Adjustments	Unrealized Market Value Adjustments (Note 22)	Total	Income before Unrealized Market Value Adjustments	Unrealized Market Value Adjustments (Note 22)	Total
REVENUE							
Natural gas sales	23	$ 718	$ 11	$ 729	$ 600	$ (37)	$ 563
Delivery		232	–	232	217	–	217
Transportation and storage		102	–	102	92	–	92
Customer capital contributions	17	33	–	33	24	–	24
Other	24	12	–	12	12	–	12
		1,097	11	1,108	945	(37)	908
EXPENSES							
Natural gas purchases (net of change in inventory)	23	695	98	793	550	(44)	506
Employee benefits		92	–	92	89	–	89
Operating and maintenance		126	–	126	97	–	97
Depreciation and amortization	26	83	–	83	77	–	77
Saskatchewan taxes	27	11	–	11	11	–	11
		1,007	98	1,105	824	(44)	780
NET INCOME BEFORE THE FOLLOWING		90	(87)	3	121	7	128
Finance income	28	4	7	11	4	(7)	(3)
Finance expenses	28	(48)	–	(48)	(44)	–	(44)
NET FINANCE EXPENSES	28	(44)	7	(37)	(40)	(7)	(47)
Other gains (losses)	29	1	–	1	(2)	–	(2)
TOTAL NET (LOSS) INCOME AND COMPREHENSIVE (LOSS) INCOME		$ 47	$ (80)	$ (33)	$ 79	$ –	$ 79

(See accompanying notes)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the years ended December 31

(millions)	Retained Earnings	Equity Advances	Other Components of Equity	Total
BALANCE AS AT JANUARY 1, 2013	$ 624	$ 72	$ –	$ 696
Total comprehensive income	79	–	–	79
Dividends	(30)	–	–	(30)
BALANCE AS AT DECEMBER 31, 2013	673	72	–	745
Total comprehensive loss	(33)	–	–	(33)
Dividends	(17)	–	–	(17)
BALANCE AS AT DECEMBER 31, 2014	$ 623	$ 72	$ –	$ 695

(See accompanying notes)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended December 31

(millions)	Notes	2014	2013
OPERATING ACTIVITIES			
Net (loss) income and comprehensive (loss) income		$ (33)	$ 79
Add (deduct) items not requiring an outlay of cash			
Employee future benefits paid in excess of expense	18	–	(2)
Net change in fair value of derivative instrument assets and liabilities	22	75	6
Change in revaluation of natural gas in storage to net realizable value	22	12	(13)
Depreciation and amortization	26	83	77
Net finance expenses	28	37	47
Other (gains) losses	29	(1)	2
Other non-cash items		(1)	–
		172	196
Net change in non-cash working capital related to operations	30	76	48
Cash provided by operating activities		248	244
INVESTING ACTIVITIES			
Additions to intangible assets		(7)	(13)
Additions to property, plant and equipment		(279)	(208)
Proceeds on disposal of assets	29	6	2
Decommissioning costs	29	(3)	(2)
Cash used in investing activities		(283)	(221)
FINANCING ACTIVITIES			
Debt retirement funds redemptions	8	6	3
Debt retirement funds installments	8	(10)	(8)
(Decrease) increase in short-term debt		(81)	105
Proceeds of long-term debt	16	246	–
Repayment of long-term debt	16	(50)	(50)
Interest paid		(47)	(44)
Dividends paid		(24)	(31)
Cash provided by (used in) financing activities		40	(25)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		5	(2)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		–	2
CASH AND CASH EQUIVALENTS, END OF YEAR		$ 5	$ –

(See accompanying notes)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

SaskEnergy Incorporated (SaskEnergy or the Corporation) is a Saskatchewan provincially owned Crown corporation operating under authority of *The SaskEnergy Act*. The address of SaskEnergy's registered office and principal place of business is 1777 Victoria Avenue, Regina, Saskatchewan, Canada S4P 4K5. The Corporation owns and operates natural gas-related businesses located both within and outside Saskatchewan.

By virtue of *The Crown Corporations Act, 1993*, SaskEnergy has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC), a Saskatchewan provincially owned Crown corporation. Accordingly, the financial results of SaskEnergy are included in the consolidated financial statements of CIC. As a provincial Crown corporation, SaskEnergy and its wholly owned subsidiaries are not subject to Federal or Provincial income taxes in Canada.

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 February 27, 2015.

b. Basis of measurement

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

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

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 19)

Information about significant management estimates and assumptions that have a significant risk of resulting in a material 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 10)
Useful lives and amortization rates for intangible assets (Note 12)
Useful lives and depreciation rates for property, plant and equipment (Note 13)
Estimated unearned customer capital contributions (Note 17)
Estimated future cost of decommissioning liabilities (Note 19)

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, with the exception of the changes in accounting policies identified below.

Certain comparative amounts in the consolidated statement of comprehensive income have been reclassified to conform with the current year's presentation (Note 29).

a. Changes in accounting policies

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

IAS 32 *Financial Instruments: Presentation*
IAS 36 *Impairment of Assets*
IFRS 10 *Consolidated Financial Statements*
IFRS 12 *Disclosure of Interests in Other Entities*
IFRIC 21 *Levies*

The adoption of these amended standards had no impact on the consolidated financial statements for the year ended December 31, 2014.

b. Basis of consolidation

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

Subsidiary	Principal Activity
Bayhurst Energy Services Corporation	Energy services company
Bayhurst Gas Limited	Natural gas storage company
BG Storage Inc.	Natural gas storage company
Many Islands Pipe Lines (Canada) Limited	Natural gas transmission company
Saskatchewan First Call Corporation	Underground infrastructure database company
4115317 Manitoba Ltd. (formerly Swan Valley Gas Corporation)	Natural gas distribution 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 Corporation's existing joint arrangements, which are identified below, are in the form of joint operations as the Corporation has the rights to the assets, and obligations for the liabilities, relating to the arrangements. The consolidated financial statements include the Corporation's share of jointly controlled assets, incurred liabilities, revenue and expenses as well as any liabilities and expenses that the Corporation has incurred directly in respect of its joint arrangements.

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

d. Cash and cash equivalents

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

Bank indebtedness forms a 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

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.

3. Summary of significant accounting policies (continued)

f. Inventories of supplies

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

g. Debt retirement funds

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

h. Assets held for sale

Assets that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Assets held for sale are measured at the lower of their carrying amount and fair value less cost to sell, with any resulting impairment loss recognized in net income.

i. Financial and derivative instruments

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

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

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

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

ii. Loans and receivables

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

iii. Other liabilities

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

3. Summary of significant accounting policies (continued)

i. Financial and derivative instruments (continued)

iv. Derivative instruments

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

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

j. Fair value measurements

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

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

i. Level 1

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

ii. Level 2

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

The fair value of debt retirement funds is determined by Saskatchewan's Ministry of Finance using a market approach with information provided by investment dealers. To the extent possible, valuations reflect indicative secondary pricing for these securities. In all other circumstances, valuations are determined with reference to similar actively traded instruments.

The fair value of natural gas derivative instruments is determined using a market approach. The Corporation obtains quoted market prices from sources such as the New York Mercantile Exchange and the Natural Gas Exchange, independent price publications and over-the-counter broker quotes.

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

iii. Level 3

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

3. Summary of significant accounting policies (continued)

k. Intangible assets

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

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

Amortization of computer software is based on the cost of the asset 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. The amortization rates range from 10.0 to 20.0% annually. The estimated useful lives, residual values and method of amortization are reviewed annually for reasonableness.

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

l. 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 the day-to-day servicing of property, plant and equipment is recognized in operating and maintenance expense as incurred.

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

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

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

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

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

3. Summary of significant accounting policies (continued)

m. Impairment

i. Financial assets

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

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

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

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 to sell and value in use. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount, and an impairment loss is recognized immediately in net income. Assets that cannot be tested individually, including corporate assets, are grouped together into cash-generating units (CGUs), the smallest group of assets that generates cash inflow from continuing use.

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

n. 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 cost of the short-term employee benefits is recognized within the cost of the related property, plant and equipment or intangible assets.

ii. Pension plans

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

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

The defined benefit plan is administered by Saskatchewan Power Corporation (SaskPower), a Crown corporation under the common control of CIC. Employees that transferred employment from SaskPower upon establishment of SaskEnergy were eligible to remain members of the plan for the maximum contribution period of 35 years. A contractual agreement is in place stating that the Corporation's future contributions to the plan will not be affected by any plan surplus or deficiency. As a result, the Corporation's obligations related to the defined benefit plan are limited to making regular payments to the plan for current service, similar to a defined contribution plan. Contributions are recognized within employee benefits expense during the period in which services are rendered by employees.

3. Summary of significant accounting policies (continued)

n. Employee benefits (continued)

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. At each year end, the future benefit is actuarially determined using the projected unit credit method. Any actuarial gains or losses are recognized in other comprehensive income while all current service costs and interest expense are recognized in net income. The Corporation transfers any actuarial gains and losses from other equity to retained earnings in the year it is recognized in other comprehensive income.

The Corporation 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.

o. Provisions

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

i. Decommissioning liability

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

p. Revenue

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

i. Natural gas sales and delivery revenue

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

ii. Transportation and storage revenue

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

iii. Customer capital contribution revenue

The Corporation obtains customer capital contributions related to the construction of new service connections. Customer capital contributions are recognized initially as deferred revenue and are recognized as revenue once the related property, plant and equipment is available for use. The Corporation's customer capital contributions are often subject to refunds over a specified period. An estimate of these refunds remains in deferred revenue until the eligible refund period expires.

3. Summary of significant accounting policies (continued)

p. Revenue (continued)

iv. Revenue collected for municipalities

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

v. Government grants

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

vi. Other revenue

Royalty revenue is recognized when natural gas from wells subject to royalty agreements is delivered to the customer. Natural gas and liquid sales are recognized when natural gas and natural gas liquids are delivered to the customer.

q. Borrowing costs

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

r. Leased assets

The Corporation's leased assets are under operating leases. As the Corporation does not assume substantially all of the risks and rewards of ownership, the leased assets are not recognized in the Corporation's consolidated statement of financial position. Lease payments are recognized in operating and maintenance expense in the period in which they are incurred.

s. Future changes in accounting policies

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

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

IFRS 15 *Revenue from Contracts with Customers* – clarifies the principles for recognizing revenue from contracts with customers 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, 2017.

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

4. Capital management

The Corporation's objective when managing its capital is to maintain financial stability through the effective management of liquidity and capital structure. Ensuring financial stability is critical to providing safe, reliable service to Saskatchewan residents, businesses and industries.

The Corporation finances its capital requirements through internally generated funds and injections of capital from the Province of Saskatchewan's General Revenue Fund, typically in the form of debt. Under *The SaskEnergy Act,* the Corporation may borrow up to $1,700 million of debt upon approval of the Lieutenant Governor in Council (2013 – $1,700 million). Within this limit, the Corporation may borrow up to $400 million in temporary loans (2013 – $400 million), including a $35 million uncommitted line of credit with Toronto-Dominion Bank (2013 – $35 million). At the end of the year, the Corporation had $1,257 million of debt outstanding (2013 – $1,142 million), and had borrowed $299 million of temporary loans (2013 – $380 million) leaving $101 million of remaining short-term borrowing capacity (2013 – $20 million).

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

The Corporation monitors capital on the basis of the debt ratio, with a long-term target of 57.0%. The purpose of this strategy is to ensure the Corporation's debt is self-supporting and does not adversely affect the Province's access to capital markets. The debt ratio was calculated as net debt divided by total capital at the end of the year as follows:

(millions)	2014	2013
Long-term debt	$ 958	$ 762
Short-term debt	299	380
Debt retirement funds	(93)	(78)
Cash	(5)	–
Total net debt	1,159	1,064
Equity advances	72	72
Retained earnings	623	673
Total capital	$ 1,854	$ 1,809
	62.5%	58.8%

The Corporation's objectives, policies and processes for managing its capital were consistent with the prior year. The Corporation complied with all externally imposed requirements for its capital throughout the year.

5. Trade and other receivables

(millions)	2014	2013
Unbilled revenue	$ 71	$ 86
Trade receivables	60	49
Other receivables	21	14
	152	149
Allowance for doubtful accounts	(4)	(1)
	$ 148	$ 148

Included in other receivables is $2 million for insurance receivable on a cavern wellhead fire that occurred in the latter part of 2014. Total damages from this incident are estimated at $11 million. The Corporation is insured for the loss of natural gas, emergency response, and surface facilities and equipment. During 2014, the Corporation received $3 million of insurance proceeds and an additional $2 million in commitments from insurers. The Corporation expects to claim for the remaining $6 million of costs incurred on this incident in 2015 following a detailed assessment of the incident.

6. Natural gas in storage held for resale

(millions)	2014	2013
Cost	$ 163	$ 219
Revaluation to net realizable value	(23)	(11)
	$ 140	$ 208

With the decline in natural gas market prices over recent years, the net realizable value of natural gas in storage at the end of the year was $23 million below cost (2013 – $11 million). As at December 31, 2014, the Corporation expects that $86 million of the current inventory value will be sold or consumed within the next year and $54 million of the current inventory value will be sold or consumed after more than one year.

7. Inventory of supplies

The cost of inventory of supplies recognized as operating and maintenance expense during the year was $17 million (2013 – $18 million). There was no revaluation of inventory of supplies and no reversal of any prior year revaluation during the year.

8. Debt retirement funds

(millions)	2014	2013
Balance, beginning of year	$ 78	$ 76
Installments	10	8
Redemptions	(6)	(3)
Earnings	4	4
Change in fair value	7	(7)
Balance, end of year	93	78
Less: Current portion of debt retirement funds	(7)	(6)
	$ 86	$ 72

The investments held in debt retirement funds are primarily Federal and Provincial Government debt instruments. The yield on these investments was 4.3% for the year (2013 – 5.0%). As at December 31, 2014 amounts required to be invested in debt retirement funds in each of the next five years were as follows:

(millions)	2015	2016	2017	2018	2019
Installments	$ 10	$ 9	$ 8	$ 8	$ 8

9. Assets held for sale

In the prior year, the Corporation had classified several non-current assets as held for sale within its consolidated statement of financial position. During 2014, the Corporation sold these assets resulting in a total gain on sale of $3 million included within net income.

10. Financial and derivative instruments

(millions)	Classification	Fair Value Hierarchy	2014 Carrying Amount	2014 Fair Value	2013 Carrying Amount	2013 Fair Value
FINANCIAL AND DERIVATIVE ASSETS						
Cash	FVTPL	n/a	$ 5	$ 5	$ –	$ –
Trade and other receivables	LAR	n/a	148	148	148	148
Debt retirement funds	FVTPL	Level 2	93	93	78	78
Fair value of derivative instrument assets	FVTPL	Level 2	21	21	28	28
FINANCIAL AND DERIVATIVE LIABILITIES						
Short-term debt	OL	n/a	299	299	380	380
Trade and other payables	OL	n/a	117	117	122	122
Dividends payable	OL	n/a	3	3	10	10
Long-term debt	OL	Level 2	958	1,145	762	869
Fair value of derivative instrument liabilities	FVTPL	Level 2	107	107	39	39

Classification details:

FVTPL – fair value through profit or loss
LAR – loans and receivables
OL – other liabilities

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

Notional values are an approximation of future undiscounted net cash flows. For physical natural gas contracts, the notional value is based on the contract price. For natural gas price swaps, the notional value is the difference between the contract price and the market price. Where contract prices are referenced to an index price that has not yet been fixed, the market price is used to estimate the contract price. As at December 31, 2014 natural gas derivative instruments had the following fair values, notional values and maturities:

(millions)	2015	2016	2017	2018	2019	Total
PHYSICAL NATURAL GAS CONTRACTS						
Fair value	$ (44)	$ (18)	$ (2)	$ –	$ –	$ (64)
Notional value	(137)	(74)	(23)	(20)	–	(254)
NATURAL GAS PRICE SWAPS						
Fair value	(11)	(8)	(3)	–	–	(22)
Notional value	(11)	(8)	(3)	–	–	(22)
TOTAL						
Fair value	$ (55)	$ (26)	$ (5)	$ –	$ –	$ (86)
Notional value	$ (148)	$ (82)	$ (26)	$ (20)	$ 0	$ (276)

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

10. Financial and derivative instruments (continued)

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

(millions)	2014	2013
Fair value of derivative instrument assets	$ 21	$ 28
Fair value of derivative instrument liabilities	(107)	(39)
	$ (86)	$ (11)

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

(millions)	2014	2013
TRADE AND OTHER RECEIVABLES		
Gross amount recognized	$ 21	$ 31
Amount offset	(13)	(17)
Net amount presented in the consolidated statement of financial position	$ 8	$ 14
TRADE AND OTHER PAYABLES		
Gross amount recognized	$ 37	$ 41
Amount offset	(13)	(17)
Net amount presented in the consolidated statement of financial position	$ 24	$ 24

11. Financial risk management

Through the normal course of business, the Corporation has exposure to market risk (natural gas price risk, interest rate risk and foreign currency risk), liquidity risk and credit risk related to its financial and derivative instruments. The Board of Directors, through the Audit and Finance Committee, has the overall responsibility for the establishment and oversight of the Corporation's risk management efforts. The Corporation's risk management policies and strategies, approved by the Board of Directors and reviewed regularly by the Audit and Finance Committee, provide the framework within which the Corporation may use financial and derivative instruments to manage its risks. The Corporation's significant risk management policies include the Corporate Derivatives Policy, the Commodity Risk Management Policy, the Corporate Debt and Interest Rate Risk Management Policy, the Foreign Currency Risk Management Policy and the Corporate Credit Risk Management Policy. The objectives, policies and processes for managing risk were consistent with the prior year.

a. Natural gas price risk

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

The purchase or sale price of natural gas may be fixed within the contract or referenced to a floating index price. When the price is referenced to a floating index price, natural gas derivative instruments may be used to fix the settlement amount. The types of natural gas derivative instruments the Corporation may use for price risk management include natural gas price swaps, options, swaptions and forward contracts.

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

11. Financial risk management (continued)

a. Natural gas price risk (continued)

Based on the Corporation's year end closing positions, an increase of $1.00 per Gigajoule in natural gas prices would have increased net income, through an increase in the fair value of natural gas derivative instruments, by $87 million (2013 – $35 million). Conversely, a decrease of $1.00 per Gigajoule would have decreased net income, through a decrease in the fair value of natural gas derivative instruments, by $87 million (2013 – $35 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.

At year end, the Corporation had $299 million of short-term debt outstanding, and $50 million of long-term debt that will mature within the next year and may be refinanced. Based on these amounts, a 0.5% change in interest rates would increase or decrease the annual finance expense by approximately $2 million (2013 – $2 million).

The Corporation is also subject to interest rate risk related to debt retirement funds as the recorded fair value is driven by market prices which are largely determined by interest rates. Fluctuations in fair value of debt retirement funds can have an impact on the Corporation. During 2014, the fair value of debt retirement funds increased $7 million (2013 – $7 million decrease).

c. Foreign currency risk

The Corporation is exposed to foreign currency risk primarily through the purchase of goods and services that are payable in foreign currency. The Corporation monitors foreign currency requirements and utilizes financial instruments to manage risk when a foreign currency obligation exceeds a predetermined amount. At year end, the Corporation had $7 million in a United States dollar (USD) bank account to meet expected future USD expenditures. A five cent change in the exchange rate between the USD and the Canadian dollar at year end would have had an insignificant affect on net income. In 2013, a five cent change in the exchange rate on $13 million of forward contracts would have increased or decreased net income by approximately $1 million.

d. Liquidity risk

Liquidity risk is the risk that the Corporation is unable to meet its financial obligations as they become due. The Corporation has credit facilities available to refinance maturities in excess of anticipated operating cash flows. The contractual maturities of the Corporation's financial obligations, including interest payments and the impact of netting agreements, as at December 31, 2014 were as follows:

		Contractual Maturities			
(millions)	Carrying Amount	Less Than 1 Year	1 - 2 Years	3 - 5 Years	More Than 5 Years
Short-term debt	$ 299	$ 299	$ –	$ –	$ –
Trade and other payables	117	117	–	–	–
Dividends payable	3	3	–	–	–
Long-term debt	958	95	126	268	1,125
Derivative instruments	107	148	82	46	–
	$ 1,484	$ 662	$ 208	$ 314	$ 1,125

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

In addition to the above, the Corporation has posted a $20 million (2013 – $15 million) letter of credit with NGX Financial Inc. (NGX) as security for natural gas purchases and sales conducted by the Corporation on the NGX natural gas exchange in Alberta. NGX may draw upon the letter of credit if the Corporation fails to make timely payment for, or delivery of, natural gas as per the related contract. Subsequent to December 31, 2014, the letter of credit was reduced to $15 million.

11. Financial risk management (continued)

e. Credit risk

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

The Corporation extends credit to its customers in the normal course of business and is at risk of loss in the event of non-performance by counterparties on certain of the financial and derivative instruments. To reduce its credit risk, the Corporation has established policies and procedures to monitor and limit the amount of credit extended to its customers and counterparties and may require letters of credit and other forms of security. At year end, the maximum credit exposure to a single counterparty was $5 million (2013 – $4 million).

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

(millions)	2014	2013
Cash	$ 5	$ –
Trade and other receivables	148	148
Debt retirement funds	93	78
Fair value of derivative instrument assets	21	28
	$ 267	$ 254

The following reflects an aging summary of the Corporation's trade and other receivables:

(millions)	2014	2013
Current	$ 138	$ 140
30 - 59 days	6	5
60 - 89 days	2	2
Greater than 90 days	6	2
	152	149
Allowance for doubtful accounts	(4)	(1)
	$ 148	$ 148

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

(millions)	2014	2013
Balance, beginning of year	$ 1	$ 2
Provision	3	–
Recoveries	–	1
Write-offs	–	(2)
Balance, end of year	$ 4	$ 1

12. Intangible assets

(millions)	Computer Software	Mineral Rights and Prepaid Royalties	Under Development	Total
COST				
Balance, January 1, 2013	$ 53	$ 3	$ 29	**$ 85**
Additions	7	–	7	**14**
Additions through internal development	31	–	6	**37**
Disposals	(6)	–	–	**(6)**
Transfers	–	–	(38)	**(38)**
Balance, December 31, 2013	85	3	4	**92**
Additions	1	–	2	**3**
Additions through internal development	4	–	5	**9**
Transfers	–	–	(5)	**(5)**
Balance, December 31, 2014	90	3	6	**99**
ACCUMULATED AMORTIZATION				
Balance, January 1, 2013	47	1	–	**48**
Amortization	3	–	–	**3**
Disposals	(6)	–	–	**(6)**
Balance, December 31, 2013	44	1	–	**45**
Amortization	5	–	–	**5**
Balance, December 31, 2014	49	1	–	**50**
CARRYING AMOUNTS				
Balance, December 31, 2013	$ 41	$ 2	$ 4	**$ 47**
Balance, December 31, 2014	$ 41	$ 2	$ 6	**$ 49**

13. Property, plant and equipment

(millions)	Distribution	Transmission and Storage	Gathering, Treatment and Compression	Vehicles, Equipment and Other	Computer Hardware	Construction in Progress	Total
COST							
Balance, January 1, 2013	$ 924	$ 972	$ 252	$ 140	$ 14	$ 41	**$ 2,343**
Additions	143	62	16	9	2	210	**442**
Disposals	(2)	(3)	(1)	(1)	–	–	**(7)**
Classified as assets held for sale	(4)	(6)	–	–	–	–	**(10)**
Transfers	–	–	–	–	–	(180)	**(180)**
Balance, December 31, 2013	1,061	1,025	267	148	16	71	**2,588**
Additions	145	150	36	10	2	293	**636**
Disposals	(3)	(10)	(1)	(5)	–	(3)	**(22)**
Impairment	–	–	(3)	–	–	–	**(3)**
Transfers	–	(10)	10	–	–	(320)	**(320)**
Balance, December 31, 2014	1,203	1,155	309	153	18	41	**2,879**
ACCUMULATED DEPRECIATION							
Balance, January 1, 2013	330	330	110	63	9	–	**842**
Depreciation	25	30	9	8	2	–	**74**
Disposals	(2)	(2)	–	(2)	–	–	**(6)**
Classified as assets held for sale	(2)	(2)	–	–	–	–	**(4)**
Balance, December 31, 2013	351	356	119	69	11	–	**906**
Depreciation	25	31	11	8	3	–	**78**
Disposals	(3)	(9)	–	(5)	–	–	**(17)**
Balance, December 31, 2014	373	378	130	72	14	–	**967**
CARRYING AMOUNTS							
Balance, December 31, 2013	$ 710	$ 669	$ 148	$ 79	$ 5	$ 71	**$ 1,682**
Balance, December 31, 2014	$ 830	$ 777	$ 179	$ 81	$ 4	$ 41	**$ 1,912**

At December 31, 2014, as a result of a decline in natural gas liquid prices, the Corporation has incurred a $3 million impairment loss on its gas gathering and processing assets. The impairment was recognized as the carrying value of the assets exceeded the recoverable amount. The recoverable amount was the value in use determined using cash flows attributed to probable production, discounted at 6.0%, and adjusted for future market prices. The impairment loss has been recognized within net income for the year.

14. Short-term debt

The Corporation's short-term debt is unsecured. At year end, short-term debt of $299 million (2013 – $380 million) was due to the Province of Saskatchewan's General Revenue Fund with an average interest rate of 1.0% (2013 – 1.8%).

15. Trade and other payables

(millions)	2014	2013
Trade payables	$ 83	$ 80
Interest payable	9	9
Other payables	25	33
	$ 117	$ 122

16. Long-term debt

(millions)	2014	2013
Balance, beginning of year	$ 762	$ 812
Proceeds	246	–
Repayments	(50)	(50)
Balance, end of year	$ 958	$ 762

At year end, the Corporation's long-term debt consisted of the following:

	2014		2013	
	Principal Outstanding *(millions)*	Effective Interest Rate	Principal Outstanding *(millions)*	Effective Interest Rate
GENERAL REVENUE FUND				
1 - 5 years	$ 292	4.0%	$ 259	4.7%
6 - 10 years	134	4.1%	67	5.4%
11 - 15 years	125	7.5%	75	8.8%
16 - 20 years	60	6.4%	110	6.1%
21 - 25 years	25	5.0%	25	5.0%
26 - 30 years	225	4.0%	225	4.0%
31 plus years	100	3.9%	–	–
	961		761	
Unamortized debt premium/discount and issue costs	(8)		(4)	
	953		757	
OTHER LONG-TERM DEBT				
26 - 30 years	5	13.5%	5	13.5%
	958		762	
Less: Current portion of long-term debt	(50)		(50)	
	$ 908		$ 712	

The Corporation's long-term debt is unsecured. As at December 31, 2014 principal repayments due in each of the next five years were as follows:

(millions)	2015	2016	2017	2018	2019
Principal repayments	$ 50	$ 84	$ 76	$ –	$ 83

17. Deferred revenue

(millions)	2014	2013
CURRENT		
Unearned customer capital contributions	$ 90	$ 59
NON-CURRENT		
Unearned government grants	6	9
	$ 96	$ 68

a. **Unearned customer capital contributions**

(millions)	2014	2013
Balance, beginning of year	$ 59	$ 41
Additions	66	44
Refunds	(2)	(2)
Revenue	(33)	(24)
Balance, end of year	$ 90	$ 59

b. **Unearned government grants**

(millions)	2014	2013
Balance, beginning of year	$ 9	$ 9
Amortization	(3)	–
Balance, end of year	$ 6	$ 9

Unearned government grants represent amounts received to compensate the Corporation for the cost of certain items of property, plant and equipment. In 2014, the Corporation sold its Swan Valley Gas Corporation distribution assets and recognized the remaining $3 million of government grants it had received from various levels of government for constructing the distribution system. There are no unfulfilled conditions or other contingencies attached to these government grants.

18. Employee future benefits

a. **Pension plans**

During the year, the Corporation contributed $6 million (2013 – $5 million) to pension plans on behalf of employees for current services.

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

18. Employee future benefits (continued)

b. Retiring allowance plan

(millions)	2014	2013
Balance, beginning of year	$ 10	$ 12
Benefits paid	–	(2)
Actuarial losses from changes in financial assumptions	–	–
Balance, end of year	$ 10	$ 10

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

The Corporation measures its accrued employee benefits liability with an annual actuarial valuation as at December 31. The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit liability were as follows:

	2014	2013
Discount rate	2.9%	3.6%
Long-term rate of compensation increases	3.0%	3.0%
Long-term rate of inflation	2.5%	2.5%
Annual termination rate		
Up to age 49	3.0%	3.0%
Thereafter	0.0%	0.0%
Average remaining employee service life	5.4 years	6.0 years

As part of the actuarial valuation, sensitivity analysis was performed to assess the impact of a change in key actuarial assumptions. The impact on the accrued employee benefits liability as at December 31, 2014 of changing the following assumptions 0.5% was as follows:

	2014	2013
DISCOUNT RATE		
Plus 0.5%	-2.0%	-2.2%
Minus 0.5%	2.1%	2.3%
LONG-TERM RATE OF COMPENSATION INCREASES		
Plus 0.5%	1.6%	1.7%
Minus 0.5%	-1.6%	-1.6%
ANNUAL TERMINATION RATE		
Plus 0.5%	-0.3%	-0.4%
Minus 0.5%	0.3%	0.4%

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

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

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

19. Provisions

(millions)	2014	2013
Balance, beginning of year	$ 71	$ 18
Provisions made	7	52
Provisions settled	(3)	(2)
Change in discount rate	18	1
Unwinding of discount	2	2
Balance, end of year	$ 95	$ 71

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 2015 and 2109. The undiscounted cash flows required to settle the obligations total $253 million (2013 – $235 million). Discount rates between 1.0% and 2.9% were used to calculate the carrying amount of the obligation (2013 – 1.3% and 3.8%). No funds have been set aside by the Corporation to settle these obligations.

20. Equity advances

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

21. Commitments and contingencies

a. Commitments

At year end, the Corporation forecasted to spend $238 million (2013 – $300 million) on capital projects during 2015, and the Corporation had $51 million (2013 – $80 million) of outstanding contractual commitments for the procurement of goods and services in the future.

b. Leases

As at December 31, 2014 future minimum lease payments for operating leases entered into by the Corporation, as lessee, were as follows:

(millions)	2015	2016	2017	2018	2019	Thereafter
Minimum lease payments	$ 1	$ –	$ –	$ –	$ –	$ –

c. Contingencies

The Corporation remains involved in litigation in relation to a home explosion and other incidents during 2011 in Regina, Saskatchewan. The Corporation does not expect the outcomes to result in any material financial impact.

22. Unrealized market value adjustments

(millions)	2014	2013
Change in fair value of debt retirement funds	$ 7	$ (7)
Change in fair value of natural gas derivative instruments	(75)	(6)
Change in revaluation of natural gas in storage to net realizable value	(12)	13
	$ (80)	$ –

Unrealized market value adjustments represent the net income impact of measuring certain financial and derivative instruments at fair value subsequent to initial recognition (Note 10) 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 year and are dependent on the market prices and expected delivery dates at year end.

23. Natural gas sales and purchases

	2014			2013		
(millions)	Commodity	Gas Marketing	Total	Commodity	Gas Marketing	Total
NATURAL GAS SALES						
Natural gas sales to commodity customers	$ 262	$ –	$ 262	$ 225	$ –	$ 225
Realized on natural gas derivative instruments	48	408	456	5	370	375
Change in fair value of natural gas derivative instruments	–	11	11	–	(37)	(37)
	310	419	729	230	333	563
NATURAL GAS PURCHASES						
Realized on natural gas derivative instruments	(301)	(394)	(695)	(212)	(338)	(550)
Change in fair value of natural gas derivative instruments	(83)	(3)	(86)	27	4	31
Change in revaluation of natural gas in storage to net realizable value	–	(12)	(12)	–	13	13
	(384)	(409)	(793)	(185)	(321)	(506)
	$ (74)	$ 10	$ (64)	$ 45	$ 12	$ 57

24. Other revenue

(millions)	2014	2013
Royalty revenue	$ 1	$ 1
Natural gas liquid sales	11	11
	$ 12	$ 12

25. Revenue collected for and paid to municipalities

The Corporation is required to remit to 109 urban municipalities, in accordance with the provisions of *The SaskEnergy Act*, an amount calculated as either three per cent or five per cent of natural gas sales to customers within the respective municipality. These municipal payments are charged to customers and are then remitted to the respective municipalities. During the year, the amount collected for and paid to municipalities, which was recognized on a net basis in operating and maintenance expense, was $19 million (2013 – $17 million).

In accordance with the provisions of *The SaskEnergy Act*, the Corporation is required to collect, from specific customers, an amount based on the value of natural gas transported on their behalf. The Corporation in turn pays the amount collected to the related municipalities. During the year, the amount collected for and paid to municipalities, which was recognized on a net basis in operating and maintenance expense, was $2 million (2013 – $2 million).

26. Depreciation and amortization

(millions)	2014	2013
Depreciation of property, plant and equipment	$ 78	$ 74
Amortization of intangible assets	5	3
	$ 83	$ 77

The composite rate of depreciation was 2.9% during the year (2013 – 3.1%), and the composite rate of amortization was 5.7% during the year (2013 – 3.7%).

27. Saskatchewan taxes

(millions)	2014	2013
Corporate capital tax	$ 8	$ 8
Property taxes and other	3	3
	$ 11	$ 11

28. Net finance expenses

(millions)	2014	2013
Debt retirement funds earnings	$ 4	$ 4
Change in fair value of debt retirement funds	7	(7)
Finance income	11	(3)
Interest expense on short-term debt	(3)	(3)
Interest expense on long-term debt	(45)	(41)
Unwinding of discount on provisions	(2)	(2)
Borrowing costs capitalized to qualifying assets	2	2
Finance expenses	(48)	(44)
Net finance expenses	$ (37)	$ (47)

Borrowing costs were capitalized to qualifying assets using the weighted average cost of debt of 3.8% during the year (2013 – 4.1%).

29. Other gains (losses)

(millions)	2014	2013
Net gain on assets held for sale	$ 3	$ –
Loss on impairment of assets	(3)	(2)
Net gain on disposal of assets	1	–
	$ 1	$ (2)

In past years other gains (losses) were presented within operating and maintenance expense in the consolidated statement of comprehensive income, however; due to the significance and nature of asset disposals during 2014, they have been presented separately within the consolidated financial statements. The Corporation has also changed the consolidated statement of cash flows to present proceeds on disposals and decommissioning costs separately rather than netting the amounts against each other. Comparative amounts have been reclassified for consistency.

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

(millions)	2014	2013
Trade and other receivables	$ –	$ (29)
Natural gas in storage held for resale	56	43
Inventory of supplies	–	(1)
Trade and other payables	(6)	17
Deferred revenue	26	18
	$ 76	$ 48

31. 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)	2014	2013
Short-term benefits	$ 3	$ 3

b. Other related party transactions

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

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

During the year the Corporation received $1 million (2013 – $4 million) from its parent company, CIC. The payments represent full reimbursement of the Corporation's costs associated with administering the Saskatchewan EnerGuide for Houses grant program. The reimbursements and associated costs have been recognized on a net basis in operating and maintenance expense.

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

CORPORATE GOVERNANCE

BOARD OF DIRECTORS

Susan Barber, Q.C.

McDougall Gauley LLP
(Board Chair, SaskEnergy)
Regina, Saskatchewan

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

Victor Thomas

Global Bridgeway Inc.
(Vice Chair, SaskEnergy)
Regina, Saskatchewan

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

James Baker

J. P. Baker Management Inc.
Regina, Saskatchewan

Mr. Baker is President of J. P. Baker Management Inc. and has extensive experience in the oil and gas industry. His experience includes operating a consulting business specializing in the business development of oil- and gas-related initiatives in Saskatchewan and Alberta. Mr. Baker has served on the SaskEnergy Board since 2008. He is Chair of the Business Development Committee and a member of the Human Resources/Compensation Committee.

Kelly Bannister

McFaull Consulting
Saskatoon, Saskatchewan

Ms. Bannister works with McFaull Consulting as a Financial Advisor and has more than 20 years of experience as a Certified Financial Planner. She has completed the Registered Retirement Consultant (RRC) designation, holds the Financial Divorce Specialist designation, and is an Associate member of the Collaborative Lawyers of Saskatchewan. She is a Saskatchewan Life Licensed Agent and mutual funds licensed representative with Manulife Securities Investment Services Inc. Ms. Bannister received her Bachelor of Arts and Science from the University of Saskatchewan with a major in Economics. She joined the SaskEnergy Board of Directors in February 2014 and is a member of the Governance Committee and the Safety and Corporate Social Responsibility Committee.

Norm Beug

N.B. Beug Consulting Inc.
Regina, Saskatchewan

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

David Bishop

McKercher LLP
Regina, Saskatchewan

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

Curt Chickoski

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

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

Linda Clavelle

Prince Albert, Saskatchewan

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

Grant Gayton

Regina, Saskatchewan

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

Dr. Denis Jones

Devereux Developments
Regina, Saskatchewan

Dr. Jones is the President and CEO of Devereux Developments, which he co-founded in 2008, and is also President and CEO of Altern Properties, Auctus Property Income Fund and the Knysna Management Group. He is currently a practicing physician in Regina, specializing in pulmonary and critical care medicine. Dr. Jones obtained his medical degree in South Africa and went on to do his specialty training in Miami and San Diego. At the 2013 Mayor's summit in Regina, he was recognized for innovative housing solutions and was asked to discuss laneway or carriage homes. At a similar summit in Saskatoon, he was asked to share his expertise on modular construction. Dr. Jones joined SaskEnergy's Board of Directors in February 2014 and is a member of the Audit and Finance Committee and the Business Development Committee.

Nola Joorisity

Paul J. Hill School of Business
Regina, Saskatchewan

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

Neal Krawchuk

Mega Group Inc.
Saskatoon, Saskatchewan

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

Terry Ross

Crown Investments Corporation of Saskatchewan
(Board Secretary)
Regina, Saskatchewan

Mr. Ross has been an employee of CIC since 2005, with prior experience at Natural Resources Canada and Saskatchewan Environment, and is a former member of the Canadian Armed Forces. He has a Bachelor of Arts degree from the University of Saskatchewan, a Diploma in Resource Management from the Saskatchewan Institute of Applied Science and Technology and has attained a Chartered Director designation from McMaster University, DeGroote School of Business. Mr. Ross has been the Board Secretary since June 2011.

OTHER 2014 BOARD MEMBERS

Sharon Hodgson

Big River, Saskatchewan

Ms. Hodgson previously served as Councillor for the Rural Municipality of Big River. Prior to that, she owned a forestry industry/road building business for 30 years, followed by a successful elk farm business, which was developed into one of the first registered trophy ranches in Saskatchewan. Ms. Hodgson served on SaskEnergy's Board of Directors from 2010 until February 2014.

Allan Kerpan

Private Farming Operation
Kenaston, Saskatchewan

Mr. Kerpan is currently involved in the operation of the family farm with his son at Kenaston. He was twice elected to national office: in 1993, as the Member of Parliament (MP) for Moose Jaw-Lake Centre, and in 1997, as the MP for Blackstrap. He was one of the founders of the Saskatchewan Party and later became a Saskatchewan Party MLA (2003-07), serving as the critic for Crown Investments Corporation, Corrections, SaskTel, and SaskPower, respectively. Mr. Kerpan served on the Board of Directors from 2012 until February 2014.

Alfred Labas

Private Farming Operation
Yorkton, Saskatchewan

Mr. Labas owns and operates a long-standing family grain farm in Lestock. His professional experience includes service with Federated Co-operatives Limited, the Department of Indian and Northern Affairs, and a private accounting practice specializing in farm accounting and taxation. He also held leadership positions in various departments of the Provincial Government, and is active in the community. Mr. Labas served on the Board of Directors from 2010 until February 2014.

EXECUTIVE COMMITTEE

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

Doug Kelln

President and Chief Executive Officer

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

Mark Guillet

Vice President, General Counsel and Corporate Secretary

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

Robert Haynes

Vice President, Human Resources 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. In this role, Mr. Haynes is responsible for all aspects of the Corporation's human resources policies and practices, including the Corporation's Safety, Health and Environment area, as well as strategic corporate communication with key stakeholders, including employees, the media and government. Mr. Haynes has a Bachelor of Administration Degree, Public Policy and a Juris Doctor.

Colleen Huber

Vice President, Corporate Support

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

Dean Reeve

Executive Vice President, SaskEnergy

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

Phil Sandham

Vice President, Engineering, Construction and TransGas Operations

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

Christine Short

Vice President, Finance and Chief Financial Officer

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

Dennis Terry

Senior Vice President, TransGas and Bayhurst Gas Business Services

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

CORPORATE GOVERNANCE DISCLOSURE

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

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

Board Stewardship/Mandate

The SaskEnergy Board of Directors (the Board) is responsible for the stewardship of the Corporation, and oversees and closely monitors the Corporation's adherence to provisions of *The SaskEnergy Act* and its Regulations. The Board has adopted written Terms of Reference which state that the Board sets the strategic direction, ensures the integrity and adequacy of the Corporation's systems and management practices, and periodically examines the objectives and mandates of its structure. The Board promotes a culture of integrity, ensures that the principal corporate risks are managed, and evaluates the performance of, 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. 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. The Board Chair is Ms. Susan Barber, Q.C. and the Vice Chair is Mr. Victor Thomas.

Independence

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

Committee Mandates and Membership

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

Audit and Finance Committee

Chair: Nola Joorisity

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

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

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

The Committee had twelve meetings this year. Important issues dealt with this year include the development of various Commodity Strategies to cover all natural gas transactions, SaskEnergy commodity rates and TransGas service rates, management adjustments for capital expenditures and weather related impacts, the Automated Metering Infrastructure System updates, the corporate insurance review, various asset sales and intercorporate asset transfers, and various risk management activities and policies review.

*Non-independent Board Member

Business Development Committee

Chair: Jim Baker

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

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

The Committee had six meetings this year. Notable work of the Committee included review of the growth plan for unregulated business initiatives, the Corporation's strategy on the development of associated gas capture initiatives, intercorporate asset transfers, and divestiture of non-core and non-required assets. The Committee monitored the Corporation's investments in joint operations with third parties in a natural gas storage field, and in a southeast Saskatchewan gas processing facility.

Governance Committee

Chair: David Bishop*

Members: Kelly Bannister, Linda Clavelle, Victor Thomas

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

The Committee had four meetings this year. Key work of the Committee included coordinating the 2013 evaluation process results for Committees, Committee Chair and peers, development of the 2014 Board and Board Chair evaluation process, review of existing Committee structures and mandates, the review of disclosures under the Corporation's Whistleblower Policy, the development of a revised potential qualified Board candidate list, the business/industry training for Directors, review of the CEO and the Bright Line Mandates, and the organization of a field tour for Board members.

*Non-independent Board Member

Human Resources/Compensation Committee

Chair: Victor Thomas

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

The Human Resources/Compensation Committee is responsible for and assists the Board in overseeing the management of SaskEnergy's human resource strategic planning, programs and practices for the development and implementation of fair compensation, performance management and succession planning. The Committee also sets the CEO's performance goals and objectives, and conducts a semi-annual and annual assessment of the CEO's performance through the Committee Chair and Board Chair. The findings of this evaluation and any changes to the CEO's compensation as a result of the review are recommended to the Board. Further, the Committee makes recommendations to the Board regarding the approval of employee and Executive compensation, including measures and targets, and receiving direction on its mandate through communication with CIC. An ad hoc Board Committee is created, when necessary, to identify and recommend to the Board candidates for the position of CEO, while the Human Resources/Compensation Committee oversees that the incumbent fulfills the role set out in the CEO Mandate.

The Committee had four meetings this year. Important issues dealt with this year include the Corporate Compensation Strategy; CEO objective setting, performance evaluation and compensation adjustments; Executive officers merit adjustments; employee recruitment; diversity strategy review; succession management updates; review of the total compensation market survey results; staffing levels; compliance with legislation and a litigation/arbitration proceedings update.

*Non-independent Board Member

Safety and Corporate Social Responsibility Committee

Chair: Neal Krawchuk

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

The Safety and Corporate Social Responsibility Committee has a mandate to proactively address safety and corporate social responsibility (CSR) matters to assist the Corporation in being a corporate leader. The Corporation considers CSR to include: conducting business in a safe, socially responsible, ethical and transparent manner; protecting the environment and safety of all individuals affected by our 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 we work. 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 year. Important issues dealt with this year included the external, independent Health & Safety Audit, which benchmarked SaskEnergy's safety management system favourably against industry norms and maintained its Certificate of Recognition; the review of results of the revised Drug and Alcohol Policy; the review of third-party contractor's involvement with employee attendance and disability management program and the review of the Corporation's system integrity program activities. The Committee reviewed the Corporate Environmental Risk Management Site Remediation program, the Corporate Emergency Management program, the Corporate Safety program, the Corporate System Integrity program update, corporate branding strategies, and customer satisfaction survey results. The Committee received a presentation on safety from a third-party representative group.

Roles and Responsibilities

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

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

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

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

Strategic Planning and Reporting

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

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

Public Policy Role

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

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

Approach to Governance

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

Integrity and Ethics

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

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

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

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

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

Risk Identification and Management

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

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

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

Integrity of Internal Controls and Management Systems

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

As part of the Corporation's commitment to accountability, the Audit and Finance Committee reviews the financial performance of the Corporation quarterly. Natural gas purchase transactions and credit risk are reported by management and actively monitored by the Audit and Finance Committee.

Pursuant to the directive of CIC, SaskEnergy has in place a process regarding internal controls certification by the CEO and CFO. This process is designed to provide reasonable assurance regarding the effectiveness of SaskEnergy's internal controls over financial reporting.

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

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

Robust Succession Process

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

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

Communications (with the Shareholder and Stakeholders)

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

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

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

CEO Assessment and Executive Compensation

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

The governance standard established by the CSA for Executive compensation disclosure is to report by summary compensation table, complete with detailed formulas. However, the mandate for Executive compensation for Saskatchewan Crown corporations is established and monitored by the Owner, CIC, 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 towards and measure the achievement of these performance objectives. A key principle in SaskEnergy's compensation strategy is to provide fair and equitable pay representative of the individual performance of management employees. The Human Resources/Compensation Committee and the Board approve CEO and Executive compensation.

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

Board Renewal and Appointment

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

Board Orientation and Education

The Governance Committee and the Corporation, under its Board of Directors Training Policy, has a comprehensive orientation curriculum and training sessions to ensure that new and continuing Directors develop a strong understanding of SaskEnergy's business and current challenges, as well as the roles of the Board and Committees and the individual contributions Directors are expected to make. Board members also participate in continuing education on industry issues, financial reporting, business operations, procedural issues and ethical obligations to enhance their skills and knowledge. This year, the Board of Directors received training from management on the natural gas commodity business. This training included an explanation of the Saskatchewan Energy sector, creating value from natural gas, commodity risk management, controls and compliance, financial reporting on commodity activities and a natural gas market update presentation from a third-party industry expert.

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. For this year, CIC held four director training sessions which included three sessions facilitated by the Directors College. CIC also hosts meetings periodically through the year for the Chair of the Board and the Chairs of each of the Committees to discuss issues with the Chairs from other Saskatchewan Crown corporations. These meetings serve as forums to look at matters such as best practices and efficiencies, and to receive messaging from the Owner.

Board and Director Performance Assessment

The Governance Committee is responsible for implementing 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. These results are summarized and reported to the Board as well as to the CIC Board. The Governance Committee may utilize the assistance of an external consultant to conduct this task. The Committee also conducts ongoing assessments of individual Directors, their training and skill sets.

This year the process consisted of a Directors' survey on the performance and effectiveness of the Committees and Committee Chairs. The Board also engaged a third party consultant to assist with individual Directors peer evaluation process.

Director Remuneration

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

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

Most Board members sit on two Committees. There were 10 Board meetings and 31 Committee meetings this year. The total remuneration paid to Directors (annual retainers, pro-rated for the portion of the year each Director was a member of or chaired a Committee, plus Committee per diems) was $404,644 compared to $396,902 in 2013. The total business travel and meeting expenses paid to members of the Board were $29,519 compared to $43,680 in 2013.

Membership and Attendance at Meetings of the Board and Board Committees

from January 1, 2014, to December 31, 2014

Member	Board (10)	Audit (12)	Bus. Dev. (6)	Gov. (4)	HR/Comp (4)	SCSR (4)	Legal Serv. (1)	Total	%
Barber (Chair)	10/10	10/12			4/4			24/26	92%
Baker	7/10		6/6		4/4		1/1	18/21	86%
Bannister*	9/9		1/1	2/2		3/3		15/15	100%
Beug	8/10		5/6		4/4			17/20	85%
Bishop	8/10	11/12		4/4				23/26	88%
Chickoski	9/10		6/6		4/4		1/1	20/21	95%
Clavelle*	9/9			3/3		3/3		15/15	100%
Gayton	9/10		4/6			4/4		17/20	85%
Hodgson**	1/1			1/1				2/2	100%
Kerpan**	0/1			1/1				1/2	50%
Jones*	7/9	8/9	3/5					18/23	78%
Joorisity	9/10	12/12				4/4		25/26	96%
Krawchuk	9/10	12/12				4/4		25/26	96%
Labas**	0/1							0/1	0%
Thomas	10/10			4/4	4/4		1/1	19/19	100%

*On February 5, 2014, Bannister, Clavelle and Jones were appointed as directors.

**February 5, 2014, Hodgson, Kerpan, Labas were removed as directors after serving on the Board for four, two and four years respectively.

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 more than 380,000 customers. To this end, an estimated more than one million direct interactions occur annually between the Corporation and 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 61 companies with underground facilities, including SaskEnergy and TransGas. To successfully manage increasing levels of customer contact within the existing cost structure, SaskEnergy's customer service team has developed specialization of certain functions in individual locations. Enabled by networking technology, this structure allows the province-wide group to form a virtual call centre.

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

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

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

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

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

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

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

Shareholder Communications

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

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

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

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

Project-based Communications

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

Regulatory Communications

SaskEnergy is required to file any applications for delivery and commodity rate changes with the Saskatchewan Rate Review Panel (SRRP), an advisory Panel that provides formal recommendations to the Provincial Cabinet. The applications are available to the public. Typically, the SRRP will ask for additional information to assist in its review, and a public interaction component is provided through public meetings. SaskEnergy filed a commodity rate increase application in May of 2014, seeking a $1.02 per GJ increase. After review, the application was recommended to, and approved by Cabinet, effective July 1, 2014. In August of 2013, SaskEnergy's application for a two-year delivery service rate increase was approved, with the rate increasing on September 1, 2013 and again on September 1, 2014. SaskEnergy continued to have the lowest residential delivery rate in Canada in 2014.

TransGas' proposed rate changes are discussed through the TransGas Customer Dialogue, a proxy with representatives from the producer, industrial end-user and gas marketer communities. After rate changes are discussed through Dialogue, they are provided to the Provincial Cabinet for approval. TransGas' latest rate change was effective January 1, 2014, with an average rate increase of 3.5 per cent.

Employee Communications

SaskEnergy regularly communicates with its workforce of more than 1,000 employees to ensure prompt and accurate delivery of corporate information.

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

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

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

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

GLOSSARY OF KEY SUCCESS MEASURES

SERVICE EXCELLENCE

Efficient Operations

Distribution	The Operation, Maintenance and Administration (OM&A) Costs per Customer measure is a proxy for the relative efficiency of the Distribution Utility's operations and is calculated using OM&A expenses (excludes transportation and storage charges) divided by the total number of distribution customers (380,768 customers at December 31, 2014). This measure is comparable to other Canadian gas utilities. The Competitive Residential Delivery Rates measure reports the ranking of SaskEnergy's natural gas distribution delivery service rates, relative to the rates charged by other major Canadian utilities. The cost comparison is based on a benchmark level of consumption upon which the published rates of other service providers are applied to determine SaskEnergy's relative ranking. The calculations also factor in all temporary and one-time refunds, rebates, rate riders, or surcharges approved by the utility's regulator. Federal, provincial and municipal taxes are excluded from the comparison as are any Government rebates that are not directly approved by the utility's regulator.
TransGas	The OM&A Costs per Book Value of Assets Managed measure is a proxy for the relative efficiency of the Transmission Utility's operations and is calculated using OM&A expenses (excludes third-party transportation charges) divided by the total value of the assets managed as part of the TransGas transmission system.

Safety/Vigilance

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

Customer Satisfaction

Customer Satisfaction – SaskEnergy	The SaskEnergy customer satisfaction measure expresses, in percentage terms, the proportion of customers surveyed who rated their overall satisfaction with SaskEnergy's service as a 5, 6, or 7 on a 7-point scale. Positive responses such as these indicate that customers view SaskEnergy service positively and provide a strong indication that the customer service tools, policies and staff are effectively meeting the needs of customers. The data for this measure is obtained from annual customer surveys conducted by independent market research firms.
Customer Satisfaction – TransGas	This number is derived from an annual online survey that is provided to all TransGas customers. Customer satisfaction is measured on a scale of 0 to 5, with 5 being the highest level of satisfaction. The survey contains 22 questions which, in turn, are subdivided to gain detailed feedback on various aspects of the service being evaluated. An average is taken on the responses to all questions and reported as a percentage.

ACHIEVING GROWTH

Business Growth Investment

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

Diversified Non-Core Business

Net Revenue	This measure is calculated as the net revenue from Bayhurst Gas Limited (including BGSI and BESCO) as well as TransGas' Coleville Natural Gas Processing Plant. In aggregate, this metric represents the value being generated by the non-regulated business activities that leverage corporate expertise and private sector alliances.
Total Capital Investment Percentage of Third Party Capital Investment	This measure tracks the capital invested in non-core business activities by SaskEnergy and its subsidiaries as well as third parties. The percentage that is third party capital has also been identified.
Return on Equity	This measure is calculated as the return earned by the Corporation on the equity that has been invested in non-core business activities.

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 using the Hay Survey, typically on a biannual basis. The Hay Group benchmarks survey results to their "Hay norm", as defined by a five-year rolling average of more than 500 North American organizations. The survey incorporates employees' opinions on a number of areas including satisfaction with pay and benefits, job opportunities, work/life balance, and training and developmental opportunities within SaskEnergy/TransGas.

Workforce Diversity

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

CREATING VALUE

Financial Strength

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

Environmental

Internal Energy Efficiencies	This measure tracks the effects of the Corporation's energy efficiency improvements that reduce fuel usage (including vented and fugitive system losses). Energy consumption reductions will be tracked in terajoules, which is the equivalent of 1,000 gigajoules at an assumed price of $4 per GJ.
Greenhouse Gas Emissions – Tonnes of CO_2e/million Running Horsepower Hours	This measure represents the intensity of greenhouse gas emissions produced per unit of natural gas compression, measured in tonnes CO_2e per million running horsepower hours.

Community Relationship

Community Sponsorships as a Percentage of Net Income	This is a new measure for 2014 based on the forecast five-year rolling average of net income of $70 million per year. The long-term target for this measure would see SaskEnergy achieve an annual community sponsorship level consistent with one per cent of net income.
Total Contracts – Percentage of Aboriginal Labour Content	This measure tracks the percentage of Aboriginal labour content in the Corporation's labour service contracts managed by the Purchasing Department.

SUPPLEMENTARY INFORMATION

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