The Manitoba Hydro-Electric Board

QUARTERLY REPORT

(for the six months ended September 30, 2023)

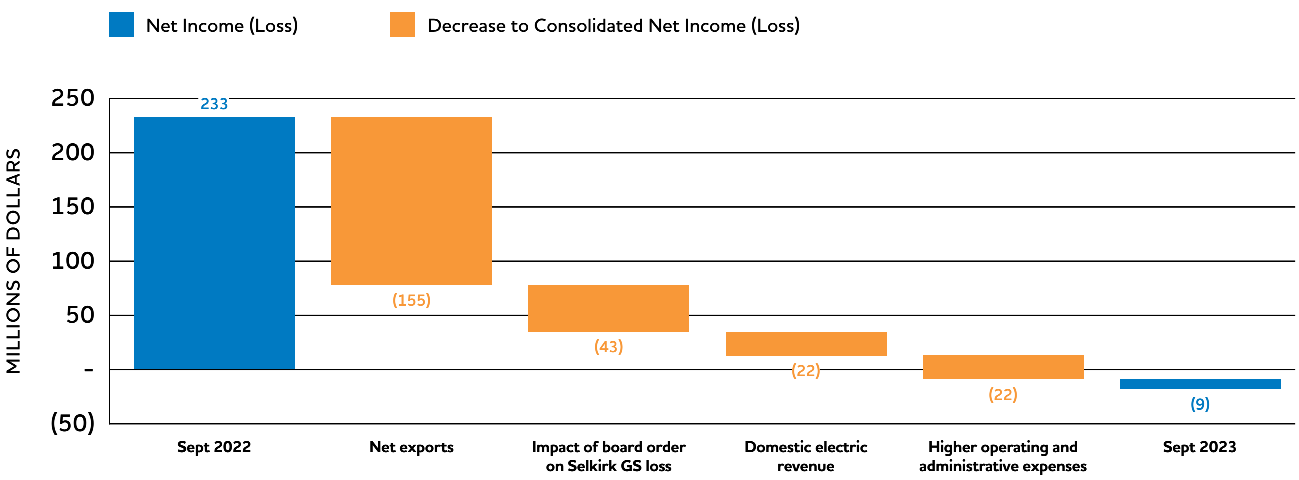
Manitoba Hydro
energy for life

REPORT FROM THE CHAIR OF THE BOARD AND BY THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

Financial Overview

Consolidated net loss attributable to Manitoba Hydro was $9 million for the first six months of 2023-24 compared to net income of $233 million for the same period last year. The decrease in net income from the prior year was primarily attributable to the impacts of lower net exports, impacts related to the Public Utilities Board's (PUB) order issued on August 24, 2023 with respect to Manitoba Hydro's Electric General Rate Application which resulted in the write-off of terminal losses associated with the Selkirk Generating Station, lower domestic electric revenue as well as an increase in operating and administrative costs.

CONSOLIDATED NET LOSS ATTRIBUTABLE TO MANITOBA HYDRO WAS $9 MILLION FOR THE FIRST SIX MONTHS OF 2023-24



Net Exports - The $155 million decrease in net export revenue from the same period last year was primarily due to a reduction in opportunity revenues driven by low water conditions in the current year coupled with a decrease in market prices. The decrease in opportunity sales was partially offset by an increase in dependable export revenue as a result of additional contract volumes and foreign exchange gains.

Impact of PUB Order on Selkirk Generating Station (GS) Loss - On August 24, 2023, the PUB issued an Order in which they directed that Manitoba Hydro write off the previously deferred terminal losses for the Selkirk Generating Station of $43 million. As a result, the deferral was written off in the current year which further impacted the net loss.

Domestic Electric Revenue - The decrease of $22 million in domestic electric revenues was largely due to reduced usage and weather impacts partially offset by customer growth and the impact of rate increases.

Operating and administrative expenses – The increase of $22 million in operating and administrative expenses was largely due to higher wages and salaries related both to an increase in staff and due to wage increases, in addition to increased operating costs for the Keeyask Generating Station.

Consolidated net loss was comprised of $24 million net income in the electric segment, $40 million net loss in the natural gas segment and $7 million net income in the other segment.

CONSOLIDATED NET LOSS ATTRIBUTABLE TO MANITOBA HYDRO WAS $198 MILLION LOWER THAN BUDGETED NET INCOME OF $189 MILLION

Consolidated net loss attributable to Manitoba Hydro was $198 million lower than budgeted net income of $189 million for the first six months of 2023-24. The net loss was driven by lower net export revenue related to drought conditions and market prices below budget. These unfavourable impacts were partially offset by higher domestic electric revenues driven by higher usage and customer growth.

Manitoba Hydro's primary sources of liquidity and capital are cash generated from operations and debt financed through the Province of Manitoba. The consolidated cash balance at September 30, 2023 totaled $354 million. Cash provided from operations of $353 million during the six-month period ending September 30, 2023 primarily reflects the impacts of cash-adjusted earnings partially offset by net interest paid. Manitoba Hydro's investing activities used $506 million in the first six months of 2023-24 reflecting capital construction requirements primarily for business operations capital as well as the purchase of long-term investments for the purpose of hedging the foreign exchange impact of a long-term obligation. Cash used for financing activities totaled $582 million, an increase in cash outflows of $249 million over the same period last year, largely as a result of drawing down prefunded cash to repay maturing debt. After adjusting to exclude the impacts of major capital spending on core operations, the corporation recorded a deficiency of approximately $141 million when operating cash flow is compared to cash for investing in core operations. The deficiency is the result of the impact of the net loss on operating cash flows experienced through the first six months as well as the purchase of long-term investments. It is the corporation's intention to remain prefunded at levels that protect against liquidity risk with a cash balance of approximately $500 million, which is a significant reduction from cash prefunding levels from the recent major capital expansion period.

Cash flow summary for the six months ended September 30

(in millions of dollars)	**2023**	2022	Inc/(Dec) over prior year
Cash and cash equivalents, beginning of year	**1 089**	1 083	7
Cash provided by operating activities	**353**	301	52
Cash used for investing activities	**(506)**	(414)	(92)
Cash used for financing activities	**(582)**	(333)	(249)
Cash and cash equivalents, end of the period	**354**	637	(284)

MANITOBA HYDRO IS CURRENTLY PROJECTING A NET LOSS OF APPROXIMATELY $160 MILLION FOR THE CURRENT FISCAL YEAR, COMPARED TO THE BUDGETED NET INCOME OF $450 MILLION

Manitoba Hydro is currently projecting a net loss of approximately $160 million for the current fiscal year, compared to the budgeted net income of $450 million. The decrease in net income is primarily driven by low water conditions which have significantly reduced net export revenues. The net loss projection also accounts for the impact of the PUB's electric general rate application decision and directives issued in August.

Despite reservoir storage being higher than average at the start of the fiscal year as a result of water conditions in 2022/23, total hydraulic generation for 2023/24 is forecasted to be approximately 25% below the 2023/24 Budget due to unfavourable precipitation. Uncertainty around water conditions has narrowed, as flow conditions are historically more stable after the end of October. However, hydraulic generation can still vary due to factors such as outages, ice restrictions, and snowpack conditions through winter, etc.

There still remains significant variability in the projected financial results, particularly in relation to energy market prices. Manitoba Hydro is currently seeing unprecedented and sustained congestion levels at its settlement point in the northern MISO (Midcontinent Independent System Operator) market where Manitoba Hydro's import purchases are primarily made. This congestion causes Manitoba Hydro to pay a premium for its energy imports compared to market prices at other locations in MISO.

Congestion premiums are primarily the result of significant transmission and generation outages in MISO. While some of these outages are expected to return-to-service in the near term, others show return-to-service dates in late March, April or no return date at this time. Congestion can cause significant volatility in prices that can vary considerably from one location in the market to the next.

Manitoba Hydro is monitoring congestion levels and is prepared to take action if they change while also actively pursuing approaches to manage market pricing risk should congestion persist.

If these congestion levels do not subside, and Manitoba Hydro is not successful in mitigating this risk, then elevated import purchase prices throughout the winter could lead to a further deterioration in the 2023/24 financial outlook.

Electric Segment

Electric Segment results for the six months ended September 30

(in millions of dollars)	**2023**	2022	Inc/(Dec) over prior year
Revenue	**1 335**	1 514	(179)
Expenses	**1 345**	1 329	16
Net income (loss) before net movement	**(10)**	185	(194)
Net movement	**34**	75	(42)
Net Income	**24**	260	(236)

Electric revenue for the first six months of 2023-24 was $1 335 million, a decrease of $179 million from the same period last year. The decrease was largely attributable to lower domestic electric revenue as well as lower extraprovincial revenue, while other revenues were largely consistent with the prior year.

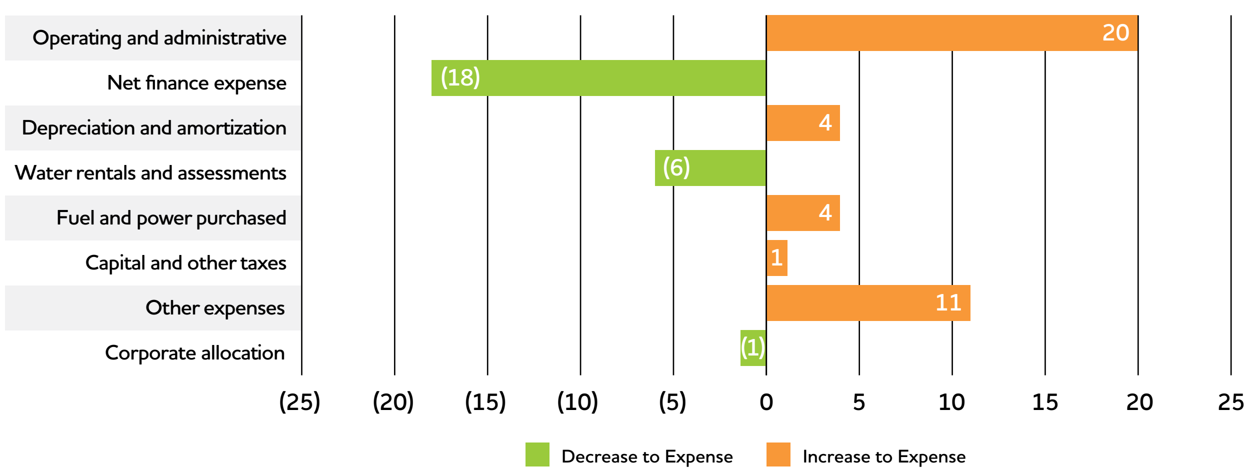
Electricity sales within Manitoba were $808 million, $21 million or 3% lower than the same period last year primarily due to lower usage in all customer classes and weather impacts partially offset by customer growth and the impact of the September 1, 2023 electric rate increase

Extraprovincial revenue of $512 million was $157 million or 23% lower than the same period last year which reflects a decrease in opportunity revenues due to a decrease in volumes as a result of drought conditions in addition to lower market prices. This was partially offset by higher dependable revenues as a result of new firm export contracts as well as foreign exchange gains. Overall, energy sold in the export market this year was 5.7 billion kilowatt-hours compared to 8.1 billion kilowatt-hours in the previous year.

ENERGY SOLD IN THE EXPORT MARKET THIS YEAR WAS 5.7 BILLION KILOWATT-HOURS COMPARED TO 8.1 BILLION KILOWATT-HOURS IN THE PREVIOUS YEAR

Expenses attributable to electric operations totaled $1 345 million for the six-month period, which represents an increase of $16 million or 1% compared to the same period last year.

Electric Segment Expense Variances (in millions of dollars)

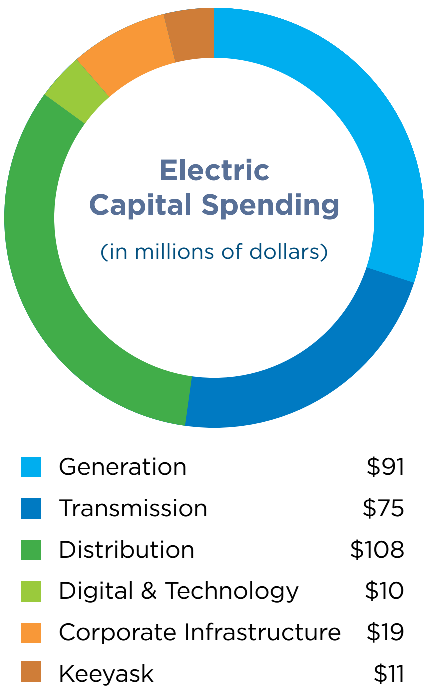


Operating and administrative expenses increased due to a number of factors, including increased wages and salaries related both to an increase in staff and wage increases as well as operating costs for the Keeyask Generating Station.

Net finance expense was lower than prior year largely due to lower foreign exchange losses on US dollar debt as well as a decrease in long-term debt volumes due to planned debt maturities partially offset by higher interest rates on long- and short-term debt.

Other expenses were higher than the prior year largely due to payments associated with the amended Joint Keeyask Development Agreement as well as higher regulatory costs primarily associated with the electric general rate application. The costs associated with the general rate application are subsequently deferred and amortized through net movement, and therefore did not impact the net loss in the current year.

Net loss before net movement in regulatory balances was $10 million. The net movement in regulatory balances of $34 million captures the timing differences of revenues and expenses for financial reporting purposes and those amounts approved by the PUB for rate-setting purposes. The decrease in net movement from the prior year is largely due to the impact of the PUB's directive to write off the terminal losses associated with the Selkirk Generating Station assets as well as lower Bipole 3 deferral amortization, which was fully amortized July 2023.



After considering the net movement in regulatory deferral balances, net income was $24 million. Net income of less than $1 million was attributable to non-controlling interests.

Expenditures for capital construction for the six-month period amounted to $314 million compared to $323 million for the same period last year, a decrease of $9 million or 3%. The decrease was primarily the result of lower spending on the Keeyask project, partially offset by an increase in business operations capital. Expenditures for the current period included $11 million related to trailing costs on the Keeyask project compared to $76 million in the previous year. The remaining capital expenditures of $303 million were predominantly related to ongoing system additions and modifications necessary to meet the electrical service requirements of customers throughout the province.

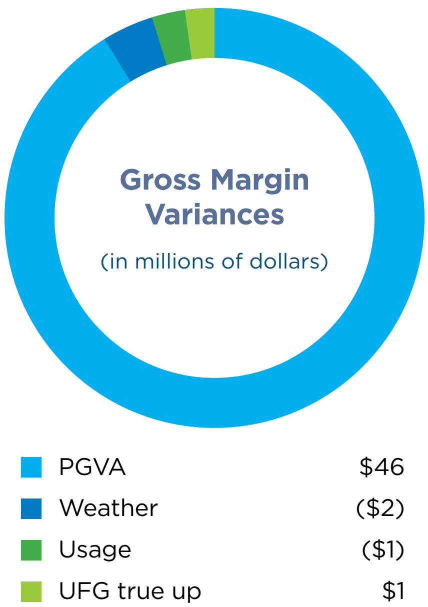
The corporation also incurred $18 million for electric Demand Side Management (DSM) programs which are primarily managed by Efficiency Manitoba.

Natural Gas Segment

Natural Gas Segment results for the six months ended September 30

(in millions of dollars)	**2023**	2022	Inc/(Dec) over prior year
Revenue	**155**	158	(3)
Expenses	**189**	233	(44)
Net loss before net movement	**(34)**	(74)	41
Net movement	**(6)**	40	(46)
Net loss	**(40)**	(34)	(6)

The net loss in the natural gas segment was $40 million for the six-month period compared to a net loss of $34 million for the same period last year. Revenue, net of cost of gas sold (gross margin), was $58 million compared to $14 million for the same period last year. Gross margin increased by $44 million primarily due to lower purchased gas costs (compared to amounts charged to customers through rates). The difference between the cost of gas embedded in customer rates and the actual cost of gas purchased is accumulated in the purchased gas variance accounts (PGVA) and adjusted in net movement thereby ensuring that only the actual cost of gas, no more or less, is ultimately passed on to customers over time. The cost of natural gas is a flow through cost passed onto customers through rates approved by the PUB and therefore does not impact net income. After considering the impact of PGVAs, gross margin decreased $1 million largely due to the impacts of warmer weather and lower usage partially offset by a higher unaccounted for gas (UFG) true up. Delivered gas volumes were 594 million cubic metres compared to 678 million cubic metres for the same period last year.



Expenses attributable to natural gas operations excluding cost of gas sold amounted to $94 million compared to $88 million for the same period last year, an increase of $6 million, or 7%. The

increase in expenses was partially related to higher operating and administrative expenses largely due to maintenance requirements, an increase in customer requests, including line locates and gas inspections, higher insurance claims and premiums and additional training requirements as well as higher finance expense largely due to higher rates on short- and long-term debt.

Capital expenditures in the natural gas segment were $23 million for the current six-month period compared to $18 million for the same period last year, an increase of $5 million, or 27%. Capital expenditures are related to system improvements and other expenditures necessary to meet the natural gas service requirements of customers throughout the province.

The corporation also incurred $9 million for natural gas DSM programs which are primarily managed by Efficiency Manitoba.

Other Segment

The other segment includes Manitoba Hydro International Ltd., Manitoba Hydro Utility Services, Minell Pipelines Ltd. and Teshmont Holdings Ltd. Net income was $7 million in the other segment for the six-month period, a $1 million increase from the prior year.

Public Utilities Board issues order to increase electricity rates September 2023 and April 2024

On August 24, 2023, the Public Utilities Board issued its order on Manitoba Hydro's Electric General Rate Application (GRA) approving an increase of 1.0% in general consumer revenue effective September 1, 2023 and a further increase in general consumer revenue of 1.0% effective April 1, 2024. The PUB order also confirmed the 3.6% interim rate increase that was awarded in 2021.

The rate increases approved in the order vary by customer class, with residential customers receiving a 1.4% increase in each year of the next two years. The bill impacts of the September 1, 2023 rate increase will be less than $1.50 a month for the average residential customer without electric heating (based on an average of 1 000 kilowatt-hours per month) and under $3.00 a month for those with electric heating (based on an average consumption of 2 000 kilowatt-hours per month). The second April 1, 2024 increase will result in an additional $1.50 and $3.00 a month for the average residential customer without and with electric heating respectively.

Manitoba Hydro releases 2023 Integrated Resource Plan

On August 1, 2023, Manitoba Hydro released its first-ever Integrated Resource Plan (IRP) — the result of more than two years of hard work by many people across the organization. The IRP seeks to understand the key factors driving change in Manitoba's future energy landscape and what that means for the supply and delivery of electricity and natural gas.

The IRP is based on multiple rounds of engagement with customers and interested parties to build an understanding of their plans and perspectives, extensive modelling and analysis on a range of potential future scenarios and sensitivities and considering how current and future potential government actions at all levels are impacting the energy landscape. It outlines how Manitoba Hydro will monitor, prepare for and respond to this transition and the changes in the energy landscape in the years ahead.

The IRP is available at **hydro.mb.ca/future**.

Manitoba Hydro and Manitoba Métis Federation announce revitalization agreement

On August 10, 2023, the Manitoba Métis Federation (MMF), the National Government of the Red River Métis, and Manitoba Hydro concluded a Revitalization Agreement to address existing infrastructure and work together on future developments.

The agreement addresses the adverse effects of Manitoba Hydro's existing developments and operations on the Section 35 Constitution Act rights of the Red River Métis and establishes processes for working together on a range of issues related to Manitoba Hydro's developments and operations, including on any future developments that may be undertaken by the corporation. It includes commitments to establish a long-term Revitalization Fund, a defined forum for ongoing dialogue between Manitoba Hydro and the MMF and formal processes for working together on future Manitoba Hydro developments.

For the first time in its history, Manitoba Hydro uses drones, robots to deploy bird diverters on transmission lines

Manitoba Hydro used drones and robots to install bird diverters over an energized transmission line near the Delta Marsh — an internationally recognized Important Bird Area in southern Manitoba. The reflective, glow-in-the-dark flags help migratory birds see wires in the air to prevent collisions.

Studies have shown that bird diverters can reduce collisions with utility wires by 50% to 90%; previous methods of installing bird diverters were more manual and labour intensive. In this method, a drone lifts a wheeled robot onto the sky wire, which then straddles the line on wheels. The robot installs bird diverters down the line at specified intervals for maximum visibility.

Manitoba Hydro works to lower its effects on birds in Manitoba by using these bird diverters, installing nest platforms for osprey, and providing nesting structures for rare and threatened species like peregrine falcons and barn swallows that nest on its infrastructure. Employees follow strict protocols when dealing with wildlife near utility equipment.

Edward Kennedy

Chair of the Board

Jay Grewal

President and
Chief Executive Officer

November 14, 2023

FINANCIALS

Consolidated Statement of Income (Loss)

In millions of dollars (unaudited)

	SIX MONTHS ENDED SEPTEMBER 30		THREE MONTHS ENDED SEPTEMBER 30	
	2023	**2022 Restated[1]**	**2023**	**2022 Restated[1]**
REVENUES				
Domestic Electric	808	829	390	399
Gas	153	157	48	51
Extraprovincial	512	669	261	400
Other	35	38	16	19
	1 508	1 693	715	869
EXPENSES				
Cost of gas sold	95	143	31	41
Operating and administrative	382	360	195	186
Finance expense	518	523	254	269
Depreciation and amortization	330	325	165	163
Water rentals and assessments	32	38	14	20
Fuel and power purchased	70	66	37	30
Capital and other taxes	90	90	45	45
Other expenses	64	53	40	30
Finance income	(36)	(22)	(12)	(12)
	1 545	1 576	769	772
Net income (loss) before net movement in regulatory balances	(37)	117	(54)	97
Net movement in regulatory balances	28	115	5	53
Net Income (Loss)	(9)	232	(49)	150
Net income (loss) attributable to:				
Manitoba Hydro	(9)	233	(49)	151
Non-controlling interest	-	(1)	-	(1)
	(9)	232	(49)	150

Note 1: The prior year results have been restated to reflect the impact of the provincial announcement in November 2022 to reduce water rental rates and the provincial debt guarantee fee that were to be effective April 1, 2022.

FINANCIALS

Consolidated Statement of Financial Position

In millions of dollars (unaudited)

	AS AT SEPTEMBER 30, 2023	AS AT MARCH 31, 2023	AS AT SEPTEMBER 30, 2022 RESTATED[1]
ASSETS			
Current assets	1 002	1 828	1 460
Property, plant and equipment	26 628	26 474	26 438
Non-current assets	1 462	1 658	1 669
Total assets before regulatory deferral balance	29 092	29 960	29 567
Regulatory deferral balance	1 453	1 450	1 407
	30 545	31 410	30 974
LIABILITIES AND EQUITY			
Current liabilities	1 583	2 192	2 366
Long-term debt	23 034	23 097	22 934
Other non-current liabilities	1 724	1 627	1 814
Deferred revenue	669	637	631
Non-controlling interest	43	344	326
Retained earnings	3 630	3 650	3 245
Accumulated other comprehensive loss	(281)	(305)	(517)
Total liabilities and equity before regulatory deferral balance	30 402	31 242	30 799
Regulatory deferral balance	143	168	175
	30 545	31 410	30 974

Note 1: The prior year results have been restated to reflect the impact of the provincial announcement in November 2022 to reduce water rental rates and the provincial debt guarantee fee that were to be effective April 1, 2022.

FINANCIALS

Consolidated Cash Flow Statement

In millions of dollars (unaudited)

	SIX MONTHS ENDED SEPTEMBER 30		THREE MONTHS ENDED SEPTEMBER 30	
	2023	**2022**	**2023**	**2022**
Operating Activities	353	301	120	233
Investing Activities	(506)	(414)	(353)	(206)
Financing Activities	(582)	(333)	160	(229)
Net decrease in cash	(735)	(446)	(73)	(202)
Cash at beginning of period	1 089	1 083	427	839
Cash at end of period	354	637	354	637

Consolidated Statement of Comprehensive Income (Loss)

In millions of dollars (unaudited)

	SIX MONTHS ENDED SEPTEMBER 30		THREE MONTHS ENDED SEPTEMBER 30	
	2023	**2022 Restated[1]**	**2023**	**2022 Restated[1]**
Net Income (Loss)	(9)	232	(49)	150
Other Comprehensive Income (Loss)				
Items that will be reclassified to income				
Unrealized foreign exchange gains (losses) on debt in cash flow hedges	11	(155)	(35)	(125)
Items that have been reclassified to income				
Realized foreign exchange losses on debt in cash flow hedges	12	21	5	15
	23	(134)	(30)	(110)
Comprehensive Income (Loss)	14	98	(79)	40
Comprehensive income (loss) attributable to:				
Manitoba Hydro	14	99	(79)	41
Non-controlling interests	-	(1)	-	(1)
	14	98	(79)	40

Note 1: The prior year results have been restated to reflect the impact of the provincial announcement in November 2022 to reduce water rental rates and the provincial debt guarantee fee that were to be effective April 1, 2022.

FINANCIALS

Generation and Delivery Statistics

	SIX MONTHS ENDED SEPTEMBER 30		THREE MONTHS ENDED SEPTEMBER 30	
	2023	**2022**	**2023**	**2022**
ELECTRICITY IN GIGAWATT-HOURS				
Hydraulic generation	16 535	19 572	7 510	10 589
Thermal generation	6	-	5	-
Scheduled energy imports	325	173	258	33
Wind purchases (Manitoba)	351	428	152	177
Total system supply	17 217	20 173	7 925	10 799
GAS IN MILLIONS OF CUBIC METRES				
Gas sales	399	319	196	90
Gas transportation	195	359	63	173
	594	678	259	263

FINANCIALS

Segmented Information

In millions of dollars (unaudited)

	ELECTRIC SEGMENT		NATURAL GAS SEGMENT		OTHER SEGMENT		ELIMINATIONS		TOTAL	
SIX MONTHS ENDED SEPTEMBER 30	2023	2022 Restated[1]	2023	2022 Restated[1]	2023	2022 Restated[1]	2023	2022 Restated[1]	2023	2022 Restated[1]
Revenues	1 335	1 514	155	158	24	25	(6)	(4)	1 508	1 693
Expenses	1 345	1 329	189	232	17	19	(6)	(4)	1 545	1 576
Net income (loss) before net movement in regulatory balances	(10)	185	(34)	(74)	7	6	-	-	(37)	117
Net movement in regulatory balances	34	75	(6)	40	-	-	-	-	28	115
Net Income (Loss)	24	260	(40)	(34)	7	6	-	-	(9)	232
Net income (loss) attributable to:										
Manitoba Hydro	24	261	(40)	(34)	7	6			(9)	233
Non-controlling interest	-	(1)	-	-	-	-	-	-	-	(1)
	24	260	(40)	(34)	7	6	-	-	(9)	232
THREE MONTHS ENDED SEPTEMBER 30										
Revenues	658	807	49	52	12	12	(4)	(2)	715	869
Expenses	684	677	80	89	9	8	(4)	(2)	769	772
Net income (loss) before net movement in regulatory balances	(26)	130	(31)	(37)	3	4	-	-	(54)	97
Net movement in regulatory balances	(2)	39	7	14	-	-	-	-	5	53
Net Income (Loss)	(28)	169	(24)	(23)	3	4	-	-	(49)	150
Net income (loss) attributable to:										
Manitoba Hydro	(28)	170	(24)	(23)	3	4			(49)	151
Non-controlling interest	-	(1)	-	-	-	-	-	-	-	(1)
	(28)	169	(24)	(23)	3	4	-	-	(49)	150
TOTAL ASSETS	29 857	30 325	884	901	208	131	(404)	(383)	30 545	30 974

Note 1: The prior year results have been restated to reflect the impact of the provincial announcement in November 2022 to reduce water rental rates and the provincial debt guarantee fee that were to be effective April 1, 2022.

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energy for life

Available in accessible formats upon request.