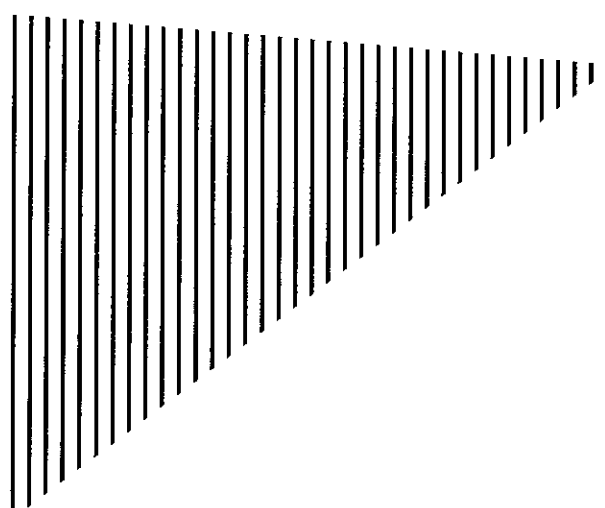


Consolidated Financial Statements

Manitoba Hydro International Ltd.
March 31, 2009



AUDITORS' REPORT

To the Shareholder of
Manitoba Hydro International Ltd.

We have audited the consolidated balance sheet of **Manitoba Hydro International Ltd.** as at March 31, 2009 and the consolidated statements of income, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements for the preceding year are unaudited.

Winnipeg, Canada,
May 29, 2009.

Ernst & Young LLP

Chartered Accountants

MANITOBA HYDRO INTERNATIONAL LTD.
CONSOLIDATED STATEMENT OF INCOME

For the year ended March 31

	Notes	2009	(Unaudited - Note 2) 2008
		<i>thousands of dollars</i>	
Revenues		19 895	14 467
Cost of Operations			
Staff		7 195	5 486
Other direct costs		5 568	4 847
		12 763	10 333
Operating Profit		7 132	4 134
Expenses			
Operating and administrative		4 188	2 540
Depreciation		190	171
Capital and other taxes		122	102
		4 500	2 813
Income before interest income		2 632	1 321
Interest income		91	138
Net Income		2 723	1 459

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the year ended March 31

	Notes	2009	(Unaudited - Note 2) 2008
		<i>thousands of dollars</i>	
Retained earnings, beginning of year		5 646	5 319
Adjustment for change in accounting policy	4	-	(1 132)
Retained earnings, beginning of year, as restated		5 646	4 187
Net income		2 723	1 459
Retained Earnings, end of year		8 369	5 646

The accompanying notes are an integral part of the consolidated financial statements.

MANITOBA HYDRO INTERNATIONAL LTD.
CONSOLIDATED BALANCE SHEET

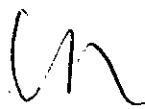
As at March 31

(Unaudited -
Note 2)

	Notes	2009	2008
		thousands of dollars	
Assets			
Property, Plant and Equipment			
In service	6	2 527	2 332
Less accumulated depreciation	6	1 227	1 037
		1 300	1 295
Current Assets			
Cash	7	2 056	933
Cash - restricted	7	1 537	1 651
Term investment	8	2 000	1 200
Accounts receivable and accrued revenue		6 119	3 836
Finished goods inventory		35	34
Cost incurred in excess of billings		-	378
Prepaid expenses		303	234
		12 050	8 266
		13 350	9 561
Liabilities and Shareholder's Equity			
Current Liabilities			
Due to parent	5	-	200
Accounts payable	9	2 012	2 159
Deferred revenue	11	583	361
		2 595	2 720
Long-Term Deferred Revenue	11	1 225	34
Shareholder's Equity			
Share capital	13	1 161	1 161
Retained earnings		8 369	5 646
		9 530	6 807
		13 350	9 561

The accompanying notes are an integral part of the consolidated financial statements.

Approved on behalf of the Board:



Victor H. Schroeder, QC
Chairman of the Board



William Fraser, FCA
Chair of the Audit Committee

MANITOBA HYDRO INTERNATIONAL LTD.
CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended March 31

		(Unaudited - Note 2)
	2009	2008
	<i>thousands of dollars</i>	
Operating Activities		
Cash receipts from customers	19 369	14 245
Cash paid to suppliers and employees	(17 289)	(12 763)
Interest received	91	138
Cash provided by operating activities	2 171	1 620
Financing Activities		
Advance from parent	-	500
Repayment to parent	(200)	(300)
Cash provided by (used for) financing activities	(200)	200
Investing Activities		
Additions to property, plant and equipment	(162)	(113)
Term investment	(800)	(200)
Cash used for investing activities	(962)	(313)
Net increase in cash	1 009	1 507
Cash at beginning of year	2 584	1 077
Cash at end of year	3 593	2 584

The accompanying notes are an integral part of the consolidated financial statements.

MANITOBA HYDRO INTERNATIONAL LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2009

NOTE 1 NATURE OF THE ORGANIZATION

Manitoba Hydro International Ltd. (MHI), a wholly owned subsidiary of the Manitoba Hydro-Electric Board (Manitoba Hydro), was incorporated in September 1998 and commenced operations April 1, 1999. As a wholly owned subsidiary of Manitoba Hydro, MHI is not subject to income taxes under section 149(d) of the Canadian Income Tax Act.

MHI currently has four business segments, International Utility Services, Manitoba HVDC Research Centre, W.I.R.E Services and Telecom Services. International Utility Services provides professional consulting, training and electricity infrastructure management services primarily to developing markets. The Manitoba HVDC Centre provides technology products, research and development and engineering services to the electrical power system industry. W.I.R.E Services provides aerial LiDAR data collection and analysis to determine transmission line thermal ratings. Telecom Services provides state of the art broadband telecommunication solutions for telecom carriers, internet service providers and large commercial customers.

The consolidated financial statements include the accounts of MHI and its Nigerian subsidiary. For purposes of consolidation, all significant intercompany accounts and transactions have been eliminated.

NOTE 2 AMALGAMATION OF MANITOBA HVDC RESEARCH CENTRE INC. WITH MHI AND TRANSFER OF W.I.R.E. AND TELECOM SERVICES

Effective April 1, 2008, Manitoba HVDC Research Centre Inc. amalgamated with MHI. Both companies are wholly owned subsidiaries of Manitoba Hydro. Consistent with the continuity of interest method of accounting for business combinations, comparative figures for 2008 include the unaudited financial results for Manitoba HVDC Research Centre.

Effective April 1, 2008, MHI assumed responsibility from Manitoba Hydro for W.I.R.E. and Telecom Services. These lines of business were transferred to MHI at no cost and without any transfer of assets or liabilities to MHI.

MANITOBA HYDRO INTERNATIONAL LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2009

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES

a) **Property, Plant and Equipment**

Property, plant and equipment are recorded at cost. Depreciation is provided using the straight-line method over the following years to depreciate the assets over their estimated useful lives:

Building	20 years
Furniture and Fixtures	15 years
Office Equipment	5 years
Research Equipment	5 years

b) **Revenue Recognition**

Revenue is recognized when services are provided or goods are shipped to the customer. Revenue from maintenance and lease contracts is recognized on a straight-line basis over the term of the contract.

c) **Financial Instruments**

All financial instruments are measured at fair value on initial recognition as of the trade date. Measurement in subsequent periods depends on the classification of the instrument. Financial instruments are classified into one of the following five categories: held-to-maturity investments, loans and receivables, held-for-trading, available-for-sale, or other financial liabilities.

Financial instruments classified as loans and receivables and other financial liabilities are measured at amortized cost using the effective interest method of amortization. Held-for-trading instruments are measured at fair value.

d) **Foreign Exchange**

Monetary items denominated in foreign currencies are translated into Canadian dollars at rates of exchange prevailing at the balance sheet date. Revenues and expenses are translated at the rate of exchange prevailing at the date of the transaction. Foreign exchange gains and losses are included in income.

MHI's integrated foreign subsidiary, located in Nigeria, is accounted for under the temporal method. Under this method, monetary assets and liabilities are translated at the exchange rate in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at average rates for the period. Exchange gains or losses arising from the translation are included in operations.

e) **Research and Development Expenses**

Research expenses are charged to income in the year they are incurred. Development costs are charged to operations in the period of the expenditure unless a development project meets the criteria under Canadian generally accepted accounting principles for deferral and amortization.

MANITOBA HYDRO INTERNATIONAL LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2009

f) **Comprehensive Income**

Comprehensive income consists of net income and other comprehensive income (OCI). As MHI has no items related to OCI, comprehensive income for the year is equivalent to net income.

g) **Use of Estimates**

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from those estimates, but differences are not expected to be material.

NOTE 4 ACCOUNTING CHANGES

Software Development Costs

Commencing in the 2009 fiscal year, there was a change in accounting policy for development costs incurred for major releases of new versions of software. Development costs previously capitalized are now expensed in the period incurred.

This change in accounting policy was applied retrospectively. The impact of this change on prior years was a cumulative reduction to retained earnings of \$2 420 thousand. Net income for the current year was reduced by a further \$1 346 thousand.

Financial Instruments - Disclosures and Presentation

Canadian Institute of Chartered Accountants (CICA) Handbook Section 3862, *Financial Instruments - Disclosures* and Section 3863, *Financial Instruments - Presentation* became effective April 1, 2008. These sections replace Section 3861, *Financial Instruments - Disclosure and Presentation* and require disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the nature and extent of risks from financial instruments to which MHI is exposed. These disclosures are provided in Note 12.

Capital Disclosures

CICA Section 1535, *Capital Disclosures* became effective April 1, 2008. The section establishes standards for disclosing information that enables users of financial statements to evaluate how an entity manages its capital structure (i.e. debt, equity) and its objectives, policies and processes for managing capital. This disclosure is provided in Note 15.

Future Accounting Changes

Goodwill and Intangible Assets

Effective April 1, 2009, MHI will adopt CICA Section 3064, *Goodwill and Intangible Assets* which converges Canadian GAAP for goodwill and intangible assets with International Financial Reporting Standards (IFRS). The new standard provides more comprehensive guidance on intangible assets, particularly for internally developed intangible assets. The impact of this new standard on MHI's consolidated financial statements is currently being assessed.

MANITOBA HYDRO INTERNATIONAL LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2009

International Financial Reporting Standards

The CICA's Accounting Standards Board announced that Canadian publicly accountable enterprises will adopt IFRS as issued by the International Accounting Standards Board effective January 1, 2011. The transition date for MHI of April 1, 2011 will require the restatement, for comparative purposes, of amounts reported by MHI for its year ended March 31, 2011. Although IFRS uses a conceptual framework similar to Canadian GAAP, there are differences in accounting standards and MHI is currently assessing the impact of those differences.

NOTE 5 OPERATING LINE OF CREDIT

Manitoba Hydro provides MHI with a \$1 million revolving line of credit to be used to fund its operations. The line of credit is payable on demand and bears interest at the average one-month Bankers' Acceptance rate. The effective rate for the fiscal year 2009 was 3.3% (2008 - 4.6%). The amount outstanding on this operating line of credit as at March 31, 2009 is nil (2008 - \$200 thousand).

NOTE 6 PROPERTY, PLANT AND EQUIPMENT

	2009		
	In Service	Accumulated Depreciation	Net Book Value
	<i>thousands of dollars</i>		
Land	115	-	115
Building	1 420	540	880
Furniture and Fixtures	181	122	59
Office Equipment	608	364	244
Research Equipment	203	201	2
	2 527	1 227	1 300

	(Unaudited - Note 2) 2008		
	In Service	Accumulated Depreciation	Net Book Value
	<i>thousands of dollars</i>		
Land	115	-	115
Building	1 420	467	953
Furniture and Fixtures	155	108	47
Office Equipment	439	263	176
Research Equipment	203	199	4
	2 332	1 037	1 295

MANITOBA HYDRO INTERNATIONAL LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2009

NOTE 7 CASH

	2009	(Unaudited - Note 2) 2008
	<i>thousands of dollars</i>	
Cash - Canadian bank accounts	1 616	862
Cash - Overseas bank accounts	440	71
	2 056	933
Cash - Restricted	1 537	1 651
	3 593	2 584

Cash in overseas bank accounts includes fund deposited in foreign currencies in countries other than Canada. Restricted cash relates to deposits held for letters of guarantees for customer contracts. Cash balances earn interest at various rates based on monthly average balances. The effective interest rate for 2009 averaged 2.0% (2008 - 4.2%).

NOTE 8 TERM INVESTMENT

This balance represents an investment of \$2 000 thousand (2008 - \$1 200 thousand) in surplus cash that Manitoba Hydro has invested on behalf of MHI. This investment is redeemable within two business days on demand and interest earned is based on the average interest rate earned by Manitoba Hydro on its trust investments over the same period, or the average of the overnight investment rates as quoted by the Province of Manitoba over the term of the investment. The effective interest rate for 2009 averaged 2.0% (2008 - 4.2%).

NOTE 9 RELATED PARTY TRANSACTIONS

During the normal course of business, MHI provided \$1 489 thousand (2008 - \$340 thousand) in services to Manitoba Hydro. During the period, Manitoba Hydro provided staffing to MHI at a cost recovery of \$4 327 thousand (2008 - \$2 333 thousand). MHI paid \$84 thousand (2008 - \$53 thousand) rent to Manitoba Hydro. Manitoba Hydro paid \$32 thousand (2008 - \$38 thousand) of interest to MHI on its term investment. MHI paid \$4 thousand (2008 - \$10 thousand) interest on its operating line of credit to Manitoba Hydro. Included in accounts payable is \$821 thousand (2008 - \$863 thousand) owing to Manitoba Hydro. Included in accounts receivable is \$675 thousand (2008 - \$79 thousand) owing from Manitoba Hydro. Related party transactions are recorded at the exchange amount.

MANITOBA HYDRO INTERNATIONAL LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2009

NOTE 10 LEASE COMMITMENTS

As at March 31, 2009, future minimum annual lease payments committed under operating leases over the next five years are \$169 thousand per year.

NOTE 11 DEFERRED REVENUE

Deferred revenue pertains to the deferral of revenue from advance payments from customers. The associated revenue is recognized when the services are provided.

	(Unaudited - Note 2)	
	2009	2008
	<i>thousands of dollars</i>	
Short-Term		
Software maintenance contracts	455	361
Dark fibre lease payment	66	-
Annual fibre lease contracts	62	-
	583	361
Long-Term		
Software maintenance contracts	57	34
Dark fibre lease payment	1 168	-
	1 225	34
Total	1 808	395

MANITOBA HYDRO INTERNATIONAL LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2009

NOTE 12 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The carrying amounts and fair values of MHI's financial instruments at March 31 are as follows:

Financial Instruments	2009		(Unaudited - Note 2) 2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<i>thousands of dollars</i>				
Held-for-Trading				
Cash	3 593	3 593	2 584	2 584
Term investment	2 000	2 000	1 200	1 200
Loans and Receivables				
Accounts receivable and accrued revenue	6 119	6 119	3 836	3 836
Other Financial Liabilities				
Accounts payable	2 012	2 012	2 159	2 159
Due to parent	-	-	200	200

The operations expose MHI to interest rate, foreign exchange, credit and liquidity risks. Risk management policies, processes and systems have been established to identify and analyze financial risks faced by MHI, to set risk tolerance limits, to establish controls and to monitor risk and adherence to policies. The risk management plan is designed to ensure MHI's risks and exposures are in line with MHI's business objectives and risk tolerances. The nature of the financial risks and MHI's strategy for managing these risks has not changed significantly from the prior year.

Interest Rate Risk

Interest rate risk is associated with variable interest rates paid to the parent company. The amount due to parent was nil at March 31, 2009 (2008 - \$200 thousand).

Foreign Exchange Risk

Financial risk to MHI's operations arises from fluctuations in exchange rates and the degree of volatility in these rates. MHI does not use derivative instruments to reduce its exposure to foreign currency risk. While MHI generates sales in a variety of countries, the sales contracts are based in Canadian dollars, U.S. dollars, or Euros in order to reduce financial risk of foreign exchange.

Credit Risk

Credit risk arises from the potential that a counterparty will fail to perform its obligations. As at March 31, 2009 MHI is exposed to credit risk from customers in geographic areas primarily in Canada, Africa, the United States, and Europe. MHI mitigates credit risk through the establishment of working relationships with customers and government agencies, and

MANITOBA HYDRO INTERNATIONAL LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2009

diversification to eliminate significant credit risk concentration. MHI does not believe it is exposed to significant credit risk related to its accounts receivable.

Liquidity Risk

Liquidity risk refers to the risk that MHI will not be able to meet its financial obligations as they come due. To meet forecasted cash requirements, MHI uses cash generated from operations and has access to an operating line of credit from Manitoba Hydro. All accounts payable are due within 30 days of year end. See Note 10 for details of other contractual obligations and their maturities.

NOTE 13 SHARE CAPITAL

Unlimited number of common shares authorized and one common share issued. Shares in the capital of MHI cannot be sold, assigned, transferred or otherwise disposed of unless Manitoba Hydro will, after the disposition, continue to own directly or indirectly all of MHI's shares.

NOTE 14 PENSION PLAN

MHI has a defined contribution pension plan for its employees. MHI's contribution and expense for the year amounted to \$59 thousand which is included in operating and administrative expenses.

NOTE 15 CAPITAL MANAGEMENT

MHI's capital requirements are met through cash generated from operations as well as access to a \$1 million line of credit from its parent, Manitoba Hydro.

NOTE 16 COMPARATIVE FIGURES

Where appropriate, comparative figures for 2008 have been reclassified in order to conform to the presentation adopted in 2009.

