

# Third quarter report

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012



## FINANCIAL AND OPERATING HIGHLIGHTS

### Financial Indicators

| <i>(in millions)</i>                              | Three months ended September 30 |        |        | Nine months ended September 30 |          |        |
|---|---------------------------------|--------|--------|--------------------------------|----------|--------|
|   | 2012                            | 2011   | Change | 2012                           | 2011     | Change |
| Revenue   | \$ 464                          | \$ 469 | \$ (5) | \$ 1,378                       | \$ 1,362 | \$ 16  |
| Expense   | 423                             | 394    | 29     | 1,250                          | 1,154    | 96     |
| Income before unrealized market value adjustments | 41                              | 75     | (34)   | 128                            | 208      | (80)   |
| Net income  | 55                              | 91     | (36)   | 137                            | 234      | (97)   |
| Capital expenditures                              | 224                             | 125    | 99     | 662                            | 319      | 343    |
| Long-term debt                                    | 2,706                           | 2,708  | (2)    | 2,706                          | 2,708    | (2)    |
| Short-term advances                               | 759                             | 160    | 599    | 759                            | 160      | 599    |
| Finance lease obligations                         | 553                             | 410    | 143    | 553                            | 410      | 143    |
| Return on equity <sup>1</sup>                     |                                 |        |        | 9.2%                           | 15.3%    | (6.1%) |
| Per cent debt ratio <sup>2</sup>                  |                                 |        |        | 66.3%                          | 61.2%    | 5.1%   |

1. Return on equity = (annualized income before unrealized market value adjustments)/(average equity).

2. Per cent debt ratio = (debt)/(debt + equity), where debt = (gross long-term debt + short-term advances + finance lease obligations + bank indebtedness – debt retirement funds– cash and cash equivalents).

### Operating Statistics

| <i>(GWh <sup>1</sup>)</i>                  | Three months ended September 30 |              |             | Nine months ended September 30 |               |              |
|--|---------------------------------|--------------|-------------|--------------------------------|---------------|--------------|
|  | 2012                            | 2011         | Change      | 2012                           | 2011          | Change       |
| Saskatchewan electricity sales             | 4,662                           | 4,773        | (111)       | 14,432                         | 14,422        | 10           |
| Exports                                    | 173                             | 146          | 27          | 327                            | 312           | 15           |
| <b>Total electricity sales</b>             | <b>4,835</b>                    | <b>4,919</b> | <b>(84)</b> | <b>14,759</b>                  | <b>14,734</b> | <b>25</b>    |
| Gross electricity supplied                 | 5,343                           | 5,259        | 84          | 16,166                         | 16,028        | 138          |
| Line losses                                | (508)                           | (340)        | (168)       | (1,407)                        | (1,294)       | (113)        |
| <b>Net electricity supplied</b>            | <b>4,835</b>                    | <b>4,919</b> | <b>(84)</b> | <b>14,759</b>                  | <b>14,734</b> | <b>25</b>    |
| Electricity trading purchases              | 73                              | 166          | (93)        | 280                            | 503           | (223)        |
| Line losses                                | -                               | (1)          | 1           | (1)                            | (7)           | 6            |
| <b>Electricity trading sales</b>           | <b>73</b>                       | <b>165</b>   | <b>(92)</b> | <b>279</b>                     | <b>496</b>    | <b>(217)</b> |
| Generating capacity (net MW <sup>2</sup> ) | 4,094                           | 4,008        | 86          | 4,094                          | 4,008         | 86           |
| Peak load (net MW <sup>2</sup> )           | 3,053                           | 3,070        | (17)        | 3,265                          | 3,195         | 70           |
| Customers                                  | 486,774                         | 478,796      | 7,978       | 486,774                        | 478,796       | 7,978        |

1. One gigawatt hour (GWh) is equivalent to the energy consumed by 125 typical houses in one year.

2. Megawatt (MW) is a unit of bulk power; 1,000 kilowatts. The unit generally used to describe the output of a commercial generator.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis (MD&A) highlights the primary factors that have an impact on the financial results and operations of Saskatchewan Power Corporation (SaskPower; the Corporation). It should be read in conjunction with the SaskPower unaudited condensed consolidated financial statements and supporting notes for the nine months ended September 30, 2012. These condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) 34, *Interim Financial Reporting*. The SaskPower Audit and Finance Committee of the Board of Directors has approved the condensed consolidated financial statements.

The MD&A contains forward-looking statements based on the Corporation's estimates and assumptions concerning future results and events. Due to the risks and uncertainties inherent in any forecasted outlook, the actual results of the Corporation could differ materially from those anticipated. These risks and uncertainties include natural gas prices; coal and hydro availability; weather; economic conditions; number of customers; and market conditions in other jurisdictions.

### Financial Results

| <i>(in millions)</i>                            | Three months ended September 30 |              |                | Nine months ended September 30 |               |                |
|---|---------------------------------|--------------|----------------|--------------------------------|---------------|----------------|
|   | 2012                            | 2011         | Change         | 2012                           | 2011          | Change         |
| <b>Revenue</b>                                  |                                 |              |                |                                |               |                |
| Saskatchewan electricity sales                  | \$ 415                          | \$ 413       | \$ 2           | \$ 1,252                       | \$ 1,248      | \$ 4           |
| Exports   | 17                              | 10           | 7              | 31                             | 24            | 7              |
| Net sales from electricity trading              | 3                               | 7            | (4)            | 11                             | 10            | 1              |
| Share of profit from equity accounted investees | 2                               | 3            | (1)            | 9                              | 8             | 1              |
| Other revenue                                   | 27                              | 36           | (9)            | 75                             | 72            | 3              |
|   | <b>464</b>                      | <b>469</b>   | <b>(5)</b>     | <b>1,378</b>                   | <b>1,362</b>  | <b>16</b>      |
| <b>Expense</b>                                  |                                 |              |                |                                |               |                |
| Fuel and purchased power                        | 119                             | 120          | (1)            | 365                            | 352           | 13             |
| Operating, maintenance and administration       | 155                             | 138          | 17             | 451                            | 401           | 50             |
| Depreciation and amortization                   | 79                              | 73           | 6              | 234                            | 214           | 20             |
| Finance charges                                 | 51                              | 50           | 1              | 150                            | 151           | (1)            |
| Taxes   | 12                              | 11           | 1              | 36                             | 34            | 2              |
| Other losses (gains)                            | 7                               | 2            | 5              | 14                             | 2             | 12             |
|   | <b>423</b>                      | <b>394</b>   | <b>29</b>      | <b>1,250</b>                   | <b>1,154</b>  | <b>96</b>      |
| <b>Income before the following</b>              | <b>\$ 41</b>                    | <b>\$ 75</b> | <b>\$ (34)</b> | <b>\$ 128</b>                  | <b>\$ 208</b> | <b>\$ (80)</b> |
| Unrealized market value adjustments             | 14                              | 16           | (2)            | 9                              | 26            | (17)           |
| <b>Net income</b>                               | <b>\$ 55</b>                    | <b>\$ 91</b> | <b>\$ (36)</b> | <b>\$ 137</b>                  | <b>\$ 234</b> | <b>\$ (97)</b> |
| <b>Return on equity</b> <sup>1</sup>            |                                 |              |                | <b>9.2%</b>                    | <b>15.3%</b>  | <b>(6.1%)</b>  |

1. Return on equity = (annualized income before unrealized market value adjustments)/(average equity).

## Highlights

### Third Quarter

SaskPower's consolidated income before unrealized market value adjustments was \$41 million in the third quarter of 2012 down \$34 million from the third quarter of 2011. The decrease in income was primarily the result of lower customer contribution revenue and an increase in operating and depreciation costs.

Total revenue was down \$5 million in the third quarter of 2012, compared to the third quarter of 2011. The decline in revenue was attributable to a \$9 million decrease in other revenue as a result of lower customer contributions. There was also a \$5 million decline in net trading revenues and equity investment earnings. These declines were partially offset by a \$7 million increase in export sales due to improved market conditions in Alberta. Saskatchewan electricity sales were also up \$2 million.

Total expense increased \$29 million compared to the same period in 2011. Operating, maintenance and administration (OM&A) expense was up \$17 million in the third quarter of 2012, compared to the third quarter of 2011. The \$17 million increase was largely the result of increased spending on maintenance and new initiatives.

Depreciation expense increased \$6 million compared to the same period in 2011 as a result of continued investment in the Corporation's property, plant and equipment. Other losses increased \$5 million related to losses incurred on the disposal and retirement of assets. Finance charges and taxes were also up a combined \$2 million over the same period in the prior year.

SaskPower reported \$14 million of unrealized market value net gains in the third quarter of 2012, compared to \$16 million in the third quarter of 2011. The unrealized market value adjustments represent the change in the market value of the Corporation's outstanding natural gas hedges; natural gas inventory; electricity trading contracts; and debt retirement funds at period-end.

### Year-to-Date

SaskPower's consolidated income before unrealized market value adjustments was \$128 million in the first nine months of 2012 compared to \$208 million in the first nine months of 2011. The \$80 million decrease was due largely to higher fuel, operating and depreciation costs. The return on equity was 9.2%, down 6.1 percentage points from the previous period.

Total revenue was up \$16 million in the first nine months of 2012, compared to the first nine months of 2011. The improvement in revenue was primarily attributable to a \$7 million increase in export sales as a result of improved market opportunities in Alberta. As a result of a modest increase in sales volumes, Saskatchewan electricity sales increased by \$4 million. In addition, other revenue grew by \$3 million as a result of higher gas and electrical inspection revenue and the Corporation earned an additional \$1 million in profit from its investments in the MRM Cogeneration Station and the Cory Cogeneration Station.

Total expense increased \$96 million compared to the same period in 2011. Operating, maintenance and administration (OM&A) expense was up \$50 million in the first nine months of 2012, compared to the first nine months of 2011. The \$50 million increase was largely the result of increased spending on maintenance and repairs and new initiatives. In addition, fuel and purchased power costs increased \$13 million as a result of an unfavourable change in the fuel mix due to the higher natural gas generation which replaced less expensive hydro generation.

Depreciation expense increased \$20 million compared to the same period in 2011 as a result of significant investments in the Corporation's property, plant and equipment. Other losses increased \$12 million due to additional losses incurred on the disposal and retirement of assets. Finally, taxes were up \$2 million over the same period in the prior year as a result of the growth in the Corporation's capital tax base.

SaskPower reported \$9 million of unrealized market value net gains in the first nine months of 2012, compared to \$26 million in the first nine months of 2011. Unrealized market value adjustments are non-cash items that represent the change in the market value of the Corporation's outstanding natural gas hedges; natural gas inventory; electricity trading contracts; and debt retirement funds at period-end.

## Outlook

SaskPower's income before unrealized market value adjustments is expected to be \$169 million in 2012, resulting in a return on equity of 8.9%.

In 2012, Saskatchewan sales are expected to increase \$31 million to \$1.698 billion due to a 450 GWh increase in electricity sales volumes, primarily in the oilfield and key account customer segments. The increase in Saskatchewan electricity sales is expected to be offset by a \$9 million combined decrease in exports and other revenue as a result of lower customer contribution revenue and improved stability in electricity market prices in 2012.

Fuel and purchased power costs are expected to increase \$17 million. This is due to higher generation volumes and an unfavourable change in the fuel mix. OM&A expense is expected to be \$33 million higher, due to increased salary costs required to maintain the Corporation's growing infrastructure and increased spending on emergency maintenance to address damage to transmission infrastructure caused by summer storm activity. Depreciation, finance charges, taxes and other losses are expected to increase \$42 million as a result of SaskPower's ongoing capital program.

These earnings expectations are subject to a number of variables including: natural gas prices; coal and hydro availability; weather; economic conditions; number of customers; and market conditions in other jurisdictions.

SaskPower also expects to continue to make substantial investments in its infrastructure over the next 10 years. Capital expenditures in 2012 are forecast to be approximately \$988 million. This includes costs for the Boundary Dam Integrated Carbon Capture and Storage Demonstration Project and Unit #3 refurbishment; maintaining and refurbishing the existing generation fleet; upgrading various transformers, and transmission and distribution lines; and connecting new customers to SaskPower's grid.

## Revenue

### Saskatchewan electricity sales

| <i>(in millions)</i>                  | Three months ended September 30 |        |        | Nine months ended September 30 |          |        |
|---------------------------------------|---------------------------------|--------|--------|--------------------------------|----------|--------|
|                                       | 2012                            | 2011   | Change | 2012                           | 2011     | Change |
| <b>Saskatchewan electricity sales</b> | <b>\$ 415</b>                   | \$ 413 | \$ 2   | <b>\$ 1,252</b>                | \$ 1,248 | \$ 4   |

Saskatchewan electricity sales represent the sale of electricity to all customer classes within the province. These sales are subject to the effects of general economic conditions, number of customers, weather and electrical rates.

Saskatchewan electricity sales for the third quarter of 2012 were \$415 million, up \$2 million from the third quarter of 2011 and \$1,252 million in the first nine months of 2012, up \$4 million from the first nine months of 2011. The year-to-date rise in sales was driven by the oilfield and major key account customer classes, which showed an increase of 137 GWh, or 2% in the first nine months of 2012 compared to the first nine months of 2011.

### Exports

| <i>(in millions)</i> | Three months ended September 30 |       |        | Nine months ended September 30 |       |        |
|----------------------|---------------------------------|-------|--------|--------------------------------|-------|--------|
|                      | 2012                            | 2011  | Change | 2012                           | 2011  | Change |
| <b>Exports</b>       | <b>\$ 17</b>                    | \$ 10 | \$ 7   | <b>\$ 31</b>                   | \$ 24 | \$ 7   |

Exports represent the sale of SaskPower's surplus generation to other regions in Canada and the United States. The bulk of SaskPower's exports are traditionally made to the neighbouring Alberta and Midwest Independent Transmission System Operator (MISO) markets. Export pricing is not subject to the rate review process but is determined based on market conditions in other jurisdictions. Export sales volumes are dependent on the availability of surplus SaskPower generation, market conditions in other jurisdictions, and transmission availability.

Exports were \$17 million in the third quarter of 2012, up \$7 million from the third quarter of 2011 and \$31 million in the first nine months of 2012, up \$7 million from the first nine months in 2011. The improvement in export sales was due to additional market opportunities in Alberta. Export sales volumes increased 15 GWh or 5% and the average exports sales price increased to approximately \$93/MWh as compared to \$73/MWh in the same period of 2011.

### Net sales from electricity trading

| <i>(in millions)</i>                      | Three months ended September 30 |       |        | Nine months ended September 30 |       |         |
|---|---------------------------------|-------|--------|--------------------------------|-------|---------|
|   | 2012                            | 2011  | Change | 2012                           | 2011  | Change  |
| Electricity trading revenue               | \$ 6                            | \$ 15 | \$ (9) | \$ 21                          | \$ 32 | \$ (11) |
| Electricity trading costs                 | (3)                             | (8)   | 5      | (10)                           | (22)  | 12      |
| <b>Net sales from electricity trading</b> | <b>\$ 3</b>                     | \$ 7  | \$ (4) | <b>\$ 11</b>                   | \$ 10 | \$ 1    |

Electricity trading activities, performed by SaskPower's subsidiary NorthPoint Energy Solutions Inc., include the purchase and resale of electricity and other derivatives in regions outside Saskatchewan. The trading activities include both real time as well as short- to long-term physical and financial trades in the North American market. The trading activities are intended to deliver positive gross margins to SaskPower's bottom line while operating within an acceptable level of risk.

Electricity trading revenue was \$6 million in the third quarter of 2012, down \$9 million from the third quarter of 2011 and \$21 million in the first nine months of 2012 as compared to \$32 million in the first nine months of 2011. Overall trading volumes decreased 217 GWh to 279 GWh in the first nine months of 2012. However, electricity trading costs were lower as a result of a decrease in electricity prices which positively impacted trading profits. The gross margin, or net sales after deducting purchased power costs was \$11 million or 52% in the first nine months of 2012, compared to \$10 million or 31% in the same period in 2011.

### **Share of profit from equity accounted investees**

| <i>(in millions)</i>                                   | Three months ended September 30 |      |        | Nine months ended September 30 |      |        |
|--|---------------------------------|------|--------|--------------------------------|------|--------|
|  | 2012                            | 2011 | Change | 2012                           | 2011 | Change |
| <b>Share of profit from equity accounted investees</b> | <b>\$ 2</b>                     | \$ 3 | \$ (1) | <b>\$ 9</b>                    | \$ 8 | \$ 1   |

SaskPower's investments that are accounted for using the equity method include its 30% ownership in the MRM Cogeneration Station and a 50% ownership in the Cory Cogeneration Station. The MRM Cogeneration Station is a 172-megawatt (MW) natural gas-fired cogeneration facility located at the Athabasca Oil Sands Project's Muskeg River Mine, north of Fort McMurray, Alberta. The electricity generated by the facility is used by the mine, with excess energy delivered to the Alberta power grid. The Cory Cogeneration Station is a 228-MW natural gas-fired cogeneration plant located at the Potash Corporation of Saskatchewan Cory Division, near Saskatoon, Saskatchewan. The electricity generated by the facility is sold to SaskPower under the terms of a 25-year power purchase agreement.

SaskPower's share of profit from its investments in the MRM Cogeneration Station and the Cory Cogeneration Station was \$9 million for the first nine months of 2012, up \$1 million from the same period in 2011. The higher profit was the result of lower maintenance costs and increased availability of the Cory Cogeneration Station as compared to the unplanned maintenance work which was required in the first nine months of 2011.

### **Other revenue**

| <i>(in millions)</i> | Three months ended September 30 |       |        | Nine months ended September 30 |       |        |
|----------------------|---------------------------------|-------|--------|--------------------------------|-------|--------|
|                      | 2012                            | 2011  | Change | 2012                           | 2011  | Change |
| <b>Other revenue</b> | <b>\$ 27</b>                    | \$ 36 | \$ (9) | <b>\$ 75</b>                   | \$ 72 | \$ 3   |

Other revenue includes various non-electricity products and services. Other revenue was \$27 million in the third quarter of 2012, down \$9 million from the third quarter of 2011 as a result of lower customer contributions. Customer contributions are funds received from certain customers for the cost of service connections. These contributions are recognized immediately in income when the related property, plant and equipment is available for use.

Other revenue was \$75 million in the first nine months of 2012 as compared to \$72 million in the first nine months of 2011. The \$3 million increase was due to higher gas and electrical inspection revenue.



## Expense

### Fuel and purchased power

| <i>(in millions)</i>            | Three months ended September 30 |        |        | Nine months ended September 30 |        |        |
|---------------------------------|---------------------------------|--------|--------|--------------------------------|--------|--------|
|                                 | 2012                            | 2011   | Change | 2012                           | 2011   | Change |
| <b>Fuel and purchased power</b> | <b>\$ 119</b>                   | \$ 120 | \$ (1) | <b>\$ 365</b>                  | \$ 352 | \$ 13  |

SaskPower's fuel and purchased power costs include the fuel charges associated with the electricity generated from SaskPower-owned facilities and through power purchase agreements, as well as electricity imported from markets outside Saskatchewan. This electricity is used to serve the Corporation's Saskatchewan customers, with surplus electricity being sold to markets outside the province when favourable conditions exist.

SaskPower's fuel cost management strategy focuses on the economic dispatch of the generating units that bring the lowest incremental cost units on stream first. In general, this means maximizing hydro and coal generation, which have a low incremental cost per unit of generation. Hydro generation is dependent upon water levels and river flow at SaskPower's hydro facilities and coal generation is a product of the availability of our coal plants. Wind generation, the lowest incremental cost source of electricity, cannot be dispatched on a planned basis as it is dependent upon wind conditions.

Fuel and purchased power costs were \$119 million in the third quarter of 2012, down \$1 million from the third quarter of 2011 and \$365 million in the first nine months of 2012, up \$13 million from the first nine months of 2011. The \$13 million increase is a result of unfavourable fuel mix and volume variances offset by a favourable price variance.

The fuel mix is the relative proportion that each fuel source contributes to our total fuel supply. The more energy that is generated from lower incremental cost units such as hydro, coal and wind, the more favourable the impact on fuel and purchased power costs. During the first nine months of 2012, hydro generation was down 434 GWh or 11.5% compared to the record hydro levels in 2011. The decreased hydro generation was replaced with more expensive natural gas generation. The Corporation's natural gas generation during the first nine months of 2012 accounted for 21% of total generation compared to 17% from the same period in 2011. This unfavourable change in the fuel mix resulted in an estimated \$33 million increase in fuel and purchased power costs.

Total generation and purchased power was 16,166 GWh in the first nine months of 2012, an increase of 138 GWh compared to the same period in 2011. The higher demand resulted in an estimated \$3 million increase in fuel and purchased power costs.

These unfavourable variances were partially offset by an overall decrease in the price of fuel due to lower average natural gas and import prices which resulted in an estimated \$23 million decrease in fuel and purchased power costs.

### Operating, maintenance and administration (OM&A)

| <i>(in millions)</i> | Three months ended September 30 |        |        | Nine months ended September 30 |        |        |
|----------------------|---------------------------------|--------|--------|--------------------------------|--------|--------|
|                      | 2012                            | 2011   | Change | 2012                           | 2011   | Change |
| <b>OM&amp;A</b>      | <b>\$ 155</b>                   | \$ 138 | \$ 17  | <b>\$ 451</b>                  | \$ 401 | \$ 50  |

OM&A expense was \$155 million in the third quarter of 2012, up \$17 million from the third quarter of 2011 and \$451 million in the first nine months of 2012, up \$50 from the first nine months of 2011. The rise in operating costs was the result of an \$18 million increase in spending on preventative transmission maintenance activities as well as emergency maintenance to address damage to transmission and distribution infrastructure caused by summer storm activity. In addition, there was a \$12 million increase in operating costs related to the major overhaul performed at the Shand Power Station and emergency maintenance to address an outage at Boundary Dam Power Station's Unit #6.

There was also a \$5 million increase in operating costs as a result of additional power purchase agreement costs related to the commissioning of the Spy Hill Generating Station in the fall of 2011. Finally there was a \$15 million increase in spending on various new initiatives, including information technology and support projects, generation feasibility studies and Demand Side Management programs.

### **Depreciation and amortization**

| <i>(in millions)</i>                 | Three months ended September 30 |       |        | Nine months ended September 30 |        |        |
|--------------------------------------|---------------------------------|-------|--------|--------------------------------|--------|--------|
|                                      | 2012                            | 2011  | Change | 2012                           | 2011   | Change |
| <b>Depreciation and amortization</b> | <b>\$ 79</b>                    | \$ 73 | \$ 6   | <b>\$ 234</b>                  | \$ 214 | \$ 20  |

Depreciation represents a charge to income for the capital expenditures of SaskPower. The capital expenditures are amortized to income on a straight-line basis over the estimated useful life of each component of property, plant and equipment. Depreciation rates are established based on periodic depreciation studies.

Depreciation expense was \$79 million in the third quarter of 2012, up \$6 million from the third quarter of 2011 and \$234 in the first nine months of 2012 compared to \$214 million in the first nine months of 2011. The rise in depreciation expense was primarily attributable to an increase in property, plant and equipment as a result of ongoing capital expenditures.

### **Finance charges**

| <i>(in millions)</i>   | Three months ended September 30 |       |        | Nine months ended September 30 |        |        |
|------------------------|---------------------------------|-------|--------|--------------------------------|--------|--------|
|                        | 2012                            | 2011  | Change | 2012                           | 2011   | Change |
| <b>Finance charges</b> | <b>\$ 51</b>                    | \$ 50 | \$ 1   | <b>\$ 150</b>                  | \$ 151 | \$ (1) |

Finance charges include the net of interest on long-term and short-term debt; interest on finance leases; unwinding the discount on provisions; interest capitalized; debt retirement fund earnings; and interest income.

Finance charges were \$51 million in the third quarter of 2012, up \$1 million from the third quarter of 2011. In the first nine months of 2012, finance charges were \$150 million, down \$1 million from the first nine months of 2011. The decrease in finance charges was attributable to a \$4 million improvement in debt retirement fund earnings and a \$12 million increase in interest capitalized. These amounts were offset by \$13 million of additional interest incurred on finance leases relating to the commissioning of the Spy Hill Generating Station in the fall of 2011, as well as \$2 million additional interest incurred on short-term advances.

### **Taxes**

| <i>(in millions)</i> | Three months ended September 30 |       |        | Nine months ended September 30 |       |        |
|----------------------|---------------------------------|-------|--------|--------------------------------|-------|--------|
|                      | 2012                            | 2011  | Change | 2012                           | 2011  | Change |
| <b>Taxes</b>         | <b>\$ 12</b>                    | \$ 11 | \$ 1   | <b>\$ 36</b>                   | \$ 34 | \$ 2   |

Taxes represent the payment of corporation capital tax to the Province of Saskatchewan and grants-in-lieu of taxes paid to 13 cities in Saskatchewan. Taxes were \$36 million in the first nine months of 2012 compared to \$34 million in the first nine months of 2011. The \$2 million increase was due to an increase in corporate capital tax as a result of the growth in the Corporation's capital base.

### **Other losses (gains)**

| <i>(in millions)</i>        | Three months ended September 30 |      |        | Nine months ended September 30 |      |        |
|-----------------------------|---------------------------------|------|--------|--------------------------------|------|--------|
|                             | 2012                            | 2011 | Change | 2012                           | 2011 | Change |
| <b>Other losses (gains)</b> | <b>\$ 7</b>                     | \$ 2 | \$ 5   | <b>\$ 14</b>                   | \$ 2 | \$ 12  |

Other losses (gains) include the loss or gain on asset disposals and retirements, foreign exchange and environmental remediation activities. Other losses were \$14 million in the first nine months 2012 as a result of an increase in losses incurred on asset disposals and retirements. In 2011, losses incurred on asset disposals and retirements were partially offset by a gain on the sale of a building.

### Unrealized market value adjustments

| <i>(in millions)</i>                          | Three months ended September 30 |              |               | Nine months ended September 30 |              |                |
|---|---------------------------------|--------------|---------------|--------------------------------|--------------|----------------|
|   | 2012                            | 2011         | Change        | 2012                           | 2011         | Change         |
| Natural gas contracts                         | \$ 14                           | \$ 7         | \$ 7          | \$ 21                          | \$ 15        | \$ 6           |
| Natural gas inventory revaluation             | -                               | (2)          | 2             | -                              | (5)          | 5              |
| Electricity contracts                         | -                               | -            | -             | (4)                            | 7            | (11)           |
| Debt retirement funds                         | -                               | 11           | (11)          | (8)                            | 9            | (17)           |
| <b>Unrealized market value gains (losses)</b> | <b>\$ 14</b>                    | <b>\$ 16</b> | <b>\$ (2)</b> | <b>\$ 9</b>                    | <b>\$ 26</b> | <b>\$ (17)</b> |

Unrealized market value adjustments represent the change in the market value of the Corporation's outstanding natural gas hedges; natural gas inventory; electricity trading contracts; and debt retirement funds at period-end. These non-cash transactions resulted in a net market value gain for the first nine months of 2012 of \$9 million compared to \$26 million in the first nine months of 2011.

SaskPower has outstanding natural gas hedges of approximately 66 million notional gigajoules (GJs) to cap the price of natural gas on a portion of the Corporation's anticipated natural gas needs for the remainder of 2012 through 2022. The unrealized market value gains on these outstanding natural gas hedges and forward natural gas contracts were \$21 million. The gains are the result of changes in the forward price of natural gas and the settlement of natural gas hedge contracts. These unrealized gains are subject to significant volatility based on movements in the forward price of natural gas.

Unrealized market value losses related to the Corporation's outstanding electricity derivative contracts for the first nine months of 2012 were \$4 million, an \$11 million decline from the prior year as a result of a decrease in forward electricity prices. The Corporation also recorded \$8 million in market value losses related to its debt retirement funds, which represents a \$17 million decrease compared to the same period in 2011.

## Financial Condition

The following chart outlines changes in the condensed consolidated statement of financial position from December 31, 2011, to September 30, 2012:

| <i>(in millions)</i>  | <b>Increase /<br/>(decrease)</b> | <b>Explanation of change</b>  |
|---|----------------------------------|---|
| Cash and cash equivalents (bank indebtedness)               | <b>\$ 8</b>                      | Refer to the Condensed Consolidated Statement of Cash Flows.  |
| Accounts receivable and unbilled revenue                    | <b>5</b>                         | Timing of receipts.   |
| Inventory   | <b>12</b>                        | Increase in supplies for capital projects offset by coal and natural gas inventory held in storage. |
| Prepaid expenses  | <b>4</b>                         | Increase in prepaid employee benefits and insurance.  |
| Property, plant and equipment                               | <b>405</b>                       | Capital additions offset by depreciation expense and asset disposals and retirements.               |
| Intangible assets   | <b>13</b>                        | Capitalization of new software costs less amortization expense.                                     |
| Debt retirement funds                                       | <b>35</b>                        | Instalments and earnings less market value adjustments.   |
| Investments accounted for using equity method               | <b>2</b>                         | Equity investment income net of distributions.  |
| Other assets  | <b>(1)</b>                       | Amortization of long-term coal supply agreements.   |
| Accounts payable and accrued liabilities                    | <b>(31)</b>                      | Timing of payments.   |
| Accrued interest  | <b>(17)</b>                      | Timing of interest payments.  |
| Dividend payable  | <b>30</b>                        | Dividends owing to CIC.   |
| Risk management liabilities (net of risk management assets) | <b>(14)</b>                      | Improvement in the market value of outstanding natural gas contracts.                               |
| Short-term advances   | <b>508</b>                       | Increase in short-term advances to finance SaskPower's capital expenditures.                        |
| Long-term debt (including current portion)                  | <b>(1)</b>                       | Amortization of debt premiums.  |
| Finance lease obligations (including current portion)       | <b>(2)</b>                       | Lease principal repayments.   |
| Employee benefits   | <b>26</b>                        | Actuarial losses on the defined benefit pension plan offset by employee benefits paid.              |
| Provisions  | <b>3</b>                         | Unwinding the discount on SaskPower's decommissioning provisions.                                   |
| Equity  | <b>(19)</b>                      | 2012 comprehensive income less dividends declared to CIC.   |

## Liquidity and Capital Resources

### Cash flow highlights

| <i>(in millions)</i>                                 | September 30<br>2012 | December 31<br>2011 | Change      |
|--|----------------------|---------------------|-------------|
| <b>Cash and cash equivalents (bank indebtedness)</b> | <b>\$ 2</b>          | <b>\$ (6)</b>       | <b>\$ 8</b> |

The Corporation's cash position increased \$8 million from December 31, 2011. The \$8 million increase was the result of \$257 million provided by operating activities and \$391 million provided by financing activities, offset by \$640 million used in investing activities.

#### a) Operating activities

| <i>(in millions)</i>                         | Three months ended September 30 |               |                | Nine months ended September 30 |               |                |
|--|---------------------------------|---------------|----------------|--------------------------------|---------------|----------------|
|  | 2012                            | 2011          | Change         | 2012                           | 2011          | Change         |
| <b>Cash provided by operating activities</b> | <b>\$ 76</b>                    | <b>\$ 125</b> | <b>\$ (49)</b> | <b>\$ 257</b>                  | <b>\$ 337</b> | <b>\$ (80)</b> |

Cash provided by operating activities was \$257 million in the first nine months of 2012, down \$80 million from the first nine months of 2011. The decrease was primarily the result of the decline in net income as a result of higher fuel and operating costs.

#### b) Investing activities

| <i>(in millions)</i>                     | Three months ended September 30 |               |              | Nine months ended September 30 |               |               |
|--|---------------------------------|---------------|--------------|--------------------------------|---------------|---------------|
|  | 2012                            | 2011          | Change       | 2012                           | 2011          | Change        |
| Generation                               | \$ 114                          | \$ 50         | \$ 64        | \$ 367                         | \$ 127        | \$ 240        |
| Transmission & Distribution              | 96                              | 66            | 30           | 250                            | 154           | 96            |
| Other                                    | 14                              | 9             | 5            | 45                             | 38            | 7             |
| Total capital expenditures               | \$ 224                          | \$ 125        | \$ 99        | \$ 662                         | \$ 319        | \$ 343        |
| Less: Interest capitalized               | (8)                             | (2)           | (6)          | (20)                           | (8)           | (12)          |
| Net costs of (proceeds from)             |                                 |               |              |                                |               |               |
| disposal of assets                       | 2                               | -             | 2            | 5                              | (2)           | 7             |
| Distributions from equity                |                                 |               |              |                                |               |               |
| accounted investees                      | -                               | (2)           | 2            | (7)                            | (4)           | (3)           |
| <b>Cash used in investing activities</b> | <b>\$ 218</b>                   | <b>\$ 121</b> | <b>\$ 97</b> | <b>\$ 640</b>                  | <b>\$ 305</b> | <b>\$ 335</b> |

In order to ensure a safe, reliable, and sustainable supply of electricity for its customers, SaskPower invested \$662 million in the first nine months of 2012 on various capital projects. This includes \$242 million invested in the Boundary Dam Integrated Carbon Capture and Storage Demonstration Project and \$42 million related to the major overhaul and boiler replacement at the Shand Power Station. The Corporation also invested \$146 million to connect customers to the SaskPower electric system; \$84 million on increasing capacity and sustaining transmission and distribution infrastructure and \$16 million on Service Delivery Renewal projects.

The Corporation also received \$7 million in equity distributions from the MRM and Cory Cogeneration Stations in the first nine months of 2012.

### c) Financing activities

| <i>(in millions)</i>                                   | Three months ended September 30 |                |               | Nine months ended September 30 |                |               |
|--|---------------------------------|----------------|---------------|--------------------------------|----------------|---------------|
|  | 2012                            | 2011           | Change        | 2012                           | 2011           | Change        |
| Net proceeds from (repayment of) short-term advances   | \$ 196                          | \$ (13)        | \$ 209        | \$ 508                         | \$ 1           | \$ 507        |
| Debt retirement fund instalments                       | (11)                            | (11)           | -             | (25)                           | (25)           | -             |
| Principal repayment of finance lease obligations       | -                               | -              | -             | (2)                            | (2)            | -             |
| Dividends paid   | (30)                            | -              | (30)          | (90)                           | -              | (90)          |
| <b>Cash provided by (used in) financing activities</b> | <b>\$ 155</b>                   | <b>\$ (24)</b> | <b>\$ 179</b> | <b>\$ 391</b>                  | <b>\$ (26)</b> | <b>\$ 417</b> |

In the first nine months of 2012, \$391 million of cash was provided by financing activities compared to \$26 million used in the first nine months of 2011. The increase in the use of financing activities was attributable to an increase in capital spending in 2012 as well as a reduction in cash provided from operations.

### Capital management

| <i>(in millions)</i>                          | September 30    | December 31     | Change        |
|---|-----------------|-----------------|---------------|
|   | 2012            | 2011            |               |
| Long-term debt                                | \$ 2,706        | \$ 2,707        | \$ (1)        |
| Short-term advances                           | 759             | 251             | 508           |
| Finance lease obligations                     | 553             | 555             | (2)           |
| <b>Total debt</b>                             | <b>4,018</b>    | <b>3,513</b>    | <b>505</b>    |
| Debt retirement funds                         | (388)           | (353)           | (35)          |
| (Cash and cash equivalents) bank indebtedness | (2)             | 6               | (8)           |
| <b>Total net debt</b>                         | <b>\$ 3,628</b> | <b>\$ 3,166</b> | <b>\$ 462</b> |
| Retained earnings                             | 1,188           | 1,204           | (16)          |
| Accumulated other comprehensive loss          | (3)             | -               | (3)           |
| Equity advances                               | 660             | 660             | -             |
| <b>Total capital</b>                          | <b>\$ 5,473</b> | <b>\$ 5,030</b> | <b>\$ 443</b> |
| <b>Per cent debt ratio</b> <sup>1</sup>       | <b>66.3%</b>    | <b>63.0%</b>    | <b>3.3%</b>   |

1. Per cent debt ratio = (debt)/(debt + equity), where debt = (gross long-term debt + short-term advances + finance lease obligations + bank indebtedness – debt retirement funds – cash and cash equivalents).

SaskPower's total debt position (including finance lease obligations) was \$4,018 million at September 30, 2012, up \$505 million from December 31, 2011. The increase in total debt was the result of an additional \$508 million in short-term advances offset by a \$2 million principal repayment of the Corporation's finance lease obligations and \$1 million in amortization of debt premiums.

The Corporation's per cent debt ratio has increased from 63.0% at the end of 2011 to 66.3% as at September 30, 2012, due to the increase in short-term borrowings to finance the Corporation's capital expenditures.

### Debt retirement fund instalments

| <i>(in millions)</i>             | Nine months ended September 30 |       |        |
|----------------------------------|--------------------------------|-------|--------|
|                                  | 2012                           | 2011  | Change |
| Debt retirement fund instalments | \$ 25                          | \$ 25 | \$ -   |

Debt retirement funds are monies set aside to retire outstanding long-term debt upon maturity. SaskPower makes regular contributions to the funds, which are held and invested by the Government of Saskatchewan's General Revenue Fund.

During the first nine months of 2012, the Corporation made \$25 million in contributions to the debt retirement funds on outstanding debt issues as required by the terms of the advances from the Government of Saskatchewan's General Revenue Fund. SaskPower also earned \$18 million (included with finance charges and classified as non-cash operating activities), on the debt retirement funds for the period.

## Dividends

In 2012, CIC determined that SaskPower would pay a special \$120 million dividend to CIC as a result of higher than expected earnings in 2011. The special dividend is payable in equal quarterly instalments in 2012.

## Contractual obligations

The Corporation has the following significant long-term contractual obligations as at September 30, 2012, which will impact cash flows in 2012 and beyond:

| <i>(in millions)</i>                              | <b>1 year</b> | <b>1 - 5 years</b> | <b>More than<br/>5 years</b> |
|---|---------------|--------------------|------------------------------|
| Long-term debt (including principal and interest) | \$ 271        | \$ 665             | \$ 4,725                     |
| Debt retirement fund instalments                  | 27            | 103                | 375                          |
| Future minimum lease payments                     | 72            | 303                | 1,011                        |

SaskPower's financing requirements for the next 12 months will include \$271 million in principal and interest payments, \$27 million of debt retirement fund instalments, and \$72 million in minimum lease payments under existing power purchase agreements. Included in the future minimum lease payments above, is the availability payments related to the power purchased agreements which have been classified as finance leases. SaskPower evaluates the need for additional borrowings throughout the year.

## **Future Accounting Changes - International Financial Reporting Standards (IFRS)**

### **Financial Instruments**

IFRS 9, *Financial Instruments*, was issued by the International Accounting Standards Board (IASB) on November 12, 2009 and will replace International Accounting Standard (IAS) 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2015. SaskPower has not yet determined the impact of IFRS 9 on its financial statements.

### **Consolidated and Separate Financial Statements**

IFRS 10, *Consolidated Financial Statements*, and IAS 27, *Separate Financial Statements*, were issued by the IASB on May 12, 2011, and together will replace IAS 27, *Consolidated and Separate Financial Statements*. IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included with the consolidated financial statements of the parent company. IAS 27 contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when the entity prepares separate financial statements. IFRS 10 and IAS 27 are both effective for annual periods beginning on or after January 1, 2013. SaskPower has not yet determined the impact of IFRS 10 or IAS 27 on its financial statements.

### **Joint Arrangements**

IFRS 11, *Joint Arrangements*, was issued by the IASB on May 12, 2011, and will replace IAS 31, *Interests in Joint Ventures*. IFRS 11 provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard addresses inconsistencies in the reporting of the joint arrangements by requiring a single method to account for interests in jointly controlled entities. IFRS 11 is effective for annual periods beginning on or after January 1, 2013. SaskPower has not yet determined the impact of IFRS 11 on its financial statements.

### **Disclosure of Interests in Other Entities**

IFRS 12, *Disclosure of Interests in Other Entities*, was issued by the IASB on May 12, 2011. IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. SaskPower has not yet determined the impact of IFRS 12 on its financial statements.

### **Fair Value Measurement**

IFRS 13, *Fair Value Measurement*, was issued by the IASB on May 12, 2011. IFRS 13 provides a precise definition of fair value and acts as a single source of fair value measurement and disclosure requirements for use across IFRS. IFRS 13 is effective for annual periods beginning on or after January 1, 2013. SaskPower has not yet determined the impact of IFRS 13 on its financial statements.

### **Investments in Associates and Joint Ventures**

An amended version of IAS 28, *Investments in Associates and Joint Ventures*, was issued by the IASB on May 12, 2011. IAS 28 continues to prescribe the accounting for investments in associates, but is now the only source of guidance describing the application of the equity method. The amended IAS 28 will be applied by all entities that have an ownership interest with joint control of, or significant influence over, an investee. IAS 28 is effective for annual periods beginning on or after January 1, 2013. SaskPower has not yet determined the impact of IAS 28 on its financial statements.

### **Employee Benefits**

An amended version of IAS 19, *Employee Benefits*, was issued by the IASB on September 16, 2011. The revised IAS 19 eliminates the option to defer the recognition of gains and losses (the 'corridor method'); streamlines the presentation of changes in asset and liabilities arising from defined benefit plans; and enhances the disclosure requirements for defined benefit plans. The amended version of IAS 19 is effective for annual periods beginning on or after January 1, 2013. SaskPower has not yet determined the impact of IAS 19 on its financial statements.



## Condensed Consolidated Statement of Income

| <i>(in millions)</i>                            | <b>(Unaudited)</b><br><b>Three months ended</b><br><b>September 30</b> |              | <b>(Unaudited)</b><br><b>Nine months ended</b><br><b>September 30</b> |               |
|---|--|--------------|---|---------------|
|   | <b>2012</b>  | <b>2011</b>  | <b>2012</b>   | <b>2011</b>   |
| <b>Revenue</b>                                  |  |              |   |               |
| Saskatchewan electricity sales                  | \$ 415   | \$ 413       | \$ 1,252  | \$ 1,248      |
| Exports   | 17   | 10           | 31  | 24            |
| Net sales from electricity trading              | 3  | 7            | 11  | 10            |
| Share of profit from equity accounted investees | 2  | 3            | 9   | 8             |
| Other revenue                                   | 27   | 36           | 75  | 72            |
|   | <b>464</b>   | <b>469</b>   | <b>1,378</b>  | <b>1,362</b>  |
| <b>Expense</b>                                  |  |              |   |               |
| Fuel and purchased power                        | 119  | 120          | 365   | 352           |
| Operating, maintenance and administration       | 155  | 138          | 451   | 401           |
| Depreciation and amortization                   | 79   | 73           | 234   | 214           |
| Finance charges                                 | 51   | 50           | 150   | 151           |
| Taxes   | 12   | 11           | 36  | 34            |
| Other losses (gains)                            | 7  | 2            | 14  | 2             |
|   | <b>423</b>   | <b>394</b>   | <b>1,250</b>  | <b>1,154</b>  |
| <b>Income before the following</b>              | <b>41</b>  | <b>75</b>    | <b>128</b>  | <b>208</b>    |
| <b>Unrealized market value adjustments</b>      | <b>14</b>  | <b>16</b>    | <b>9</b>  | <b>26</b>     |
| <b>Net income</b>                               | <b>\$ 55</b>   | <b>\$ 91</b> | <b>\$ 137</b>   | <b>\$ 234</b> |

See accompanying notes

## Condensed Consolidated Statement of Comprehensive Income (Loss)

| <i>(in millions)</i>   | <b>(Unaudited)</b><br>Three months ended<br>September 30 |                | <b>(Unaudited)</b><br>Nine months ended<br>September 30 |               |
|--|--|----------------|---|---------------|
|  | <b>2012</b>  | <b>2011</b>    | <b>2012</b>   | <b>2011</b>   |
| <b>Net income</b>  | <b>\$ 55</b>   | <b>\$ 91</b>   | <b>\$ 137</b>   | <b>\$ 234</b> |
| <b>Other comprehensive income (loss)</b>                               |  |                |   |               |
| Share of other comprehensive income from equity<br>accounted investees | -  | -              | -   | -             |
| Defined benefit pension plans actuarial losses                         | (5)  | (130)          | (33)  | (130)         |
| Unrealized losses on cash flow hedges                                  | (1)  | -              | (3)   | -             |
|  | <b>(6)</b>   | <b>(130)</b>   | <b>(36)</b>   | <b>(130)</b>  |
| <b>Total comprehensive income (loss)</b>                               | <b>\$ 49</b>   | <b>\$ (39)</b> | <b>\$ 101</b>   | <b>\$ 104</b> |

See accompanying notes

## Condensed Consolidated Statement of Financial Position

| <i>(in millions)</i>                                 | <b>(Unaudited)<br/>September 30<br/>2012</b> | <b>(Audited *)<br/>December 31<br/>2011</b> |
|--|--|---|
| As at  |  |   |
| <b>Assets</b>  |  |   |
| <b>Current assets</b>                                |  |   |
| Cash and cash equivalents                            | \$ 2   | \$ -  |
| Accounts receivable and unbilled revenue             | 241  | 236   |
| Inventory  | 166  | 154   |
| Prepaid expenses                                     | 10   | 6   |
| Risk management assets                               | 6  | 6   |
|  | <b>425</b>                                   | <b>402</b>                                  |
| <b>Property, plant and equipment</b> <i>(Note 4)</i> | <b>5,792</b>                                 | <b>5,387</b>                                |
| <b>Intangible assets</b>                             | <b>65</b>                                    | <b>52</b>                                   |
| <b>Debt retirement funds</b>                         | <b>388</b>                                   | <b>353</b>                                  |
| <b>Investments accounted for using equity method</b> | <b>79</b>                                    | <b>77</b>                                   |
| <b>Other assets</b>                                  | <b>10</b>                                    | <b>11</b>                                   |
| <b>Total assets</b>                                  | <b>\$ 6,759</b>                              | <b>\$ 6,282</b>                             |
| <b>Liabilities and equity</b>                        |  |   |
| <b>Current liabilities</b>                           |  |   |
| Bank indebtedness                                    | \$ -   | \$ 6  |
| Accounts payable and accrued liabilities             | 307  | 338   |
| Accrued interest                                     | 32   | 49  |
| Dividend payable                                     | 30   | -   |
| Risk management liabilities                          | 38   | 52  |
| Short-term advances                                  | 759  | 251   |
| Current portion of long-term debt                    | 97   | -   |
| Current portion of finance lease obligations         | 4  | 3   |
|  | <b>1,267</b>                                 | <b>699</b>                                  |
| <b>Long-term debt</b>                                | <b>2,609</b>                                 | <b>2,707</b>                                |
| <b>Finance lease obligations</b>                     | <b>549</b>                                   | <b>552</b>                                  |
| <b>Employee benefits</b>                             | <b>341</b>                                   | <b>315</b>                                  |
| <b>Provisions</b>                                    | <b>148</b>                                   | <b>145</b>                                  |
| <b>Total liabilities</b>                             | <b>4,914</b>                                 | <b>4,418</b>                                |
| <b>Equity</b>  |  |   |
| Retained earnings                                    | 1,188  | 1,204                                       |
| Accumulated other comprehensive loss                 | (3)  | -   |
| Equity advances                                      | 660  | 660   |
| <b>Total equity</b>                                  | <b>1,845</b>                                 | <b>1,864</b>                                |
| <b>Total liabilities and equity</b>                  | <b>\$ 6,759</b>                              | <b>\$ 6,282</b>                             |

See accompanying notes

\* As presented in the audited December 31, 2011, consolidated statement of financial position

## Condensed Consolidated Statement of Changes in Equity

| <i>(in millions)</i>               | Accumulated other comprehensive loss |                                    |  |               | Equity<br>advances | <b>(Unaudited)<br/>Total</b> |
|------------------------------------|--------------------------------------|------------------------------------|--|---------------|--------------------|------------------------------|
|                                    | Retained<br>earnings                 | Cash flow hedges<br>gains (losses) | Defined benefit<br>pension plans actuarial<br>gains (losses) |               |                    |                              |
| <b>Equity</b>                      |                                      |                                    |  |               |                    |                              |
| Balance, January 1, 2011           | \$ 1,099                             | \$ (1)                             | \$ -   | \$ 660        | \$ 1,758           |                              |
| Net income                         | 234                                  | -                                  | -  | -             | 234                |                              |
| Other comprehensive income (loss)  | -                                    | -                                  | (130)  | -             | (130)              |                              |
| Transfers to retained earnings     | (130)                                | -                                  | 130  | -             | -                  |                              |
| Dividends                          | -                                    | -                                  | -  | -             | -                  |                              |
| <b>Balance, September 30, 2011</b> | <b>\$ 1,203</b>                      | <b>\$ (1)</b>                      | <b>\$ -</b>  | <b>\$ 660</b> | <b>\$ 1,862</b>    |                              |
| Net income                         | 14                                   | -                                  | -  | -             | 14                 |                              |
| Other comprehensive income (loss)  | -                                    | 1                                  | (13)   | -             | (12)               |                              |
| Transfers to retained earnings     | (13)                                 | -                                  | 13   | -             | -                  |                              |
| Dividends                          | -                                    | -                                  | -  | -             | -                  |                              |
| <b>Balance, December 31, 2011</b>  | <b>\$ 1,204</b>                      | <b>\$ -</b>                        | <b>\$ -</b>  | <b>\$ 660</b> | <b>\$ 1,864</b>    |                              |
| Net income                         | 137                                  | -                                  | -  | -             | 137                |                              |
| Other comprehensive income (loss)  | -                                    | (3)                                | (33)   | -             | (36)               |                              |
| Transfers to retained earnings     | (33)                                 | -                                  | 33   | -             | -                  |                              |
| Dividends                          | (120)                                | -                                  | -  | -             | (120)              |                              |
| <b>Balance, September 30, 2012</b> | <b>\$ 1,188</b>                      | <b>\$ (3)</b>                      | <b>\$ -</b>  | <b>\$ 660</b> | <b>\$ 1,845</b>    |                              |

See accompanying notes

## Condensed Consolidated Statement of Cash Flows

| <i>(in millions)</i>  | (Unaudited)<br>Three months ended<br>September 30 |        | (Unaudited)<br>Nine months ended<br>September 30 |        |
|---|---|--------|--|--------|
|   | 2012  | 2011   | 2012   | 2011   |
| <b>Operating activities</b>   |   |        |  |        |
| <b>Net income</b>   | \$ 55   | \$ 91  | \$ 137   | \$ 234 |
| <b>Adjustments to reconcile net income to cash provided by operating activities</b> |   |        |  |        |
| Depreciation and amortization   | 79  | 73     | 234  | 214    |
| Finance charges   | 51  | 50     | 150  | 151    |
| Other losses (gains)  | 7   | 2      | 14   | 2      |
| Unrealized market value adjustments   | (14)  | (16)   | (9)  | (26)   |
| Defined benefit pension plan contribution   | -   | -      | -  | (27)   |
| Defined benefit pension plan income   | (1)   | -      | (3)  | (1)    |
| Other benefit plans   | (1)   | -      | (4)  | (3)    |
| Share of profit from equity accounted investees                                     | (2)   | (3)    | (9)  | (8)    |
| Allowance for inventory obsolescence  | -   | (2)    | -  | (1)    |
|   | 174   | 195    | 510  | 535    |
| <b>Net change in non-cash working capital</b>                                       | (19)  | 5      | (51)   | (10)   |
| <b>Interest paid</b>  | (79)  | (75)   | (202)  | (188)  |
| <b>Cash provided by operating activities</b>  | 76  | 125    | 257  | 337    |
| <b>Investing activities</b>   |   |        |  |        |
| Property, plant and equipment additions   | (205)   | (97)   | (615)  | (282)  |
| Intangible assets additions   | (11)  | (26)   | (27)   | (29)   |
| (Net costs of) proceeds from disposal of assets                                     | (2)   | -      | (5)  | 2      |
| Distributions from equity accounted investees                                       | -   | 2      | 7  | 4      |
| <b>Cash used in investing activities</b>  | (218)   | (121)  | (640)  | (305)  |
| <b>(Decrease) increase in cash before financing activities</b>                      | (142)   | 4      | (383)  | 32     |
| <b>Financing activities</b>   |   |        |  |        |
| Net proceeds from (repayment of ) short-term advances                               | 196   | (13)   | 508  | 1      |
| Debt retirement fund instalments  | (11)  | (11)   | (25)   | (25)   |
| Principal repayment of finance lease obligations                                    | -   | -      | (2)  | (2)    |
| Dividends paid  | (30)  | -      | (90)   | -      |
| <b>Cash provided by (used in) financing activities</b>                              | 155   | (24)   | 391  | (26)   |
| <b>Increase (decrease) in cash</b>  | 13  | (20)   | 8  | 6      |
| <b>Bank indebtedness (cash and cash equivalents), beginning of period</b>           | (11)  | 19     | (6)  | (7)    |
| <b>Cash and cash equivalents (bank indebtedness), end of period</b>                 | \$ 2  | \$ (1) | \$ 2   | \$ (1) |

See accompanying notes

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

For the nine months ended September 30, 2012

### 1. Status of the Corporation

Saskatchewan Power Corporation (SaskPower; the Corporation), a provincially-owned Crown corporation, generates, purchases, transmits, distributes and sells electricity and related products and services. Founded as the Saskatchewan Power Commission in 1929, SaskPower was set up in 1949 and operates primarily under the mandate and authority of *The Power Corporation Act*. SaskPower's head office is located at 2025 Victoria Avenue in Regina, Saskatchewan, Canada, S4P 0S1.

By virtue of *The Crown Corporations Act, 1993*, SaskPower has been designated a subsidiary of Crown Investments Corporation of Saskatchewan (CIC), a provincial Crown corporation. Accordingly, the financial results of the Corporation are included in the consolidated financial statements of CIC. As a provincial Crown corporation, the Corporation is not subject to federal and provincial income taxes.

### 2. Basis of Preparation

#### (a) Statement of compliance

These unaudited condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) 34, *Interim Financial Reporting*. These condensed consolidated financial statements do not include all of the disclosures included in the Corporation's annual consolidated financial statements. Accordingly, these condensed consolidated financial statements should be read in conjunction with the Corporation's most recent annual consolidated financial statements.

The condensed consolidated financial statements were authorized for issue by the Audit and Finance Committee of the Board of Directors on November 28, 2012.

#### (b) Interim measurement

SaskPower's Saskatchewan electric sales to residential and commercial customers are seasonal, with the first and fourth quarters being the strongest periods, reflecting colder weather and fewer daylight hours.

#### (c) Basis of measurement

The condensed consolidated financial statements have been prepared on the historical cost basis except for the following material items in the condensed consolidated statement of financial position:

- Financial instruments that are accounted for at fair value.
- Inventory.
- Provisions.
- Defined benefit plan accrued benefit obligations.

#### (d) Functional and presentation currency

These condensed consolidated financial statements are presented in Canadian dollars, which is the Corporation's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest million.

#### (e) Use of estimates and judgments

The preparation of the condensed consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

### For the nine months ended September 30, 2012

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Significant areas requiring the use of management estimates are:

- Electrical deliveries not yet billed at period-end and allowance for doubtful accounts.
- Allowance for inventory obsolescence.
- Underlying estimates of useful lives and related depreciation and accumulated depreciation.
- Carrying amounts of provisions and underlying estimates of future cash flows.
- Fair value of financial instruments.
- Carrying amounts of employee benefits and underlying actuarial assumptions.

Following the completion of an internal depreciation study, the estimated useful lives of certain assets were changed. The change in estimate was applied prospectively, effective January 1, 2012, and is expected to result in a \$2 million increase to depreciation expense in 2012.

Areas of judgments in applying accounting policies that have the most significant effect on the amounts recognized in the condensed consolidated financial statements include:

- Identification of arrangements which contain a lease.
- Revenue recognition of customer contributions.

#### (f) New standards and interpretations not yet adopted

A number of new standards, and amendments to standards and interpretations, are not yet effective for the period ended September 30, 2012, and have not been applied in preparing these condensed consolidated financial statements. In particular, the following new and amended standards become effective for annual periods beginning on or after January 1, 2013:

- IFRS 9, *Financial Instruments*
- IFRS 10, *Consolidated Financial Statements*
- IFRS 11, *Joint Arrangements*
- IFRS 12, *Disclosure of Interests in Other Entities*
- IFRS 13, *Fair Value Measurement*
- IAS 19, *Employee Benefits*
- IAS 27, *Separate Financial Statements*
- IAS 28, *Investments in Associates and Joint Ventures*

The Corporation does not have any plans to early adopt any of the new or amended standards. The extent of the impact on adoption of these standards is not known at this time.

### 3. Significant Accounting Policies

The accounting policies used in the preparation of these condensed consolidated financial statements conform with those used in the Corporation's most recent annual consolidated financial statements with the exception of the following:

In June 2012, SaskPower entered into a series of derivative financial instruments to hedge the interest rate risk on anticipated future borrowings. The Corporation has chosen to designate these contracts as cash flow hedges. As such, the effective portion of the changes in fair value related to the derivative financial instruments have been recognized in other comprehensive income.

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

For the nine months ended September 30, 2012

### 4. Property, Plant and Equipment

| <i>(in millions)</i>               | Generation      | Leased<br>assets | Transmission    | Distribution    | Other         | Construction<br>in progress | Total           |
|------------------------------------|-----------------|------------------|-----------------|-----------------|---------------|-----------------------------|-----------------|
| <b>Cost or deemed cost</b>         |                 |                  |                 |                 |               |                             |                 |
| Balance, January 1, 2011           | \$ 4,133        | \$ 388           | \$ 916          | \$ 2,491        | \$ 482        | \$ 251                      | \$ 8,661        |
| Additions                          | 80              | -                | 26              | 106             | 22            | 319                         | 553             |
| Disposals and/or retirements       | (9)             | -                | -               | (5)             | (7)           | -                           | (21)            |
| Transfers                          | -               | -                | -               | -               | -             | (263)                       | (263)           |
| <b>Balance, September 30, 2011</b> | <b>\$ 4,204</b> | <b>\$ 388</b>    | <b>\$ 942</b>   | <b>\$ 2,592</b> | <b>\$ 497</b> | <b>\$ 307</b>               | <b>\$ 8,930</b> |
| Additions                          | 51              | 145              | 24              | 76              | 24            | 306                         | 626             |
| Disposals and/or retirements       | (2)             | -                | -               | (8)             | (4)           | -                           | (14)            |
| Transfers                          | -               | -                | -               | -               | -             | (165)                       | (165)           |
| <b>Balance, December 31, 2011</b>  | <b>\$ 4,253</b> | <b>\$ 533</b>    | <b>\$ 966</b>   | <b>\$ 2,660</b> | <b>\$ 517</b> | <b>\$ 448</b>               | <b>\$ 9,377</b> |
| Additions                          | 137             | -                | 48              | 137             | 38            | 662                         | 1,022           |
| Disposals and/or retirements       | (16)            | -                | (1)             | (8)             | (7)           | -                           | (32)            |
| Transfers                          | -               | -                | -               | -               | (6)           | (381)                       | (387)           |
| <b>Balance, September 30, 2012</b> | <b>\$ 4,374</b> | <b>\$ 533</b>    | <b>\$ 1,013</b> | <b>\$ 2,789</b> | <b>\$ 542</b> | <b>\$ 729</b>               | <b>\$ 9,980</b> |
| <b>Accumulated depreciation</b>    |                 |                  |                 |                 |               |                             |                 |
| Balance, January 1, 2011           | \$ 1,966        | \$ 143           | \$ 389          | \$ 1,051        | \$ 189        | \$ -                        | \$ 3,738        |
| Depreciation expense               | 98              | 12               | 17              | 59              | 21            | -                           | 207             |
| Disposals and/or retirements       | (8)             | -                | -               | (4)             | (5)           | -                           | (17)            |
| <b>Balance, September 30, 2011</b> | <b>\$ 2,056</b> | <b>\$ 155</b>    | <b>\$ 406</b>   | <b>\$ 1,106</b> | <b>\$ 205</b> | <b>\$ -</b>                 | <b>\$ 3,928</b> |
| Depreciation expense               | 32              | 5                | 6               | 21              | 9             | -                           | 73              |
| Disposals and/or retirements       | (1)             | -                | -               | (7)             | (3)           | -                           | (11)            |
| <b>Balance, December 31, 2011</b>  | <b>\$ 2,087</b> | <b>\$ 160</b>    | <b>\$ 412</b>   | <b>\$ 1,120</b> | <b>\$ 211</b> | <b>\$ -</b>                 | <b>\$ 3,990</b> |
| Depreciation expense               | 99              | 16               | 19              | 63              | 25            | -                           | 222             |
| Disposals and/or retirements       | (12)            | -                | -               | (5)             | (6)           | -                           | (23)            |
| Transfers                          | -               | -                | -               | -               | (1)           | -                           | (1)             |
| <b>Balance, September 30, 2012</b> | <b>\$ 2,174</b> | <b>\$ 176</b>    | <b>\$ 431</b>   | <b>\$ 1,178</b> | <b>\$ 229</b> | <b>\$ -</b>                 | <b>\$ 4,188</b> |
| <b>Net book value</b>              |                 |                  |                 |                 |               |                             |                 |
| <b>Balance, September 30, 2011</b> | <b>\$ 2,148</b> | <b>\$ 233</b>    | <b>\$ 536</b>   | <b>\$ 1,486</b> | <b>\$ 292</b> | <b>\$ 307</b>               | <b>\$ 5,002</b> |
| <b>Balance, December 31, 2011</b>  | <b>\$ 2,166</b> | <b>\$ 373</b>    | <b>\$ 554</b>   | <b>\$ 1,540</b> | <b>\$ 306</b> | <b>\$ 448</b>               | <b>\$ 5,387</b> |
| <b>Balance, September 30, 2012</b> | <b>\$ 2,200</b> | <b>\$ 357</b>    | <b>\$ 582</b>   | <b>\$ 1,611</b> | <b>\$ 313</b> | <b>\$ 729</b>               | <b>\$ 5,792</b> |

In the first nine months of 2012, interest costs totaling \$20 million (2011 – \$8 million) were capitalized at the weighted average cost of borrowings rate of 6.20% (2011 – 6.00%)



## **Notes to the Condensed Consolidated Financial Statements (Unaudited)**

**For the nine months ended September 30, 2012**

### **5. Commitments and Contingencies**

The Corporation is forecasting to spend \$988 million on capital projects in 2012.

### **6. Related Party Transactions**

In the first quarter of 2012, it was determined that SaskPower would pay a special \$120 million dividend to CIC as a result of higher than expected earnings in 2011. The special dividend is payable in equal quarterly instalments in 2012.



# System Map

As of September 30, 2012

## AVAILABLE GENERATION (net capacity)

### ■ HYDROELECTRIC

1. Athabasca Hydroelectric System - 23 MW
  - Wellington (5 MW)
  - Waterloo (8 MW)
  - Chariot River (10 MW)
2. Island Falls Hydroelectric Station - 101 MW
4. Nipawin Hydroelectric Station - 255 MW
5. E.B. Campbell Hydroelectric Station - 288 MW
13. Coteau Creek Hydroelectric Station - 186 MW

### ■ NATURAL GAS

3. Meadow Lake Power Station - 44 MW
7. Yellowhead Power Station - 138 MW
9. Ermine Power Station - 92 MW
10. Landis Power Station - 79 MW
12. Queen Elizabeth Power Station - 430 MW
15. Success Power Station - 30 MW

### ■ WIND

16. Cypress Wind Power Facility - 11 MW
18. Centennial Wind Power Facility - 150 MW

### ■ COAL

20. Poplar River Power Station - 582 MW
21. Boundary Dam Power Station - 828 MW
23. Shand Power Station - 276 MW

### ■ INDEPENDENT POWER PRODUCERS

6. Meridian Cogeneration Station - 210 MW
8. NRGreen Kerrobert Heat Recovery Facility - 5 MW
11. Cory Cogeneration Station - 228 MW
14. NRGreen Loreburn Heat Recovery Facility - 5 MW
17. SunBridg Wind Power Facility - 11 MW
19. NRGreen Estlin Heat Recovery Facility - 5 MW
22. NRGreen Alameda Heat Recovery Facility - 5 MW
24. Red Lily Wind Power Facility - 26 MW
25. Spy Hill Generating Station - 86 MW

## TRANSMISSION

- 230 kV
- 138 kV/115kV/110kV
- Switching station
- ⊞ Interconnection





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