SaskEnergy

# 2020-21
## ANNUAL REPORT

Responsible energy for a sustainable Saskatchewan

# VISION

Environmental sustainability and economic prosperity for future generations.

# CORPORATE VISION

Providing critical energy for a greener Saskatchewan and reducing our emissions from operations by 35 per cent by 2030.

# MISSION

SaskEnergy delivers natural gas and energy solutions responsibly to the residents, businesses and industries of Saskatchewan.

# VALUES

## SAFETY

We are always committed to our personal safety, the safety of our team and the public.

## SPIRIT

We support a respectful, dynamic and a diverse work environment that encourages achievement.

## INTEGRITY

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

## RELATIONSHIPS

We succeed through strong internal and external collaboration, trust and open communication.

## STEWARDSHIP

We are responsible in our use of all resources.

# Responsible energy for a sustainable Saskatchewan

As Saskatchewan's natural gas utility, SaskEnergy has a responsibility to support and protect the province and the people who call it home. Whether providing safe, reliable and affordable energy to our customers, reducing the impact of our daily operations on the environment, or introducing programs and services to assist customers in reducing end-use emissions, we are committed to Saskatchewan and its prosperity.

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We strive to provide value to our customers by focusing on five key strategic imperatives.

# Our Business

As a provincial Crown corporation, SaskEnergy's roots are deep. Our natural gas system has served Saskatchewan and its people for close to seven decades.

We are defined by our commitment to environmental sustainability and economic prosperity for future generations. It is our corporate mission to deliver natural gas and energy solutions responsibly to the residents, businesses and industries of Saskatchewan, and we strive to provide our service in a way that meets the expectations of our customers.

SaskEnergy delivers essential energy to 337 communities throughout the province and our rural distribution network has a broader reach than any other gas distribution utility in Canada. We are committed to a lower carbon future — not only within our own operations but together with our customers through programs, services and education.

Our number one priority is to safely provide reliable and affordable energy to our customers. Through our distribution and transmission systems, we serve homes, businesses, farms, commercial and industrial customers throughout Saskatchewan. We also own and operate a number of natural gas compression and storage facilities and transport energy over the Alberta, Manitoba and United States borders.

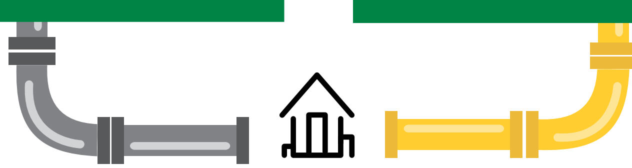
***1,100***
Dedicated employees working in more than 50 locations

***400,000+***
Customers in 93% of Saskatchewan communities

***89%***
Overall residential customer satisfaction rating

***15,209***
Kilometres of transmission lines

***71,305***
Kilometres of distribution lines



## CUSTOMER PROFILE

### *Residential*

- Urban
- Rural

### *Commercial*

- Retail businesses
- Restaurants
- Small hospitals
- Curling rinks
- Hotels
- Warehouse buildings

### *Industrial*

- Potash mines
- Power generation
- Enhanced oil recovery
- Manufacturing
- Large hospitals
- Universities

# Corporate Profile

- **Crown Investments Corporation of Saskatchewan**
  - **SaskEnergy Incorporated**
    - **TransGas Limited** — Transmission and Storage
    - **Bayhurst Gas Limited** — Natural Gas In Storage
      - **BG Storage Inc.** — Storage Joint Arrangement
    - **Many Islands Pipe Lines (Canada) Limited** — Inter-provincial Transmission
    - **Saskatchewan First Call Corporation** — Underground Facility Screening and Notification Service

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

SaskEnergy's main business is the natural gas distribution utility. SaskEnergy owns and operates the distribution utility, which has the exclusive legislated franchise to distribute natural gas within the province of Saskatchewan. The Provincial Cabinet regulates SaskEnergy's delivery service 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 subsidiaries and one indirect wholly owned operating subsidiary, as follows:

**TransGas Limited (TransGas)** owns and operates the transmission utility and has the exclusive legislated franchise to transport natural gas within the province of Saskatchewan. It also owns and operates a natural gas storage business, which is integrated with the transmission gas line system.

**Bayhurst Gas Limited (Bayhurst)** owns, produces and sells natural gas from its two storage facilities in the western area of Saskatchewan.

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

**Many Islands Pipe Lines (Canada) Limited (MIPL)** is a transmission company that owns eight transmission gas line 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 Canada Energy Regulator.

**Saskatchewan First Call Corporation (Sask 1st Call)** provides a centralized "Click Before You Dig" underground facility screening and notification service. Sask 1st Call was established primarily for safety reasons to maintain a database of oil, natural gas and other underground infrastructures. Sask 1st Call provides a service whereby landowners and other stakeholders planning any ground disturbance can contact Sask 1st Call to request the location of natural gas lines and non-gas line-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.

# Letter of Transmittal

Regina, July 2021

To His Honour
The Honourable Russ Mirasty, S.O.M., M.S.M.
Lieutenant Governor of Saskatchewan
Province of Saskatchewan

Dear Sir:

I have the honour to submit herewith the Annual Report of SaskEnergy Incorporated for the fiscal year ending March 31, 2021, in accordance with *The SaskEnergy Act*.

The Financial Statements included in this annual report are in the form approved by Crown Investments Corporation of Saskatchewan as required by *The Financial Administration Act, 1993* and have been reported on by the auditors.

Respectfully submitted,

Honourable Don Morgan, Q.C.
**Minister Responsible for**
**SaskEnergy Incorporated**

# Chair's Message

On behalf of the SaskEnergy Board of Directors, it is my pleasure to join the Minister Responsible for SaskEnergy, the Honourable Don Morgan, in presenting the SaskEnergy 2020-21 Annual Report.

The past year saw the people and communities of Saskatchewan come together in large and small ways to overcome the unprecedented challenges presented by the COVID-19 pandemic. As a key infrastructure provider in our province, SaskEnergy experienced many of the same impacts as other businesses, successfully navigating the urgent need for new logistical and safety considerations for employees and customers, and changes in market demand and supply chain. The Board was pleased with the response on these fronts, and particularly recognizes those teams that continued to provide essential services to our customers without fail.

It was evident throughout 2020-21 that the team at SaskEnergy, from leadership to frontline staff, recognize the vital role each and every one of them plays in supporting customers and communities — whether through reliable energy delivery, promoting safety through programming or assisting customers in achieving greater energy efficiency. It is fitting, then, that the title of this annual report is 'Responsible energy for a sustainable Saskatchewan'. SaskEnergy has demonstrated its commitment to reliable, affordable energy for customers, now and in the future, while building meaningful relationships with communities and Indigenous groups and providing a safe workplace for its employees.

Looking ahead, the Board will continue to align SaskEnergy with the Government of Saskatchewan's Crown Sector Priorities and Saskatchewan's Growth Plan. It will ensure the Corporation continues adapting to Saskatchewan's changing energy needs and will support SaskEnergy's focus on customers, financial sustainability, priority investments, private sector engagement, collaboration with other Crowns and the development of a skilled labour force.

The Board is committed to the effective stewardship and transparent governance of SaskEnergy. Thank you to the Executive team, management and employees for their contributions to the company, and to our province, in 2020-21.

Susan B. Barber

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

# *President’s Message*

This past year has forced us all to temporarily change the way we live, the way we interact with each other, and the way we work. While this has been challenging, I could not be more proud of SaskEnergy’s team of employees who came together in 2020-21 to serve our customers and support them through the COVID-19 pandemic. SaskEnergy’s success as a company is a direct reflection of their efforts, and our accomplishments this year would not have been possible without our team across the province.

For the most part, when SaskEnergy customers don’t know we are there, it is a sign we are doing our job properly. Thanks to the reliability of our natural gas system and the efforts of our employees, we keep gas flowing to homes, hospitals, businesses and industry in Saskatchewan, even during the coldest days, weeks and months of the year.

In 2020-21, SaskEnergy added 3,001 net new customers to the distribution system — nearly 1,000 more than expected — and surpassed 400,000 total customers. As well, the record for provincial daily gas usage was broken once again on February 12, 2021. From an affordability standpoint, SaskEnergy’s commodity rate is the lowest it has been in more than 20 years, and our total residential natural gas utility rate is the third-lowest in Canada. These achievements are testament to the importance of natural gas in providing Saskatchewan with essential energy — both for residential customers and for industry, including increased power generation from natural gas — and to the reliability of natural gas year round.

Throughout the pandemic, our teams sought to do everything we could to put customers’ minds at ease, allowing them to turn their attention to the many other changing factors in their lives. Avoiding outages, attending to service calls while keeping customers, employees and communities safe, maintaining stable rates, providing additional flexibility in payment terms — these are just some of the many ways SaskEnergy stepped up for our customers last year.

SaskEnergy also provided more than $2 million in rebates to homeowners and businesses that purchased high efficiency natural gas heating systems, and to homeowners who purchased carbon monoxide alarms. Our Tune-up Assistance Program assisted an additional 731 income qualified homeowners in 2020-21 by providing free home heating tune-ups, which help to make sure that customers’ furnaces are operating efficiently, effectively and safely. This program, which has been in place since 2017, was recognized with the Canadian Gas Association’s Michael Mulcahy Award for Excellence and Innovation in Customer Care and Service in June of 2020.

Even with the additional demands of the pandemic, I am proud to say that SaskEnergy achieved its best-ever corporate total recordable injury frequency rate. Safety is an established priority at our company and continues to be top of mind, every day and in every situation. At the same time, we recognize our growing role in contributing to environmental protection, and assisting customers in meeting their environmental objectives, while supporting economic development and recovery in Saskatchewan communities.

To minimize our impact on the environment, SaskEnergy has committed to reducing emissions from our operations by 35 per cent by 2030. This will be achieved through emissions reduction targets in our Corporate Plan, by improving the efficiency of our equipment and infrastructure, and by investing in projects that reduce operational emissions. In 2020-21, as part of this work, SaskEnergy enacted a corporate biosecurity policy, which seeks to prevent the transmission and spread of environmental and agricultural infectious diseases and invasive species. In addition, we reduced our overall greenhouse gas emissions by 12,900 tonnes of carbon monoxide equivalent ($CO_2e$) over 2019 levels.

Our capital plan is aligned to customer demand and remains flexible in order to adapt to changing customer needs. That said, as a company, SaskEnergy is pivoting from an era of system growth to one of system sustainability. Plans to further increase delivery capacity in high growth areas are developed but on hold, pending customer forecasts. Throughout this changing business environment, we will continue to seek efficiencies and cost reductions as we make strategic capital investments to support customer demand and the provincial economy, maintain the safety of our system, and provide affordable rates to our customers.

SaskEnergy’s future success will require us to be focused and flexible — in meeting customer expectations, in reducing our impact on the environment and meeting evolving regulatory requirements, and in continuing to play a critical role in delivering the energy the people of Saskatchewan need. The right organizational structure, along with technology and a talented workforce will be crucial for executing on our plans and meeting our strategic objectives. However, our focus on core priorities will not change — we will responsibly deliver natural gas to the residents, businesses and industries of Saskatchewan while supporting environmental sustainability and economic prosperity for future generations.

My sincere thanks, once again, to all SaskEnergy employees and management for their efforts in 2020-21, as well as to the Board of Directors for their strategic governance and oversight.

Ken From
**President and Chief Executive Officer**

# Our Sustainability Framework

Sustainability for SaskEnergy means providing reliable, affordable energy to our customers today and for years to come while also acknowledging their desire for a cleaner energy future. It is about strengthening relationships with customers, communities and Indigenous groups while also providing an inclusive, safe working environment for our employees.

SaskEnergy's sustainability framework includes three pillars — Environment, Prosperity, and People. These pillars align with our corporate vision and set a strong foundation for our future as a sustainable energy provider for Saskatchewan.

## Pillar One: *Environment*

As an organization, we have long considered the impact of our own operations as well as the impact of our customers' activities on the environment. We have a strong foundation set to meet stakeholder expectations. Our environmental sustainability efforts are focused on reducing emissions from our operations, supporting customers in reducing end-use emissions and protecting the local environment, including plant life, wildlife, wetlands, native prairie and species at risk.

## Pillar Two: *Prosperity*

Our prosperity focus aligns with our vision: *Environmental sustainability and economic prosperity for future generations.*

Our focus on prosperity means we support the Saskatchewan economy by investing in the rural, urban and Indigenous communities where we live and work. We deliver affordable, reliable energy to residents, businesses and industry to support our standard of living, while always considering our impact on the environment.

## Pillar Three: *People*

SaskEnergy takes pride in its people, recognizing it is employees who drive the success of our organization and play a pivotal role in our future sustainability. To be successful, we must provide a safe and engaging workplace; recognize the value of our employees; support diversity and inclusion; and invest in a workforce to meet customer needs and expectations.

# Resilience and Reliability

Natural gas provides Saskatchewan with much needed, reliable energy — particularly during some of the country's most extreme weather. SaskEnergy's underground gas line infrastructure delivers more energy to customers than any other energy source in the province.

Natural gas is a key fuel for much of the province's electrical generation, reducing the dependency on conventional coal — and the carbon intensity of Saskatchewan's electricity generation portfolio — while also supporting the growth of renewable energy as a ready backup for the variability of wind and solar. For many customers, including hospitals and large businesses, not only does natural gas serve as the primary heating source, it is also used as an emergency backstop during electrical outages.

SaskEnergy's expansive underground infrastructure network is designed to provide reliable service, meaning we can adapt to system disruptions with little or no impact to customer supply.

Our service is 99.99 per cent reliable. This system resilience means end-use service disruptions are rare, regardless of weather conditions, which allows business and industrial customers to operate efficiently year-round while residential customers are connected to a dependable, affordable energy source.

# *Looking Back at 2020-21*

## 20 year anniversary

SaskEnergy First Nations Safety Calendar that promotes natural gas safety and features student artwork from First Nations throughout Saskatchewan

## More than $1.8 million

in rebates to homeowners and businesses that purchased and installed qualifying high efficiency natural gas heating systems

## 1,015 carbon monoxide (CO) alarms

distributed to Saskatchewan residents through the Tune-Up Assistance Program and Home Heating Tune-Up Program

### Tune-Up Assistance Program

- Received the Canadian Gas Association's Michael Mulcahy Award for Excellence and Innovation in Customer Care and Service
- 731 income qualified homeowners assisted with free furnace maintenance


## Enacted

a corporate biosecurity policy to help further reduce the impact of operations on the landscape

## Completed projects

to support customer operations in potash production, enhanced oil recovery and diesel production

## Strengthening system reliability

investments in transmission infrastructure and gas lines near Shaunavon and Pierceland

## Approximately $245,000 in rebates

to homeowners who purchased carbon monoxide (CO) alarms through the CO Alarm Rebate Program

## 12,900 tonnes carbon dioxide equivalent ($CO_2e$)

year-over-year reductions in greenhouse gas emissions from operations

## Created

re-nesting structures for cliff swallows adjacent to our Crane Lake compressor station, in consultation with Environment and Climate Change Canada

## Joined

the Prairie Conservation Action Plan (PCAP) partnership to raise awareness and take action on initiatives to conserve native prairie and species at risk in Saskatchewan

## Launched text messaging service

to keep customers up-to-date on their service with SaskEnergy

## 1.43 recordable injuries per 100 employees

the lowest rate in the Corporation's history

## saskenergy.com transgas.com

new websites with more self-service options for our customers

## 155,720 line locate requests

received by Sask 1st Call — 10 per cent more than last year

## $2.575 per gigajoule

lowest commodity rate in more than 20 years

## 1.59 petajoules

new record for customers' daily gas usage set on February 12

## Established and expanded

collaborations with Indigenous environmental organizations

# Financial and Operating Highlights

| CONSOLIDATED FINANCIAL INFORMATION ($ millions) | 2020-21 | 2019-20 | 2018-19 |
|---|---|---|---|
| Delivery | **284** | 284 | 289 |
| Transportation and storage | **186** | 187 | 163 |
| Commodity margin | **11** | 23 | 45 |
| Asset optimization margin | **(4)** | 2 | 11 |
| Customer capital contributions | **49** | 36 | 29 |
| Other revenue | **-** | - | 4 |
| **Total revenue and margins** | **526** | **532** | **541** |
| Employee benefits | **102** | 96 | 89 |
| Operating and maintenance | **174** | 169 | 163 |
| Depreciation and amortization | **117** | 109 | 99 |
| Saskatchewan taxes | **16** | 16 | 15 |
| Net finance expense | **55** | 55 | 52 |
| Other losses (gains) | **3** | 21 | (11) |
| **Total expenses** | **467** | **466** | **407** |
| Income before unrealized market value adjustments | **59** | **66** | **134** |
| Market value adjustments | **22** | (23) | 32 |
| **CONSOLIDATED NET INCOME** | **81** | **43** | **166** |
| Dividends declared | **21** | 24 | 60 |
| Total assets | **3,294** | 3,222 | 2,938 |
| Cash provided by operating activities | **204** | 270 | 280 |
| Cash used in investing activities | **(235)** | (341) | (271) |
| Cash provided by financing activities | **30** | 66 | - |
| Capital additions | **212** | 316 | 299 |
| Total net debt | **1,613** | 1,501 | 1,313 |
| Debt/Equity ratio | **58/42** | 58/42 | 55/45 |
| Rate of return on equity | **5.2%** | 6.1% | 12.9% |
| **OPERATING STATISTICS** | | | |
| Distribution energy (*petajoules*) | | | |
| Residential/Farm | **40** | 37 | 42 |
| Commercial | **31** | 33 | 35 |
| Industrial | **165** | 164[1] | 170 |
| **TOTAL** | **236** | **234** | **247** |
| Transmission energy (*petajoules*) | | | |
| Domestic | **348** | 364 | 362 |
| Export | **5** | 37 | 33 |
| **TOTAL** | **353** | **401** | **395** |
| Number of customers | | | |
| Distribution | **402,827** | 399,826 | 397,367 |
| Transmission | **122** | 118 | 119 |

[1] Industrial consolidated volumes restated for 2019-20 due to a billing adjustment.

## OPERATING SUMMARY – DISTRIBUTION

| | 2020-21 | 2019-20 | 2018-19 |
|---|---|---|---|
| Sales in million cubic metres[1] | **5,962** | 5,965[2] | 6,344 |
| Residential annual average usage (cubic metres) | **2,694** | 2,631 | 2,681 |
| Degree days[3] | **5,664** | 5,706 | 6,076 |
| Percentage (colder) warmer than normal | **(1.9%)** | (2.3%) | (9.8%) |
| **NATURAL GAS LINE (kilometres)** | | | |
| SaskEnergy Incorporated | **71,305** | 70,996 | 70,707 |

[1] Retail, industrial and asset optimization.

[2] Sales in million cubic metres restated for 2019-20 due to a billing adjustment.

[3] A unit measuring the extent to which the temperature falls below 18° Celsius. Normal weather in 2020-21 (12 months ending March 31, 2021) would have been 5,558 degree days.

## OPERATING SUMMARY – TRANSMISSION

| | 2020-21 | 2019-20 | 2018-19 |
|---|---|---|---|
| Peak day natural gas flows (petajoules) | **1.59** | 1.55 | 1.50 |
| Date of peak day flow | **Feb. 12** | Jan. 15 | Feb. 7 |
| Storage cavern sites | **6** | 6 | 6 |
| Storage caverns | **19** | 18 | 18 |
| Storage field sites[1] | **4** | 4 | 4 |
| Producing field sites[1] | **1** | 1 | 1 |
| **NATURAL GAS LINE (kilometres)** | | | |
| TransGas Limited | | | |
| Transmission | **14,575** | 14,537 | 14,458 |
| Gathering | **167** | 167 | 167 |
| Many Islands Pipe Lines (Canada) Limited | **445** | 443 | 443 |
| Bayhurst Gas Limited | **22** | 22 | 22 |
| **TOTAL** | **15,209** | **15,169** | **15,090** |
| **SYSTEM COMPRESSION** | | | |
| TransGas Limited stations | **24** | 24 | 24 |
| Many Islands Pipe Lines (Canada) Limited stations | **1** | 1 | 1 |
| Bayhurst Gas Limited stations | **3** | 3 | 3 |
| Mobile compressor units | **17** | 17 | 17 |
| **COMPRESSION HORSEPOWER** | | | |
| TransGas Limited | **83,968** | 83,968 | 77,248 |
| Many Islands Pipe Lines (Canada) Limited | **5,040** | 5,040 | 5,040 |
| Bayhurst Gas Limited | **6,300** | 6,300 | 6,300 |
| **TOTAL** | **95,308** | **95,308** | **88,588** |

[1] Includes Bayhurst Gas Limited.

## QUARTERLY FINANCIAL AND OPERATING HIGHLIGHTS

| 2020-21 FINANCIAL HIGHLIGHTS ($ millions) | Q1 | Q2 | Q3 | Q4 | March 31, 2021 |
|---|---|---|---|---|---|
| Realized margin on commodity sales | $ 1 | $ - | $ 4 | $ 6 | **$ 11** |
| Realized margin on asset optimization sales | (4) | - | - | - | **(4)** |
| Delivery | 58 | 41 | 86 | 99 | **284** |
| Transportation and storage | 47 | 46 | 46 | 47 | **186** |
| Customer capital contributions | 2 | 8 | 8 | 31 | **49** |
| Total revenue | 104 | 95 | 144 | 181 | **526** |
| Employee Benefits | 25 | 22 | 24 | 31 | **102** |
| Operating and maintenance | 38 | 39 | 43 | 49 | **169** |
| Depreciation and Amortization | 29 | 28 | 29 | 31 | **117** |
| Saskatchewan taxes | 3 | 6 | 3 | 4 | **16** |
| Impairment loss on trade and other receivables | 2 | - | 2 | 1 | **5** |
| Net finances expenses | 13 | 14 | 14 | 14 | **55** |
| Other (gains) losses | (2) | - | - | 5 | **3** |
| Total expenses | 108 | 109 | 115 | 135 | **467** |
| Consolidated Income (loss) before unrealized market value adjustments | $ (4) | $ (14) | $ 29 | $ 46 | **$ 59** |
| Dividends declared | 3 | 2 | 8 | 8 | **21** |
| Cash provided by operating activities | 56 | 25 | 44 | 79 | **204** |
| Capital additions | (42) | (57) | (79) | (34) | **(212)** |
| **OPERATING HIGHLIGHTS** | | | | | |
| Distribution | | | | | |
| Energy distributed (petajoules) | 46 | 44 | 69 | 77 | **236** |
| Weather (compared to last 30 years) | -18% | -12% | -2% | 1% | **-2%** |
| Transmission | | | | | |
| Energy transported (petajoules) | 73 | 74 | 100 | 106 | **353** |

| 2019-20 FINANCIAL HIGHLIGHTS ($ millions) | Q1 | Q2 | Q3 | Q4 | March 31, 2020 |
|---|---|---|---|---|---|
| Realized margin on commodity sales | $ 2 | $ 1 | $ 11 | $ 9 | **$ 23** |
| Realized margin on asset optimization sales | 4 | 3 | (1) | (4) | **2** |
| Delivery | 54 | 41 | 90 | 99 | **284** |
| Transportation and storage | 46 | 48 | 47 | 46 | **187** |
| Customer capital contributions | 9 | 11 | 8 | 8 | **36** |
| Total revenue | 115 | 104 | 155 | 158 | **532** |
| Employee Benefits | 24 | 19 | 25 | 28 | **96** |
| Operating and maintenance | 37 | 39 | 40 | 48 | **164** |
| Depreciation and Amortization | 26 | 27 | 28 | 28 | **109** |
| Saskatchewan taxes | 3 | 6 | 3 | 4 | **16** |
| Impairment loss on trade and other receivables | - | 1 | 1 | 3 | **5** |
| Net finances expenses | 13 | 14 | 14 | 14 | **55** |
| Other (gains) losses | - | - | - | 21 | **21** |
| Total expenses | 103 | 106 | 111 | 146 | **466** |
| Consolidated Income (loss) before unrealized market value adjustments | $ 12 | $ (2) | $ 44 | $ 12 | **$ 66** |
| Dividends declared | - | - | 22 | 2 | **24** |
| Cash provided by operating activities | 61 | 48 | 58 | 103 | **270** |
| Capital additions | (56) | (101) | (101) | (58) | **(316)** |
| **OPERATING HIGHLIGHTS** | | | | | |
| Distribution | | | | | |
| Energy distributed (petajoules) | 48 | 36 | 66 | 84 | **234** |
| Weather (compared to last 30 years) | -3% | -12% | -5% | 1% | **-2%** |
| Transmission | | | | | |
| Energy transported (petajoules) | 88 | 95 | 107 | 111 | **401** |

## QUARTERLY YEAR-OVER-YEAR ANALYSIS

Operating results generally vary from quarter to quarter as a result of changes in general economic conditions and seasonal fluctuations. Results in one quarter are not necessarily indicative of how the Corporation will perform in a future quarter. Natural gas consumption has unique seasonal aspects as customers typically use natural gas as heating fuel during cold winter months through the third and fourth quarters.

### Fourth Quarter (three months ending March 31)

Income increased by $34 million, a result of customer capital contributions being $23 million higher in 2021 as customer projects were completed. Other losses were $16 million lower in 2021 and contributed to increased income in 2021. Winter weather was comparable year over year, contributing to similar revenue patterns.

### Third Quarter (three months ending December 31)

Income decreased $15 million in 2020 as commodity margins declined $7 million, a result of higher natural gas market prices increasing the average cost of commodity purchases. Delivery revenue decreased $4 million as weather was slightly colder than the prior year.

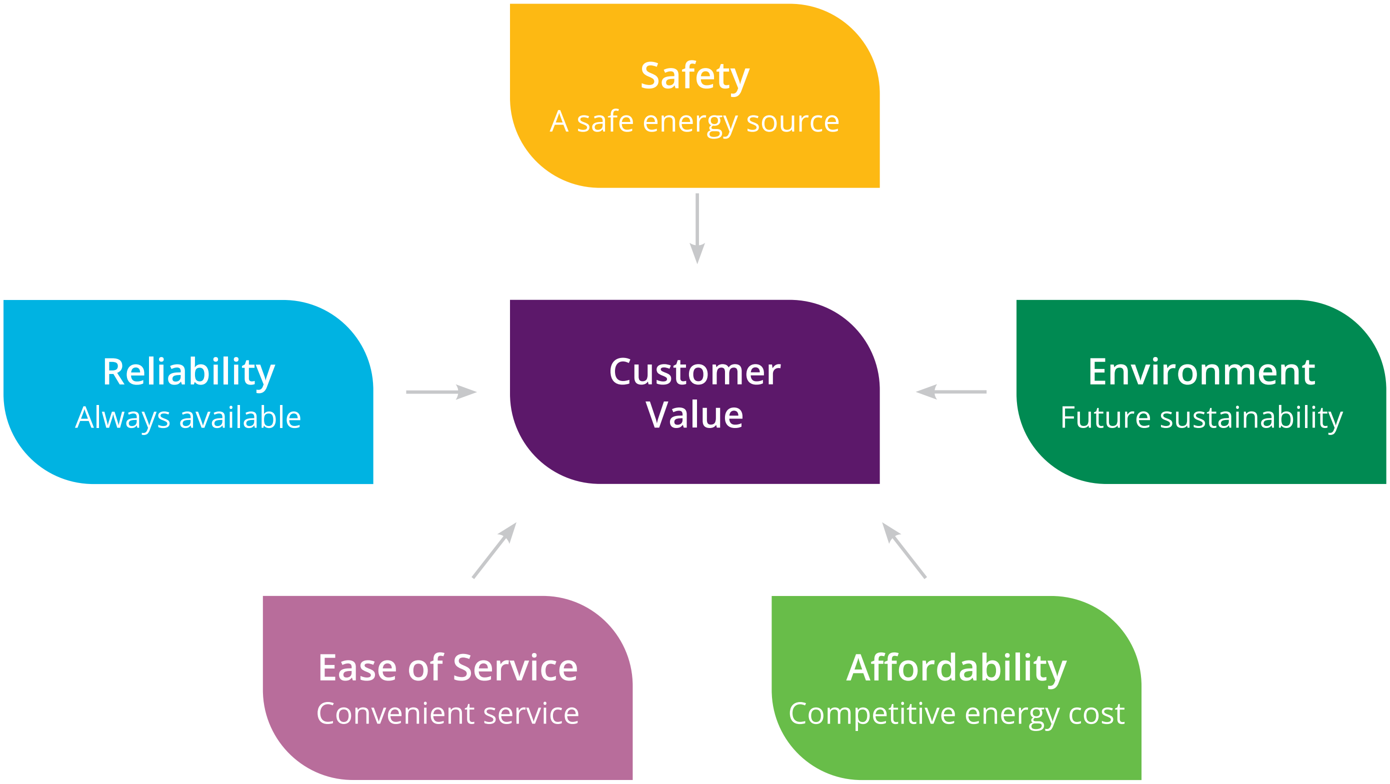
### Second Quarter (three months ending September 30)

The net loss realized in 2020 was $12 million higher, due to transportation and storage revenue declining $2 million in 2020 and customer capital contributions being $3 million lower in 2020. Employee benefit costs also increased in 2020, a result of filling vacant positions.

### First Quarter (three months ending June 30)

A loss of $4 million in 2020 was $16 million lower than $12 million of income realized in 2019 as reduced volatility in natural gas market prices limited asset optimization opportunities. In addition, customer capital contributions were $7 million higher in 2019 as customer projects were completed.

# *Delivering Value to Our Customers*




Our customers are the reason we exist, and delivering value to customers is paramount to SaskEnergy. We strive to provide value to our customers by focusing on five key strategic imperatives:

### Safety

- Committed to the safety of our people and the public
- Continuous improvement of safety-related work practices
- Collaboration with other agencies and associations

### Reliability

- Competitive advantage compared to other energy sources
- 24/7 service delivery
- Few unplanned service interruptions

### Affordability

- Stable and competitive rates
- Lowest cost energy source in Saskatchewan
- Delivery charges among the lowest in Canada

### Environment

- Responsible energy company
- Committed to a lower carbon future
- Help customers meet their environmental aspirations
- Reduce impact of operations on the environment

### Ease of Service

- Convenient and responsive service

# *Management's Discussion and Analysis*

## INTRODUCTION

The Management's Discussion and Analysis (MD&A) highlights the primary factors that affected SaskEnergy's consolidated financial performance for the 12 months ending March 31, 2021. Using financial and operating results as its basis, the MD&A describes the Corporation's past performance and future prospects, enabling readers to view SaskEnergy from the perspective of management. The MD&A is presented as at May 19, 2021, and should be read in conjunction with the Corporation's audited consolidated financial statements, which have been prepared in accordance with International Financial Reporting Standards (IFRS).

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

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

## STRATEGIC SCORECARD MEASURES

In late 2020-21, SaskEnergy introduced a Corporate Plan that focuses on strategies to address the rapidly changing operating environment. The Plan includes a new vision, corporate vision, mission, values and strategic imperatives, which align with the Crown Sector Strategic Priorities identified by CIC.

To meet the Corporation's strategic imperatives and create value for customers, SaskEnergy will improve operational efficiency and focus on sustainability — providing reliable, affordable energy to customers while recognizing their desire for a cleaner energy future.

SaskEnergy is committed to reducing the impact of daily operations on the environment and to assisting customers in reducing their end-use emissions. This will be achieved by increasing budgets for energy efficiency and low carbon programs for customers. The Corporation will also continue to reduce emissions from internal operations through environmental and sustainability programs. At the same time, SaskEnergy will support Saskatchewan's economy now and in the future by investing in the communities it serves by buying local, enhancing procurement processes, and rewarding vendors that demonstrate Saskatchewan content and Indigenous participation. SaskEnergy's success is driven by its employees, and they are recognized for the value they provide, their diversity, and their role in the Corporation's future sustainability.

Each year, as part of the strategic planning process, SaskEnergy aligns performance metrics in the scorecard to track progress toward achieving its strategy. The final scorecard, including metrics and targets for the five-year planning horizon, is presented to SaskEnergy's Board of Directors as part of the annual Corporate Plan approval. The CIC Board reviews the Plan and confirms compliance with the Crown Sector Strategic Priorities prior to its approval. Progress toward these targets is monitored and reported throughout the year, allowing management to take any corrective action to achieve the targets.

SaskEnergy's balanced scorecard is focused on four quadrants — Organizational, Operations, Financial and Customer. Strategic actions within the Organizational and Operations quadrants will produce desired results in the Customer and Financial quadrants.

The following discussion outlines the Corporation's 2020-21 performance relative to its strategic scorecard targets for the 12 months ending March 31, 2021, and provides targets for the new measures identified within the Plan. All measures are defined in the Glossary of Key Success Measures.

## Vision

Environmental sustainability and economic prosperity for future generations.

## Corporate Vision

Providing critical energy for a greener Saskatchewan and reducing our emissions from operations by 35 per cent by 2030.

## Mission

SaskEnergy delivers natural gas and energy solutions responsibly to the residents, businesses and industries of Saskatchewan.

| Quadrant | Strategic Action |
|---|---|
| ORGANIZATIONAL | 1.1 Alignment<br>1.2 Operational Governance<br>1.3 Safe and Inclusive Culture<br>1.4 Workforce Development<br>1.5 Technology |
| OPERATIONS | 2.1 Project Execution Excellence<br>2.2 Operational Excellence<br>2.3 Data-Driven Operations<br>2.4 Customer Experience<br>2.5 Greener Energy Provider |
| | **Outcomes** |
| FINANCIAL | 3.1 Debt-to-Equity Ratio, Regulated Return on Equity (ROE), Operating and Maintenance (O&M) per Customer, O&M per Book Value of Assets, Delivery Rates<br>3.2 Investment in Green Initiatives |
| CUSTOMER | 4.1 Residential and Business<br>*"SaskEnergy is the best energy value choice for me. Service is seamless and easy to access when I need it."*<br>4.2 Industrial<br>*"Natural gas is reliable and affordable. It allows me to operate efficiently and contribute to the Saskatchewan economy."* |

## ORGANIZATIONAL

The right organizational structure, technology and a talented workforce are crucial for bringing business strategy to life. SaskEnergy's organizational design focuses on the entire talent ecosystem to build the team, and skills, for the future.

| Organizational Strategic Measures | March 31, 2020 Actual | March 31, 2021 Actual | March 31, 2021 Target | March 31, 2022 Target | March 31, 2023 Target | March 31, 2024 Target | March 31, 2025 Target | March 31, 2026 Target |
|---|---|---|---|---|---|---|---|---|
| Safety Culture | | | | | | | | |
| Total Recordable Injury Frequency Rate | 2.31 | **1.43** | 1.88 | 1.78 | 1.81 | 1.69 | 1.62 | 1.50 |
| Injury Severity Rate | N/A | **N/A** | N/A | 16.0 | 15.0 | 14.0 | 13.0 | 12.0 |
| Workforce Development | | | | | | | | |
| Representative Workforce | | | | | | | | |
| • Women in Management Roles | N/A | **N/A** | N/A | 42.0% | 42.5% | 43.0% | 43.5% | 44.0% |
| • Indigenous | 14.5% | **14.0%** | 16.0% | 14.5% | 15.0% | 15.5% | 16.0% | 16.5% |
| Employee Experience | Non-survey year | **Below Public Sector Average** | Public Sector Average | Non-survey year | Above Public Sector Average | Non-survey year | Above Public Sector Average | Non-survey year |

### Safety Culture

Employee and public safety are at the core of SaskEnergy's work activities. Hazard identification, risk assessment and mitigation, and sharing learnings to promote awareness and continual improvement are safety priorities throughout the organization.

At the end of the 2020-21 fiscal year, SaskEnergy achieved a Total Recordable Injury Frequency Rate (TRIF) of 1.43, meaning there were 1.43 recordable injuries for every 100 full-time employees. This is a decrease from both the 2019-20 TRIF of 2.31 and the TRIF target of 1.88, and is the lowest TRIF in the Corporation's history.

SaskEnergy believes that a strong safety culture informs individual and collective decisions made each day by employees and contractors, and will ultimately result in success in this priority area.

Key safety initiatives undertaken include:

- public safety efforts to continue to decrease the number of third-party line contacts with buried infrastructure;
- collaboration with industry peers and third-party consultants to measure, evaluate and effectively manage safety culture;
- a continued focus on process safety, as well as streamlined business processes to assess and mitigate risk; and
- reinforcing the corporate framework for safety communication and awareness to inform and support operational areas.

In addition to a focus on safety, SaskEnergy takes a number of specific actions toward emergency preparedness. Through the corporate Emergency Management Program, SaskEnergy develops, trains and practices for emergencies to minimize their effects to customers, employees and communities. Some key actions include:

- emergency response training for key staff;
- incident command training, table top exercises and full-scale exercises;
- natural gas awareness training for first responders throughout Saskatchewan; and
- cooperative and coordinated emergency response efforts with other utilities, ministries and agencies in the province.

The Injury Severity Rate is a new measure being reported beginning in 2021-22. It measures the number of lost worker days, due to injury, per 100 workers.

### Workforce Development

Recognizing that employees drive the success of the organization, SaskEnergy is committed to providing learning and development opportunities that prepare its workforce for the future. Workforce development includes enhancing capabilities to match a more digital and greener world, as well as a focus on coaching, mentoring, leadership development and succession.

#### Representative Workforce

Aligned with Crown Sector Strategic Priorities, SaskEnergy aims to have a workforce reflective of Saskatchewan's population by providing opportunities to qualified people, and recognizing that Indigenous people represent a large portion of Saskatchewan's current and future labour force. Actual results were slightly below the targeted benchmark due to reduced hiring activity. This can be attributed to the impact of the pandemic health crisis coupled with the challenging economic conditions that the energy sector is experiencing.

Women in management roles, including professionals, has been added as a new measure for future years. SaskEnergy's percentage is currently lower than the Saskatchewan Human Rights Commission's recommended target and is an area of focus toward developing a diverse and inclusive workforce.

#### Employee Experience

SaskEnergy is committed to the attraction, retention and engagement of employees. Employee experience is primarily dependent on a positive corporate culture, supportive managers/supervisors, trust in leadership and opportunities to perform meaningful work.

An employee engagement survey was conducted in February 2021, which measured SaskEnergy's results to the public sector norm. The survey produced a variety of data points, including the overall engagement score, which is slightly below the public sector norm. However, the Corporation's engagement score increased from the prior survey, which is commendable, particularly in light of these unprecedented times. SaskEnergy is implementing a comprehensive action plan that includes connecting diversity and inclusion initiatives to the Corporation's strategy, recruiting from a larger talent pool, and targeting learning and development to diverse groups.

## OPERATIONS

These strategic actions are categorized as sustaining SaskEnergy's core business of delivering safe, reliable and affordable natural gas to its customers, and advancing the Corporation's business into the future.

| Operations Strategic Measures | March 31, 2020 Actual | March 31, 2021 Actual | March 31, 2021 Target | March 31, 2022 Target | March 31, 2023 Target | March 31, 2024 Target | March 31, 2025 Target | March 31, 2026 Target |
|---|---|---|---|---|---|---|---|---|
| Operational Excellence | | | | | | | | |
| Distribution – Operating and Maintenance Costs per Customer | $330 | **$337** | $353 | $340 | $345 | $345 | $345 | $350 |
| Transmission – Operating and Maintenance Costs per Book Value of Assets Managed | 6.6% | **6.7%** | 6.5% | 6.4% | 6.7% | 6.8% | 7.0% | 7.4% |
| Residential Delivery Rates | Competitive | Competitive | Competitive | Competitive | Competitive | Competitive | Competitive | Competitive |
| Unplanned Distribution Customer Outages Events | N/A | **33** | 49 | 48 | 48 | 48 | 47 | 47 |
| Greener Energy Provider | | | | | | | | |
| Output Based Performance Standard (OBPS) – Emissions (Tonnes of $CO_2e$/MWh) | N/A | **0.62** | 0.58 | 0.68 | 0.66 | 0.64 | 0.62 | 0.60 |

## Operational Excellence

In alignment with the Crown Sector Priority of financial stability, and with a continued emphasis on operational efficiency, SaskEnergy is committed to the cost-effective delivery of natural gas services to its customers. This will be accomplished through operational excellence in daily operations, capital expenditures and effective resourcing.

Distribution Operating and Maintenance Costs per Customer were better than target in 2020-21. Customer growth was higher than target, with 3,001 net new customers compared to the 2,300 that were anticipated. Efficiency initiatives and vacancy management also contributed to SaskEnergy exceeding the efficiency target by year end.

Major projects that focus on customer service and technological efficiencies were completed during the year.

Transmission Operating and Maintenance Costs per Book Value of Assets Managed is slightly higher than target. Cost savings were achieved through continued focus on efficiencies and vacancy management; however, lower capital additions resulted in the net book value of property, plant and equipment and intangible assets being lower than planned.

SaskEnergy achieved its goal of having competitive residential delivery rates with the major utilities across Canada. A typical residential customer in Regina paid $556 for delivery service in 2020-21, which is the third-lowest rate in Canada. Hamilton, Ontario remains the lowest with a rate of $432 for a typical customer. SaskEnergy also had the third-lowest total residential natural gas utility rate (delivery and commodity combined) in Canada.

SaskEnergy provides price protection for its distribution customers through the practice of hedging natural gas purchases. As a result, customers typically pay higher costs for natural gas but are not subject to the volatility of market prices.

Unplanned Distribution Customer Outages Events are unplanned outages that arise from activities such as third-party damage (line hits), operator error, facilities failure and security issues. During 2020-21, there were a total of 33 reported outages, which is below the target of 49 outages for the year.

## Greener Energy Provider

SaskEnergy continues to concentrate on environmental sustainability throughout its operations by measuring the intensity of greenhouse gas (GHG) emissions relative to the amount of compression used to transport natural gas. This measure is calculated using a cumulative average at the end of each quarter.

In 2020-21, SaskEnergy introduced a revised environmental success measure. This measure continues to focus on the intensity of GHG emissions per unit of compression, as in previous years, but was modified to reflect the federal emissions metric created by Environment and Climate Change Canada for the transmission industry under the federal Output Based Pricing System (OBPS). The metric is mainly influenced by fuel combustion and flaring, and will fluctuate throughout the year based on operational requirements.

## FINANCIAL

SaskEnergy is committed to the long-term sustainability of the Corporation, measured through its debt-to-equity ratio, and its regulated return on equity on both the distribution and transmission divisions. Achieving a greener energy future is also a high priority.

| Financial Strategic Measures | March 31, 2020 Actual | March 31, 2021 Actual | March 31, 2021 Target | March 31, 2022 Target | March 31, 2023 Target | March 31, 2024 Target | March 31, 2025 Target | March 31, 2026 Target |
|---|---|---|---|---|---|---|---|---|
| Debt/Equity Ratio | 58/42 | **58/42** | 61/39 | 59/41 | 59/41 | 59/41 | 58/42 | 56/44 |
| Regulated Return on Equity - Distribution | N/A | **N/A** | N/A | 7.4% | 8.3% | 8.3% | 8.3% | 8.3% |
| Regulated Return on Equity - Transmission/Storage | N/A | **N/A** | N/A | 6.3% | 8.57% | 8.57% | 8.57% | 8.57% |
| Investment in Green Initiatives ($millions) | N/A | **N/A** | N/A | $4 | $5 | $6 | $6 | $6 |

### Financial Strength

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

SaskEnergy's financial performance in 2020-21 reflected its proven commitment to safely deliver natural gas to its customers in Saskatchewan. Weather was two per cent colder than normal, resulting in higher delivery revenue that was partly offset by anticipated rate increases that did not occur as planned. SaskEnergy completed two large customer projects during 2020-21, which resulted in higher than expected customer capital contributions. Industrial customer demand was impacted by the collapse in global oil prices early in the year, which led to lower than planned transportation and storage revenue, partially offsetting the favourable revenue variances.

The collapse in global oil prices, along with the COVID-19 pandemic, negatively impacted SaskEnergy's customers and created uncertainty around how financial results would be affected. In response, SaskEnergy re-organized its resources to focus efforts on essential core work, dedicating employees to this work and reducing the number of embedded contractors. Vacant positions were also managed to align resources with core work. These two actions resulted in significant savings in both employee obligations and contract and consulting services. In addition, savings were realized in travel-related expenses due to the restrictions on travel outside and within the province.

In addition to operating expense reductions, SaskEnergy reduced its capital program by approximately 40 per cent to align to customer demand. This resulted in lower actual depreciation and interest costs than were budgeted assuming the higher capital outlay.

SaskEnergy's net income before unrealized market value adjustments was $59 million in 2020-21, which was $7 million lower than the $66 million realized in the previous year. This resulted in a consolidated debt-to-equity ratio of 58 per cent debt and 42 per cent equity at March 31, 2021, which is within the target range of 58 to 63 per cent debt.

Three new measures are being introduced in 2021-22. The Regulated Return on Equity for both distribution and transmission and storage is a measure that better aligns with industry, providing more comparable results. The measure for Investment in Green Initiatives demonstrates SaskEnergy's commitment to a greener energy future.

## CUSTOMER

Residential and business customers use natural gas primarily for heating. The outcome the Corporation is striving for is that these customers consider SaskEnergy as the best energy value choice for them, including seamless service and easy access when needed.

Large industrial customers use natural gas primarily in their processes. For these customers, the outcome the Corporation is striving for is that they consider SaskEnergy's natural gas as reliable and affordable, allowing them to operate efficiently and contribute to the Saskatchewan economy.

| Customer Strategic Measures | March 31, 2020 Actual | March 31, 2021 Actual | March 31, 2021 Target | March 31, 2022 Target | March 31, 2023 Target | March 31, 2024 Target | March 31, 2025 Target | March 31, 2026 Target |
|---|---|---|---|---|---|---|---|---|
| SaskEnergy Customer Satisfaction | 91% | **89%** | 90% | 90% | 90% | 90% | 90% | 90% |
| TransGas Customer Satisfaction | 85% | **87%** | 86% | 87% | 88% | 90% | 90% | 90% |

### Customer Experience

SaskEnergy believes that a true indicator of its success in delivering safe and reliable service is formal feedback from customers. Continuing to provide a high level of customer service that is efficient and effective is a key objective for the Corporation. SaskEnergy and TransGas conduct annual surveys in an effort to gather feedback on customer experiences, expectations and overall satisfaction.

SaskEnergy achieved an overall customer satisfaction score of 89 per cent in 2020-21. The customer satisfaction survey results indicated that customers are asking for additional programs and communication. Several programs and advertising campaigns were launched in 2020-21, such as the residential high-efficiency equipment rebate program, the carbon monoxide alarm in-store rebate program, and the Tune-Up Assistance Program.

In addition, SaskEnergy partnered with Big Block Construction on the first Net Zero multi-unit residential building in Saskatchewan. This innovative building includes right sized, high efficient furnaces with on-site energy consumption offset by renewable energy production. Big Block used social channels to recognize SaskEnergy and the role of natural gas in Net Zero rated buildings. They emphasized natural gas providing reliable heating through cold winters while still maintaining a focus on responsible energy use.

The 2020-21 TransGas customer survey results indicated that 87 per cent of customers are satisfied with TransGas. The result captures a range of feedback, from service delivered by key personnel to reliability of service, outages, customer facilities and value statements. TransGas continues its efforts to improve service quality in an effort to increase satisfaction levels to those seen in past years.

## OPERATING ENVIRONMENT

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

### Energy Transition Uncertainty

It has been more than a year since the start of a global pandemic; however, the energy complex still retains a high level of uncertainty. While the short-term outlook may show some stability, the medium-to-long term remains unclear as countries and companies plan for a complicated future.

More than 70 per cent of natural gas produced in Saskatchewan is associated with oil production. A collapse in oil prices at the start of the pandemic resulted in minimal oil wells drilled in Saskatchewan for a good part of 2020, leading to a decline in provincial natural gas supply. Oil prices have since fully recovered to their pre-pandemic levels with global demand nearing 2019 levels despite continued restrictions to energy intensive industries — particularly travel. Early 2021-22 is likely to see incremental production out of OPEC countries; this production should be met with incremental demand or, at the very least, available storage capacity.

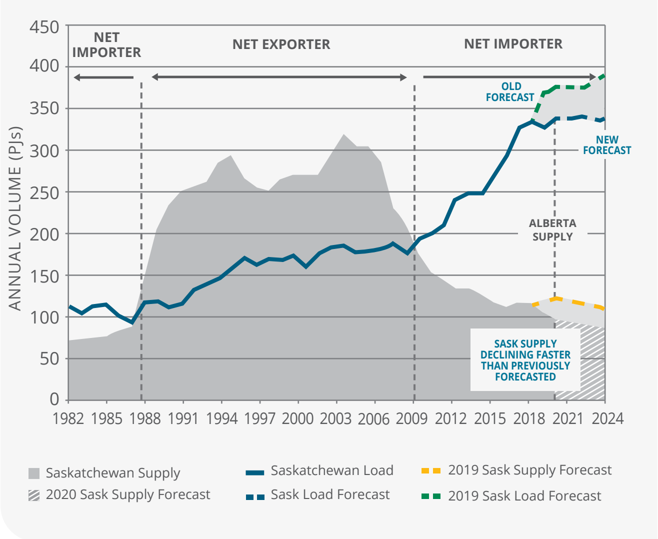
Regulatory uncertainty remains a significant concern. In January, the Keystone XL presidential permit was rescinded, limiting future export capacity for Alberta's oil sands. Incremental capacity is still expected from the Trans Mountain expansion to the West Coast, though construction has been delayed to mitigate potential damage to migratory bird populations. The U.S. Army Corps of Engineers is expected to proceed with an environmental impact assessment on the Dakota Access Pipeline; this is notable as these assessments typically occur prior to construction, but the line has been active since 2017. The line is expected to remain in-service awaiting the results of the assessment, though that status remains at risk.

Regulatory uncertainty is not confined to high-profile oil pipelines, as local gas projects are also affected. In a near identical situation as the NGTL 2021 Expansion delay that directly impacted SaskEnergy contracts, NGTL's Edson Mainline project has been delayed due to final federal approvals. SaskEnergy has no contractual association with this project, but benefits from facilities that balance supply and demand in Alberta.

### Natural Gas Demand

Despite a decade of dramatically shifting changes to the provincial supply-demand balance, this year's changes to forecasted supply and demand stand out for their size year-on-year. Local supply continues to trend toward increased dependence on associated gas; this leaves local supply highly dependent on the volatile global oil market. Low oil prices and capital restraint in the early days of the pandemic may have contributed to lower supply through fiscal 2020-21. Reduction to the demand forecast was driven by customer de-contracting and lower utilization of remaining contracts.

**CHANGE IN SASK SUPPLY & DEMAND**




### Natural Gas Prices

Despite future uncertainty, existing facilities in Alberta and Saskatchewan performed well through a very challenging winter season.

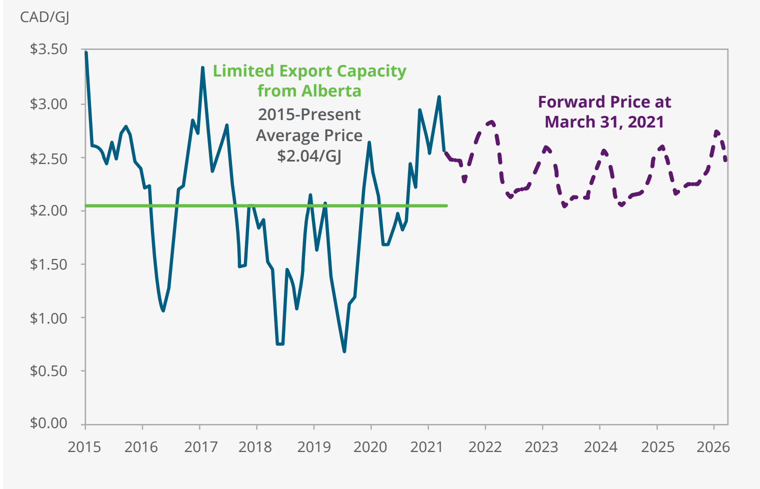
Winter in Saskatchewan was one per cent warmer than normal, but the province and the continent experienced an extreme cold weather event through the middle of February. Local production was reduced by approximately 20 per cent due to freeze-offs and this deficit was met with historically large draws from seasonal storage. Energy suppliers in the United States are not as well equipped to manage such weather extremes and, as a result, saw a number of short-term price anomalies. Some gas in Oklahoma traded for as much as US$1,250/MMbtu (~CDN$1,400/gigajoule (GJ)). Freezing nuclear and renewable sources further complicated the situation in Texas leaving millions without power for days.

Looking forward, some Alberta curtailments are expected through summer 2021 as delayed projects are finally placed into service (summer curtailments occur every year for maintenance and construction tie-ins). Barring complications with storage injections, these curtailments should have minimal impact to SaskEnergy and its customers. Access to storage remains a high priority for Alberta pipelines with modifications to storage services expected to be filed with the regulator. This filing is not expected to drastically alter the way storage is accessed; it will provide an opportunity to obtain a firm level of storage access — contrasted with the current, fully interruptible service.

The AECO daily index averaged $2.37 per GJ throughout the 12 months ending March 31, 2021 compared to $1.53 per GJ the year prior — the largest portion of the difference coming from more stable summer pricing. While not as strong as other locations, locally, the fourth quarter saw significant volatility averaging $2.96 per GJ compared to $1.93 per GJ the year earlier with some transactions occurring over $10.00 per GJ. Traditionally, most natural gas in Saskatchewan (TEP) is priced at a differential to the AECO price. This AECO to TEP differential for the 12 months ending March 31, 2021 averaged $nil compared to $0.40 per GJ for the year prior. The decreased differential can be attributed to upstream system improvements removing system constraints. As transportation is made more readily available from production areas in northeast British Columbia to delivery points in southwest Saskatchewan, the price differentials should remain near the marginal cost of transportation.

The following chart shows AECO natural gas prices:

**AECO MONTHLY INDEX HISTORICAL PRICES**




## Coronavirus (COVID-19) Impact Assessment

The COVID-19 pandemic has caused material disruption to businesses and has resulted in an economic slowdown. SaskEnergy has assessed and continues to monitor the impact of COVID-19 on its operations. The magnitude and duration of COVID-19 is uncertain and, if it causes significant disruption for an extended period of time, the impacts to the Corporation will increase. Potential impacts include loss of revenue, supply chain disruption, challenges associated with a remote or unavailable workforce and potential asset impairment.

SaskEnergy's business continuity plans are currently in place while the Corporation continues to effectively operate assets, conduct commercial activities and execute on projects with a focus on health, safety and reliability. SaskEnergy is considered essential for the province of Saskatchewan given the important role the Corporation's infrastructure plays in providing energy to customers.

While it is too early to determine any long-term impacts COVID-19 may have on capital programs, a slowdown of construction activities and capital expenditures related to customers deferring their expansion plans in 2020 were observed.

# CONSOLIDATED FINANCIAL RESULTS

## Consolidated Net Income

| (millions) | March 31, 2021 | March 31, 2020 | Change |
|---|---|---|---|
| Income before unrealized market value adjustments | **$ 59** | $ 66 | $ (7) |
| Impact of fair value adjustments | **15** | (30) | 45 |
| Revaluation of natural gas in storage | **7** | 7 | - |
| **Consolidated net income** | **$ 81** | $ 43 | $ 38 |

Income before unrealized market value adjustments exceeded expectations for 2020-21, but remained $7 million lower than 2019-20. This was a result of lower commodity and asset optimization margins, combined with higher employee benefit costs, operating and maintenance expenses and depreciation and amortization. Higher customer capital contributions and lower losses recognized in 2020-21 partially offset the unfavourable variances.

The AECO daily index average was $0.84 per GJ higher for the 12 months ending March 31, 2021 compared to the year prior, which reduced commodity and asset optimization margins. Increasing transportation requirements are contributing to higher overall operating and maintenance costs, plus lower asset optimization margins as a component of the transport capacity was secured through asset optimization contracts. Employee benefit costs increased compared to the prior year as certain vacant positions were filled in key areas of the Corporation. Depreciation and amortization expenses increased in 2020-21, compared to 2019-20, due to additional capital investment in the depreciable asset base.

Customer capital contributions increased in 2020-21 compared to the prior year as a large capital project for a transmission customer was completed in the fourth quarter and the related customer contribution was recognized. Losses on disposal of assets declined to normal levels in 2020-21 compared to the prior year. During 2019-20, other losses were recorded as the Corporation wrote off storage cavern exploration costs and natural gas inventory at one of its storage facilities.

Stronger natural gas market prices resulted in the price differential between contract prices on asset optimization purchase contracts and future market prices improving $0.32 per GJ in 2020-21 compared to 2019-20. This resulted in a favourable fair value adjustment in 2020-21. In addition, natural gas market prices were higher than the cost of natural gas in storage at March 31, 2021, which positively affected the revaluation of natural gas in storage and resulted in a favorable impact on consolidated net income.

CONSOLIDATED FINANCIAL RESULTS


### Natural Gas Sales and Purchases

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

With the exception of those contracts entered into for an entity's normal usage, IFRS requires derivative instruments such as natural gas purchase and sales contracts to be recorded at fair value until their settlement date. Changes in the fair value of the derivative instruments, driven by changes in future natural gas prices, are recorded in net income through natural gas sales or natural gas purchases depending on the specific contract. Upon settlement of the natural gas contract, the amount paid or received by SaskEnergy becomes realized and is recorded in natural gas sales or purchases.

## Commodity Margin

SaskEnergy sells natural gas to its distribution customers at a commodity rate approved by Provincial Cabinet based on the recommendations of the Saskatchewan Rate Review Panel (SRRP). The commodity rate, which is reviewed April 1 and November 1 of each year, is determined based on rate-setting principles and is designed to recover the realized costs associated with the sale of natural gas to distribution customers. Regulatory principles require that utilities do not earn a profit or realize losses on the sale of gas to customers over the long term. Consequently, SaskEnergy accumulates differences between the commodity revenue earned and the cost of natural gas sold in a Gas Cost Variance Account (GCVA). The balance in the GCVA, which is not included in SaskEnergy's financial statements, is either recovered from, or refunded to, customers as part of future commodity rates.

For financial reporting purposes, SaskEnergy 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 IFRS consolidated financial statements. A gain or loss reported in the Corporation's consolidated financial statements may not be reflected in the GCVA.

SaskEnergy's natural gas price risk management program has two objectives: to reduce the impact of natural gas price volatility on the cost of gas, and to support rates that are competitive with other utilities. Reducing the impact of price volatility requires establishing certainty in the cost of gas, while supporting competitive rates often means allowing purchase prices to follow market prices. As a result, the balance between the two opposing objectives may change depending on current market conditions.

In order to ensure a secure supply of natural gas, SaskEnergy contracts for the physical delivery of natural gas using non-financial derivatives, referred to as forward or physical natural gas contracts. The purchase price contained in these forward contracts may be fixed, or it may be based on a variable index price. While fixed price contracts reduce the impact of natural gas price volatility, variable or market prices can assist in offering competitive rates depending on the pricing environment. SaskEnergy may also use financial derivatives and physical swaps to manage the future purchase price of natural gas.

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

| (millions) | March 31, 2021 | March 31, 2020 | Change |
|---|---|---|---|
| Commodity sales | **$ 169** | $ 165 | $ 4 |
| Commodity purchases | **158** | 142 | (16) |
| Realized margins on commodity sales | **11** | 23 | (12) |
| Unrealized fair value adjustments | **8** | 6 | 2 |
| Margin on commodity sales | **$ 19** | $ 29 | $ (10) |

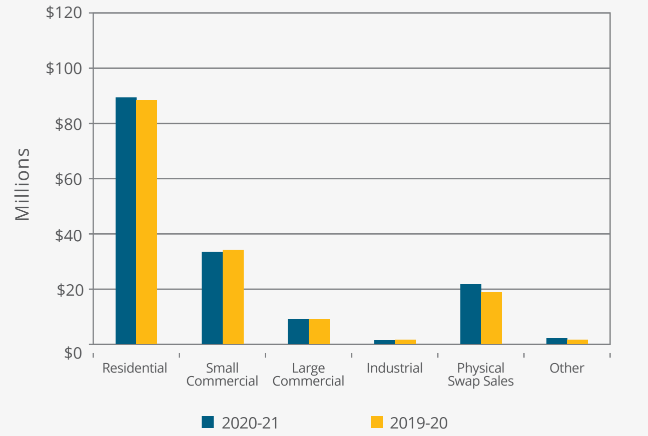
The realized margin on commodity sales excludes the impact of unrealized fair value adjustments on derivative instruments, as these adjustments can fluctuate significantly from one period to the next and do not necessarily represent the amount that will be paid upon settlement of the related natural gas contract.

The Corporation's realized margin on commodity sales for the 12 months ending March 31, 2021 was $12 million lower than the same period ending March 31, 2020. During 2020-21, the average commodity margin was $0.18 per GJ lower than the average commodity margin of $0.35 per GJ through 2019-20.

With the AECO daily index increasing to an average of \$2.37 per GJ throughout 2020-21 compared to \$1.53 per GJ the year prior, the effect was a higher average commodity purchase cost in 2020-21, which decreased the realized margin on commodity sales. Meanwhile the GCVA balance was \$6 million owing from customers at March 31, 2021 compared to \$13 million owing to customers at March 31, 2020, also a result of the AECO daily index increasing commodity purchase costs and reducing the realized margin.

The Corporation partially mitigates the impact of increasing natural gas market prices through physical swap sales contracts, which had a favourable impact on the 2020-21 margin compared to 2019-20.

**COMMODITY REVENUE**




## Commodity Fair Value Adjustments

For the 12 months ending March 31, 2021, the fair value adjustment on commodity derivative instruments increased the margin on commodity sales by \$8 million as the \$4 million favourable fair value position at March 31, 2020 increased to \$12 million favourable at March 31, 2021. The favourable price differential between contract prices and market prices on future commodity purchase contracts increased to \$0.33 per GJ at March 31, 2021 compared to a favourable price differential of \$0.08 per GJ at March 31, 2020.

SaskEnergy segregates a portion of its natural gas purchase contracts for gas that will ultimately be sold to commodity customers. Under IFRS, such contracts are not required to be reported at market value.

## Asset Optimization Margin

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

The asset optimization margin, as reported in the consolidated financial statements, was as follows:

| (millions) | | March 31, 2021 | | March 31, 2020 | | Change |
|---|---|---|---|---|---|---|
| Asset optimization sales | **$** | **117** | $ | 144 | $ | (27) |
| Asset optimization purchases | | **121** | | 142 | | 21 |
| Realized margins on asset optimization sales | | **(4)** | | 2 | | (6) |
| Unrealized fair value adjustments | | **7** | | (36) | | 43 |
| Revaluation of natural gas in storage | | **7** | | 7 | | - |
| Margin on asset optimization sales | **$** | **10** | $ | (27) | $ | 37 |

The realized margin on asset optimization sales for the 12 months ending March 31, 2021, which removes fair value adjustments on derivative instruments and the revaluation of natural gas in storage, was $6 million lower than the same period ending March 31, 2020.

In the fall of 2020, TC Energy was able to bring new gas line facilities into service, thereby allowing for more natural gas to flow out of Alberta. Natural gas production in Alberta was previously constrained by limited gas line capacity. This resulted in AECO prices strengthening to be more in line with North American natural gas prices.

During 2020-21, the average margin on realized asset optimization sales was $0.07 per GJ unfavourable. The margin is $0.09 per GJ lower than the favourable average margin of $0.02 per GJ through the same 12-month period in 2019-20. Natural gas market prices demonstrated less volatility through the 12 months ending March 31, 2021 compared to the same period in 2020, limiting SaskEnergy's asset optimization opportunities as sales volumes decreased 21 PJs in 2020-21 compared to 2019-20.

## Asset Optimization Fair Value Adjustments

The Corporation enters into various natural gas contracts in its asset optimization strategies, which are subject to volatility of natural gas market prices until the natural gas contracts are realized. The impact of the unrealized fair value adjustment on asset optimization derivative instruments increased the margin on asset optimization sales by $7 million compared to a decrease of $36 million for the same period in 2019-20. Stronger natural gas market prices resulted in the price differential between contract prices and market prices on future asset optimization purchase contracts improving to $0.12 per GJ favourable at March 31, 2021 compared to an unfavourable price differential of $0.20 per GJ at March 31, 2020. This $0.32 per GJ favourable change in the price differential on asset optimization purchase contracts in 2020-21 resulted in a $10 million favourable fair value adjustment. This was partially offset by the $3 million unfavourable variance related to a $0.21 per GJ increase in the unfavourable price differentials on outstanding asset optimization sale contracts.

## Revaluation of Natural Gas in Storage

At each reporting period, the Corporation measures the net realizable value of natural gas in storage held for asset optimization transactions based on forward market prices and anticipated delivery dates. The carrying amount of natural gas in storage is adjusted to reflect the lower of weighted average cost and net realizable value. Asset optimization natural gas in storage was recorded at weighted average cost at March 31, 2021 and equaled net realizable value. With near term forward natural gas market prices increasing since March 2020, the $7 million unfavourable net realizable value adjustment recorded at March 31, 2020 was recovered, having a $7 million favourable impact on 2020-21 net income.

## Revenue

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

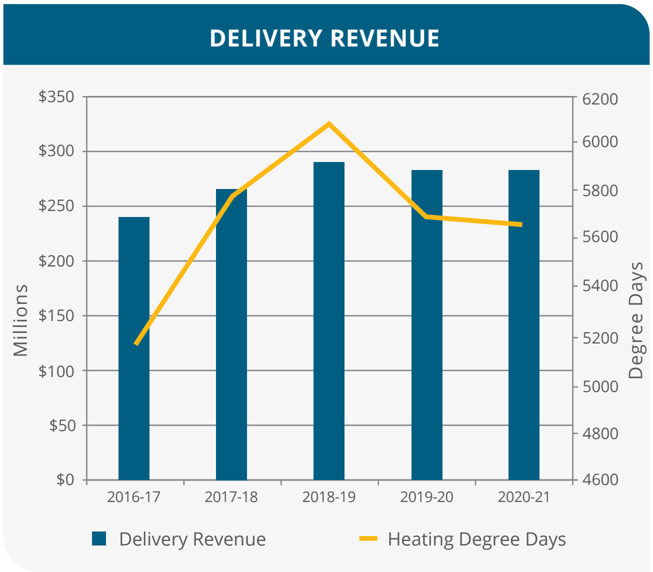
| (millions) | March 31, 2021 | March 31, 2020 | Change |
|---|---|---|---|
| Delivery revenue | **$ 284** | $ 284 | $ - |
| Transportation and storage revenue | **186** | 187 | (1) |
| Customer capital contributions | **49** | 36 | 13 |
| Revenue | **$ 519** | $ 507 | $ 12 |

## Delivery Revenue

Delivery revenue is driven by the number of customers and the amount of natural gas they consume. Weather is the external factor that most affects delivery revenue, as residential and commercial customers consume natural gas primarily as heating fuel. Delivery revenue for the 12 months ending March 31, 2021 equaled 2019-20 as weather was two per cent colder than normal in both periods.

The Corporation added 3,001 customers through the 12 months ending March 31, 2021, which was higher than the 2,459 customers added during the previous fiscal period. The addition of new customers contributed additional revenue in 2020-21 but was equally offset by decreasing revenue from commercial customers.

In alignment with the Crown Sector Strategic Priorities, the Corporation continues to focus on providing the province's population with efficient and timely access to natural gas service while keeping rates competitive.

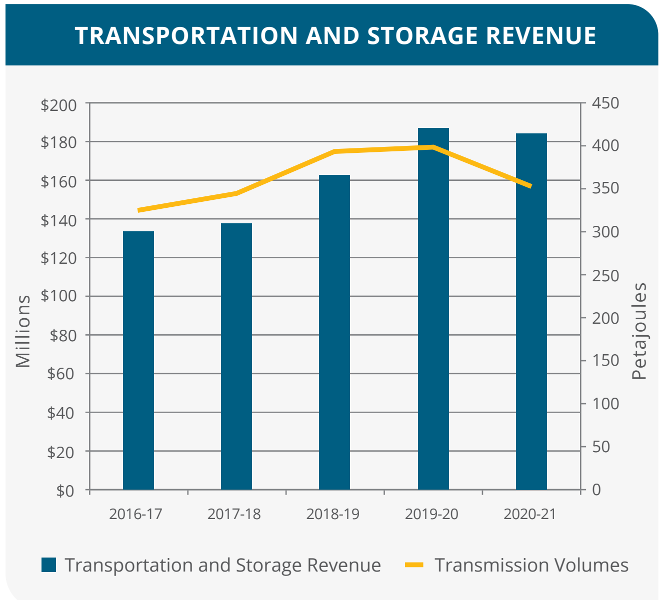


## Transportation and Storage Revenue

The Corporation generates transportation revenue by receiving gas from customers at various receipt points in Saskatchewan and Alberta, and delivering natural gas to customers at various delivery points in the province. The transportation toll structure consists of a receipt service charge, which customers pay when they put gas on to the natural gas transportation system, and a delivery service charge that customers pay when they take delivery off of the natural gas transportation system. For receipt and delivery services, the Corporation offers both firm and interruptible transportation contracts. Under a firm service contract, the customer has a right to deliver or receive a specified quantity of gas on each day of the contract. With a firm contract, customers pay for the amount of capacity they have contracted for whether they use it or not. Under an interruptible contract, customers may deliver or receive gas only when there is available capacity on the system and only pay receipt and delivery tolls when they deliver or receive gas.

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

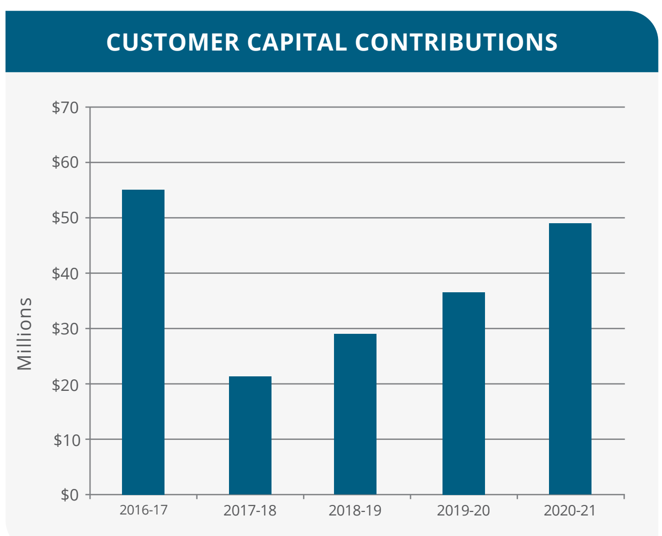
Delivery revenue increased by $3 million as domestic customers increased contracting for firm delivery service, which was partially offset by $1 million as interruptible delivery service contracts were reduced. Export customers decreased both firm and interruptible contracts by $4 million.




Included in transportation and storage revenue is storage revenue of $10 million for the 12 months ending March 31, 2021, which approximated 2019-20. The abundance of natural gas, coupled with small or even negative differentials between current and forward natural gas prices, limits the demand for natural gas storage to those customers with relatively low load factors who use the service to mitigate receipt transportation charges.

## Customer Capital Contributions

The Corporation receives capital contributions from customers to partially offset the cost of constructing facilities to connect them to the transmission and distribution systems. Generally, contributions related to transmission system projects tend to be larger but less frequent than contributions related to the distribution system. The volume and magnitude of customer contribution revenue can vary significantly period-over-period as various factors influence their receipt and recognition as revenue. Customer capital contributions for the 12 months ending March 31, 2021 were $13 million higher than the same period ending March 31, 2020 as a capital project for a transmission customer was completed in the fourth quarter and the related customer contribution was recognized.



## Other Expenses

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

Employee benefit expenses and operating and maintenance expenses are also driven by the Corporation's investment in facilities, although less directly. As the number of customers increases, and infrastructure to serve those customers grows, the costs to operate and maintain the system increases. These expenses increase primarily because the amount of work to service and maintain the natural gas system grows as the kilometres of gas lines, number of service connections, and amount of compression equipment increases. Additional regulatory requirements and changing public perceptions have resulted in accelerated prevention, detection and mitigation initiatives, adding pressure to transmission, distribution and storage rates.

Other expenses, net finance expenses and other losses, as reported in the consolidated financial statements, were as follows:

| (millions) | | March 31, 2021 | | March 31, 2020 | | Change |
|---|---|---|---|---|---|---|
| Employee benefits | **$** | **102** | $ | 96 | $ | (6) |
| Operating and maintenance | | **169** | | 164 | | (5) |
| Depreciation and amortization | | **117** | | 109 | | (8) |
| Saskatchewan taxes | | **16** | | 16 | | - |
| Impairment loss on trade and other receivables | | **5** | | 5 | | - |
| | **$** | **409** | $ | 390 | $ | (19) |
| Net finance expenses | **$** | **55** | $ | 55 | $ | - |
| Other losses | **$** | **3** | $ | 21 | $ | 18 |

## Employee Benefits

Employee benefit costs were $6 million higher for the 12 months ending March 31, 2021 compared to the same period in the prior year. This was due to filling certain vacant positions in strategic areas of the business as the Corporation continues to focus on meeting current and future business needs. Increasing focus on operational excellence and management of overtime and planned vacancies resulted in a reduction of full-time equivalents in other areas, partially offsetting these increases.

## Operating and Maintenance

Operating and maintenance expenses for the 12 months ending March 31, 2021 were $5 million higher than 2019-20. Higher transportation contracted by the Corporation on TC Energy's transportation system increased operating and maintenance expenses by $4 million in 2020-21 compared to 2019-20. Growing demand and increasing natural gas imports from Alberta is resulting in more natural gas being transported, and over greater distances. Rate increases on third-party transportation systems are also increasing transportation expenses. Federal carbon tax payments are $1 million higher in 2020-21 compared to 2019-20 and make up the remaining increase in comparable operating and maintenance expenses.

## Depreciation and Amortization

Balancing safety and system integrity with the demand for service continued through 2020-21. SaskEnergy reduced initial capital investment expectations for 2020-21 to align with reductions in customer demand for growth and system expansion projects. Many customers reduced, cancelled or deferred capital investment projects throughout 2020-21 in response to COVID-19 pandemic restrictions and the early year oil price shock experienced worldwide. Strategic capital investments required to ensure the necessary infrastructure is in place to meet current customer demand continued and is resulting in increased depreciation and amortization. For the 12 months ending March 31, 2021, depreciation and amortization was $8 million higher than the same period in 2019-20.

### Net Finance Expenses

Net finance expenses for the 12 months ending March 31, 2021 equaled the same amount for the prior year. Lower short-term debt interest expense, a result of historically low interest rates, was fully offset by higher long-term debt interest expense, resulting from additional long-term debt used to fund a portion of the current year's capital investment in the Corporation's natural gas line infrastructure.

### Other losses

For the 12 months ending March 31, 2021, other losses were $18 million lower than the same period in 2019-20. Other losses through 2020-21 primarily relate to asset disposals, which were partially offset by gains on decommissioning liability adjustments implemented based on a third-party consultant review. Other losses through 2019-20 relate to storage cavern exploratory costs being written off and a permanent impairment loss realized on natural gas inventory.

## LIQUIDITY AND CAPITAL RESOURCES

As a Crown corporation, SaskEnergy's primary sources of capital are cash from operations and debt — which is borrowed through the Province's General Revenue Fund. Cash from operations is SaskEnergy's most important source of capital. As a utility, cash from operations is relatively stable and the Corporation relies on it to fund a significant proportion of its investment in its natural gas facilities, and the debt servicing costs on those investments. Long and short-term debt can be borrowed through the Province of Saskatchewan to meet any long or short-term incremental capital requirements, and to repay debt as it matures. Sources of liquidity include Order in Council authority to borrow up to $500 million in short-term loans, and a $35 million uncommitted line of credit with the Toronto-Dominion Bank. Under *The SaskEnergy Act*, the Corporation may borrow up to $2,500 million of debt upon approval of the Lieutenant Governor in Council.

| (millions) | March 31, 2021 | March 31, 2020 | Change |
|---|---|---|---|
| Cash provided by operating activities | **$ 204** | $ 270 | $ (66) |
| Cash used in investing activities | **(235)** | (341) | 106 |
| Cash provided by financing activities | **30** | 66 | (36) |
| Decrease in cash and cash equivalents | **$ (1)** | $ (5) | $ 4 |

### Operating Activities

Cash provided by operating activities declined $66 million through the 12 months ending March 31, 2021 compared to the same period in 2019-20. Cash flows from operations decreased due to the impact of lower commodity and asset optimization margins, higher employee benefit costs and higher operating and maintenance expenses.

### Investing Activities

Cash used in investing activities through 2020-21 declined $106 million compared to 2019-20. Capital investment levels declined in 2020-21 due to the deferral of some system expansion projects, which were the result of changing customer requirements. In addition, the prior year included substantial system expansion spending around the City of Saskatoon. Lower capital maintenance work is also contributing to the reduced investing activity; however, the risk profile of the Corporation has not been negatively impacted as a result.

### Financing Activities

Cash provided by financing activities declined $36 million through the 12 months ending March 31, 2021 compared to 2019-20. The Corporation used $57 million for interest payments, $16 million for dividend payments, decreased short-term debt by $15 million and paid $34 million relating to long-term debt maturities. The Corporation borrowed an additional $150 million in long-term debt at a premium of $10 million to support its capital investment requirements. SaskEnergy's debt-to-equity ratio at the end of March 31, 2021 of 58 per cent debt and 42 per cent equity is within the Corporation's long-term target range of 58 to 63 per cent debt. On April 13, 2021, the Corporation entered into an agreement with the Province to borrow an additional $50 million of long-term debt with an interest rate of 2.8 per cent, maturing in 2052.

## CAPITAL ADDITIONS

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

| (millions) | March 31, 2021 | March 31, 2020 | Change |
|---|---|---|---|
| Strategic | | | |
| Customer growth | **$ 61** | $ 55 | $ 6 |
| System expansion | **75** | 149 | (74) |
| | **136** | 204 | (68) |
| Operational | | | |
| Risk management | **56** | 83 | (27) |
| Reliability of natural gas service | **23** | 27 | (4) |
| Business and technology optimization | **15** | 15 | - |
| | **94** | $ 125 | $ (31) |
| Capital additions | **$ 230** | $ 329 | $ (99) |

Capital additions through the 12 months ending March 31, 2021 were $99 million lower than the 2019-20 investment. Many system expansion projects planned for 2020-21 were reduced or deferred by the Corporation and its customers, due to the uncertainty of the impact of a suppressed oil and gas market and COVID-19 resulting in lower than expected load growth.

System expansion initiatives decreased $74 million in 2020-21 compared to 2019-20 primarily due to the lower than planned load growth. In addition, several large projects were completed in 2019-20, including the project to address growth in and around the City of Saskatoon and preliminary capital expenditures on an 85-kilometre gas line from Rosetown to Vanscoy. Completion of this project, which will increase gas line capacity from Rosetown to the Saskatoon South Bypass gas line, is planned for 2021-22.

Risk management spending on the distribution system declined $27 million year-over-year as the timing of some service upgrade projects have been adjusted to meet changing requirements. None of the reductions impacted SaskEnergy's ability to safely deliver natural gas to its customers.

## OUTLOOK

SaskEnergy continues to focus on the impacts of the COVID-19 pandemic, which includes promoting and maintaining the health and safety of personnel and the public, and maintaining its ability to deliver core services. In addition to the pandemic, the volatility of global oil prices continues to create uncertainty for natural gas production. More than 70 per cent of the production of natural gas in Saskatchewan is associated with oil production; hence, as oil producers face price instability and uncertain capital markets, variable oil production results in variable natural gas production. The reduction in Saskatchewan gas supply will need to be met by increased imports from Alberta.

Changing customer demand, global supply chain disruptions, and shifting regulatory timelines have resulted in the deferral of some projects and delays to others still in progress. To date, these have not caused any atypical impacts to transport capacity, but SaskEnergy will continue to monitor and manage the impacts to ensure continued service and strong business strategies going forward.

As SaskEnergy adapts to flat or declining customer demand, there will be an increased focus on core operations and operational excellence to safeguard its financial strength into the future. In 2021-22, income from operations is projected to be $50 million, which is a decrease of $9 million from the 2020-21 result. The decrease is primarily due to large transmission customer connections that were completed in the prior year resulting in higher customer contribution revenue.

The number of residential customers connecting to SaskEnergy's distribution system is expected to remain low, with 2,000 new customers forecasted in 2021-22. In addition to the decline in the customer numbers, energy efficiencies implemented by SaskEnergy customers reduce the amount of natural gas they use.

Initiatives targeted to support a greener energy strategy, increasing Government policy and regulations, and increasing needs for business and technology support create cost pressure for SaskEnergy. To offset the decline in revenue and increased costs, SaskEnergy will continue to focus on operational excellence, achieving cost savings through business process improvements, leveraging technology and collaboration with other Crown corporations and executive government.

SaskEnergy is committed to providing solutions and service that benefit customers and Saskatchewan by leveraging the Corporation's expertise and the province's private sector. Throughout 2021-22, SaskEnergy will make $263 million in net capital investments in the province, including maintaining the safety and reliability of the natural gas transmission and distribution systems, meeting regulatory compliance, and optimizing the Corporation's business systems.

## RISK MANAGEMENT AND DISCLOSURE

SaskEnergy is subject to a number of risks in the transmission, storage, distribution and sale of natural gas and the effectiveness in managing them is a key determinant to its overall corporate performance. The Corporation's approach to risk management is to thoroughly examine its operating activities to identify existing and emerging risks, effectively communicate those risks throughout the organization and actively manage them through its Enterprise Risk Management (ERM) process. SaskEnergy undertakes annual risk assessments that are used as inputs to the strategic and business planning process. The ERM process establishes roles and responsibilities as well as a general strategy for the Corporation to manage its risks.

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

### Government Climate Policy

The possibility that government(s) impose new environmental or operational regulations that impair or restrict operations or prevent further development of the Corporation's gas system.

- Recent years have seen enhanced regulations and activity from federal and provincial regulators regarding both pipeline operations and environmental standards. Further regulations are likely and may create additional compliance requirements or have other impacts on the organization.
- SaskEnergy responds to new regulations as efficiently as possible; however, efforts to impact the scope or details of regulation are presently limited to industry advocacy and lobbying through participation with relevant industry associations.
- SaskEnergy actively participates and engages with the Government of Saskatchewan's Climate Change Committee to share information and proactively prepare for any upcoming regulatory impacts.

### Public Acceptance

The risk to growth and system use as a result of changes in the public perception of natural gas.

- The role of fossil fuels in the energy mix is an active and growing public debate both nationally and beyond. Private and public sector commitments to a net zero future are growing. While the acceptability of natural gas use presently remains high in the local market, concerns of that eroding are higher than desired. A proactive response to maintain a high level of acceptance is planned.
- Primary mitigation efforts include corporate branding and marketing that highlight SaskEnergy's energy efficiency programs, as well as operational sustainability projects that improve the Corporation's own efficiency related to emissions.
- Efforts to further address this risk will include investigation of other innovative methods for improving the sustainability of SaskEnergy's product and operations and being active participants in new energy efficiency infrastructure developments as they arise. In addition, efforts to engage stakeholders and communicate our progress to the public will also be key actions.

### Interest Groups

The risk to infrastructure development and maintenance due to public objection from a cultural, safety, environmental or societal perspective.

- Public sentiment has changed — customers want a high level of service but many do not want the associated infrastructure nearby, or through their land. This has been a trend for several years now; however, as a fossil fuel provider that uses gas lines to deliver its product, the Corporation faces additional challenges due to growing opposition from members of the general public with respect to further development of fossil fuel infrastructure.
- SaskEnergy's land acquisition and engagement processes have focused on addressing the concerns of impacted stakeholders, including Indigenous groups, individual landowners and other members of the public. These processes will continue to adapt to address concerns and mitigate any impacts to specific projects.

### Natural Gas Line or Facility Failure

The possibility of a natural gas line or facility failure and the impact to public safety.

- Operating high pressure transmission lines and delivering natural gas to customer homes and businesses has an associated inherent risk to public safety in the event of a line rupture or other asset failure.
- The current risk level has been reached after many years of building and continuously improving robust integrity management programs for all of the organization's pressure containing assets. Efforts to execute on these programs and address this risk continue to be represented in a sizeable portion of the Corporation's capital and operating and maintenance budgets.

### Cyber Security

The possibility of a cyberattack against the Corporation's operating or information technology systems that results in a loss of control or breach of data.

- SaskEnergy's business and the operation of the Corporation's physical gas system heavily rely on information technology to safely and effectively operate. The threat of an attack that disrupts or gains access to SaskEnergy's systems is constantly evolving; as an operator of critical infrastructure, this can be particularly appealing to those who are maliciously inclined.
- The Corporation's efforts to address the risk of a cyberattack have increased in recent years in order to keep pace with the growing threat environment. Programs and processes to prevent unauthorized access and monitor for attacks will continue, as will efforts to increase their maturity to successfully mitigate external threats.

## Workforce Talent

The risk to organizational performance related to adapting and matching the corporate skill set to an evolving environmental and business landscape.

- SaskEnergy has responded to evolving customer expectations and shifts to a greener energy focus by reframing the structure to meet those needs. In order to address these challenges, new skills must be acquired and developed within the organization.
- Continuing through the transformation and progressing through the necessary efforts to adapt the current recruitment and employee engagement and development processes will be a focus for addressing this risk.

## Transportation and Delivery Rate Adjustment Approval

The possibility of required transportation and delivery rate adjustments not receiving approval.

- As a rate regulated utility, the risk of not receiving approval for a rate change is always present; however, the absence of recent rate changes, the impact of the COVID-19 pandemic on customers' finances, and the economic outlook have made this more relevant. Failure to receive approval for rate adjustments impacts the Corporation's ability to achieve its targeted rate of return.
- SaskEnergy is proactive in targeting efficiencies and prudently manages its capital and operating spending to reduce the requirement for future rate increases. The continuation of these efforts will support the Corporation's forecasting efforts in developing its rates strategy.

## Systemic Health and Safety

The risk of a significant incident, or a systemic health and safety incident, occurring and the subsequent impact on employee safety and the ability of employees to operate the system.

- Given the nature of SaskEnergy's operations, there is an ever present and inherent safety risk to employees, which makes managing this risk a top priority. As evidenced by the COVID-19 pandemic, the possibility of a widespread health event impacting employee wellbeing, and the ability to operate, is also something that must also be considered and prepared for.
- The acceptability for risk associated with safety is lower than all others and, as such, many mitigating actions exist spanning from process specific up to statistical monitoring and emergency situation planning. These efforts and associated programs continue to mature and improve with a goal of driving the safety risk down as low as practical.

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

## Weather

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

## Natural Gas Prices

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

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

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

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

### Estimated Unbilled Revenue

Financial statement reference – Note 5

Commodity sales and delivery revenues are recognized when natural gas is delivered to customers. SaskEnergy estimates the volume of natural gas delivered but not billed, as it is currently impracticable to read all customer meters on March 31 of each year. The volume of unbilled revenue is determined by comparing the estimated total volume of natural gas delivered to the distribution system with the volume of natural gas billed to customers. Regular meter readings throughout the year are used to reconcile volumes purchased with volumes billed.

- At March 31, 2021, the unbilled revenue related to commodity sales and delivery revenue was $31 million.
- The unbilled revenue related to transportation and storage revenue was $14 million at March 31, 2021.

### Net Realizable Value of Natural Gas in Storage Held for Resale

Financial statement reference – Note 6

The Corporation's natural gas in storage is valued at the lower of weighted average cost and net realizable value. When determining the net realizable value, the Corporation uses quoted future market prices based on anticipated delivery dates, taking into account the Corporation's existing natural gas contracts, ability to withdraw natural gas from storage and management's intention.

- At March 31, 2021, the revaluation to net realizable value was $nil.

### Fair Value of Financial and Derivative Instruments

Financial statement reference – Note 9a

The Corporation uses natural gas derivative instruments to secure its supply of natural gas and manage the impact of natural gas price variability. Prior to settlement, SaskEnergy records all natural gas derivative instruments at fair value. The fair value is determined based on quoted market prices and takes into account the credit quality of both counterparties and the Corporation. Given fluctuations in natural gas prices, fair value adjustments vary throughout the length of the contract.

- At March 31, 2021, a $1.00 per GJ increase in natural gas prices throughout the forward curve would have increased the fair value of outstanding natural gas contracts by $29 million.
- Conversely, a decrease of $1.00 per GJ would have decreased the fair value of natural gas derivative instruments by $29 million.

### Useful Lives and Depreciation and Amortization Rates for Property, Plant and Equipment, Intangible Assets and Right-of-Use Assets

Financial statement reference – Notes 11-13

With a combined carrying amount of $2,943 million, property, plant and equipment, intangible assets and right-of-use (ROU) assests constitute a significant component of the Corporation's assets. As a result, changes in assumptions related to the calculation of depreciation and amortization expense may have a significant impact on SaskEnergy's net income.

- At March 31, 2021, 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 $3 million.
- A one-year decrease in the estimated service life of ROU assets would have increased depreciation expense by approximately $3 million.

### Estimated Unearned Customer Capital Contributions, Contract Liabilities and Refund Liabilities

Financial statement reference – Note 15

Customer capital contributions, related to the construction of new, customer-specific service connections, are initially recognized as contract liabilities 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 is recorded as a liability until the refund period has passed.

- At March 31, 2021, the Corporation estimated $5 million of contract liabilities, where the customer has paid a customer capital contribution in advance of construction and the related facilities are not yet available for use.
- The Corporation estimated $6 million in refund liabilities, where the customer's facilities are in service and a refund may be available to the customer depending on the amount of natural gas the customer actually flows compared to what was estimated at contract inception.

### Estimated Future Costs of Decommissioning Liabilities

Financial statement reference – Note 17

The Corporation determines its obligations, legal and constructive, for the future costs of decommissioning certain natural gas facilities by estimating both the associated costs and timing of the necessary cash flows.

The timing of future decommissioning is conditional upon the Corporation's anticipated ongoing use for these facilities, while future decommissioning costs are estimated based on the Corporation's experience and presented on a discounted basis.

- At March 31, 2021, the Corporation's provisions were estimated at $227 million.
- A one per cent increase in the discount rate used to determine the provisions would have resulted in a $9 million decrease in provisions at the end of March 31, 2021.
- A one per cent decrease would have resulted in an $8 million increase.

A provision for remediation is accrued when the occurrence of an environmental expenditure, related to present or past activities of the Corporation, is considered probable and the costs of remedial activities can be reasonably estimated. The fair value of the estimated costs for investigations and remediation at identified sites is recorded as a provision in profit or loss. These provisions are based on management's best estimate considering current environmental laws and regulations and recorded at fair value. The Corporation reviews its estimates of future environmental expenditures on an ongoing basis.

## ACCOUNTING POLICY CHANGES

In 2020-21, the Corporation applied a number of amendments to IFRS Standards and Interpretations issued by the IASB that are effective for an annual period that begins on or after January 1, 2020. Their adoption has not had any material impact on the disclosures or on the amounts reported in the financial statements. The IASB has issued new and amended standards that will become effective in future periods. Details on current and future changes in accounting policies are provided within Note 3 of the consolidated financial statements.

# Consolidated Financial Statements



## *NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*

# MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

## Financial Reporting

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

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

## Internal Control Over Financial Reporting

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

Management assessed the effectiveness of the Corporation's internal control over financial reporting as at March 31, 2021, 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 March 31, 2021.

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 financial statements prepared by management.

Ken From
**President and**
**Chief Executive Officer**

Christine Short
**Executive Vice President**
**and Chief Financial Officer**

## MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

a. That we have reviewed the consolidated financial statements included within the annual report of SaskEnergy. Based on our knowledge, having exercised reasonable diligence, the consolidated financial statements fairly present, in all material respects, the financial condition, results of operations, and cash flows as at March 31, 2021.

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

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

d. That SaskEnergy conducted its assessment of the effectiveness of its internal controls over financial reporting and, based on the results of this assessment, it can provide reasonable assurance that internal controls over financial reporting as at March 31, 2021 were operating effectively and no material weaknesses were found in the design or operation of the internal controls over financial reporting.

Ken From
**President and**
**Chief Executive Officer**

Christine Short
**Executive Vice President**
**and Chief Financial Officer**

# INDEPENDENT AUDITOR'S REPORT

To the Members of the Legislative Assembly of Saskatchewan

## Opinion

We have audited the consolidated financial statements of SaskEnergy Incorporated (the "Company"), which comprise the consolidated statement of financial position as at March 31, 2021, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

## Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Other Information

Management is responsible for the other information. The other information comprises the information, other than the financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the Annual Report prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

## Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte LLP

Chartered Professional Accountants
May 19, 2021
Regina, Saskatchewan

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

**As at March 31**

| (millions) | Notes | 2021 | 2020 |
|---|---|---|---|
| **ASSETS** | | | |
| Current assets | | | |
| Cash and cash equivalents | | **$ -** | $ 1 |
| Trade and other receivables | 5 | **165** | 155 |
| Natural gas in storage held for resale | 6 | **15** | 13 |
| Inventory of supplies | | **14** | 13 |
| Current portion of debt retirement funds | 7 | **-** | 11 |
| Assets held for sale | 10 | **4** | - |
| Fair value of derivative instruments | 8 | **17** | 15 |
| | | **215** | 208 |
| Right-of-use assets | 11 | **15** | 15 |
| Intangible assets | 12 | **77** | 73 |
| Property, plant and equipment | 13 | **2,851** | 2,801 |
| Debt retirement funds | 7 | **136** | 125 |
| | | **$ 3,294** | $ 3,222 |
| **LIABILITIES AND PROVINCE'S EQUITY** | | | |
| Current liabilities | | | |
| Short-term debt | | **$ 264** | $ 279 |
| Trade and other payables | 14 | **116** | 120 |
| Dividends payable | | **7** | 2 |
| Contract liability | 15 | **5** | 19 |
| Refund liability | 15 | **6** | 7 |
| Current portion of lease liability | 16 | **5** | 6 |
| Current portion of long-term debt | 18 | **-** | 34 |
| Fair value of derivative instruments | 8 | **8** | 21 |
| | | **411** | 488 |
| Employee future benefits | | **4** | 5 |
| Deferred revenue | 15 | **5** | 5 |
| Lease liability | 16 | **7** | 7 |
| Provisions | 17 | **227** | 292 |
| Long-term debt | 18 | **1,485** | 1,325 |
| | | **2,139** | 2,122 |
| Province's equity | | | |
| Equity advances | | **72** | 72 |
| Other components of equity | | **(1)** | 4 |
| Retained earnings | | **1,084** | 1,024 |
| | | **1,155** | 1,100 |
| | | **$ 3,294** | $ 3,222 |

(See accompanying notes)

On behalf of the Board:

**Director** **Director**

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

**For the years ended March 31**

| (millions) | Notes | 2021 Income Before Unrealized Market Value Adjustments | 2021 Unrealized Market Value Adjustments (Note 20) | 2021 Total | 2020 Income Before Unrealized Market Value Adjustments | 2020 Unrealized Market Value Adjustments (Note 20) | 2020 Total |
|---|---|---|---|---|---|---|---|
| **REVENUE** | | | | | | | |
| Natural gas sales | 21 | $ 286 | $ (3) | $ 283 | $ 309 | $ (1) | $ 308 |
| Delivery | 22 | 284 | - | 284 | 284 | - | 284 |
| Transportation and storage | 23 | 186 | - | 186 | 187 | - | 187 |
| Customer capital contributions | | 49 | - | 49 | 36 | - | 36 |
| | | 805 | (3) | 802 | 816 | (1) | 815 |
| **EXPENSES** | | | | | | | |
| Natural gas purchases (net of change in inventory) | 21 | 279 | (25) | 254 | 284 | 22 | 306 |
| Employee benefits | | 102 | - | 102 | 96 | - | 96 |
| Operating and maintenance | | 169 | - | 169 | 164 | - | 164 |
| Depreciation and amortization | | 117 | - | 117 | 109 | - | 109 |
| Saskatchewan taxes | 24 | 16 | - | 16 | 16 | - | 16 |
| Impairment loss on trade and other receivables | | 5 | - | 5 | 5 | - | 5 |
| | | 688 | (25) | 663 | 674 | 22 | 696 |
| **NET INCOME (LOSS) BEFORE THE FOLLOWING** | | 117 | 22 | 139 | 142 | (23) | 119 |
| Finance income | 25 | 4 | - | 4 | 4 | - | 4 |
| Finance expenses | 25 | (59) | - | (59) | (59) | - | (59) |
| **NET FINANCE EXPENSES** | 25 | (55) | - | (55) | (55) | - | (55) |
| Other losses | 26 | (3) | - | (3) | (21) | - | (21) |
| **TOTAL NET INCOME (LOSS)** | | $ 59 | $ 22 | $ 81 | $ 66 | $ (23) | $ 43 |
| **ITEMS THAT MAY BE RECLASSIFIED BACK TO NET INCOME (LOSS)** | | | | | | | |
| Change in fair value of debt retirement funds designated as fair value through other comprehensive income | 7 | - | (5) | (5) | - | 2 | 2 |
| **COMPREHENSIVE INCOME (LOSS)** | | $ 59 | $ 17 | $ 76 | $ 66 | $ (21) | $ 45 |

(See accompanying notes)

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

**For the years ended**

| (millions) | Retained Earnings | Equity Advances | Other Components of Equity | Total |
|---|---|---|---|---|
| **BALANCE, AT APRIL 1, 2019** | $ 1,005 | $ 72 | $ 2 | **$ 1,079** |
| Comprehensive income | 43 | - | 2 | **45** |
| Dividends | (24) | - | - | **(24)** |
| **BALANCE, AT MARCH 31, 2020** | 1,024 | 72 | 4 | **1,100** |
| Comprehensive income (loss) | 81 | - | (5) | **76** |
| Dividends | (21) | - | - | **(21)** |
| **BALANCE, AT MARCH 31, 2021** | $ 1,084 | $ 72 | $ (1) | **$ 1,155** |

(See accompanying notes)

## CONSOLIDATED STATEMENT OF CASH FLOWS

**For the years ended March 31**

| (millions) | Notes | 2021 | 2020 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Net income | | **$ 81** | $ 43 |
| Add (deduct) items not requiring an outlay of cash | | | |
| Net change in fair value of derivative instrument assets and liabilities | 20 | **(15)** | 30 |
| Change in revaluation of natural gas in storage to net realizable value | 20 | **(7)** | (7) |
| Depreciation and amortization | | **117** | 109 |
| Net finance expenses | 25 | **55** | 55 |
| Net loss on impairment of assets | 26 | **-** | 5 |
| Net (gain) loss on disposal of assets | 26 | **(1)** | 16 |
| Other non-cash items | | **-** | (3) |
| | | **230** | 248 |
| Net change in non-cash working capital related to operations | | **(26)** | 22 |
| Cash provided by operating activities | | **204** | 270 |
| **INVESTING ACTIVITIES** | | | |
| Additions to intangible assets | | **(14)** | (13) |
| Additions to property, plant and equipment | | **(212)** | (316) |
| Net proceeds on disposal of assets | | **1** | 1 |
| Decommissioning costs | | **(10)** | (13) |
| Cash used in investing activities | | **(235)** | (341) |
| **FINANCING ACTIVITIES** | | | |
| Debt retirement funds redemptions | 7 | **12** | 4 |
| Debt retirement funds installments | 7 | **(13)** | (11) |
| Proceeds from short-term debt | | **-** | 19 |
| Repayment of short-term debt | | **(15)** | - |
| Proceeds from long-term debt | 18 | **160** | 212 |
| Repayment of long-term debt | 18 | **(34)** | (33) |
| Repayment of principal on lease liability | 16 | **(7)** | (5) |
| Interest paid | | **(57)** | (55) |
| Dividends paid | | **(16)** | (65) |
| Cash provided by financing activities | | **30** | 66 |
| **DECREASE IN CASH AND CASH EQUIVALENTS** | | **(1)** | (5) |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR** | | **1** | 6 |
| **CASH AND CASH EQUIVALENTS, END OF YEAR** | | **$ -** | $ 1 |

(See accompanying notes)

# Notes to the Consolidated Financial Statements

## 1. GENERAL INFORMATION

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

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

## 2. BASIS OF PREPARATION

### a. Statement of compliance

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

The consolidated financial statements were authorized for issue by the Board of Directors on May 19, 2021.

### b. Basis of measurement

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries with all significant transactions and balances being eliminated. The consolidated financial statements have been prepared on the historical cost basis except for the following items, which are described in Note 3:

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

### c. Functional and presentation currency

The consolidated financial statements are presented in Canadian dollars, the Corporation's functional currency, unless otherwise stated. All financial information presented in Canadian dollars has been rounded to the nearest million.

### d. Use of estimates and judgments

In the application of the Corporation's accounting policies, which are described in Note 3, management is required to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Actual results may differ from these estimates.

The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised as well as any future periods affected.

Information about critical judgments in applying accounting policies that have a significant effect on the amounts recognized in the consolidated financial statements is included in Note 3 as well as the following notes:

- Revenue recognition related to unbilled revenue (Note 5)
- Existence of decommissioning liabilities (Note 17)
- Designation of own-use derivative contracts (Note 19)

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

Estimated unbilled revenue (Note 5)

Expected credit losses (Note 5)

Net realizable value of natural gas in storage held for resale (Note 6)

Fair value of financial and derivative instruments (Note 8)

Useful lives and depreciation rates for right-of-use (ROU) assets (Note 11)

Useful lives and amortization rates for intangible assets (Note 12)

Useful lives and depreciation rates for property, plant and equipment (Note 13)

Recoverable amount of non-financial assets (Note 13)

Estimated unearned customer capital contributions (Note 15)

Estimated future cost of decommissioning liabilities (Note 17)

COVID-19 (Coronavirus) impact assessment

The COVID-19 pandemic has caused material disruption to businesses and has resulted in an economic slowdown. The Corporation has assessed and continues to monitor the impact of COVID-19 on its operations. Potential impacts include loss of revenue, disruption of supply chain, impairments of assets and challenges associated with a remote or unavailable workforce. Estimates of these impacts have been included where appropriate. Given the uncertainty of the magnitude and duration of the pandemic, it is not possible to determine if there are significant additional impacts on current operations or reported asset and liability values.

The Corporation's business continuity plans are currently in place while continuing to effectively operate assets, conduct commercial activities and execute on projects with a focus on health, safety and reliability. SaskEnergy is considered essential for the province of Saskatchewan given the important role the Corporation's infrastructure plays in providing energy to customers.

### e. Change in accounting estimates

Effective April 1, 2020, there was a change in the current market discount rate basis used to determine the present value of the obligation. These changes in the estimation methodology were applied prospectively resulting in a net increase in provisions of approximately $10 million as at March 31, 2021.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### a. Future changes in accounting policies

The following new or amended accounting standards are not effective for the year ended March 31, 2021 and have not been applied in preparing these condensed consolidated financial statements:

- Amendments to IFRS 10, *Consolidated financial statement*s
- Amendments to IAS 37, *Onerous contracts – Cost of fulfilling a contract*
- Amendment to IAS 1, *Classification of Liabilities as current or non-current*
- Amendments to IFRS 3, *Updating a reference to the conceptual framework*
- Amendments to IAS 16, *Property, Plant and Equipment: Proceeds before intended use*

The Corporation is currently analyzing these changes to determine the full impact upon adoption.

## b. Basis of consolidation

The Corporation's direct and indirect subsidiaries, which are wholly owned by SaskEnergy, are as follows:

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

## c. Joint arrangements

When assessing whether a joint arrangement is in the form of a joint operation or a joint venture, the Corporation considers the arrangement's structure, legal form and contractual terms as well as any other relevant factors. The Corporation has one joint arrangement: a 50.0 per cent ownership in the Totnes Natural Gas Storage Facility located in Saskatchewan, Canada. The joint arrangement is in the form of a joint operation, as the Corporation has the rights to the assets, and obligations for the liabilities, relating to the arrangement. The consolidated financial statements include the Corporation's share of jointly controlled assets, incurred liabilities, revenue and expenses as well as any liabilities and expenses incurred directly in respect of its joint arrangement.

## d. Cash and cash equivalents

Bank indebtedness forms part of the Corporation's cash management and is included as a component of cash and cash equivalents for the purpose of the Consolidated Statement of Cash Flows.

## e. Natural gas in storage held for resale

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

## f. Inventory of supplies

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

## g. Financial and derivative instruments

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

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

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

Financial assets and financial liabilities are classified as 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 fair value through profit or loss if the Corporation manages such instruments and makes decisions based on their fair value in accordance with its documented risk management or investment strategy. Subsequent to initial recognition, financial assets and financial liabilities at fair value through profit or loss are measured at fair value with any revaluation gains and losses recognized in net income.

#### *ii. Financial assets and financial liabilities at fair value through other comprehensive income*

Debt retirement funds are classified as financial assets at fair value through other comprehensive income as the following conditions are met:

- The debt retirement funds are administered by the Government of Saskatchewan Ministry of Finance whose business model objective is to both hold underlying investments to collect contractual cash flows and to sell; and
- The contractual terms of the debt retirement funds give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

#### *iii. Amortized cost*

Trade and other receivables, trade and other payables, short-term debt, dividends payable, and long-term debt are classified at amortized cost. The amortized cost category consists of financial assets and liabilities with fixed or determinable payments that are not quoted in an active market. These financial assets and liabilities are accounted for at amortized cost using the effective interest method.

#### *iv. Derivative instruments*

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

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

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

### h. Debt retirement funds

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

### i. Intangible assets

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

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

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

## j. Property, plant and equipment

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

Cost includes expenditures that are directly attributable to the acquisition or construction of the asset. The cost of self-constructed assets includes materials, services, direct labour and directly attributable overheads.

Borrowing costs associated with major projects are capitalized during the construction period. Major projects (or qualifying assets) are those projects that are under construction for a period greater than six months. Assets under construction are recorded as in progress until they are available for use.

When property, plant and equipment is disposed of or retired, the related cost, accumulated depreciation and any accumulated impairment losses are eliminated.

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 | 4.5 |
| Transmission and storage | 2.1 | to | 240.0 |
| Gathering, treatment and compression | 1.6 | to | 63.2 |
| Vehicles, equipment and other | 1.9 | to | 20.0 |
| Computer hardware | 12.9 | to | 24.5 |

The estimated useful lives, decommissioning costs and method of depreciation are based on periodic depreciation studies conducted by a third-party, with annual reviews for reasonableness.

## k. Impairment

### *i. Financial assets*

Financial assets, other than those classified as at Fair Value through Profit or Loss (FVTPL), are reviewed at each reporting date to determine whether there is any indication of impairment. Loss allowances are recognized for Expected Credit Losses (ECL) on financial assets measured at amortized cost and debt instruments designated as Fair Value through Other Comprehensive Income (FVOCI). Loss allowances for trade receivables are measured at an amount equal to lifetime ECL.  Debt instruments and other receivables that are determined to have low credit risk at the reporting date are measured at 12-month ECL. Impairment is the financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from receivables from customers.

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

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

#### *ii. Non-financial assets*

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

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

### l. Employee benefits

#### *i. Short-term employee benefits*

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

#### *ii. Pension plans*

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

Under the defined contribution plan, which is administered by the Public Employees Benefit Agency, regular payments are made to a separate entity for current service with no obligation to pay further amounts. Contributions are recognized within employee benefits expense during the period in which services are rendered by employees. During the period, the Corporation contributed $7 million (2019 - $6 million) to pension plans on behalf of employees for current service.

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

#### *iii. Retiring allowance plan*

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

The Corporation measures its future benefit obligations for accounting purposes at March 31. The accrued employee benefits liability at March 31, 2021 is $4 million (2020 - $5 million).

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

## m. Provisions

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

### *Decommissioning liabilities*

A decommissioning liability is a legal or constructive obligation associated with the decommissioning of certain natural gas facilities. The Corporation recognizes a decommissioning liability, with a corresponding increase to property, plant and equipment, in the period the facility is commissioned, provided a reasonable estimate of the expenditure required to settle the present obligation can be determined. The estimated expenditure of a decommissioning liability is based on detailed studies that take into account various assumptions regarding the anticipated future cash flows, including the method and timing of decommissioning. The future cash flows are discounted at a credit-adjusted risk-free rate based on the yield of Government of Saskatchewan 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 carrying value of a decommissioning liability is reviewed with any changes recognized in the consolidated financial statements.

## n. Revenue

SaskEnergy has the exclusive right to distribute natural gas within the province of Saskatchewan. The Corporation may purchase, distribute, sell, manufacture, produce, transport, gather, compress and store natural gas as per *The SaskEnergy Act*. The Corporation's natural gas commodity revenue and transportation services are based on the consideration specified in contracts with customers. Revenue is recognized when control of the product is transferred to the customer or transportation service has been completed. This is generally at the point in time when the customer obtains legal title to the natural gas at its custody transfer point or the transportation service has been completed at the customer's natural gas line location and collection is reasonably assured. The amount of revenue recognized is based on the consideration specified in the contract.

The Corporation's principal sources of revenues and methods applied to the recognition of these revenues in these financial statements are as follows:

### *i. Commodity sales and delivery service*

#### Commodity sales

Commodity sales contracts with customers generate revenue from the sale of natural gas to customers. Revenue is recognized at a point in time when the Corporation sells natural gas to customers, who consume the natural gas to heat their homes or operate their businesses. Title to natural gas purchased from SaskEnergy, and all related risks remain with SaskEnergy until the gas is transferred at a meter point.

At the meter point, the customer takes ownership of the natural gas and the performance obligation is satisfied. The commodity charge is then billable to the customer as there are no further performance obligations outstanding.

#### Delivery services

SaskEnergy has the exclusive right to distribute natural gas within the province of Saskatchewan. A delivery service contract generates revenue from the transportation of natural gas to customers. Delivery revenue is recognized at the point in time when natural gas is transferred to customers at their meter point.

Delivery services as stated in the SaskEnergy Terms and Conditions of Service, include both a basic monthly charge (BMC) and a delivery service charge:

A BMC is a fixed monthly charge payable by the customer for Natural Gas Services provided by SaskEnergy or made available to the customer irrespective of the volume of gas consumed. As such, this charge can benefit the customer on its own and it is regularly sold separately to customers to enable on-demand access to the other services provided.

A delivery charge is the distribution of natural gas to customers. The delivery charge is incurred when gas is distributed through the natural gas line system to the customer. As customers can contract for supply from Gas Retailers, SaskEnergy regularly provides the delivery service separately from other services and the customer can benefit from the delivery service on its own or in conjunction with other services provided to the customer.

The BMC is distinct within the context of the contract as it is not affected by any of the other services provided to customers. It is recognized at a point in time and it is charged to customers monthly, regardless of whether there are any other charges associated with delivery and supply of natural gas. The delivery and commodity sales charges have no bearing on the BMC. The basic monthly charge relating to delivery service is a single performance obligation and is distinct from commodity sales. Delivery without supply (Gas Retailer customer) is a single performance obligation.

**Commodity sales and delivery charge**

Commodity sales are the provision or sale of natural gas, as opposed to the delivery service being the transportation of the natural gas. The delivery service charge and commodity sales are highly interrelated. While delivery service can occur without commodity sales, as evidenced in Gas Retailer transactions, commodity sales can only arise with the associated delivery service.

Customers may choose to purchase commodity gas from a Gas Retailer, where the Corporation provides delivery service to the customer without supply of natural gas to the customer. In this case, SaskEnergy earns only delivery revenue from the Gas Retailer customer. SaskEnergy acts as an agent in regards to the Gas Retailer commodity charges, therefore no commodity revenue is recorded by SaskEnergy.

A receivable is recognized when natural gas is delivered to a customer at their meter point, as this is the point in time that commodity sales and delivery service payments are due. The transaction price will be allocated to the commodity sales and delivery service based on the applicable rates derived through the review process with the Saskatchewan Rate Review Panel and approved by Provincial Cabinet.

***ii. Natural Gas Sales***

Natural gas sales are non-regulated asset optimization activities. The Corporation uses its access to natural gas markets to execute sales with offsetting purchases of natural gas to generate margins. Forward natural gas sales are recognized at fair value until the contract is realized into revenue at the point in time the contract becomes due. In most cases, the sales and the associated purchases are executed at the same time, thereby mitigating much of the price risk that would normally be associated with such transactions. By utilizing off-peak transportation and storage capacity, the Corporation is able to find opportunities in the market to take advantage of pricing differentials between transportation hubs, delivery points and time periods while minimizing its exposure to price risk. The Corporation also uses sales and accompanying purchases of natural gas to mitigate transportation constraints, which are generally executed at a cost.

***iii. Transportation and storage services***

In all transportation services, the performance obligation to the customer is the transport of natural gas, with only the points of origin and the destinations differing. As such, all transportation contracts (Intra-Provincial Delivery, Utility, Export and Receipt) are assessed on a portfolio basis, and are combined and referred to as “transportation services”. Commencing with the first month and continuing for the term of the service contract, customers shall pay all applicable service charges set forth in the Tariff Rates and Charges Schedules as approved by the Corporation or set by any regulatory body having jurisdiction as provided for in the Tariff.

Firm and Interruptible transportation services have been deemed two separate contracts under the Tariff and as such are assessed separately.

### Firm transportation service contracts

Transportation service is offered on a guaranteed basis, where the Corporation warrants service will be available every day of the contract unless prevented by Force Majeure.

Customers will generally pay a demand fee and a commodity charge for firm service, which has a higher priority than other transportation services. Firm service contracts may have a term as short as one month, but generally are contracted on a longer term basis, they do not have a significant financing component and there is no non-cash consideration.

Over the term of the contract, customers receive access to transportation services on a daily basis and the customer benefits as the service is provided. Transaction prices published in the Corporation's tariffs are allocated to the performance obligation based on the volumes contracted with the customer. The performance obligation is satisfied and revenue is recorded at the point in time that the transportation services are complete and billed monthly based on the right to invoice practical expedient with collection generally occurring in the following month.

### Interruptible transportation service contracts

Transportation service that is not provided on a guaranteed basis. The Corporation can generally interrupt service performance with short or no notice. The Corporation may curtail an interruptible customer's service if the service is required to serve a higher priority customer. Curtailment of interruptible service may occur to protect the operational integrity of the natural gas system and ensure delivery to their firm transportation contract holders. Curtailment generally will restrict service to customers that have interruptible transportation contracts. Interruptible customers will be curtailed in order of priority to ensure firm deliveries are met first.

Interruptible service usually costs less than firm service as interruptible service is less reliable. The entire interruptible service contract is variable based on customer flow of an unknown quantity of natural gas contracted at a predetermined rate. Transaction prices published in the Corporation's tariffs are allocated to the performance obligation based on the measured volumes transported with the customer. Interruptible services may have a term as short as one month.

Interruptible transportation services are recognized as revenue at the point in time that the Corporation completes the transportation services to the customer. These services are generally invoiced in the month following when the services are performed as this is when the service performance obligation is complete. There are no significant financing components, nor any non-cash consideration.

### Storage service

The contracts for storage services provide customers with operational flexibility to store natural gas during periods of low demand to ensure that sufficient supply is available during periods of high demand. Storage services are contracted independently of transportation services and are considered one performance obligation recognized over time. The Corporation's tariff, as well as associated Service Agreements and Schedules of Service, are applicable to each customer and their services requested. The customer receives the benefit of storage services and the Corporation has the right to invoice the customer for the services provided. Customers are invoiced in the month following the receipt of service, payable within 15 days of invoicing. The transaction prices published in the Corporation's tariffs are allocated to the single performance obligation based on the volumes contracted with the customer. Revenues are recognized at the point in time that the Corporation completes the storage service to the customer. There are no significant financing components, nor any non-cash consideration.

## *iv. Other revenue*

### Government grants

Government grants are recognized at fair value as deferred revenue when the Corporation meets the criteria specified in the grant and the grant is deemed receivable from the government entity. Grants relating to expenses are recognized in net income on a systematic basis in the same periods the expenses are incurred.

Grants relating to the Corporation's assets are recognized into net income on a straight-line basis over the useful life of the related asset.

***v. Unbilled revenue***

Unbilled revenue is estimated monthly for services provided but not yet billed using management's judgments and assumptions.

***vi. Customer contributions***

The Corporation builds customer requested distribution and transmission facilities and the title, risks, and rewards of these facilities remain with the Corporation at all times during and after construction, as permitted by *The SaskEnergy Act*. Any use or benefit that the customer obtains does not occur during the construction period, but thereafter when the connection is made to the customer's property. It is at that point that the customer may use and benefit from the readily available natural gas. Therefore, the performance obligation is satisfied at the point in time when the customer specific facility connection is available for use by the Corporation and the service lines are available for the customer's operations. Customer contributions received in advance of construction are initially recorded as a contract liability as they are generally paid at contract inception prior to construction commencing. When the construction of a customer connection reaches its in-service date, the customer contribution paid by the customer is removed from contract liabilities and is generally recognized into customer contribution revenue. There are cases when a refund is paid to the customer based on the customer contribution billed in advance exceeding actual construction costs. The transaction prices included in the contract with the customer are allocated to performance obligations based on the specific customer facility requests being made available for use. Customer contribution consideration is considered variable due to refunds issued to customers.

**Distribution service customer contributions**

With respect to distribution customer specific facilities, customers agree to pay, to the Corporation, the sum detailed in the contract with regard to the capital cost of assets which provide distribution services to the contributing customer. The contracts generally require the customer to pay all or a portion of the contract cost in advance of construction, in which case the Corporation records the deposit as contract liabilities until the point in time that the related assets are available for use. At this point, the Corporation reduces the contract liability and records customer contribution revenue. For some contract types, the Corporation may refund to a customer, a portion of the contributions depending on the volume of gas the customer consumes over a five year period of time. The potential refund amount is removed from the contract liability and reported as a refund liability. At the in-service date, the difference between the customer capital contribution revenue recognized and the associated amount cumulatively billed to the customer is recognized as an account receivable. The account receivable is then recognized as a reduction of revenue over the term of the delivery service contract.

**Transmission service customer contributions**

With respect to transmission customer specific facilities, customers agree to pay in advance to the Corporation, the sum detailed in the contract with regard to the capital cost of assets which provide transmission services to the contributing customer. The transmission customer contributions that are paid in advance of construction are initially recorded as a contract liability. The contributions received, less potential refunds, are recognized into revenue at the point in time the related assets are available for use. The Corporation may provide a refund to a customer for some or all of the contributions made depending on the volume of gas transported through the system. There is a refund period on contributions received and the amount of contributions expected to be refunded are estimated and recorded as a refund liability until it is earned by the customer. Refund liabilities that are not returned to the customer are recognized as customer contribution revenue at the expiration of the eligible refund period. At the in-service date, the difference between the customer capital contribution revenue recognized and the associated amount cumulatively billed to the customer is recognized as an account receivable. The account receivable is then recognized as a reduction of revenue over the term of the transportation service contract.

**Refund period**

At the in-service date, a customer may begin to flow natural gas and earn a refund over the refund period. The amount potentially refundable to the customer is removed from contract liability and is recognized as a refund liability and reviewed annually. If the customer's actual flow of natural gas exceeds what they committed to at contract inception, the customer will earn an annual refund. The refund liability is reduced and a rebate is paid to the customer. If they flow less natural gas than they committed to at contract inception, the customer does not earn their rebate and the Corporation recognizes the annual refund liability amount as customer capital contribution revenue.

### Contract liabilities

Advance receipt of customer capital contributions are recorded as a contract liability, as billing occurs prior to the construction of the associated customer facility. At the in-service date, a construction cost true-up is determined, with either a rebate issued to the customer or additional customer capital contribution collected from the customer. The contract liabilities are recognized as revenue at the in-service date of the customer facility with the exception of the potentially refundable amount over the applicable refund period.

### Refund liabilities

At the construction in-service date of a customer facility, a portion of the customer capital contribution may be refundable to the customer over the refund period, if the customer meets or exceeds a predetermined flow of natural gas. At the in-service date, the potential refund remaining over the refund period is no longer presented as a contract liability but is presented as a refund liability. Annually, the actual volume of natural gas flowed is compared to the predetermined flow and the annual rebate is paid to the customer if actual flow exceeds the predetermined flow amount. In contrast, if the actual flow is less than the predetermined flow, the rebate is recorded as customer contribution revenue.

## o. Borrowing costs

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

## p. Lease liability and right-of-use assets

A contract is or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. The Corporation has assessed its arrangements to determine whether they contain a lease.

Right-of-use assets are initially measured at an amount equal to the lease liability and are adjusted for any payments made at or before the commencement date, less any lease incentives received. Right-of-use assets are depreciated over the related lease term. The Corporation has applied judgment to determine the lease term for contracts that include renewal options. The assessment of whether the Corporation is reasonably certain to exercise such options impacts the lease term, which affects the amount of lease liabilities and right-of-use assets recognized.

The corresponding lease liability is measured at the present value of the lease payments that are not paid at commencement and are discounted using the Corporation’s incremental borrowing rate or the rate implicit in the lease. Each lease payment is allocated between the liability and interest so as to achieve a constant rate on the finance balance outstanding. The interest component is included in finance expense. The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or if there is a change in the Corporation’s estimate or assessment of whether it will exercise an extension, termination, or purchase option. A corresponding adjustment is made to the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

# 4. CAPITAL MANAGEMENT

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

The Corporation finances its capital requirements through internally generated funds and injections of capital from the Province, typically in the form of debt. Under *The SaskEnergy Act*, the Corporation may borrow up to $2,500 million of debt upon approval of the Lieutenant Governor in Council (2020 - $2,500 million). Within this limit, the Corporation may borrow up to $500 million in temporary loans (2020 - $500 million), including a $35 million uncommitted line of credit with Toronto-Dominion Bank (2020 - $35 million). As at March 31, 2021, the Corporation had $1,749 million of debt outstanding (2019 - $1,638 million), including $264 million in temporary loans (2020 - $279 million), leaving $236 million of remaining short-term borrowing capacity (2020 - $221 million). The Corporation's short-term debt is unsecured, with an average interest rate of 0.2 per cent (2020 - 1.3 per cent).

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

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

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

| (millions) | 2021 | 2020 |
|---|---|---|
| Long-term debt | **$ 1,485** | $ 1,359 |
| Short-term debt | **264** | 279 |
| Debt retirement funds | **(136)** | (136) |
| Cash and cash equivalents | **-** | (1) |
| Total net debt | **1,613** | 1,501 |
| Equity advances | **72** | 72 |
| Retained earnings | **1,084** | 1,024 |
| Total capital | **$ 2,769** | $ 2,597 |
| Debt ratio | **58.3%** | 57.8% |

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

## 5. TRADE AND OTHER RECEIVABLES

| (millions) | 2021 | 2020 |
|---|---|---|
| Unbilled revenue | **$ 45** | $ 48 |
| Trade receivables | **101** | 85 |
| Other receivables | **30** | 29 |
| | **176** | 162 |
| Credit loss allowance | **(11)** | (7) |
| | **$ 165** | $ 155 |

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

| (millions) | 2021 | 2020 |
|---|---|---|
| Current | $ 155 | $ 144 |
| 30 - 59 days | 9 | 8 |
| 60 - 89 days | 3 | 3 |
| Greater than 90 days | 9 | 7 |
| | 176 | 162 |
| Credit loss allowance | (11) | (7) |
| | $ 165 | $ 155 |

The following table provides information about the ECLs for trade and other receivables from individual customers as at March 31, 2021.

| (millions) | Gross Amount | Loss Rate | Loss Allowance |
|---|---|---|---|
| Current | $ 155 | 2.6% | $ 4 |
| 30 - 59 days | 9 | 11.1% | 1 |
| 60 - 89 days | 3 | 33.3% | 1 |
| Greater than 90 days | 9 | 55.6% | 5 |
| Credit loss allowance | | | $ 11 |

The Corporation records lifetime ECLs on customer receivables based on a developed provision matrix.

The change in the credit loss allowance with respect to trade and other receivables is as follows:

| (millions) | 2021 | 2020 |
|---|---|---|
| Opening balance | $ 7 | $ 5 |
| Provision | 5 | 5 |
| Write-offs | (1) | (3) |
| Closing balance | $ 11 | $ 7 |

## 6. NATURAL GAS IN STORAGE HELD FOR RESALE

| (millions) | 2021 | 2020 |
|---|---|---|
| Cost | $ 15 | $ 20 |
| Revaluation to net realizable value | - | (7) |
| | $ 15 | $ 13 |

As at March 31, 2021, the Corporation expects that the $15 million current inventory value could be sold or consumed within the next fiscal year.

## 7. DEBT RETIREMENT FUNDS

| (millions) | 2021 | 2020 |
|---|---|---|
| Balance, beginning of year | **$ 136** | $ 121 |
| Installments | **13** | 11 |
| Redemptions | **(12)** | (4) |
| Earnings | **4** | 6 |
| Change in fair value through OCI | **(5)** | 2 |
| Balance, end of year | **136** | 136 |
| Less: Current portion of debt retirement funds | **-** | (11) |
| | **$ 136** | $ 125 |

*OCI - Other Comprehensive Income*

The investments held in debt retirement funds are primarily Federal and Provincial Government debt instruments. The average return on these investments is 3.0 per cent for the period (2020 – 3.0 per cent). As at March 31, 2021 approximately $14 million is required to be invested in debt retirement funds on an annual basis.

## 8. FINANCIAL AND DERIVATIVE INSTRUMENTS

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

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

Level 1 valuations use quoted prices (unadjusted) that are available in active markets for identical assets or liabilities as at the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide ongoing pricing information.

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

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

| (millions) | Classification | Fair Value Hierarchy | 2021 Carrying Amount | 2021 Fair Value | 2020 Carrying Amount | 2020 Fair Value |
|---|---|---|---|---|---|---|
| **FINANCIAL AND DERIVATIVE ASSETS** | | | | | | |
| Cash | FVTPL | Level 1 | **$ -** | **$ -** | $ 1 | $ 1 |
| Trade and other receivables | AC | Level 2 | **165** | **165** | 155 | 155 |
| Debt retirement funds | FVOCI | Level 2 | **136** | **136** | 136 | 136 |
| Fair value of derivative instrument assets | FVTPL | Level 2 | **17** | **17** | 15 | 15 |
| **FINANCIAL AND DERIVATIVE LIABILITIES** | | | | | | |
| Short-term debt | AC | Level 2 | **264** | **264** | 279 | 279 |
| Trade and other payables | AC | Level 2 | **116** | **116** | 120 | 120 |
| Dividends payable | AC | Level 2 | **7** | **7** | 2 | 2 |
| Long-term debt | AC | Level 2 | **1,485** | **1,622** | 1,359 | 1,532 |
| Fair value of derivative instrument liabilities | FVTPL | Level 2 | **8** | **8** | 21 | 21 |

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

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

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

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

Notional values are an approximation of future undiscounted net cash flows. For physical natural gas contracts, the notional value is based on the contract price. Where contract prices are referenced to an index price that has not yet been fixed, the market price is used to estimate the contract price.

As at March 31, 2021 natural gas derivative instruments had the following fair values, notional values and maturities in the next five fiscal years:

| (millions) | 2022 | 2023 | 2024 | 2025 | 2026 | Total |
|---|---|---|---|---|---|---|
| Fair value | $ 4 | $ 4 | $ 3 | $ - | $ - | **$ 11** |
| Notional value | $ (7) | $ 5 | $ 5 | $ 2 | $ 1 | **$ 6** |

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

Financial assets and liabilities are offset within the consolidated statement of financial position if the Corporation has the legal right to offset and intends to settle on a net basis. When natural gas contracts settle or become realized, the amount due to or from counterparties is recorded within trade payables or trade receivables, respectively.

The Corporation offsets these amounts when the counterparty and timing of settlement are the same, which reflects the expected future cash flows from settling its natural gas contracts.

The following amounts were netted within the consolidated statement of financial position:

| (millions) | 2021 | 2020 |
|---|---|---|
| **TRADE AND OTHER RECEIVABLES** | | |
| Gross amount recognized | **$ 11** | $ 19 |
| Amount offset | **(7)** | (12) |
| Net amount presented in the consolidated statement of financial position | **$ 4** | $ 7 |
| **TRADE AND OTHER PAYABLES** | | |
| Gross amount recognized | **$ 17** | $ 23 |
| Amount offset | **(7)** | 12 |
| Net amount presented in the consolidated statement of financial position | **$ 10** | $ 11 |

## 9. FINANCIAL RISK MANAGEMENT

Through the normal course of business, the Corporation has exposure to market risk (natural gas price risk and interest rate risk), liquidity risk and credit risk related to its financial and derivative instruments. The Board of Directors, through the Audit and Finance Committee, has the overall responsibility for the establishment and oversight of the Corporation's risk management efforts. The risk management policies and strategies, approved by the Board of Directors and reviewed regularly by the Audit and Finance Committee, provide the framework within which financial and derivative instruments may be used to manage its risks.

The Corporation's significant risk management policies include the Corporate Derivatives Policy, the Commodity Risk Management Policy, the Corporate Debt and Interest Rate Risk Management Policy and the Corporate Credit Risk Management Policy. The objectives, policies and processes for managing risk were consistent with the prior period.

### a. Natural gas price risk

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

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

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

Based on period-end closing positions, an increase of $1.00 per gigajoule (GJ) in natural gas prices would have increased net income, through an increase in the fair value of natural gas derivative instruments, by $29 million (2020 - $43 million). Conversely, a decrease of $1.00 per GJ would have decreased net income, through a decrease in the fair value of natural gas derivative instruments, by $29 million (2020 - $43 million).

Based on the period closing positions, an increase of $1.00 per GJ in natural gas prices would have a positive impact on uncontracted natural gas in storage, by $nil (2020 - $5 million). Conversely, a decrease of $1.00 per GJ would have a negative impact on unsold natural gas in storage, by $2 million (2020 - $5 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- 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 forecasts its borrowing requirements annually and develops financing strategies and target rates for interest rate risk management activities.

As at March 31, 2021, the Corporation had $264 million of short-term debt outstanding. Based on these amounts, a 1.0 per cent change in interest rates would increase or decrease the annual finance expense by approximately $3 million (2020 - $3 million).

The Corporation is also subject to interest rate risk related to debt retirement funds and provisions, as the recorded values are driven by market prices that are largely determined by interest rates. Fluctuations in the interest rates of debt retirement funds and provisions can have an impact on the Corporation. The estimated impact of a 1.0 per cent change in interest rates, assuming no change in the amount of debt retirement funds, would increase or decrease the market value of the debt retirement funds recorded through OCI by approximately $10 million (2020 - $10 million). The estimated impact of a 1.0 per cent increase in interest rates, assuming no change in the amount of provisions, would have decreased the value of the provision by approximately $9 million (2020 - $85 million). Conversely, a 1.0 per cent decrease in interest rates, assuming no change in the amount of provisions, would have increased the value of the provision by approximately $8 million (2020 - $133 million).

### c. Liquidity risk

Liquidity risk is the risk that the Corporation is unable to meet its financial obligations as they become due. The Corporation has credit facilities available to refinance maturities in excess of anticipated operating cash flows.

The contractual maturities of the Corporation's financial obligations, including interest payments and the impact of netting agreements, as at March 31, 2021 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 | $ 264 | $ 264 | $ - | $ - | $ - |
| Trade and other payables | 116 | 116 | - | - | - |
| Dividends payable | 7 | 7 | - | - | - |
| Long-term debt | 1,485 | 56 | 56 | 336 | 2,125 |
| Derivative instruments | (8) | 7 | (5) | (7) | - |
| Commitments | 77 | 77 | - | - | - |
| | $ 1,941 | $ 527 | $ 51 | $ 329 | $ 2,125 |

As at March 31, 2021, the Corporation's borrowing capacity, together with relatively stable operating cash flows, provide sufficient liquidity to fund these contractual obligations. Interest rates used in calculating financial obligations are effective March 31, 2021.

The Corporation has also posted a $15 million (2020 - $15 million) letter of credit with ICE NGX as security for natural gas purchases and sales conducted by the Corporation on the ICE NGX natural gas exchange in Alberta. ICE 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.

In addition to the above, the Corporation has posted a Parental Guarantee Agreement with Many Islands Pipe Lines (Canada) Limited (MIPL), one of its subsidiaries, in the amount of $200 million. Guaranteed funds are for any amounts that may be due by MIPL under the *Canadian Energy Regulator Act.*

### d. Credit risk

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

The Corporation extends credit to its customers in the normal course of business and is at risk of loss in the event of non-performance by counterparties on certain of the financial and derivative instruments. To reduce its credit risk, the Corporation has established policies and procedures to monitor and limit the amount of credit extended to its customers and counterparties and may require letters of credit and other forms of security. As at March 31, 2021, the maximum credit exposure to a single counterparty is $8 million (2020 - $6 million).

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

| (millions) | 2021 | 2020 |
|---|---|---|
| Cash | $ - | $ 1 |
| Trade and other receivables | 165 | 155 |
| Debt retirement funds | 136 | 136 |
| Fair value of derivative instrument assets | 17 | 15 |
| | $ 318 | $ 307 |

At March 31, 2021, the exposure to credit risk for trade receivables by type of customer was as follows:

| (millions) | 2021 | 2020 |
|---|---|---|
| Distribution customers | $ 100 | $ 89 |
| Transmission and storage customers | 31 | 31 |
| Asset optimization customers | 4 | 7 |
| Other customers | 30 | 28 |
| Trade and other receivables | $ 165 | $ 155 |

## 10. ASSETS FOR HELD SALE

As at March 31, 2021, a non-current asset was classified as held for sale within the consolidated statement of financial position. During 2020-21 the Corporation committed to a plan to sell land and building assets within the next 12-month period. The assets are measured at carrying amount, which is also equal to their fair value less costs to sell and were no longer depreciated. The carrying amount of the land and building assets held for sale as at year end was $4 million.

## 11. RIGHT-OF-USE ASSETS

| (millions) | Buildings | Computer Hardware | Vehicles | Total |
|---|---|---|---|---|
| **COST** | | | | |
| Balance, April 1, 2019 | $ - | $ - | $ - | **$ -** |
| Additions | 1 | 2 | 1 | **4** |
| Transfers - IFRS 16 transition | 7 | 3 | 9 | **19** |
| Balance, March 31, 2020 | 8 | 5 | 10 | **23** |
| Additions | - | 3 | 3 | **6** |
| Disposals | - | (1) | - | **(1)** |
| Balance, March 31, 2021 | 8 | 7 | 13 | **28** |
| **ACCUMULATED DEPRECIATION** | | | | |
| Balance, April 1, 2019 | - | - | - | **-** |
| Depreciation | 3 | 1 | 1 | **5** |
| Transfers - IFRS 16 transition | - | 1 | 2 | **3** |
| Balance, March 31, 2020 | 3 | 2 | 3 | **8** |
| Depreciation | 3 | 2 | 1 | **6** |
| Disposals | - | (1) | - | **(1)** |
| Balance, March 31, 2021 | 6 | 3 | 4 | **13** |
| **CARRYING AMOUNTS** | | | | |
| Balance, March 31, 2020 | $ 5 | $ 3 | $ 7 | **$ 15** |
| Balance, March 31, 2021 | $ 2 | $ 4 | $ 9 | **$ 15** |

## 12. INTANGIBLE ASSETS

| (millions) | Computer Software | Under Development | Total |
|---|---|---|---|
| **COST** | | | |
| Balance, April 1, 2019 | $ 122 | $ 14 | **$ 136** |
| Additions | 9 | 13 | **22** |
| Transfers | - | (9) | **(9)** |
| Balance, March 31, 2020 | 131 | 18 | **149** |
| Additions | 22 | 15 | **37** |
| Disposals | (12) | - | **(12)** |
| Transfers | - | (22) | **(22)** |
| Balance, March 31, 2021 | 141 | 11 | **152** |
| **ACCUMULATED AMORTIZATION** | | | |
| Balance, April 1, 2019 | 66 | - | **66** |
| Amortization | 10 | - | **10** |
| Balance, March 31, 2020 | 76 | - | **76** |
| Amortization | 11 | - | **11** |
| Disposals | (12) | - | **(12)** |
| Balance, March 31, 2021 | 75 | - | **75** |
| **CARRYING AMOUNTS** | | | |
| Balance, March 31, 2020 | $ 55 | $ 18 | **$ 73** |
| Balance, March 31, 2021 | $ 66 | $ 11 | **$ 77** |

The annualized composite rate of amortization was 8.0 per cent during the period (2020 - 7.6 per cent).

## 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, April 1, 2019 | $ 1,677 | $ 1,338 | $ 422 | $ 188 | $ 20 | $ 110 | **$ 3,755** |
| Transfers - IFRS 16 transition | - | - | - | (9) | (3) | - | **(12)** |
| Additions | 190 | 162 | 35 | 11 | 1 | 319 | **718** |
| Disposals | (3) | (7) | - | (2) | - | (17) | **(29)** |
| Transfers | - | - | - | - | - | (301) | **(301)** |
| Balance, March 31, 2020 | 1,864 | 1,493 | 457 | 188 | 18 | 111 | **4,131** |
| Additions | - | 97 | 25 | 11 | - | 217 | **350** |
| Disposals | (10) | (2) | - | (6) | - | (5) | **(23)** |
| Transfers | - | - | - | - | - | (190) | **(190)** |
| Balance, March 31, 2021 | 1,854 | 1,588 | 482 | 193 | 18 | 133 | **4,268** |
| **ACCUMULATED DEPRECIATION** | | | | | | | |
| Balance, April 1, 2019 | 491 | 496 | 155 | 93 | 15 | - | **1,250** |
| Transfers - IFRS 16 transition | - | - | - | (2) | (1) | - | **(3)** |
| Depreciation | 35 | 34 | 16 | 8 | 1 | - | **94** |
| Disposals | (2) | (6) | - | (3) | - | - | **(11)** |
| Balance, March 31, 2020 | 524 | 524 | 171 | 96 | 15 | - | **1,330** |
| Depreciation | 37 | 38 | 16 | 8 | 1 | - | **100** |
| Disposals | (5) | (2) | - | (6) | - | - | **(13)** |
| Balance, March 31, 2021 | 556 | 560 | 187 | 98 | 16 | - | **1,417** |
| **CARRYING AMOUNTS** | | | | | | | |
| Balance, March 31, 2020 | $ 1,340 | $ 969 | $ 286 | $ 92 | $ 3 | $ 111 | **$ 2,801** |
| Balance, March 31, 2021 | $ 1,298 | $ 1,028 | $ 295 | $ 95 | $ 2 | $ 133 | **$ 2,851** |

The annualized composite rate of depreciation was 2.4 per cent during the period (2020 - 2.4 per cent).

## 14.TRADE AND OTHER PAYABLES

| (millions) | 2021 | 2020 |
|---|---|---|
| Trade payables | **$ 46** | $ 63 |
| Interest payable | **15** | 15 |
| Other payables | **55** | 42 |
| | **$ 116** | $ 120 |

## 15. UNEARNED CUSTOMER CAPITAL CONTRIBUTIONS AND GOVERNMENT GRANTS

### Contract liabilities

Contract liabilities are performance obligations the Corporation has not yet performed but has already received consideration from customers.

| (millions) | 2021 | 2020 |
|---|---|---|
| Balance, beginning of year | **$ 19** | $ 16 |
| Additions | **40** | 46 |
| Refunds | **(2)** | (4) |
| Revenue | **(46)** | (32) |
| Transfer to refund liability | **(6)** | (7) |
| Balance, end of year | **$ 5** | $ 19 |

### Refund liabilities

Refund liabilities relate to performance obligations the Corporation has not yet performed, has already received consideration from customers and expects to refund the consideration to the customer based on actual flows of natural gas exceeding the estimated flows determined at contract inception. The balance at March 31, 2021 was $6 million (2020 - $7 million).

### Deferred revenue

Unearned government grants represent amounts received to compensate the Corporation for the cost of certain items of property, plant and equipment. There are no unfulfilled conditions or other contingencies attached to these government grants. The balance at March 31, 2021 was $5 million (2020 - $5 million).

## 16. LEASE LIABILITY

Leases are recognized as Right of Use assets and corresponding liabilities at the date at which a leased asset is available for use. Payments for short-term leases and leases of low-value assets are expensed on a straight-line basis and excluded from the lease liability.

| (millions) | 2021 | 2020 |
|---|---|---|
| Total future minimum lease payments | **$ 13** | $ 14 |
| Less: Future finance charges on leases | **(1)** | (1) |
| Present value of lease liability | **12** | 13 |
| Less: Current portion of lease liability | **(5)** | (6) |
| | **$ 7** | $ 7 |

| (millions) | 2021 | 2020 |
|---|---|---|
| Lease liabilities, beginning of year | **$ 13** | $ 8 |
| IFRS 16 transition | **-** | 7 |
| Net additions | **6** | 3 |
| Principal repayment of lease liability | **(7)** | (5) |
| Lease liabilities, end of year | **$ 12** | $ 13 |

The weighted average discount rate applied to computer leases is 4.0 per cent and vehicles is 2.8 per cent based on the rates implicit in the agreements. The weighted average discount rate applied to building leases is 4.0 per cent based on the Corporation's incremental borrowing rate.

As at March 31, 2021, scheduled future minimum lease payments and the present value of the finance lease obligation are as follows for the next five fiscal years:

| (millions) | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|
| Future minimum lease payments | $ 6 | $ 3 | $ 2 | $ 1 | $ 1 |
| Present value of lease liability | $ 5 | $ 3 | $ 2 | $ 1 | $ 1 |

## 17. PROVISIONS

| (millions) | 2021 | 2020 |
|---|---|---|
| Balance, beginning of year | **$ 292** | $ 200 |
| Provisions made | **10** | - |
| Provisions settled | **(10)** | (9) |
| Change in discount rate | **(70)** | 96 |
| Unwinding of discount | **5** | 5 |
| Balance, end of year | **$ 227** | $ 292 |

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 is assumed that the costs will be incurred between April 1, 2021 and March 31, 2109. The undiscounted cash flows required to settle the obligations total $552 million (2019 - $498 million). Discount rates between 0.3 per cent and 2.4 per cent were used to calculate the carrying amount of the obligation (2020 - 0.7 per cent and 1.4 per cent). No funds have been set aside by the Corporation to settle these obligations.

## 18. LONG-TERM DEBT

| (millions) | 2021 | 2020 |
|---|---|---|
| Balance, beginning of year | **$ 1,359** | $ 1,180 |
| Proceeds | **160** | 212 |
| Repayments | **(34)** | (33) |
| Balance, end of year | **$ 1,485** | $ 1,359 |

Long-term debt consists of the following:

| | 2021 | | 2020 | |
|---|---|---|---|---|
| | Principal Outstanding (millions) | Effective Interest Rate | Principal Outstanding (millions) | Effective Interest Rate |
| **GENERAL REVENUE FUND** | | | | |
| 1 - 5 years | **$ 175** | **5.6%** | $ 134 | 4.1% |
| 6 - 10 years | **67** | **4.9%** | 142 | 7.0% |
| 11 - 15 years | **60** | **6.4%** | 60 | 6.4% |
| 16 - 20 years | **189** | **4.0%** | 114 | 3.3% |
| 21 - 25 years | **300** | **3.7%** | 225 | 4.0% |
| 26 - 30 years | **515** | **3.1%** | 450 | 3.4% |
| 31 plus years | **150** | **2.7%** | 215 | 3.0% |
| | **1,456** | | 1,340 | |
| Unamortized debt premium/discount and issue costs | **24** | | 14 | |
| | **1,480** | | 1,354 | |
| **OTHER LONG-TERM DEBT** | | | | |
| 21 - 25 years | **5** | **13.5%** | 5 | 13.5% |
| | **1,485** | | 1,359 | |
| Less: Current portion of long-term debt | **-** | | (34) | |
| | **$ 1,485** | | $ 1,325 | |

Long-term debt is unsecured. As at March 31, 2021 principal repayments due in each of the next five fiscal years were as follows:

| (millions) | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|
| Principal repayments | $ - | $ - | $ - | $ 100 | $ 75 |

On April 13, 2021, the Corporation entered into an agreement with the Province to borrow an additional $50 million of long-term debt with an interest rate of 2.8 per cent maturing in 2052.

## 19. COMMITMENTS AND CONTINGENCIES

### a. Commitments

As at March 31, 2021, the Corporation had $77 million (2020 - $144 million) of outstanding contractual commitments for the procurement of goods and services in the future.

During the period, the Corporation entered into commodity contracts for the physical purchase of natural gas that qualify as own-use contracts. As at March 31, 2021, own-use natural gas derivative instruments had the following notional values and maturities for the next five fiscal years:

| (millions) | 2022 | 2023 | 2024 | 2025 | 2026 | Thereafter |
|---|---|---|---|---|---|---|
| **OWN-USE PHYSICAL NATURAL GAS CONTRACTS** | | | | | | |
| Notional value | $ 73 | $ 70 | $ 70 | $ 86 | $ 89 | $ 229 |

*Notional value - estimated undiscounted cash outflow*

### b. Contingencies

The Corporation is involved in litigation claims, which the Corporation does not expect the outcomes to result in any material financial impact.

## 20. UNREALIZED MARKET VALUE ADJUSTMENTS

| (millions) | 2021 | 2020 |
|---|---|---|
| Change in fair value of natural gas derivative contracts | **$ 15** | $ (30) |
| Change in revaluation of natural gas in storage to net realizable value | **7** | 7 |
| | **$ 22** | $ (23) |

Unrealized market value adjustments represent the net income impact of measuring certain financial and derivative instruments at fair value subsequent to initial recognition (Note 8) and measuring natural gas in storage at the lower of weighted average cost and net realizable value (Note 6). These adjustments represent the change in the carrying amount of the related item during the period and are dependent on the market prices and expected delivery dates at the end of the reporting period.

## 21. NATURAL GAS SALES AND PURCHASES

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| (millions) | Commodity | Asset Optimization | Total | Commodity | Asset Optimization | Total |
| **NATURAL GAS SALES** | | | | | | |
| Natural gas sales to commodity customers | **$ 169** | **$ -** | **$ 169** | $ 165 | $ - | $ 165 |
| Realized on natural gas derivative instruments | **-** | **117** | **117** | - | 144 | 144 |
| Change in fair value of natural gas derivative instruments | **-** | **(3)** | **(3)** | - | (1) | (1) |
| | **169** | **114** | **283** | 165 | 143 | 308 |
| **NATURAL GAS PURCHASES** | | | | | | |
| Realized on natural gas derivative instruments | **(158)** | **(121)** | **(279)** | (142) | (142) | (284) |
| Change in fair value of natural gas derivative instruments | **8** | **10** | **18** | 6 | (35) | (29) |
| Change in revaluation of natural gas in storage to net realizable value | **-** | **7** | **7** | - | 7 | 7 |
| | **(150)** | **(104)** | **(254)** | (136) | (170) | (306) |
| | **$ 19** | **$ 10** | **$ 29** | $ 29 | $ (27) | $ 2 |

## 22. DELIVERY REVENUE

| (millions) | 2021 | 2020 |
|---|---|---|
| Basic monthly charge | **$ 121** | $ 120 |
| Delivery revenue | **159** | 158 |
| Other | **4** | 6 |
| | **$ 284** | $ 284 |

## 23. TRANSPORTATION AND STORAGE REVENUE

| (millions) | 2021 | 2020 |
|---|---|---|
| Transportation | | |
| Firm | **$ 172** | $ 171 |
| Interruptible | **4** | 7 |
| | **176** | 178 |
| Storage | **10** | 9 |
| | **$ 186** | $ 187 |

## 24. SASKATCHEWAN TAXES

| (millions) | 2021 | 2020 |
|---|---|---|
| Corporate capital tax | **$ 12** | $ 12 |
| Property taxes and other | **4** | 4 |
| | **$ 16** | $ 16 |

## 25. NET FINANCE EXPENSES

| (millions) | 2021 | 2020 |
|---|---|---|
| Debt retirement funds earnings | **$ 4** | $ 4 |
| Finance income | **$ 4** | $ 4 |
| Interest expense on short-term debt | **(1)** | (4) |
| Interest expense on long-term debt | **(56)** | (53) |
| Unwinding of discount on provisions | **(4)** | (5) |
| Borrowing costs capitalized to qualifying assets | **2** | 3 |
| Finance expenses | **(59)** | (59) |
| Net finance expenses | **$ (55)** | $ (55) |

Borrowing costs were capitalized to qualifying assets using the weighted average cost of debt of 3.4 per cent during the period (2020 - 3.8 per cent).

## 26. OTHER LOSSES

| (millions) | 2021 | 2020 |
|---|---|---|
| Net loss on disposal of assets | **$ (4)** | $ (16) |
| Net loss on impairment of assets | **-** | (5) |
| Other net gains | **1** | - |
| | **$ (3)** | $ (21) |

Discontinued projects of $4 million were recognized as losses on disposal of assets. Other net gains of $1 million consist of a $2 million gain recognized through decommissioning liability adjustments implemented based on a third party consultant review, offset by a $1 million permanent impairment loss on natural gas inventory. It was determined that deliverability at one of the Corporation's storage facilities was not able to produce all of the natural gas inventory from the facility.

## 27. 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 is as follows:

| (millions) | 2021 | 2020 |
|---|---|---|
| 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.

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

# Corporate Governance and Stakeholder Engagement

SaskEnergy's governance structure supports accountability to the Corporation's customers, stakeholders, the public, and its shareholder. Effective governance helps to ensure that SaskEnergy operates as both a financially viable organization and a responsible Corporation.

SaskEnergy's Board of Directors is representative of the Saskatchewan community and industry. The Lieutenant Governor in Council appoints up to 12 members and designates a Chair and Vice Chair.

SaskEnergy's Board is responsible for the stewardship of the Corporation and oversees, and closely monitors, its adherence to *The SaskEnergy Act* and its regulations. It fufills its oversight duties through the use of Board Committees, whose mandates are reviewed annually and updated as required.

SaskEnergy is committed to the principles of transparency, openness and timeliness in communication with the Corporation's Owner, Crown Investments Corporation, employees, customers, stakeholders and the public. Strong two-way communications models support the achievement of business and corporate results.

More information on governance, including SaskEnergy's Corporate Governance Disclosure, Board and Executive member biographies, and stakeholder engagement, is available on saskenergy.com

| Board Size | Three Committees | Women in Leadership |
|---|---|---|
| 12 | Environmental, Social and Governance<br>Audit and Finance<br>Human Resources and Safety | Board Chair<br>Vice Chair<br>58% of Board members<br>38% of Executive members |

# Supplementary Information

## Five Year Consolidated Financial Summary

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| (millions) | March 31, 2021 | March 31, 2020 | March 31, 2019 | March 31, 2018 | March 31, 2017 |
|---|---|---|---|---|---|
| | **Audited** | Audited | Audited Restated[1] | Audited | Audited |
| **ASSETS** | | | | | |
| Current assets | | | | | |
| Cash | **$ -** | $ 1 | $ 6 | $ - | $ 1 |
| Trade and other receivables | **165** | 155 | 156 | 141 | 111 |
| Natural gas in storage held for resale | **15** | 13 | 26 | 37 | 86 |
| Inventory of supplies | **14** | 13 | 13 | 11 | 12 |
| Debt retirement funds | **-** | 11 | 3 | - | 7 |
| Assets held for sale | **4** | - | - | 8 | - |
| Fair value of derivative instruments | **17** | 15 | 41 | 61 | 5 |
| | **215** | 208 | 245 | 258 | 222 |
| Right-of-use assets | **15** | 15 | - | - | - |
| Intangible assets | **77** | 73 | 70 | 64 | 60 |
| Property, plant and equipment | **2,851** | 2,801 | 2,505 | 2,260 | 2,129 |
| Debt retirement funds | **136** | 125 | 118 | 106 | 94 |
| | **$ 3,294** | $ 3,222 | $ 2,938 | $ 2,688 | $ 2,505 |
| **LIABILITIES AND PROVINCE'S EQUITY** | | | | | |
| Current liabilities | | | | | |
| Bank indebtedness | **$ -** | $ - | $ - | $ 3 | $ - |
| Short-term debt | **264** | 279 | 260 | 254 | 293 |
| Trade and other payables | **116** | 120 | 117 | 129 | 104 |
| Dividends payable | **7** | 2 | 43 | 23 | 14 |
| Current portion of long-term debt | **-** | 34 | 33 | 50 | 59 |
| Deferred revenue | **-** | - | - | 35 | 32 |
| Contract liability | **5** | 19 | 16 | - | - |
| Refund liability | **6** | 7 | 8 | - | - |
| Fair value of derivative instruments | **8** | 21 | 17 | 50 | 40 |
| Current portion of lease liability | **5** | 6 | 3 | - | - |
| | **411** | 488 | 497 | 544 | 542 |
| Lease liability | **7** | 7 | 5 | 9 | 5 |
| Employee future benefits | **4** | 5 | 5 | 6 | 7 |
| Provisions | **227** | 292 | 200 | 128 | 127 |
| Deferred revenue | **5** | 5 | 5 | 5 | 6 |
| Long-term debt | **1,485** | 1,325 | 1,147 | 1,031 | 960 |
| | **2,139** | 2,122 | 1,859 | 1,723 | 1,647 |
| Province's equity | | | | | |
| Equity advances | **72** | 72 | 72 | 72 | 72 |
| Retained earnings | **1,084** | 1,024 | 1,005 | 894 | 786 |
| Other components of equity | **(1)** | 4 | 2 | (1) | - |
| | **1,155** | 1,100 | 1,079 | 965 | 858 |
| | **$ 3,294** | $ 3,222 | $ 2,938 | $ 2,688 | $ 2,505 |

[1] The March 31, 2019 property, plant and equipment and retained earnings were restated by $19 million relating to losses on disposal of assets that were reclassified from accumulated amortization to opening retained earnings.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| (millions) | 12 Months Ended March 31, 2021 | 12 Months Ended March 31, 2020 | 12 Months Ended March 31, 2019 | 12 Months Ended March 31, 2018 | 12 Months Ended March 31, 2017 |
|---|---|---|---|---|---|
| | **Audited** | Audited | Audited Restated | Audited | Audited |
| **REVENUE** | | | | | |
| Natural gas sales | **$ 286** | $ 309 | $ 452 | $ 474 | $ 364 |
| Delivery | **284** | 284 | 289 | 271 | 240 |
| Transportation and storage | **186** | 187 | 163 | 137 | 134 |
| Customer capital contributions | **49** | 36 | 29 | 21 | 55 |
| Other | **-** | - | 4 | 7 | 10 |
| | **805** | 816 | 937 | 910 | 803 |
| **EXPENSES** | | | | | |
| Natural gas purchases | **279** | 284 | 396 | 407 | 325 |
| Employee benefits | **102** | 96 | 89 | 86 | 87 |
| Operating and maintenance | **169** | 164 | 161 | 127 | 134 |
| Depreciation and amortization | **117** | 109 | 99 | 100 | 96 |
| Saskatchewan taxes | **16** | 16 | 15 | 14 | 12 |
| Impairment loss on trade and other receivables | **5** | 5 | 2 | 5 | - |
| | **688** | 674 | 762 | 739 | 654 |
| **INCOME BEFORE THE FOLLOWING** | **117** | 142 | 175 | 171 | 149 |
| **NET FINANCE EXPENSES** | | | | | |
| Finance income | **4** | 4 | 3 | 2 | 2 |
| Finance expenses | **(59)** | (59) | (55) | (50) | (48) |
| | **(55)** | (55) | (52) | (48) | (46) |
| **OTHER (LOSSES) GAINS** | **(3)** | (21) | 11 | (13) | (33) |
| **NET INCOME BEFORE MARKET VALUE ADJUSTMENTS** | **59** | 66 | 134 | 110 | 70 |
| **MARKET VALUE ADJUSTMENTS** | | | | | |
| Commodity | **8** | 6 | 35 | (2) | 65 |
| Asset optimization | **7** | (36) | 16 | 48 | (2) |
| Net realizable value on natural gas in storage | **7** | 7 | (19) | (12) | 13 |
| | **22** | (23) | 32 | 34 | 76 |
| **TOTAL NET INCOME** | **$ 81** | $ 43 | $ 166 | $ 144 | $ 146 |
| **CONSOLIDATED STATEMENT CASH FLOWS** | | | | | |
| Cash provided by operating activities | **204** | 270 | 280 | 312 | 225 |
| Cash used in investing activities | **(235)** | (341) | (271) | (258) | (198) |
| Cash provided by (used in) financing activities | **30** | 66 | - | (58) | (37) |
| **(DECREASE) INCREASE IN CASH POSITION** | **$ (1)** | $ (5) | $ 9 | $ (4) | $ (10) |

# Glossary of Key Success Measures

## ORGANIZATIONAL

### Safety Culture

| MEASURE | DEFINITION |
| --- | --- |
| **Total Recordable Injury Frequency Rate** | Recordable Injuries X 200,000 / Hours Worked measures the number of recordable injuries per 100 employees. |
| **Injury Severity Rate** | The calculated rate is indicative of the scope and extent of safety issues, the severity of any involved injury or illness, and measures the effectiveness of safety standards in the workplace.<br><br>Injury Severity Rate = # of Lost Work Days X 200,000 / Total Hours Worked. |

### Workforce Development

| MEASURE | DEFINITION |
| --- | --- |
| **Representative Workforce**<br>• Women in Management Roles<br>• Indigenous | The number of women in management roles, including professionals, as a percentage of total management. The baseline will be established in 2021-22, using Saskatchewan Human Rights Commission figures.<br><br>The number of Indigenous employees as a percentage of total employees. Based on the Saskatchewan Human Rights Commission's recommended targets, the figure is 14 per cent provincially. However, SaskEnergy recognizes this demographic is trending higher in the province. |

### Employee Experience

| MEASURE | DEFINITION |
| --- | --- |
| **Employee Survey** | The benchmark for this measure was established using the results of the comprehensive survey conducted in 2020-21. This survey is conducted every two years and is planned again for 2022-23. |

## OPERATIONS

### Operational Excellence

| MEASURE | DEFINITION |
| --- | --- |
| **Distribution O&M (Costs per Customer)** | The Operating and Maintenance (O&M) Costs per customer measure is a proxy for the relative efficiency of the Distribution Utility's operations and is calculated using O&M expenses (excludes transportation and storage charges) divided by the total number of distribution customers. |
| **Transmission O&M (Costs per Book Value of Assets Managed)** | The O&M 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 O&M expenses (excludes third-party transportation charges) divided by the total value of the assets managed as part of the transmission system. |
| **Residential Delivery Rates** | The Competitive Residential Delivery Rates measure reports the ranking of SaskEnergy's natural gas distribution delivery service rates, relative to the rates charged by other major Canadian utilities. The cost comparison is based on a benchmark level of consumption upon which the published rates of other service providers are applied to determine SaskEnergy's relative ranking. The calculations also factor in all temporary and one-time refunds, rebates, rate riders, or surcharges approved by the utility's regulator. Federal, provincial and municipal taxes are excluded from the comparison as are any Government rebates that are not directly approved by the utility's regulator. |
| **Unplanned Customer Outage Events** | Unplanned outages that arise from activities such as third-party damage (line hits), operator error, facilities failure (e.g. station freeze offs) and security issues. This metric also aligns with industry. The natural gas industry has a strong focus on the reliability of its service. The Canadian Gas Association publishes an industry reliability factor every year in its company profile. This is one of the key competitive advantages of natural gas as an energy supply. This metric is directly linked to this focus and will help to further highlight this focus to employees in the company. |

### Greener Energy Provider

| MEASURE | DEFINITION |
| --- | --- |
| **Output Based Performance Standard (OBPS) – Emissions (Tonnes of $CO_2$ e/MWh)** | This measure is calculated based on a numerator of total combustion/flaring greenhouse gas emissions from transmission operations, and a denominator of total load-corrected MWh of output from compressor engines. The units are $tCO_2e/MWh$. This metric reflects requirements under the federal Output Based Pricing System. |

## FINANCIAL

| MEASURE | DEFINITION |
|---|---|
| **Debt/Equity Ratio** | This measure is calculated by dividing total net debt by the sum of total net debt plus total owner's equity. |
| **Regulated Return on Equity (Distribution)** | This measure is calculated by dividing the net income from operations, excluding commodity margin and customer contributions, by the rate base, adjusted for cumulative customer contributions. It is the same calculation used to set delivery service rates. |
| **Regulated Return on Equity (Transmission/Storage)** | This measure is calculated by dividing the income from operations by the rate base, adjusted for cumulative customer contributions. It is the same calculation used to set transportation and storage rates. |
| **Investment in Green Initiatives** | This measure tracks the dollars expended on green initiatives and includes all investment such as energy efficiency programs, capital investment related to operating emissions reduction, research and development of green technology (i.e. heat pumps) or green products (i.e. hydrogen). |

## CUSTOMER

### Customer Experience

| MEASURE | DEFINITION |
|---|---|
| **SaskEnergy Customer Satisfaction** | 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 7 rating or higher on a 10 point scale. Positive responses such as these indicate that customers view SaskEnergy service favourably and provide a strong indication that the customer service tools, policies and staff are effectively meeting the needs of customers. The data for this measure is obtained from annual customer surveys conducted by independent market research firms. |
| **TransGas Customer Satisfaction** | 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 25 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 several questions and reported as a percentage. |

# Glossary of Natural Gas Measurements

## 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 Celcius.

**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.

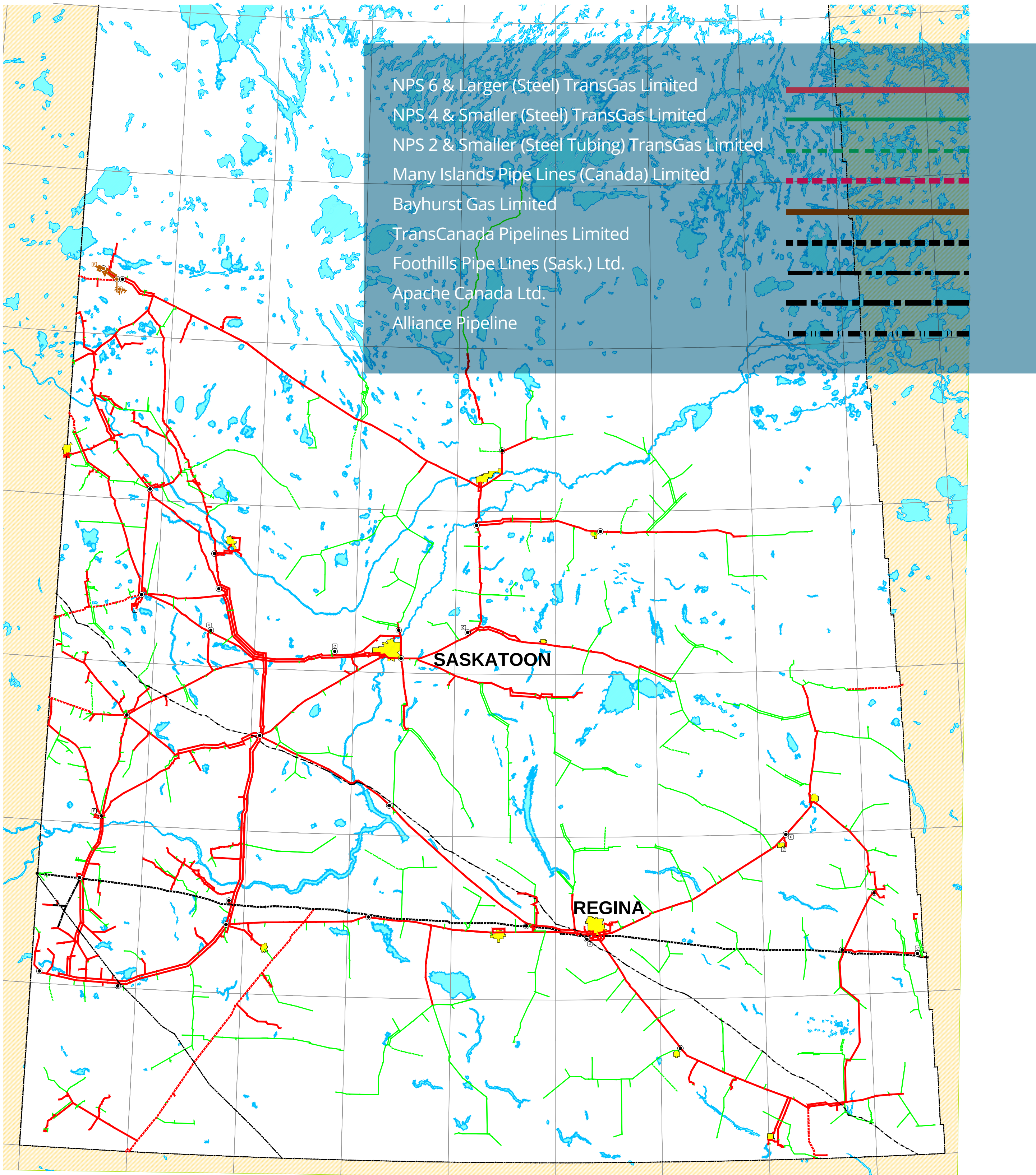
**Petajoule (PJ) –** a unit of energy equivalent to 1,000,000 GJ.

**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).

# Saskatchewan Natural Gas Transmission Lines



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