

Greetings

From Daryl Posehn, Senior Vice-President TransGas

If businesses are made by people, then 2006 was a year where our greatest asset – our employees – helped us excel during a year filled with change and challenges.

Change came to some key positions in our company. We've been able to not only welcome new employees to TransGas, but also see our staff accept new challenges as exciting opportunities arise. In the end, our customers benefit from fresh perspectives and innovative ideas.

Some of the major staffing changes this year saw Randy Hahn announce his retirement. Phil Sandham took the opportunity and moved from Customer Services to Operations, while Debbie Brown, formerly a Key Account Manager, replaced Phil as the new Director of Customer Services. Both Phil and Debbie have been able to make a real difference in their new roles and I look forward to the leadership they'll bring our entire team in 2007.

TransGas has made the challenge of recruiting and retaining personnel a top priority in order to continue to provide the high quality service our customers have come to expect. How do our customers feel we're doing? In 2006, TransGas achieved a 9 out of 10 Customer Satisfaction Survey rating. That sets the bar high for 2007, but I know we wouldn't want it any other way!



Over the past 12 months, we put our customers' business first through the many facility, maintenance, integrity and customer tie-in projects with minimal, if any, service disruption.

We took every opportunity possible to sit down face-to-face and discuss our customers' issues, whether through another successful Saskatchewan Natural Gas Advantage Workshop hosted by TransGas in November, or our Customer Dialogue process. In fact, 2006 was the 10th anniversary of Customer Dialogue, which has given TransGas the opportunity to better know our customers, and provide that industry-leading customer service.

2006 was a challenging year with more price volatility, a mainstay of the natural gas industry. We saw highs of around \$9 at the beginning of the year, to lows in the \$4 range in the fall on the strength of gas in storage all across North America. We recognize the impact this has on all of our customers, both receipt and delivery, and will do our best to ensure reliable services while keeping our costs competitive.

With the strong Land Sales in Saskatchewan and the continued interest of the Saskatchewan Natural Gas Advantage Workshop, we know that others are recognizing what we at TransGas have known all along the significant potential in undiscovered gas reserves in Saskatchewan and the opportunity for development of gas through unconventional methods.

Continued on Page 2

Greetings from Daryl Posehn Cont'd	2
Transport & Storage Update	2
Community Dynamo	3
Explore Saskatchewan	4
TransGas New Storage Project	5
Stellar Year in SW Saskatchewan	6
Stellar Year Cont'd	7
Transportation and Service Rates	8

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(continued from page 1)

What will 2007 bring for TransGas? We are excited about expanding our storage service to meet growing demands. In addition, we are continually looking for ways to improve how we help our customer grow their business, whether through a new Website application, a new process, better equipment, or taking the time to set aside today's technology and have a chat over a cup of coffee.

Please continue to let us know how we're doing.

Best Wishes to each and every one of you in 2007!

Transport & Storage Update

The TransGas and MIPL(C)L transportation is projected to be 358 PJ in 2006, a 1% increase from 2005.

As of December 18, TransGas storage customers have a total inventory in storage of 26.2 PJ or 73% of full, based on total contracted storage of 36.1 PJ. TransGas storage production for the 2006/2007 winter was on design withdrawal up to early December, but has since declined as a result of milder ambient conditions and gas pricing.

DID YOU KNOW?

A new maximum day total receipts from the Shackleton area was achieved in 2006 of 156 TJ/d.

The Shackleton area receipts have increased approximately 10 % from 2005.

In 2006, a total of 125 TransGas system outages were successfully completed, the majority with no or minimal customer impact. The majority of the planned 2006 outages were related to the TransGas pipeline integrity program. Scheduling of 2007 TransGas system outages has commenced, and any outages impacting customer service will be posted on the TransGas website in the first quarter of 2007.

Community Dynamo!

Donna Peake is a TransGas Engineering & Technology Supervisor in Regina. When not at the office, Donna puts her heart and soul into volunteer work that really impacts the community.

Since the club began 25 years ago, Donna has been a member of the Canadian Progress Club (CPC) Regina-Wascana. This group is part of a nation-wide network of Progress Clubs dedicated to support the needs of their community.

Over the years, CPC Regina Wascana has focused specifically on the needs of women, children, and the terminally ill. They have supported the Hospitals of Regina Foundation; Regina Open Door Society, Ronald McDonald House and the Isabel Johnson Shelter, to name a few.

Donna and her fellow Progress Club partners are very proud of their most recent achievement.



They finalized the commitment of raising funds to construct a first-of-its-kind palliative care hospice for the province. As an acknowledgement of the long-standing partnership, the Regina Wascana Grace Hospice has been named after the club.

CPC Regina Wascana received the 2006 National President's Award for achieving the highest performance level of all Canadian Progress Clubs.

That's a very significant honour for people who are involved as volunteers to better their communities.

Congratulations to Donna and the women of the Canadian Progress Club Regina-Wascana!

YOUR LINK TO SUCCESS



Come and Continue to Explore Saskatchewan

There are many reasons to venture to Saskatchewan. The scenery is beautiful and diverse, the air is fresh, and the possibility for business opportunity is growing!

In a land as vast and rich as Saskatchewan, it is not surprising that Land Sales in 2006 continued to be strong, reaching \$176 million of which \$62 million were in gas prone areas. And thanks to an additional \$5 million investment in Special Exploratory Permits in non-conventional areas in Saskatchewan, the opportunity for new exploration is booming.

Melinda Yurkowski, Petroleum Geologist for Saskatchewan Industry and Resources (SIR) says this new development is highlighted by two exciting areas of opportunity in Saskatchewan. These areas include the renewed gas exploration and drilling in the Senate area of south-western Saskatchewan and the exploration of shallow gas (less than 1000 meters) in areas not traditionally associated with gas production.

Since 2005, the Senate area (south of Township 7 and west of range 25W3M) of south-western Saskatchewan has gained momentum in the gas production sphere. Already, 115 new wells have been drilled and are currently producing from the Milk River Formation. This formation is known for its production in the Hatton and Shackleton pools to the north of the Senate area. Of these 115 new wells, 100 are producing solely from the Milk River and 15 are co-producing from the Milk River and the lower Second White Speckled Shale Sandstone, which was the original primary producing stratigraphic unit in the area.

From the 100 Milk River wells, more than $104 \times 10^6 \text{ m}^3$ (4.65 Bcf) gas have been produced to-date. Production rates are proving to be variable, but some of the best wells currently produce over $34.2 \times 10^3 \text{ m}^3/\text{day}$ (1200 mcf/day). This renewed interest is certainly paying off, with the average production for all 115 wells is $590.7 \times 10^3 \text{ m}^3 \text{ day}$ (20.86 MMcf/day).

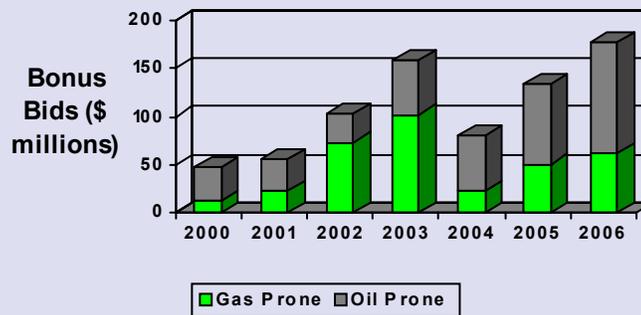
Exploration for shallow gas (less than 1000 metres) is also occurring in areas not traditionally associated with gas production. Since 2005, numerous wells have been drilled east of the gas pool trend along the Alberta - Saskatchewan border. While no

production has yet been reported, two key areas where numerous wells have been drilled include the Kamsack, Preeceville, Foam Lake area and Gravelbourg, Moose Jaw, Outlook area. In the Kamsack area, where over 29 wells have recently been drilled, exploration has been centered on prior production. During the 1940s, several wells were drilled to a depth of about 250 metres and produced enough gas (over $4.7 \times 10^6 \text{ m}^3$ or 168,000 mcf) to

heat the town for several years. In the Moose Jaw area, roughly 22 wells are currently sitting cased.

With these many exciting initiatives happening in Saskatchewan, it is no surprise that the annual Saskatchewan Natural Gas Advantage Workshop, which was held on November 21, 2006 in Calgary, was another successful event! There were over 150 attendees, many of which were new producers interested in knowing the upstream natural gas business in Saskatchewan. They too have now discovered the many reasons why exploring natural gas in Saskatchewan could be the pathway to great opportunity.

Saskatchewan Crown Land Sales



TransGas' New Storage Project

The last TransGas storage expansion occurred in 2004 when TransGas began the development of four new salt caverns at Asquith, near Saskatoon. This expansion added an additional 3 PJ of capacity, which was fully subscribed prior to any development starting and took the firm storage capacity to 32.8 PJ. Since that time, the TransGas queue for incremental storage has grown such that TransGas decided it was time to evaluate a new storage expansion.

So while TransGas Engineering was evaluating facility options, Customer Services was working with our customers to determine their interest in participating in the expansion. The customer offering was done in two phases. On August 4th an offer outlining the terms and intent of the expansion was issued to all of the customers in the queue. Once commitments were received from the queue customers, capacity remained. Therefore, on October 10th TransGas held an Open Season to solicit commitments from prospective storage customers. The commitment from customers required both a five year contract term and a customer specific capital contribution.

Based on estimated costs and customer commitments, on November 24th TransGas received approval from its Board of Directors to proceed with an expansion of 7.7 petajoules of capacity. Between the customers who were in the queue and committed to service, and the commitments received through the open season, TransGas has been able to fully subscribe this expansion.

The storage expansion is a combination of enhancing the deliverability out of our two fields, Bayhurst and Unity, and adding caverns at some of our existing salt cavern locations around the province. Evaluation on the best location for salt cavern expansion continues. Meanwhile, as part of the TransGas storage expansion, a horizontal well was drilled at Unity to increase the field's deliverability. The horizontal well drilling is complete and the well was tied in to the gathering system. An initial production test on the well indicated that water is produced at rates greater than 15 TJ/d. A horizontal filter separator from Beacon Hill C Plant was installed the week of December 18th and then the well will be used during the winter. A 20-25% increase in daily production and injection capability is anticipated.

TransGas has committed to customers for new incremental firm storage starting May 1, 2007. This piece of the new storage service will come from the storage fields and the new well drilling. Based on current plans, the full 7.7 PJ will be developed over a five-year time period with the final capacity available May 1, 2011.



Stellar Year in Southwest Saskatchewan

2006 has been a busy year for TransGas staff in the Southwest District. This team of 33 has been working hard on major integrity projects and system improvements that required a lot of ingenuity and elbow grease.

A rainy summer put a “damper” on some of the In-Line Inspection projects, but that didn’t stop GM Barry Rudd and his staff from pushing ahead with other key initiatives. One overhaul project at Piapot ensured the safety and reliability of the TransGas system in the area, while equipment upgrades at some of the other plants in the district helped contribute to the high level of customer service TransGas is committed to every day.

Some of the most notable projects for the Southwest involved environment protection. Underground tanks were removed and replaced with above-ground storage tanks to help alleviate any environmental issues that can come up when waste liquids from the compression process are stored underground.

“All of the work employees have done in this area really speaks to their commitment to the company and to our customers,” says Barry. “They’ve been diligent in getting our projects done... and have worked a lot of hours and missed some family time in order to help us do the job. I’m really proud of them and thank them for their work.”

Success

(l. to r.) (Front row) Bill Dillman, Byron Golly, Mike Kronberger, Garry Smith, (Back row) Darcy Aadland, Mary Ann Dudragne, Alisa Fong, Chris Rink, Boyd Schrader, Dave Hunchak, Karen Gornick, Don Dixon, Barry Rudd
(Missing) Fergy Schmidt, Daryl Magerl, Brian Gossard



Hatton

(l. to r.) Howard Harder, Mike Murphy, Bill Chamney



Piapot

(l. to r.) Bill Ortman, Will Briggs, Wayne Burton
(Missing) Ken McKinnon



Maple Creek

(l. to r.) Grant Dosch, Keith Franklin
(Missing) Dave Eng, Judy Blythman, Darrin Sawchuk,
Brett Lund



Transportation and Storage Service Rates

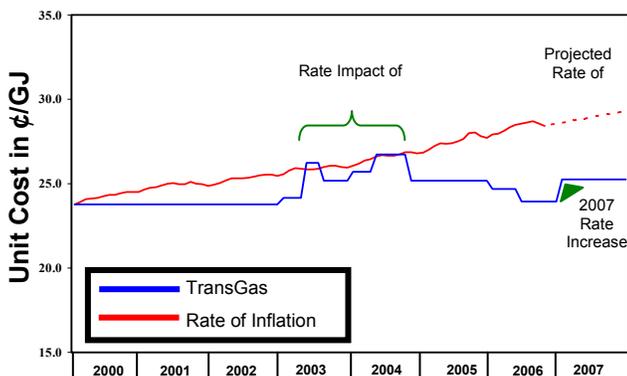
Fuel Gas and Losses Adjustment

On November 7, 2006, TransGas announced changes to the transportation and storage service rates effective January 1, 2007. TransGas will be increasing these service rates by an average of 2.0 per cent. The rate adjustment is caused by an anticipated reduction in transportation flows on the TransGas transmission system. The lower flows are primarily due to normal gas field declines and natural gas producers not fully replacing these production declines. While the average rate increase was 2.0 per cent, individual rate classes may see higher or lower adjustments.

TransGas last adjusted its rate levels effective January 1, 2006, with an average rate reduction of 2.6 per cent. On June 1, 2006 TransGas introduced a further 3 per cent temporary average rate reduction which terminates on December 31, 2006. This temporary rate reduction was due to a combination of lower 2006 costs and additional 2006 revenues which were previously not anticipated.

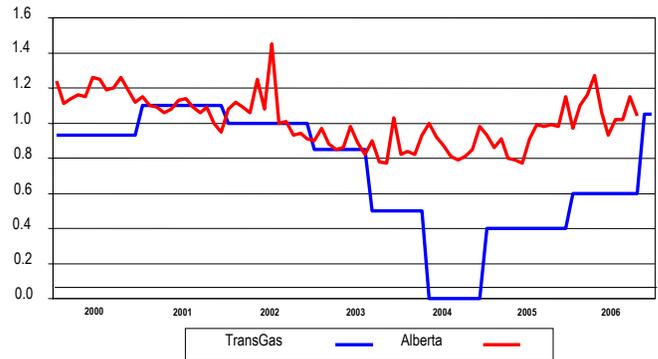
With the exception of rate changes that occurred in May 2003 and May 2004 associated with the movement of Storage to TEP, the TransGas Receipt and Export rates have remained stable over the last seven years and remain well below the monthly average rate of inflation, as outline in this graph.

TransGas Receipt and Export Rate



On October 10, 2006, TransGas announced it would be increasing its transmission gas-in-kind requirement (fuel gas and losses), assessed on receipt transportation, from 0.60 percent to 1.05 per cent effective November 1, 2006. While this change reflects a significant impact to the overall cost of receipt transportation, the overall assessment is still within the levels of other transmission pipelines in Western Canada. The historic TransGas gas-in-kind assessment has been at or below a typical Alberta receipt to export assessment, as outlined in this graph.

TransGas Historic Gas-in-Kind



If you have any questions with respect to how the rate adjustment will affect you, please contact your Key Account Manager, Chris Uhren at (306) 777-9501 or Wendy Uytterhagen at (306) 777-9687.