The Manitoba Hydro-Electric Board

QUARTERLY REPORT

for the nine months ended December 31, 2013

Comments by

THE CHAIR OF THE BOARD

and by

THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

FINANCIAL OVERVIEW

Manitoba Hydro's consolidated net income from electricity and natural gas operations was $72 million for the first nine months of the 2013-14 fiscal year compared to a net loss of $38 million for the same period last year. The improvement in financial results was attributable to increased revenues from domestic and extraprovincial electricity sales, partially offset by higher costs of operations.

The consolidated net income was comprised of a $78 million profit in the electricity sector and a $6 million loss in the natural gas sector. The loss in the natural gas sector is the result of seasonal variations in the demand for natural gas and expected to be recouped over the winter heating season.

Based on the continuation of current water flow and export market conditions, Manitoba Hydro is forecasting that financial results will improve over the balance of the fiscal year and net income should exceed $130 million by March 31, 2014.

Electricity Operations

Revenues from electricity sales within Manitoba totaled $990 million for the nine-month period, which was $84 million or 9% higher than the same period last year. The increase in domestic revenue was attributable to electricity rate increases, colder weather as compared to the prior year resulting in higher heating loads and more customers, partially offset by a decrease in the average use of customers. Extraprovincial revenues of $338 million were $58 million or 21% higher than the same period last year primarily due to higher sales volumes reflecting favourable water conditions and higher export prices. Energy sold in the export market was 9.2 billion kilowatt-hours compared to 7.6 billion kilowatt-hours sold in the same period last year.

Expenses attributable to electricity operations totaled $1 267 million for the nine-month period, an increase of $49 million or 4% higher than the same period last year. The increase was the result of a $19 million increase in operating and administrative expenses, $18 million increase in depreciation and amortization expense, $9 million increase in fuel and power purchased, $8 million increase in water rentals and assessments and a $5 million increase in capital and other taxes. This was partially offset by a $10 million decrease in finance expense. Operating and administrative expenses increased due to higher pension and benefit costs primarily related to a change in the discount rate. Depreciation and amortization expense increased as a result of new additions of plant and equipment coming into service including the Wuskwatim Generating Station. Fuel and power purchased increased due to higher market prices and transmission costs. Water rentals and assessments increased due to higher hydraulic generation. Capital and other taxes increased mainly due to higher capital taxes as a result of additional capital investment. Finance expense decreased primarily due to the gain resulting from the sale of sinking fund investments related to the maturity of debt issues.

The net loss attributable to non-controlling interest represents Taskinigahp Power Corporation's 33% share of the Wuskwatim Power Limited Partnership's operating results for the first nine months of the 2013-14 fiscal year.

Capital expenditures for the nine-month period amounted to $1 056 million compared to $733 million for the same period last year. Expenditures during the current period included $240 million related to future Keeyask and Conawapa generation, $201 million for the Pointe du Bois projects, $125 million for Bipole III projects, $61 million for the Riel Station and $19 million for demand-side management programs. The remaining capital expenditures were incurred for ongoing system additions and modifications necessary to meet the electrical service requirements of customers throughout the province.

Natural Gas Operations

In the natural gas sector, a net loss of $6 million was incurred for the nine-month period, compared to the net loss of $14 million in the same period last year. Revenue, net of cost of gas sold, was $99 million which was $8 million higher than the same period last year. The increase in revenues was primarily attributable to increased weather-related demand over the nine-month period. Delivered gas volumes were 1 362 million cubic metres compared to 1 207 million cubic metres in the prior period.

Expenses attributable to natural gas operations amounted to $105 million which was consistent with the same period last year.

Capital expenditures in the natural gas sector were $32 million for the current nine-month period compared to $29 million for the same period last year. Capital expenditures included $26 million related to system improvements and other expenditures necessary to meet the natural gas service requirements of customers throughout the province and $6 million related to demand-side management programs.

Keeyask Clean Environment Commission Hearings

The Clean Environment Commission (CEC) began public hearings to review the Keeyask Generating Station project's environmental impact statement and supplemental information on September 24, 2013. The public hearing was completed in January of 2014 and the CEC will file a report with the Minister of Conservation and Water Stewardship that outlines the results of its review and provides recommendations for the Minister's consideration.

The $6.2 billion, 695-megawatt (MW) Keeyask Generating station is being developed by Manitoba Hydro in partnership with the four Keeyask Cree Nations, Tataskweyak Cree Nation, War Lake First Nation, Fox Lake First Nation and York Factory First Nation. Pending regulatory approvals, construction is expected to commence later in 2014 for a planned in-service date of 2019.

New Power Sale to Saskatchewan

Manitoba Hydro has reached an agreement with SaskPower to sell an additional $100 million of electricity over the next eight years. This is the single-largest power sale agreement between Manitoba and Saskatchewan. Manitoba Hydro and SaskPower also announced they have signed a memorandum of understanding on a potential 500-MW sale which would commence after 2020.

New Agreement with Great River Energy

Manitoba Hydro has signed a 200-MW seasonal diversity exchange with Great River Energy of Minnesota, extending an existing 150-MW arrangement that has been in place between the two utilities since 1995. The new agreement will run until 2030.

Seasonal diversity exchanges take advantage of the fact that Manitoba Hydro's load peaks during winter, due to the demand for heating, while most U.S. utilities like Great River Energy experience their peak loads in the summer, due to higher air conditioning use. The diversity exchange means Manitoba Hydro will provide 200-MW of renewable hydroelectric capacity to Great River Energy in the summer to meet their energy needs, while Great River Energy will provide Manitoba Hydro with 200-MW of capacity during the winter. This is a good mechanism for both utilities to share capacity and diversify sources of supply.

Natural Gas Rate Increase

In accordance with Manitoba Hydro's methodology to change natural gas rates every quarter depending on the price of gas purchased from Alberta, rates for residential customers increased on November 1, 2013 by 1.4% or approximately $11 per year. Rate increases for larger volume customers ranged from 1.6% to 3.2% depending on the customer class and consumption levels. The bill impacts are the result of an increase in the price that Manitoba Hydro pays for gas from Alberta.

William Fraser, FCA
The Chair of the Board

Scott Thomson, CA
President and
Chief Executive Officer
February 12, 2014

Consolidated Statement of Income

In Millions of Dollars (Unaudited)

	Nine Months Ended December 31		Three Months Ended December 31	
	2013	**2012**	**2013**	**2012**
Revenues				
Electric – Manitoba	990	906	384	331
– Extraprovincial	338	280	93	73
Gas – Commodity	126	98	81	64
– Distribution	99	91	50	46
	1 553	1 375	608	514
Cost of gas sold	126	98	81	64
	1 427	1 277	527	450
Expenses				
Operating and administrative	405	384	132	118
Finance expense	349	361	120	131
Depreciation and amortization	334	316	112	109
Water rentals and assessments	95	87	32	30
Fuel and power purchased	105	96	37	37
Capital and other taxes	84	79	26	26
	1 372	1 323	459	451
Net Income (Loss) before non-controlling interest	55	(46)	68	(1)
Net Loss attributable to non-controlling interest	17	8	6	6
Net Income (Loss)	72	(38)	74	5

Consolidated Balance Sheet

In Millions of Dollars (Unaudited)

	As at December 31	*As at December 31*
	2013	**2012**
Assets		
Capital assets	13 323	12 297
Current assets	798	614
Other assets	1 100	1 130
	15 221	14 041
Liabilities and Equity		
Long-term debt (net)	10 187	8 886
Current liabilities	978	1 227
Other liabilities	825	750
Contributions in aid of construction	369	328
Non-controlling interest	78	99
Retained earnings	2 613	2 412
Accumulated other comprehensive income	171	339
	15 221	14 041

Consolidated Cash Flow Statement

In Millions of Dollars (Unaudited)

	Nine Months Ended December 31		*Three Months Ended December 31*	
	2013	**2012**	**2013**	**2012**
Operating Activities				
Cash receipts from customers	1 614	1 384	526	459
Cash paid to suppliers and employees	(728)	(741)	(225)	(243)
Net interest	(434)	(299)	(88)	(49)
	452	344	213	167
Financing Activities	1 082	581	514	(55)
Investing Activities	(1 289)	(838)	(508)	(302)
Net increase (decrease) in cash	245	87	219	(190)
Cash at beginning of period	32	50	58	327
Cash at end of period	277	137	277	137

Consolidated Statement of Comprehensive Income

In Millions of Dollars (Unaudited)

	Nine Months Ended December 31		*Three Months Ended December 31*	
	2013	**2012**	**2013**	**2012**
Net Income (Loss)	72	(38)	74	5
Other Comprehensive Income (Loss)				
Unrealized foreign exchange gains (losses) on debt in cash flow hedges	(85)	8	(60)	(21)
Realized foreign exchange losses (gains) on debt in cash flow hedges reclassified to income	(20)	1	(6)	1
Unrealized fair value gains (losses) on available-for-sale U.S. sinking fund investments	(11)	3	(2)	-
Realized gains on redemption of U.S. sinking fund investments	(13)	-	-	-
	(129)	12	(68)	(20)
Comprehensive Income (Loss)	(57)	(26)	6	(15)

Segmented Information

In Millions of Dollars (Unaudited)

Nine Months Ended December 31	**Electricity**		**Gas**		**Total**	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
Revenue (net of cost of gas sold)	1 328	1 186	99	91	1 427	1 277
Expenses	1 267	1 218	105	105	1 372	1 323
Net Income (Loss) before non-controlling interest	61	(32)	(6)	(14)	55	(46)
Net Loss attributable to non-controlling interest	17	8	-	-	17	8
Net Income (Loss)	78	(24)	(6)	(14)	72	(38)

Three Months Ended December 31	**Electricity**		**Gas**		**Total**	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
Revenue (net of cost of gas sold)	477	404	50	46	527	450
Expenses	424	416	35	35	459	451
Net Income (Loss) before non-controlling interest	53	(12)	15	11	68	(1)
Net Loss attributable to non-controlling interest	6	6	-	-	6	6
Net Income (Loss)	59	(6)	15	11	74	5
Total Assets	14 578	13 425	643	616	15 221	14 041

Generation and Delivery Statistics

	Nine Months Ended December 31		*Three Months Ended December 31*	
	2013	**2012**	**2013**	**2012**
Electricity in gigawatt-hours				
Hydraulic generation	26 715	24 421	8 990	8 136
Thermal generation	80	72	36	40
Scheduled energy imports	212	335	135	207
Wind purchases (MB)	639	622	257	222
Total system supply	27 646	25 450	9 418	8 605
Gas in millions of cubic metres				
Gas sales	767	680	490	449
Gas transportation	595	527	229	224
	1 362	1 207	719	673

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Cover: Forty-two Manitoba Hydro employees travelled to Toronto during the 2013 holiday season to help restore power after an ice storm.