MANITOBA HYDRO

2012/13 & 2013/14 GENERAL RATE APPLICATION

VOLUME I

FINANCIAL RESULTS & FORECAST

INDEX

Appendices

MANITOBA HYDRO
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VOLUME I

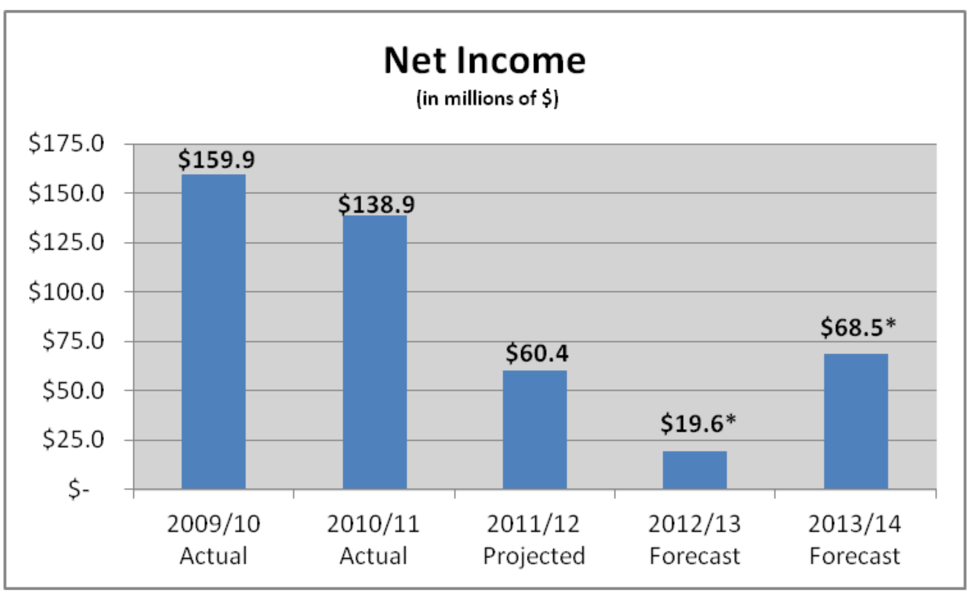
FINANCIAL RESULTS & FORECAST

5.0 OVERVIEW OF TAB 5

Tab 5 provides explanations of the actual and forecast revenues and expenses related to Manitoba Hydro's Electric operations for 2009/10 to 2013/14, and outlines the significant year over year changes. Section 5.1 provides a summary of Manitoba Hydro's financial results and forecast for 2009/10 to 2013/14, and Sections 5.2 to 5.12 discuss the revenue and cost components for 2009/10 to 2013/14.

5.1 SUMMARY OF FINANCIAL RESULTS & FORECAST

The following graph provides a summary of actual and forecast net income for electric operations (excluding subsidiary operations) for 2009/10 to 2013/14.



*Note: 2012/13 and 2013/14 forecasts assume reinstatement of the 1% rate rollback in Order 5/12, 2.5% interim rate increase effective September1, 2012 and a 3.5% rate increase effective April 1, 2013.

Please see the following schedule for a breakdown of the Statement of Income.

MANITOBA HYDRO **Schedule 5.1.0**
STATEMENT OF INCOME **(000's)**

	2009/10 Actual	2010/11 Actual	2011/12 Projected	2012/13 Forecast	2013/14 Forecast
Revenue					
General Consumers*	1,144,891	1,200,381	1,186,222	1,335,571	1,399,088
Extraprovincial	426,641	398,306	363,044	341,167	362,920
Other	6,226	6,438	6,849	15,706	16,078
Total Revenue	$ 1,577,758	$ 1,605,126	$ 1,556,115	$ 1,692,445	$ 1,778,086
Expenses					
Operating, Maintenance and Administrative	377,551	396,946	401,377	446,966	531,825
Finance Expense	373,267	388,043	385,314	439,641	451,643
Depreciation and Amortization	358,179	364,727	353,005	400,846	354,307
Water Rentals and Assessments	121,033	120,163	119,300	105,900	112,470
Fuel and Power Purchased	103,973	106,169	145,664	182,478	158,040
Capital and Other Taxes	75,819	81,322	82,183	87,197	92,056
Corporate Allocation	8,035	8,892	8,834	8,835	8,336
Total Expenses	1,417,857	1,466,262	1,495,676	1,671,863	1,708,677
Non-controlling Interest**	-	-	-	(979)	(949)
Net Income	$ 159,901	$ 138,863	$ 60,439	$ 19,603	$ 68,460
Year over year $ change		$ (21,038)	$ (78,425)	$ (40,836)	$ 48,858

*General Consumers Revenue - 2012/13 reflects an additional 2.5% interim rate increase effective September 1, 2012 as well as the reinstatement of the 1% rate reduction in Order 5/12. 2013/14 reflects an additional 3.5% rate increase effective April 1, 2013.

**Non-controlling interest represents the projected distributions paid from WPLP to NCN.

2010/11 Actual vs. 2009/10 Actual

Manitoba Hydro's net income decreased in 2010/11 primarily as a result of lower revenues from extraprovincial power markets where electricity prices and volumes continue to reflect economic conditions and low prices for competing energy sources. The increase in General Consumers Revenue ("GCR") was primarily due to the April 2010 rate increase, and was partially offset by increases in expenses.

2011/12 Projected vs. 2010/11 Actual

Manitoba Hydro's net income for 2011/12 is expected to be significantly lower than 2010/11. This is mainly attributable to a reduction in extraprovincial revenue as a result of lower export prices, and an increase in fuel and power purchases primarily due to the increased volume of energy purchased from Manitoba wind farms.

2012/13 Forecast vs. 2011/12 Projected

Manitoba Hydro's net income for 2012/13 is expected to continue to deteriorate further. This is mainly attributable to a reduction in extraprovincial revenue and an increase in fuel and power purchases primarily due to increased domestic demand. The increase in GCR associated with the 2.0% interim approved rate increase approved for April 1, 2012, the additional 2.5% interim rate increase proposed for September 1, 2012, as well as the proposed reinstatement of the 1% rate reduction that was directed in Order 5/12, is offset by increases in operating, maintenance and administrative expense ("OM&A"), finance expense and depreciation and amortization costs.

2013/14 Forecast vs. 2012/13 Forecast

2013/14 net income is expected to increase mainly due to an increase in GCR related to the annualized impact of the 2012/13 rate increases and the proposed 3.5% rate increase as of April 1, 2013. Net income is also positively impacted due to an increase in extraprovincial revenue primarily due to an expectation that export prices for the average of all export sales will increase as well as a decrease in fuel & power purchases.

The increase in net income for 2013/14 is partially offset by the requirement that Manitoba Hydro's financial statements be prepared in accordance with International Financial Reporting Standards ("IFRS") beginning in 2013/14. The transition to IFRS will not have a significant impact on net income as the increases in operating, maintenance and administrative expenses will be substantially offset by decreases in depreciation and amortization. The projected reduction to net income for 2013/14 is $11 million. However, there will be a significant impact to Manitoba Hydro's retained earnings (a reduction of approximately $276 million) resulting from the retrospective application for changes in accounting between IFRS and current Canadian GAAP. The following table summarizes the 2013/14 retained earnings and net income impact of IFRS for Manitoba Hydro's Electric operations. Please see Appendix 5.5 for the IFRS Status Update Report as of April 30, 2012.

IFRS Impacts - Electric
Increase / (Decrease)
(in millions of $)

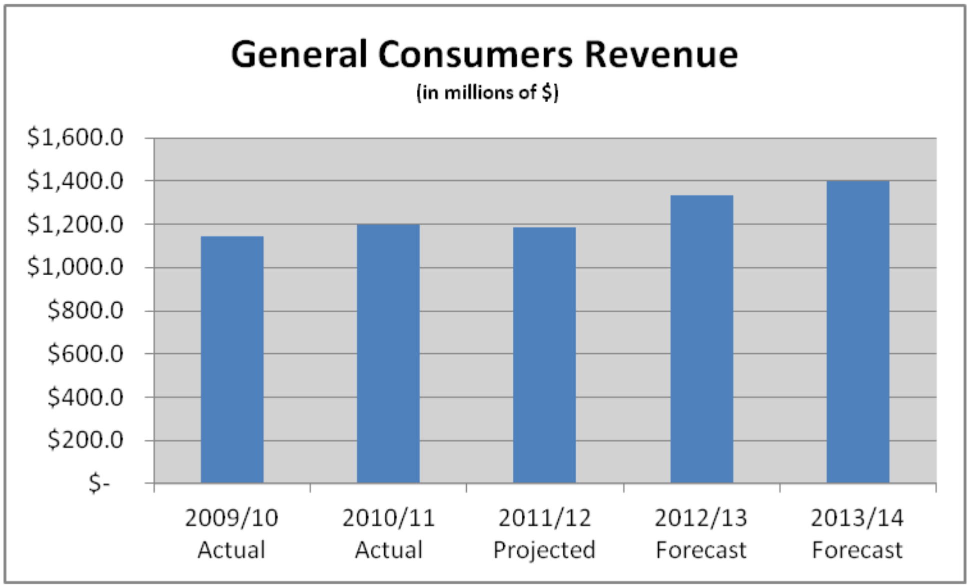
	Retained Earnings at April 1, 2013	Net Income 2013/14
Power Smart Programs	(183)	(3) *
Site Remediation	(36)	2 *
Acquisition (Centra & Winnipeg Hydro)	(20)	1 *
Regulatory Costs	(2)	-
Administrative Overhead	(36)	(36)
Removal of Asset Retirement Costs Depreciation	53	55
Change to Equal Life Group Depreciation	(31)	(33)
Employee Benefits	(22)	2
Total IFRS Impact	**(276)**	**(11)**

*Net income amounts for rate-regulated accounts include the additional operating & administrative expense net of the offsetting reduction to amortization expense.

The following sections review each component of the Statement of Income. A description of each component, the year over year changes explanation and the detailed schedule is provided.

5.2 GENERAL CONSUMERS REVENUE

GCR is comprised of electricity sales to Manitoba Hydro's domestic customers as well as late payment charges. Customers are aggregated in two major rate classes - Residential, General Service (Commercial and Industrial customers and Area and Roadway Lighting).



Please see the following schedule for a breakdown of GCR.

MANITOBA HYDRO
GENERAL CONSUMERS REVENUE

Schedule 5.2.0
(000's)

	2009/10 Actual	2010/11 Actual	2011/12 Projected	2012/13 Forecast	2013/14 Forecast
Residential	$ 475,986	$ 502,838	$ 484,147	$ 532,367	$ 543,464
General Service	668,905	697,543	724,969	748,255	763,878
1% rate rollback - 2010/11 & 2011/12			(22,894)	22,894	-
1% rate rollback - 2012/13 & 2013/14				12,144	12,096
Additional General Consumers Revenue*				19,912	79,651
Total Revenue	$ 1,144,891	$ 1,200,381	$ 1,186,222	$ 1,335,571	$ 1,399,088
Year over year $ change		$ 55,491	$ (14,159)	$ 149,349	$ 63,517
Year over year % change		4.8%	-1.2%	12.6%	4.8%

*Additional General Consumers Revenue - 2012/13 reflects an additional 2.5% interim rate increase effective September 1, 2012. 2013/14 reflects an additional 3.5% rate increase effective April 1, 2013.

The Residential class is comprised of all housing types (single detached, duplexes, triplexes, etc.) and also includes individual metered apartment blocks, seasonal cottages and farm residences.

The General Service (“GS”) class is comprised of commercial and industrial customers in the General Service Small, Medium and Large rate categories as well as Area and Roadway Lighting. Customers are classed as a GS Small if their connected load is less than 200 kV.A and their transformation is owned by Manitoba Hydro. Customers classed as GS Medium have connected loads which exceed 200 kV.A and whose transformation is also owned by Manitoba Hydro. GS Large customers have loads which typically exceed 2000 kV.A and who own their own transformation. The GS Large class is further divided into three sub-classes based on the voltage used to serve the customer (750V-30 kV, 30 kV-100 kV and >100 kV). The Area and Roadway Lighting class is comprised of all street lights and sentinel lights which may be publically or privately owned or rented.

The 1% rate rollback reflects the cumulative impact of the 1% rate reduction for 2010/11 and 2011/12 that was recorded in 2011/12, as well as Manitoba Hydro’s application to maintain in base rates the rates approved by the PUB in Orders 30/10 and 40/11, and to include these amounts in revenues in 2012/13 and 2013/14.

The following sections highlight the year over year changes from 2009/10 through 2013/14:

2010/11 Actual vs. 2009/10 Actual

The 2010/11 increase is primarily due to the April 2010 rate increase of 2.9%, an increase in residential and small general service customers, and higher consumption from higher degree days (heating and cooling).

2011/12 Projected vs. 2010/11 Actual

The 2011/12 projected decrease from 2010/11 is the result of warmer than normal weather conditions. In 2011/12, the cumulative impact of the 1% rate reduction from Order 5/12 for 2010/11 and 2011/12 offset the 2% rate increase effective April 1, 2011.

2012/13 Forecast vs. 2011/12 Projected

The 2012/13 forecast increase over 2011/12 is due to the following:

- The 2012/13 forecast is based on normalized weather and incorporates load growth, especially in General Service customer class as economic conditions continue to improve from the global recession.
- The 2012/13 forecast assumes that the revenues associated with the 1% rate rollback that was directed in Order 5/12 will be be included in 2012/13 and 2013/14 GCR.
- The forecast includes the additional revenue associated with the 2.0% interim rate increase, effective April 1, 2012, and the proposed interim rate increase of 2.5% effective September 1, 2012.

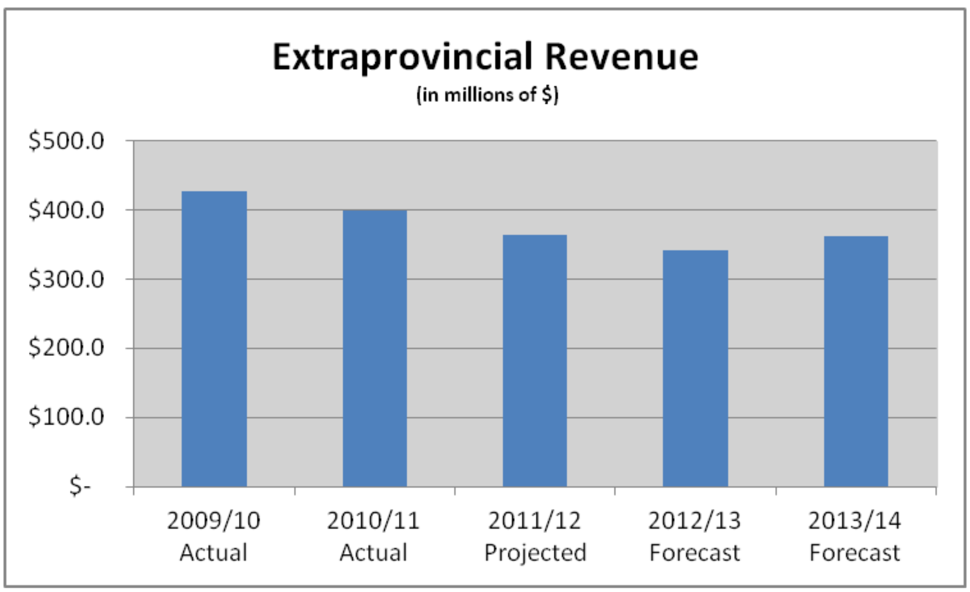
2013/14 Forecast vs. 2012/13 Forecast

The increase in the 2013/14 forecast is a result of annualized impact of the rate increases for 2012/13 and the additional revenue associated with the proposed 3.5% rate increase effective April 1, 2013, as well as load growth in all customer classes.

5.3 EXTRAPROVINCIAL REVENUE

Extraprovincial Revenue includes revenues from Canadian and US export sales as well as revenues from other associated export market activities such as merchant sales, transmission credits and renewable energy certificates.

Extraprovincial sales volumes are forecast based upon estimates of surplus generation utilizing the expected inflow and current storage conditions. Due to the timing of this application, the first “Forecast” year, 2011/12, is comprised of actual and outlook information. Forecast Extraprovincial Revenues for 2012/13 are based on current storage conditions and expected inflows, assuming normal precipitation conditions for the remainder of the fiscal year. For the subsequent years, the projections are determined by averaging the revenues using the full range of experienced flow conditions.



Please see the following schedule for a breakdown of Extraprovincial Revenue.

MANITOBA HYDRO **Schedule 5.3.0**
EXTRAPROVINCIAL REVENUE **(000's)**

	2009/10 Actual	2010/11 Actual	2011/12 Projected	2012/13 Forecast	2013/14 Forecast
Canadian Sales	27,987	27,178	30,020	33,720	25,704
Merchant (IESO)*	24,777	27,469	13,873	20,797	-
Other Sales	12,973	8,503	4,381	8,800	-
Canadian	65,737	63,150	48,274	63,317	25,704
US Sales	338,552	315,997	291,661	258,168	318,977
Merchant (MISO)*	1,369	82	2,839	-	-
Other Sales	2,197	1,559	679	987	1,237
Transmission Credits	17,710	16,402	17,559	16,374	17,002
Renewable Energy Certificates	1,076	1,116	2,032	2,321	-
US	360,904	335,156	314,770	277,850	337,216
Total Extraprovincial Revenue	$ 426,641	$ 398,306	$ 363,044	$ 341,167	$ 362,920
Year over year $ change		$ (28,335)	$ (35,262)	$ (21,877)	$ 21,753
Year over year % change		-6.6%	-8.9%	-6.0%	6.4%

*IESO = Independent Electricity Systems Operator and MISO = Midwest Independent Transmission Systems Operator

Please see the following for a description of Extraprovincial Revenue components:

Canadian and US Sales include both Dependable and Opportunity Sales.

Dependable sales are export contracts sourced from Manitoba Hydro's dependable energy resources. These sales involve capacity and energy commitments, are negotiated at least one year in advance of delivery, and have duration of greater than six months.

Sales not identified as Dependable are called Opportunity sales and can be sourced from non-dependable resources or uncommitted dependable resources:

- Opportunity (Bilateral) – Sales negotiated with a purchasing party and documented by contract or recorded exchange. The duration of delivery for these sales generally does not exceed 6 months, and can be as short as one-hour. Opportunity Bilateral sales can include the sale of capacity and/or energy.
- Opportunity (Day Ahead or Real Time Markets) – Export sales transactions in a market operated by an independent system operator for the purchase and sale of

power related products for the next operating day ('Day Ahead') or during the operating day ('Real Time').

Merchant transactions represent arbitrage opportunities and are unrelated to Manitoba Hydro generation. These include physical purchases of power from one market for re-sale to another market.

Other Sales include miscellaneous revenues derived from market activities such as ancillary services into Midwest Independent Transmission Systems Operator ("MISO") and congestion management with the Ontario market.

Transmission Credits refer to revenues received for the use of Manitoba Hydro's transmission system. Manitoba Hydro' Open Access Transmission Tariff defines the fees for use of its transmission system. The MISO administers collection of these fees on behalf of Manitoba Hydro, which is why they are reported as US revenues.

Renewable Energy Certificates are revenues received mainly from the sale of environmental attributes acquired by Manitoba Hydro through power purchase agreements with wind generation suppliers in Manitoba.

The following sections highlight the year over year changes from 2009/10 through 2013/14:

2010/11 Actual vs. 2009/10 Actual

The main contributor to the reduction in Extraprovincial Revenue was the impact of foreign exchange rates on the price received for Dependable and Opportunity exports. Also, Manitoba Hydro responded to low snowpack and inflow conditions by reducing reservoir outflows, and therefore reducing Opportunity Exports in the spring of 2010. Year over year Opportunity Export volume was down nearly 800 GWh.

2011/12 Projected vs. 2010/11 Actual

The 2011/12 projected decrease is primarily due to the impact of foreign exchange rates on the price received for Dependable and Opportunity exports as well as lower energy prices in the US. Also, total hydro production was lower in 2011/12 as compared to the previous year due to lower fall and winter flows, especially on the Winnipeg River. Beginning in August 2011, flows on the Winnipeg River were below levels necessary to maximize on-peak generation, thus limiting Manitoba Hydro's exports during higher value times of the day. Merchant revenues are down in 2011/12 due to the combined effect of price and volume; prices were lower and softer market differentials resulted in less merchant activity.

2012/13 Forecast vs. 2011/12 Projected

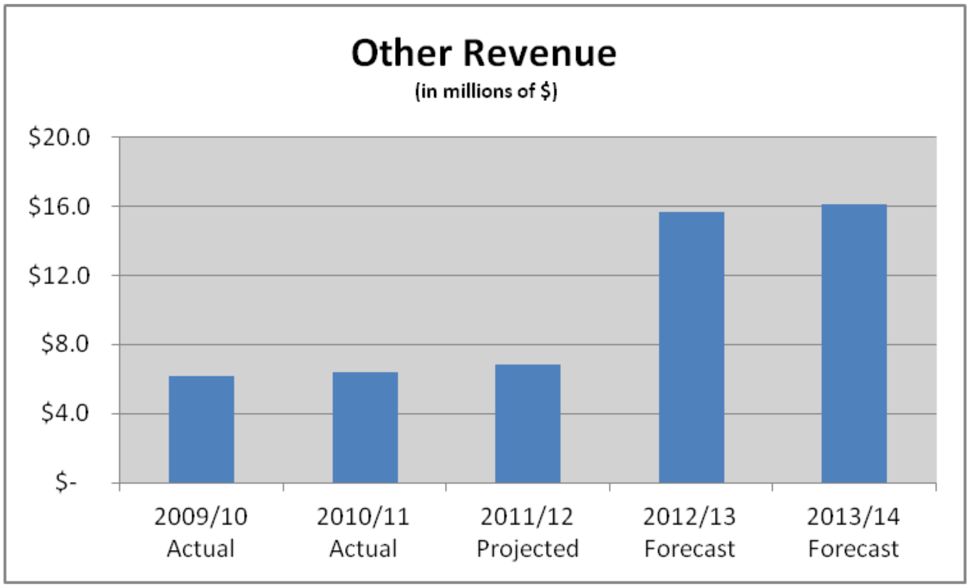
Total export sales volumes are projected to be lower than 2011/12 due to lower water inflows during the spring of 2012. The projected increase in domestic demand is also expected to reduce total export sales volumes. Also, On-peak Opportunity export prices are expected to be somewhat lower than experienced in 2011/12. .

2013/14 Forecast vs. 2012/13 Forecast

The Extraprovincial Revenues in 2013/14 increase primarily due an expectation that export prices for the average of all export sales will increase from those expected in 2012/13. Estimates for merchant sales are not provided after 2012/13 due to the small net revenue and due to the uncertainty that these sales will continue to be made into the future.

5.4 OTHER REVENUE

Other Revenue includes Joint Use contracts, revenue from Sask Power Island Falls, Hot Water Tank leasing, as well as other miscellaneous revenue.



Please see the following schedule for a breakdown of Other Revenue.

MANITOBA HYDRO | **Schedule 5.4.0**
OTHER REVENUE | **(000's)**

	2009/10 Actual	2010/11 Actual	2011/12 Projected	2012/13 Forecast	2013/14 Forecast
Operating Expense Recoveries	$ -	$ -	$ -	$ 8,300	$ 8,466
Joint Use	4,800	5,111	5,135	5,703	5,828
Island Falls Energy Transfer Agreement	902	862	661	819	884
Hot Water Tank	590	559	387	181	185
Other	(67)	(94)	666	703	715
Total Other Revenue	$ 6,226	$ 6,438	$ 6,849	$ 15,706	$ 16,078
Year over year $ change		$ 212	$ 412	$ 8,857	$ 372
Year over year % change		3.4%	6.4%	129.3%	2.4%

Please see the following for a description of other revenue components:

Operating expense recoveries are third party revenues where there is a provision of services for the use/rental of Manitoba Hydro owned assets. In addition, revenues (net of costs) received for work the Corporation undertakes on customer owned plant on a fee-for-service basis is also included.

Joint Use contracts represent the net rental revenue between Manitoba Hydro and MTS, Cable TV and other utilities. Net revenue is the difference between gross revenue (attachments on Manitoba Hydro property) and gross billings (Manitoba Hydro attachments on external party property).

Sask Power Island Falls revenue represents the agreement between Manitoba Hydro and Saskatchewan Power whereby Saskatchewan Power reimburses Manitoba Hydro for its use of Manitoba Hydro's transmission lines.

Hot water tank revenue represents the revenue from the Hot Water Tank leasing program.

Other miscellaneous revenue represents tenant revenue litigation settlements, rebates, etc.

The following sections highlight the year over year changes from 2009/10 through 2013/14:

2010/11 Actual vs. 2009/10 Actual

No significant change.

2011/12 Projected vs. 2010/11 Actual

The 2011/12 projected increase is primarily related to a 2010/11 settlement of an outstanding commitment to Ontario Power Generation.

2012/13 Forecast vs. 2011/12 Projected

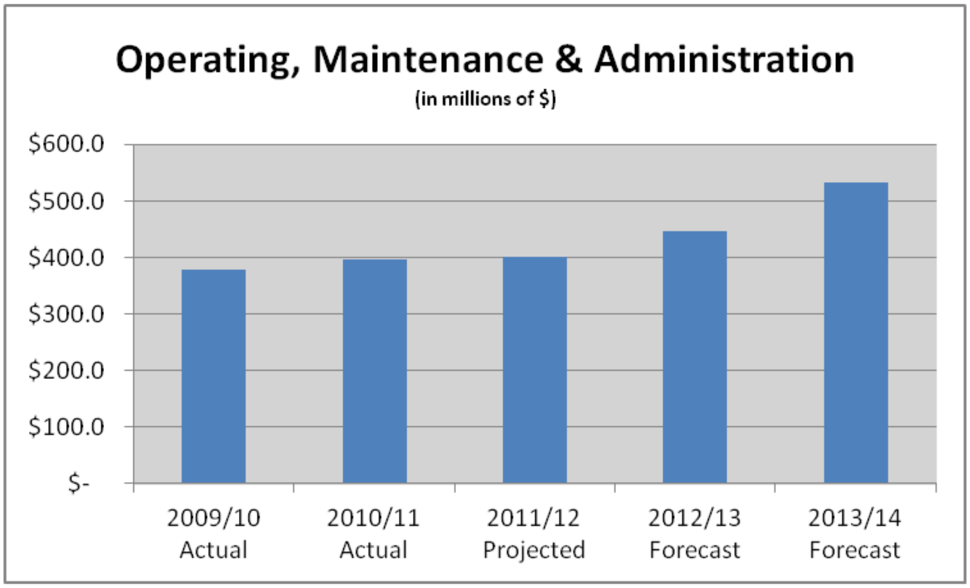
The 2012/13 forecast increase is primarily attributable to a reclassification of Operating Expense Recoveries from OM&A to Other Revenue.

2013/14 Forecast vs. 2012/13 Forecast

The 2013/14 forecast increase is primarily due to general escalation.

5.5 OPERATING, MAINTENANCE & ADMINISTRATIVE

OM&A expenses are comprised primarily of labour, material, and overhead costs associated with operating and maintaining the facilities of the Corporation and providing services to customers.



Please see the following schedules for a breakdown of OM&A.

MANITOBA HYDRO — **Schedule 5.5.0**
OPERATING, MAINTENANCE AND ADMINISTRATIVE COSTS BY BUSINESS UNIT — **(000's)**

	2009/10 Actual	2010/11 Actual	2011/12 Projected	2012/13 Forecast*	2013/14 Forecast*
President & CEO	$ 31,578	$ 28,835	$ 28,328	$ 29,562	$ 30,153
Corporate Relations	4,697	4,739	3,025	3,323	3,389
Finance & Administration	108,914	106,528	107,443	114,166	118,609
Power Supply	147,073	150,120	155,084	178,097	187,255
Transmission	92,302	90,493	89,261	104,535	107,135
Customer Services & Distribution	111,068	106,707	110,045	131,144	131,421
Customer Care & Marketing	42,395	41,446	43,703	51,247	94,900
Business Unit Subtotal	**538,027**	**528,867**	**536,889**	**612,074**	**672,862**
Corporate Allocations & Adjustments	(39,374)	(23,941)	(20,057)	(43,541)	(42,773)
Operating & Administration Charged to Centra	(60,951)	(60,644)	(62,371)	(67,300)	(83,927)
Capitalized Overhead	(60,151)	(47,336)	(53,084)	(62,148)	(23,891)
Wuskwatim				7,881	9,554
OM&A Costs Attributable to Electric Operations	**$ 377,551**	**$ 396,946**	**$ 401,377**	**$ 446,966**	**$ 531,825**
Year over year $ change		$ 19,395	$ 4,431	$ 45,589	$ 84,859
Year over year % change		5.1%	1.1%	11.4%	19.0%

* Includes the impacts of IFRS and IFRS-related accounting changes

Over the period examined in this Application, IFRS-related accounting changes have had a significant impact on the OM&A costs presented. In addition, in fiscal 2012/13 the Wuskwatim Generating Station will be placed into service. The following table provides a breakdown of OM&A after accounting changes and Wuskwatim, highlighting the impact of these items:

MANITOBA HYDRO
OPERATING, MAINTENANCE & ADMINISTRATIVE COSTS
(in millions of dollars)

	Actuals		Forecast		
	2009/10	2010/11	2011/12	2012/13	2013/14
Consolidated OM&A	$ 440	$ 462	$ 469	$ 521	$ 623
Less:					
Centra Gas	(61)	(61)	(62)	(67)	(84)
Subsidiaries	(2)	(5)	(6)	(7)	(7)
Electric OM&A	378	397	401	447	532
Less Accounting Changes:					
IFRS-related Changes	(13)	(33)	(37)	(61)	(62)
Reclassifications	2	2	2	(6)	(6)
IFRS Changes					(69)
Wuskwatim				(8)	(10)
Net Electric OM&A after Accounting Changes & Wuskwatim	$ 367	$ 366	$ 367	$ 372	$ 386
Year over Year % Increase Net of Accounting Changes	4.6%	-0.2%	0.1%	1.5%	3.6%

The following sections highlight the year over year changes from 2009/10 through 2013/14:

2010/11 Actual vs. 2009/10 Actual

The 2010/11 increase is primarily due to accounting changes related to the removal of interest capitalized on facilities, equipment and motor vehicles and general and administrative department cost from overhead, as well as an increase in benefit costs. These increases were partially offset by ongoing cost constraint measures.

2011/12 Projected vs. 2010/11 Actual

In the 2011/12 projection there is no significant change, as higher labour and benefit costs were mainly offset by the savings due to cost constraint measures.

2012/13 Forecast vs. 2011/12 Projected

The increase is primarily attributable to IFRS-related accounting changes including the removal of building depreciation & operating costs, information technology infrastructure, and support costs from overhead capitalized, as well as the reclassification of operating expense recoveries to other revenue. In addition to general cost escalation, the 2012/13 forecast also recognizes the in-service of the Wuskwatim Generating Station for a partial year. These cost increases are partially offset by ongoing productivity improvements and cost constraint initiatives.

2013/14 Forecast vs. 2012/13 Forecast

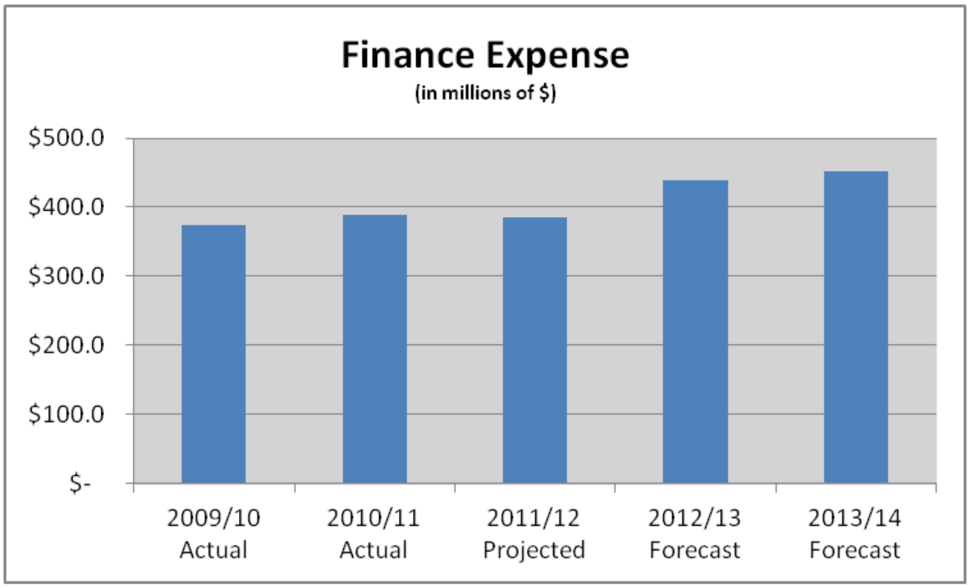
The increase is primarily attributable to IFRS accounting changes including the removal of training, service area costs, administrative and clerical support, and divisional and departmental management from overhead capitalized. In addition, Manitoba Hydro Power Smart programs costs, Site Remediation costs and Regulatory costs will now have to be expensed as incurred, as they will no longer be eligible to be treated as a rate-regulated asset under IFRS.

In addition to general cost escalation, the 2013/14 forecast also recognizes the in-service of the Wuskwatim Generating Station for a full year. These cost increases are partially offset by ongoing productivity improvements and cost constraint initiatives.

Appendix 5.6 will provide additional information on OM&A costs and Equivalent Full Time positions (“EFTs”), which will be filed at the end of June 2012.

5.6 FINANCE EXPENSE

Finance expense consists of costs associated with the Corporation's financing activities. The largest component of finance expense is gross interest expense on the Corporation's portfolio of short and long term debt. Finance expense is also affected or partially offset by a number of other components including: the debt guarantee fee; the amortization of discounts, premiums & transaction costs; the income or gains associated with the sinking fund; and interest capitalized for capital projects under construction.



Please see the following schedule for a breakdown of Finance Expense.

MANITOBA HYDRO **Schedule 5.6.0**
FINANCE EXPENSE **(000's)**

	2009/10 Actual	2010/11 Actual	2011/12 Projected	2012/13 Forecast	2013/14 Forecast
Interest on Short & Long-Term Debt					
Gross Interest	$ 447,346	$ 476,448	$ 491,229	$ 513,478	$ 550,766
Provincial Guarantee Fee	72,274	76,697	82,181	90,966	99,723
Amortization of (Premiums), Discounts, and Transaction Costs	(11,262)	2,872	276	396	430
Intercompany Interest Receivable	(15,737)	(16,224)	(17,723)	(15,072)	(15,404)
Total Interest on Short & Long-Term Debt	492,621	539,794	555,963	589,768	635,515
Interest Earned on Sinking Fund	(23,702)	(17,068)	(9,800)	(10,553)	(9,711)
Interest Allocated to Construction	(98,121)	(135,517)	(166,518)	(144,805)	(178,085)
Corporate Allocation	(17,896)	(19,112)	(19,128)	(19,128)	(19,128)
Other Amortization	20,365	19,946	24,797	24,359	23,053
Total Finance Expense	$ 373,267	$ 388,043	$ 385,314	$ 439,641	$ 451,643
Year over year $ change		$ 14,775	$ (2,729)	$ 54,327	$ 12,002
Year over year % change		4.0%	-0.7%	14.1%	2.7%

Gross Interest is mainly the interest paid on Canadian and US dollar debt.

Provincial Guarantee Fee is an annual fee payable to the Province of Manitoba in return for the guarantee of the Corporation's debt (with the exception of Manitoba Hydro-Electric Board Bonds) and is calculated using a rate of 1% multiplied by the gross outstanding debt at March 31st of the previous fiscal year.

Amortization of Premiums, Discounts and Transaction Costs is the amortization of debt premiums and discounts of the long term debt issued over the term of the debt issues. Transaction costs related to the debt issues are amortized over the term of the debt issue or the term of the swap, whichever is longer.

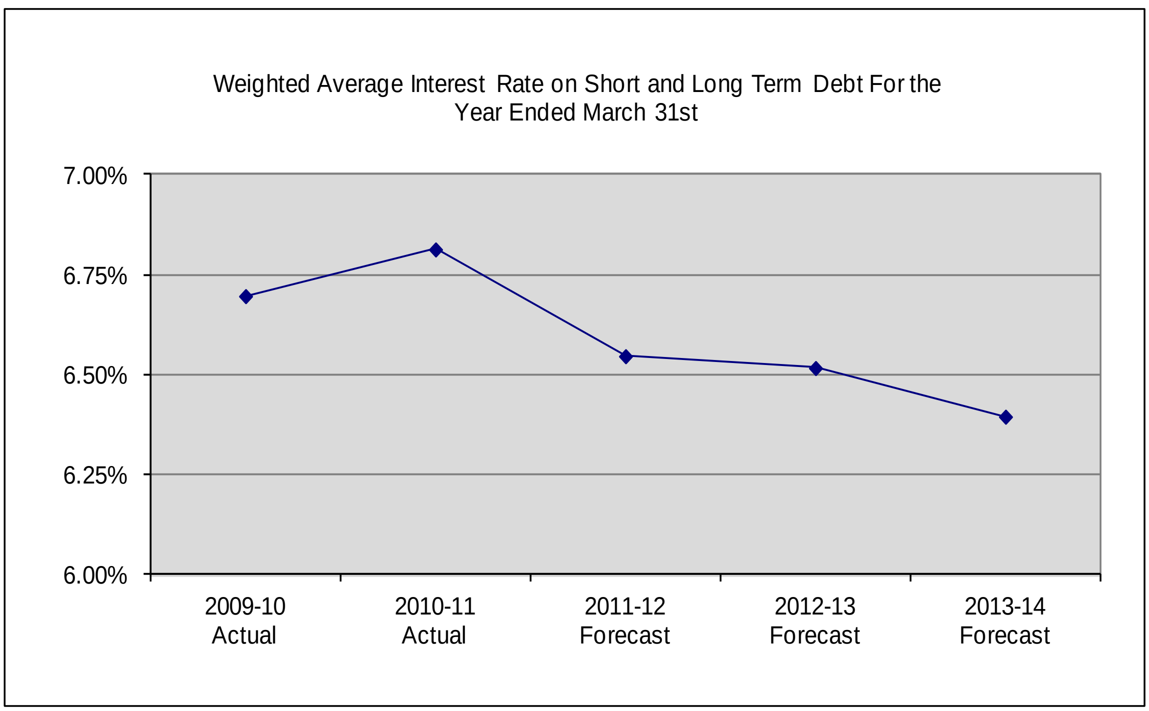
Intercompany Interest Receivable is mainly the interest received from Manitoba Hydro's subsidiary, Centra Gas Manitoba Inc. ("Centra"), on the long term and short term advances made to the subsidiary. Interest rates for long term advances to Centra are based on the associated cost of financing that was incurred by Manitoba Hydro at the time of the advance. Interest rates for advances to Centra on short term advances are charged at an interest rate equal to the 3 month Canadian T-Bill rate.

Interest Earned on Sinking Fund is the interest earned on Canadian and US sinking fund investments/cash, offset slightly by the annual sinking fund management fee paid to the Province of Manitoba and the amortization of premiums/discounts on the US sinking fund investments.

Interest Allocated to Construction is the interest capitalized during the construction of a project, which is a reduction to finance expense and a charge to the capital project. The interest associated with a capital project is not included in finance expense until the project is placed into service. The use of interest capitalized ensures that the income statement is not impacted by interest on capital projects before those assets come into service.

The Corporate Allocation amount includes the interest on the Centra acquisition debt and the related Provincial Guarantee Fee. This amount is included in the Corporate Allocation in section 5.11, which is allocated to Electricity and Gas operations in accordance with the synergy and benefits derived by each of these business segments as a result of the Centra acquisition.

A comparison of the weighted average interest rate on short term and long term debt for the period 2009/10 to 2013/14 is provided below.



The slightly higher weighted average rate from 2009/10 to 2010/11 mainly resulted from maturity of USD debt that had a lower cost than the weighted average cost of the USD portfolio. The reduction in the weighted average rate after 2010/11 is mainly because in the low interest rate environment, new long term debt is forecasted to be issued at a lower rate than the weighted average cost of the existing portfolio.

Gross interest expense increases during the forecast years, primarily due to additional long term debt issued in support of the Corporation's capital investments and forecast interest rates that are projected to return to more normalized levels by the final forecast year. As a partial offset, any interest associated with funding capital projects under construction is capitalized, thereby reducing total finance expense.

A natural hedge has been established between the US cash inflows and US cash outflows, such that changes in foreign exchange rates will be largely offset on the income statement. For example, an appreciating Canadian dollar decreases the translation of US export revenues which will be offset by decreases in the translation of associated US denominated interest expense (to the extent that the underlying US dollar inflows and outflows are in balance).

The following sections highlight the year-over-year changes from 2009/10 through 2013/14:

2010/11 Actual vs. 2009/10 Actual

Finance expense is higher year over year as higher volumes of long term debt increased gross interest, amortized discounts increased due to the maturity at the end of 2009/10 of debt issues with large premiums, and lower interest was earned on the sinking fund. The higher finance expense was partially offset by a stronger Canadian dollar and increased interest allocated to construction.

2011/12 Projected vs. 2010/11 Actual

Although there were increased expenses associated with larger volume of debt, finance expense is lower year over year primarily due to lower interest rates, a stronger Canadian dollar and an increase in interest allocated to construction due to the construction of the Wuskwatim Generating Station. Interest earned on the sinking fund is lower in 2011/12 predominantly due to a $200 million US debt maturity in February 2011, thus decreasing the US sinking fund investment balance.

2012/13 Forecast vs. 2011/12 Projected

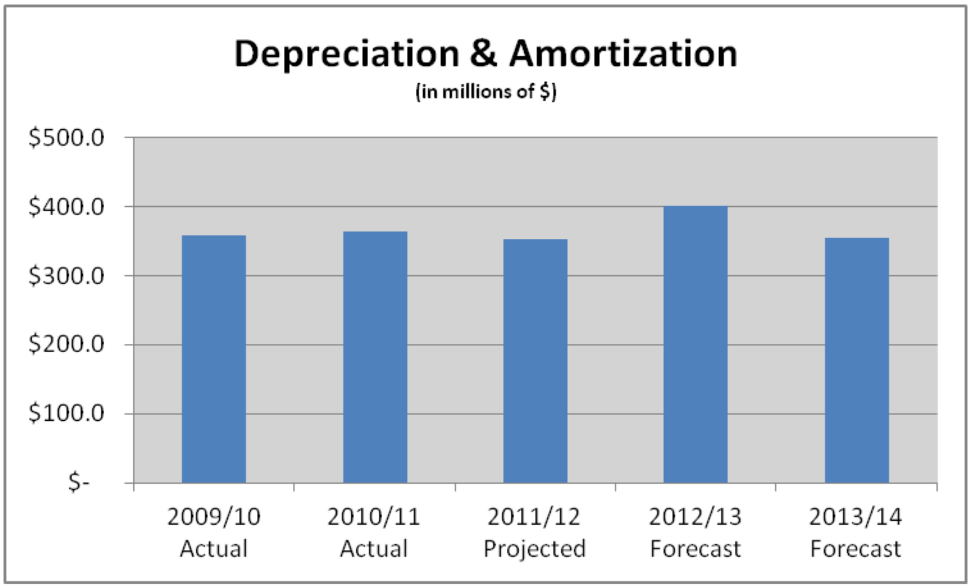
Finance expense is higher year over year primarily due to a higher volume of long term debt, higher forecast interest rates on floating rate debt, and decreased interest allocated to construction due to the Wuskwatim Generating Station going into service.

2013/14 Forecast vs. 2012/13 Forecast

Finance expense is slightly higher year over year primarily due to a higher volume of long term debt and higher forecast interest rates on floating rate debt, partially offset by increased interest allocated to construction due to higher capital expenditures.

5.7 DEPRECIATION & AMORTIZATION

Depreciation and Amortization expenses are calculated using a straight line remaining life basis. The asset categories include: Generation, Transmission, Distribution, and Other (General Equipment, Communication Equipment, Buildings, and Vehicles). Also included is the amortization of non-refundable customer contributions, regulated assets and intangible assets.



Please see the following schedule for a breakdown of Depreciation and Amortization.

MANITOBA HYDRO — **Schedule 5.7.0**

DEPRECIATION AND AMORTIZATION EXPENSE — **(000's)**

	2009/10 Actual	2010/11 Actual	2011/12 Actual	2012/13 Forecast	2013/14 Forecast*
Generation					
Hydraulic Generating Stations	74,310	76,128	75,064	97,254	97,852
Thermal Generating Stations	17,612	9,771	8,680	16,036	16,496
Demand Side Management	22,064	23,994	26,191	28,664	-
Diesel Generating Stations	3,552	3,691	1,359	1,407	1,368
Amortization of Contributions	(2,796)	(2,796)	(718)	(1,033)	(1,092)
	$ 114,743	$ 110,788	$ 110,576	$ 142,328	$ 114,624
Transmission					
Transmission	14,328	14,471	13,920	16,995	14,179
Amortization of Contributions	(1,638)	(1,629)	(1,357)	(1,358)	(1,360)
	$ 12,690	$ 12,842	$ 12,563	$ 15,636	$ 12,819
Stations					
Substations	74,123	76,747	79,157	87,181	80,893
Transformers	2,121	1,653	1,691	1,983	2,200
Amortization of Contributions	(1,464)	(1,470)	(1,247)	(1,235)	(1,235)
	$ 74,780	$ 76,930	$ 79,601	$ 87,929	$ 81,858
Distribution					
Subtransmission Lines	9,469	9,892	5,974	6,215	5,423
Distribution Lines	82,679	87,194	55,547	59,820	52,309
Meters & Transformers	1,590	1,615	4,205	5,019	5,603
Amortization of Contributions	(10,443)	(10,710)	(4,774)	(5,318)	(5,551)
	$ 83,295	$ 87,991	$ 60,952	$ 65,736	$ 57,784
Other					
Communications	20,947	22,518	20,118	25,153	29,634
Motor Vehicles	8,760	9,500	10,374	9,935	12,010
Structures & Improvements	6,590	7,422	7,618	8,509	9,495
General Equipment	18,006	17,172	23,493	23,011	21,226
Computer Development	14,454	15,253	18,895	16,376	18,937
Affordable Energy Fund	3,058	3,468	7,472	8,870	8,710
Miscellaneous	2,995	2,623	3,420	3,760	(3,418)
Corporate Allocation	(2,139)	(1,780)	(1,706)	(1,707)	(1,208)
Target Adjustment	-	-	-	(4,691)	(8,163)
	$ 72,671	$ 76,176	$ 89,684	$ 89,217	$ 87,223
Total Depreciation and Amortization Expense	$ 358,179	$ 364,727	$ 353,376	$ 400,846	$ 354,307
Year over year $ change		$ 6,548	$ (11,351)	$ 47,470	$ (46,539)
Year over year % change		1.8%	-3.1%	13.4%	-11.6%

* Includes the impacts of IFRS.

The following sections highlight the year over year changes from 2009/10 through 2013/14:

2010/11 Actual vs. 2009/10 Actual

The 2010/11 increase is primarily due to net capital additions, partially offset by the revaluation of the thermal asset retirement obligations.

2011/12 Projected vs. 2010/11 Actual

The 2011/12 decrease is primarily due to the implementation of new depreciation rates effective April 1, 2011, which is partially offset by net capital additions placed in service.

In preparation for the conversion to IFRS in 2013/14 and as part of Manitoba Hydro regular depreciation review, a new depreciation study was initiated in 2009 and completed in October, 2011. Manitoba Hydro implemented the new components and the new service life estimates effective April 1, 2011 and will implement further changes to be IFRS compliant effective April 1, 2013.

Please see Appendix 5.7 for a discussion of the depreciation study and the associated depreciation rates, correspondence from Gannett Fleming, Inc. setting out the depreciation rates to be used under GAAP, and the full IFRS compliant Depreciation Study.

2012/13 Forecast vs. 2011/12 Projected

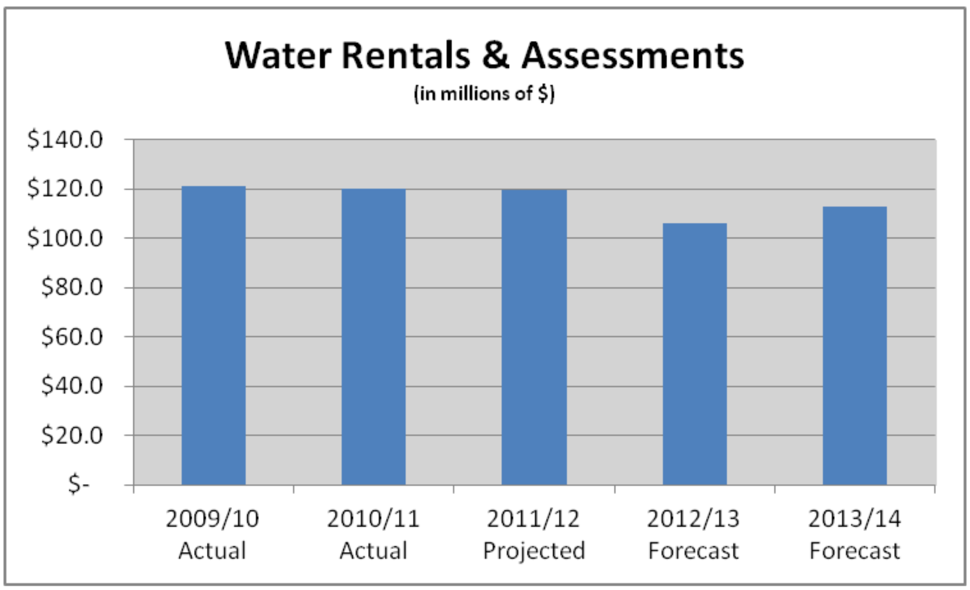
The increase forecasted in 2012/13 is primarily the result of increased plant investments and the Wuskwatim Generating Station being placed into service.

2013/14 Forecast vs. 2012/13 Forecast

As part of the conversion to IFRS, the decrease forecasted in 2013/14 reflects the removal of asset retirement costs from depreciation rates, and the elimination of the amortization of rate-regulated assets, partially offset by the change to the Equal Life Group ("ELG") methodology for calculating depreciation rates (the ELG method will be used to develop depreciation rates with specific consideration of the expected retirement pattern for each asset within each class).

5.8 WATER RENTALS & ASSESSMENTS

Pursuant to *The Water Power Act*, water rentals are paid to the Province for the use of water resources for hydroelectric generation. Assessments include amounts paid for water usage pursuant to *The Water Rights Act*, Lake of the Woods Control Board and Lac Seul Operating Costs, National Energy Board ("NEB") assessments, and membership fees for MISO and other industry associations. Land rentals are annual payments for the use of Manitoba Crown lands used for water power purposes, as set out in Manitoba Hydro's Water Power Act licenses.



Please see the following schedule for a breakdown of Water Rentals and Assessments.

MANITOBA HYDRO **Schedule 5.8.0**
WATER RENTALS AND ASSESSMENTS **(000's)**

	2009/10 Actual	2010/11 Actual	2011/12 Projected	2012/13 Forecast	2013/14 Forecast
Water Rentals	$ 114,022	$ 114,122	$ 110,837	$ 97,834	$ 102,715
Assessments & Land Rentals	7,012	6,041	8,463	8,066	9,755
Total Water Rentals and Assessments	$ 121,033	$ 120,163	$ 119,300	$ 105,900	$ 112,470
Year over year $ change		$ (870)	$ (863)	$ (13,400)	$ 6,570
Year over year % change		-0.7%	-0.7%	-11.2%	6.2%

The following sections highlight the year over year changes from 2009/10 through 2013/14:

2010/11 Actual vs. 2009/10 Actual

The 2010/11 decrease reflects a small reduction in membership fees and assessments.

2011/12 Projected vs. 2010/11 Actual

The 2011/12 decrease reflects lower generation partially offset by higher membership fees and assessments.

2012/13 Forecast vs. 2011/12 Projected

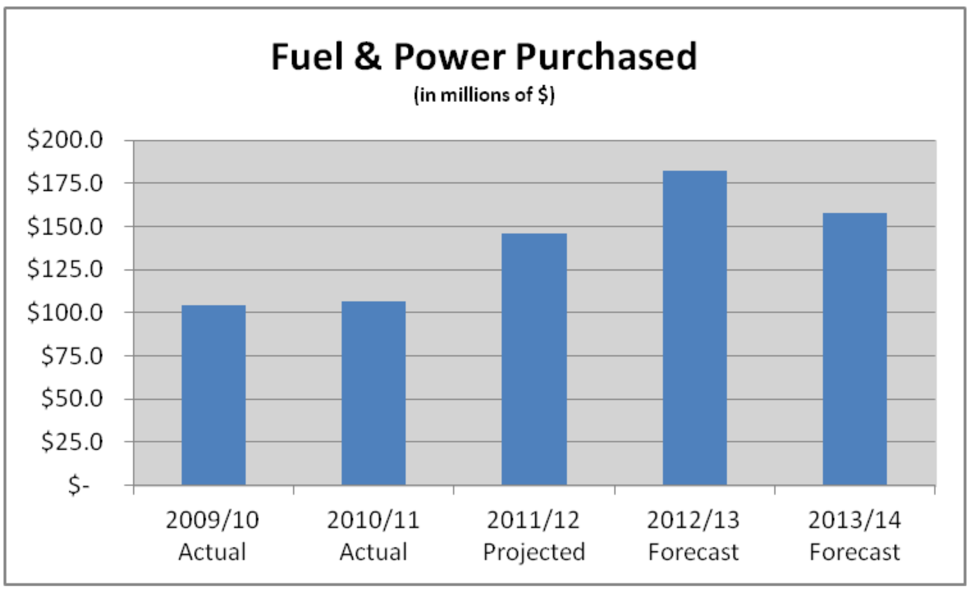
Total hydroelectric generation is expected to be lower due to below average inflows and consequently water rentals are lower in 2012/13.

2013/14 Forecast vs. 2012/13 Forecast

The volume of hydroelectric generation is expected to increase between 2012/13 and 2013/14, largely because of the transition from below average water flows in spring 2012 to average flows in 2013/14 and due to the Wuskwatim Generating Station being in operation through all of 2013/14, providing additional hydraulic generation and consequently increased water rental costs.

5.9 FUEL & POWER PURCHASED

Fuel & Power Purchased includes costs of fuel for thermal generation facilities, costs for purchased energy, and other miscellaneous costs associated with export and import market activities and system operation. In 2011/12, approximately 99% of electricity generated by Manitoba Hydro was produced from its 14 hydraulic generating stations and approximately 1% was produced from its two thermal generation stations and four remote diesel generation facilities. In addition, Manitoba Hydro purchases wind power from the independently-owned St. Leon and St. Joseph wind farms. Manitoba Hydro also imports electricity depending on the operating and economic circumstances.



Please see the following schedule for a breakdown of Fuel & Power Purchased.

MANITOBA HYDRO **Schedule 5.9.0**
FUEL AND POWER PURCHASED **(000's)**

	2009/10 Actual	2010/11 Actual	2011/12 Projected	2012/13 Forecast	2013/14 Forecast
Thermal Fuel					
Coal	$ 3,776	$ 1,002	$ 5,036	$ 2,781	$ 6,957
Natural Gas & Other	8,558	8,332	9,213	11,743	18,930
Power Purchased	32,074	33,931	78,337	105,212	93,381
Merchant Purchases	22,676	22,092	12,064	16,960	-
Transmission Charges	34,378	38,282	40,935	45,725	38,772
Renewable Energy Certificates	34	44	79	57	-
Water Flow Costs	2,477	2,487	-	-	-
Total Fuel and Power Purchased	$ 103,973	$ 106,169	$ 145,664	$ 182,478	$ 158,040
Year over year $ change		$ 2,196	$ 39,494	$ 36,814	$ (24,438)
Year over year % change		2.1%	37.2%	25.3%	-13.4%

Please see the following for a description of Fuel & Power Purchased components:

Coal cost refers to the charge for coal consumed as the principal fuel for Brandon Unit 5 for the purpose of generating electricity.

Natural Gas & Other includes natural gas, oil and diesel requirements for Brandon and Selkirk, and diesel for remote locations for the purpose of generating electricity.

Power Purchased includes purchases of electrical energy from wind farms in Manitoba as well as from external Canadian and US suppliers.

Merchant purchases represent arbitrage opportunities and are unrelated to Manitoba Hydro generation. These include physical purchases of power from one market for re-sale to another market.

Transmission Charges relate primarily to reservation fees for use of transmission facilities for imports or exports, or for merchant transactions.

Renewable Energy Certificates refers to fees related to renewable energy credits.

Water Flow Costs refer to compensation paid to waterway stakeholders affected by Manitoba Hydro's operation of its hydraulic facilities. Commencing in 2011/12, these costs are now being capitalized along with other mitigation costs.

The following sections highlight the year over year changes from 2009/10 through 2013/14:

2010/11 Actual vs. 2009/10 Actual

The 2010/11 increase was primarily a result of higher transmission charges, partially offset by lower thermal fuel purchases. Transmission charges were up due to Manitoba Hydro purchasing more transmission reservations in order to ensure access to the MISO market. The lower thermal fuel purchases were primarily due to lower coal expenses. Coal usage was down due to restrictions on coal operations under *The Climate Change and Emissions Reductions Act*, which came into effect on January 1, 2010.

2011/12 Projected vs. 2010/11 Actual

The increase in Fuel & Power Purchased is mostly attributable to the increased volume of energy purchased from Manitoba wind farms. This increase is partially offset by a decrease in merchant purchases related to lower volumes and prices.

2012/13 Forecast vs. 2011/12 Projected

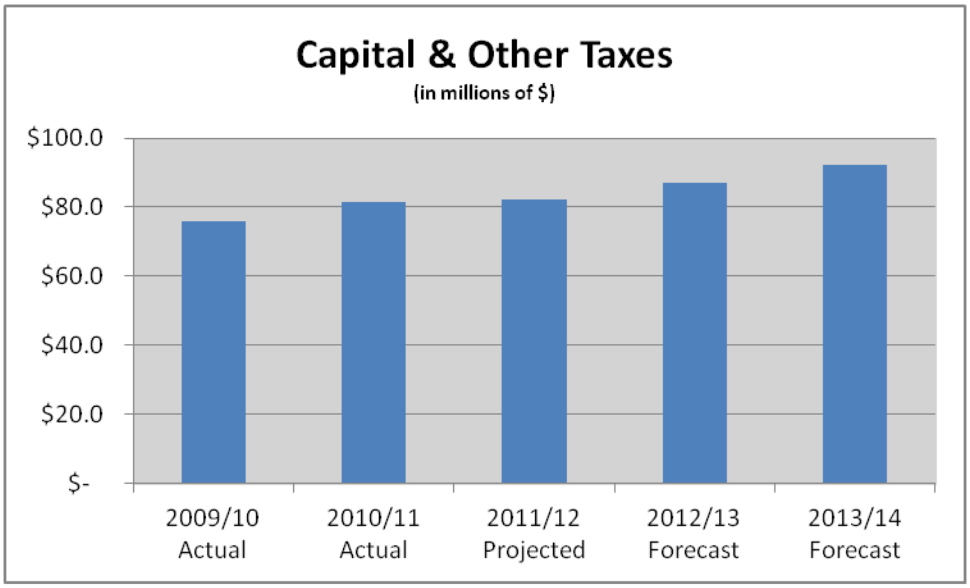
The increase in Fuel & Power Purchased is mostly attributable to the increased volume of energy purchases as a result of lower water inflows during the spring of 2012. Under lower flows there is greater opportunity to purchase in lower priced off-peak periods in order to export in higher priced on-peak periods. Energy purchases are also up due to the expansion of the St. Leon wind farm in the last quarter of 2011/12. Transmission charges are higher in 2012/13 due to an increase in the capacity charge rate and because Manitoba Hydro purchased additional firm import and export transmission reservations.

2013/14 Forecast vs. 2012/13 Forecast

The forecasted decrease in Fuel & Power Purchased is primarily due to the forecast of opportunity purchases being lower in 2013/14 due to the transition from below average water flows to average flows in spring 2012 to average flows in 2013/14, and the exclusion of merchant purchases in 2013/14 due to the uncertainty of these purchases. These decreases are partially offset by an increase in the requirement for coal and natural gas generation in 2013/14 forecast due to consideration of the full range of experienced flow conditions which includes the extreme low flow events.

5.10 CAPITAL & OTHER TAXES

Capital and Other Taxes is comprised of payments made to the Province of Manitoba for capital and payroll taxes as well as grants in lieu of taxes (“GILT”), and business and property taxes paid to the various municipalities in Manitoba.



Please see the following schedule for a breakdown of Capital and Other Taxes.

MANITOBA HYDRO | **Schedule 5.10.0**
CAPITAL AND OTHER TAXES | **(000's)**

	2009/10 Actual	2010/11 Actual	2011/12 Projected	2012/13 Forecast	2013/14 Forecast
Capital Tax	$ 45,846	$ 48,440	$ 50,868	$ 54,348	$ 57,934
Grants in Lieu of Taxes	12,723	12,568	12,843	13,356	13,623
Payroll Tax	9,282	9,656	10,113	10,480	10,689
Business & Property Tax	1,610	1,382	1,359	1,313	1,340
Other Municipal Payments	6,085	6,082	7,000	7,700	8,470
City of Winnipeg Audit Settlement	273	3,194	-	-	-
Total Capital & Other Taxes	$ 75,819	$ 81,322	$ 82,183	$ 87,197	$ 92,056
Year over year $ change		$ 5,503	$ 861	$ 5,014	$ 4,859
Year over year % change		7.3%	1.1%	6.1%	5.6%

Please see the following for a description of Capital & Other Tax components:

The Corporation pays capital tax to the Province of Manitoba at a rate at 0.5% and is applied to the taxable capital of the company.

The company pays GILT on its land and buildings. The amount of GILT paid is determined based on property valuations and municipal and school division mill rates, similar to the manner that property taxes are determined for other tax payers in Manitoba.

Payroll tax is based on a tax rate of 2.15% which is applied to the Company's gross payroll. A portion of the payroll taxes paid is allocated to Centra based on the relative percentage of activity charges to gas programs.

Business taxes are paid with respect to commercial space occupied by the company in both leased and owned properties. The company pays property taxes to the landlords of leased premises as part of the required lease payments.

The company also makes other municipal payments with respect to the town of Gillam and the Frontier School Division.

The City of Winnipeg performed an audit of the company's billing system for the period of August 1, 1999 to December 31, 2010. This audit resulted in a settlement being paid to the City of Winnipeg, which was recorded in 2009/10 and 2010/11.

The following sections highlight the year over year changes from 2009/10 through 2013/14:

2010/11 Actual vs. 2009/10 Actual

The 2010/11 increase is primarily due to increase in capital taxes resulting from increases in debt and retained earnings used to fund the growth of the Corporation as well as the settlement of the City of Winnipeg audit. .

2011/12 Projected vs. 2010/11 Actual

The forecast 2011/12 increase is due to normal inflationary impacts on municipal payments and payroll tax, plus the impact on capital taxes of corporate growth.

2012/13 Forecast vs. 2011/12 Projected

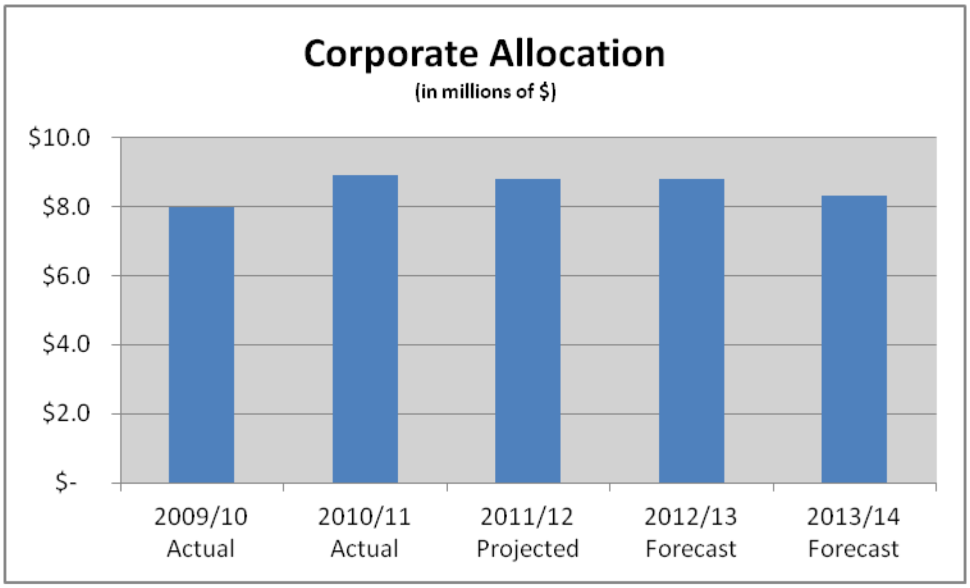
Capital and Other Taxes are forecast to increase in line with inflation and corporate growth.

2013/14 Forecast vs. 2012/13 Forecast

Capital and Other Taxes are forecast to increase in line with inflation and corporate growth.

5.11 CORPORATE ALLOCATION

Corporate Allocation includes Manitoba Hydro Electric operations' share of the acquisition costs relating to Centra. The total annual acquisition cost of Centra includes the interest and provincial guarantee fee ("PGF") on the acquisition debt, the amortization of the fair market value adjustments, and the amortization of the acquisition and integration costs. The total ranges from $19 to $21 million annually. Of this amount, $12 million is charged to Centra. The remainder is charged to Electric operations.



Please see the following schedule for a breakdown of Corporate Allocation.

MANITOBA HYDRO **5.11.0**
CORPORATE ALLOCATION **(000's)**

	2009/10 Actual	2010/11 Actual	2011/12 Projected	2012/13 Forecast	2013/14 Forecast
Corporate Allocation Electric					
Interest on Acquisition Debt	$ 16,020	$ 16,612	$ 16,628	$ 16,628	$ 16,628
Provincial Guarantee Fee on Acquisition Debt	2,500	2,500	2,500	2,500	2,500
Centra Gas - Amortization of FMV Write-Up	(624)				
Finance Expense Corporate Allocation	17,896	19,112	19,128	19,128	19,128
Corporate Allocation - Depreciation	2,139	1,780	1,706	1,707	1,208
	20,035	20,892	20,834	20,835	20,336
Less: Allocation to Centra Gas	(12,000)	(12,000)	(12,000)	(12,000)	(12,000)
Total Corporate Allocation (Electric)	$ 8,035	$ 8,892	$ 8,834	$ 8,835	$ 8,336
Year over year $ change		$ 857	$ (58)	$ 1	$ (499)
Year over year % change		10.7%	-0.7%	0.0%	-5.6%

The following sections highlight the year over year changes from 2009/10 through 2013/14.

2010/11 Actual vs. 2009/10 Actual

There is an increase in 2010/11 mainly due to higher interest rates from refinancing Centra acquisition debt. Also the fair market value write up, that reduced finance expense in prior years, is completely amortized by the end of 2009/10.

2011/12 Projected vs. 2010/11 Actual

No significant change.

2012/13 Forecast vs. 2011/12 Projected

No significant change.

2013/14 Forecast vs. 2012/13 Forecast

The 2013/14 forecast is lower due to the write-off of the Centra acquisition costs as a result of the adoption of IFRS.

5.12 NON-CONTROLLING INTEREST

The Wuskwatim Power Limited Partnership ("WPLP") has two limited partners, Manitoba Hydro and Taskinigahp Power Corporation ("TPC") which is beneficially owned by Nisichawayasihk Cree Nation ("NCN") and a General Partner which is a wholly-owned subsidiary of Manitoba Hydro. NCN may acquire up to a 33% interest in WPLP. Manitoba Hydro will construct, operate and maintain the Wuskwatim generating station and purchase all of the output under the power purchase agreement with WPLP.

Manitoba Hydro's income statement reflects all of the partnerships revenues and costs. Non-controlling interest represents the projected distributions paid from WPLP to NCN and is shown as a deduction before net income.

($ thousands)	2009/10 Actual	2010/11 Actual	2011/12 Projected	2012/13 Forecast	2013/14 Forecast
Non-controlling Interest	$ -	$ -	$ -	$ (979)	$ (949)
$ Change		$ -	$ -	$ (979)	$ 30
% Change		-	-	-	-3.1%