Appendix 2 – Manitoba Hydro IFRS Conversion Project Status Report

The transition to IFRS will be reflected in Manitoba Hydro's interim and annual financial statements for the fiscal year beginning April 1, 2011, along with comparative information for the 2010/11 year. Manitoba Hydro has developed an IFRS conversion project plan that is being guided by an internal implementation team and steering committee. KPMG has been engaged to provide advice on the conversion to IFRS.

The IFRS conversion project plan for Manitoba Hydro has been divided into the following four phases:

1. Initial Assessment and Project Mobilization
2. Detailed Design
3. Solution Development
4. Implementation

Phase 1 (Initial Assessment and Project Mobilization) of the project was completed in November of 2008. The main deliverable from this phase was a high-level diagnostic and qualitative assessment or "Quick Scan" (please see attachment) which identifies the areas where implementation of IFRS could have the most significant impact on Manitoba Hydro.

Phase II (Detailed Design) of the conversion project commenced in November 2008 and involves a more detailed review of the potential differences between MH's current accounting policies under Canadian GAAP and IFRS, as well as an assessment of the impact of those differences on net income, customer rates, and key business and information technology (IT) processes. Phase III (Solution Development) work will focus on providing pro-forma financial statements and policies, as well as developing detailed training and system conversion plans. Phase IV (Implementation) work will focus on converting systems and processes, as well as the delivery of the necessary training to produce IFRS compliant financial statements.

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IFRS ADVISORY SERVICES

Quick Scan
Manitoba Hydro

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An introduction to our Quick Scan approach

Objectives of the Quick Scan

This Quick Scan is a high level diagnostic and qualitative assessment designed to identify the main IFRS areas that Manitoba Hydro needs to address. It is designed to address the following two basic questions

- What are the areas where implementation of IFRS could have the most significant impact on Manitoba Hydro?
- How difficult will it be for Manitoba Hydro to apply IFRS?

While it is designed to assist Manitoba Hydro to focus on the areas where the impact may be the greatest, it is not designed to identify all the potential issues that would impact Manitoba Hydro on conversion to IFRS, nor to be a comprehensive summary of all the accounting differences between current Canadian GAAP and the requirements of IFRS.

Scope and Approach

This report is subject to the terms and conditions of our engagement letter dated May 23, 2008.

This report sets out our preliminary assessment of the potential impact of Manitoba Hydro's conversion from Canadian GAAP to IFRS and is based on Manitoba Hydro's publicly reported financial information and discussions with management. It could be subject to changes based on further detailed analysis in the next stage of your project as well as due to subsequent changes to IFRS standards and interpretations. We have reviewed the Company's accounting policies and compared them with the requirements of IFRS. We have given high level consideration to the disclosures required under IFRS. Such an analysis is, by nature, limited and its objective is to identify the most significant issues rather than to develop an exhaustive inventory of accounting and disclosure differences. However, this approach provides Manitoba Hydro with a clear and concise format for understanding and communicating the effects of implementing IFRS to senior management, the Audit Committee and the Manitoba Hydro Board. Reference to the relevant standards and other authoritative material should be made and specific advice taken before acting on any of the analysis in this report.

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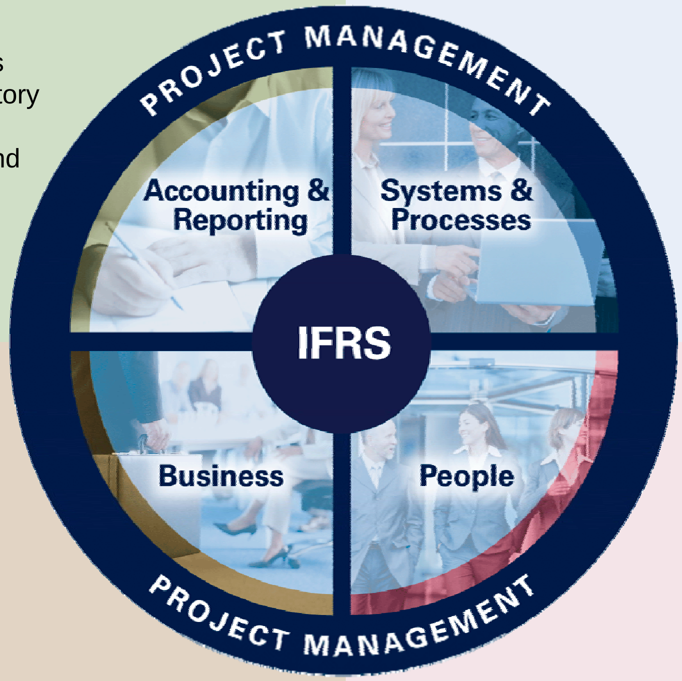
Accounting differences form the basis for assessing broader IFRS impacts

Accounting and Reporting

- Identify GAAP differences
- Identify additional IFRS disclosure requirements
- Update accounting policies and procedures
- Assess impact on tax, statutory and regulatory reporting
- Modify financial statements presentation and regulatory reporting
- Revise and/or design and implement templates for data gathering

Systems and Processes

- Identify information “gaps” for conversion
- Assess impact on internal controls/ SOx processes
- Identify current system functionality/ suitability, related new IT system needs, and period-end close contingency plans
- Tailor chart of accounts considering regulatory and IFRS accounting needs



Business

- Develop communication plans for all stakeholders including
  - Audit Committee/Board
  - Corporate units
  - Regulators
  - Stakeholders/debt holders/analysts
  - External auditors
- Assess internal reporting and KPIs
- Assess impact on general business issues such as contractual terms, treasury practices, risk management practices, etc.

People

- Develop and execute training plans for all corporate units and lines-of-business
  - IFRS technical topics
  - New accounting policies and reporting procedures
  - Changes in processes and controls
- Revise performance evaluation targets and measures and communicate to affected personnel
- Consider impact on incentive compensation programs

Our Quick Scan analysis of key areas of impact

The key financial statement impacts identified for Manitoba Hydro and its subsidiaries are as follows:

Potential Impact	P&L	Balance Sheet	Disclosure	Difficulty	Comments
Property, Plant and Equipment (PP&E)					▪ Manitoba Hydro is operating in a capital intensive industry; PP&E represents over 75% of total assets. ▪ Certain general overhead and administrative costs cannot be capitalized as part of the cost of PP&E under IFRS such as end-user training for new or modified PP&E. Manitoba Hydro will need to review its capitalization policies, including its costing methodology used in charging costs to capital projects, as part of the transition to IFRS. ▪ IFRS requires significant components of assets to be capitalized and appropriate depreciation policies applied to each identified component. A separate component may be a physical component such as a major spare part, or a non-physical component such as a major inspection or overhaul. Separate component accounting is more rigorously applied and broader under IFRS than under Canadian GAAP. Manitoba Hydro may need to further componentize their PP&E when adopting IFRS. ▪ Collecting details to apply the IFRS components approach may require in-depth technical knowledge of the assets both within and outside of the accounting department and be time-consuming to implement initially and on a go-forward basis. ▪ Alongside component accounting, IFRS has specific guidance around the accounting for replacing components. If an entity recognizes in the carrying amount of an item of PP&E the cost of a replacement for part of the item, then it derecognizes the carrying amount of the replaced part regardless of whether the replaced part had been depreciated separately. Canadian GAAP is silent and differences in practice occur. Manitoba Hydro's practices will need to be revisited upon transition to IFRS. ▪ IFRS requires that the carrying amount of an item of PP&E be derecognized on disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from the derecognition of an item shall be included in profit or loss when the item is derecognized. ▪ IFRS requires single item depreciation but allows for a pooling of assets in certain circumstances. The method used by Manitoba Hydro to depreciate its PP&E may not be acceptable under IFRS and will need to be reconsidered. ▪ Effective in 2009, IAS 23 (revised in 2007) will require borrowing costs directly
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Potential Impact	P&L	Balance Sheet	Disclosure	Difficulty	Comments
					attributable to the acquisition of "qualifying" assets to be capitalized. IFRS has more specific guidance around the types of costs to be capitalized and the timing of when capitalization should commence and terminate. For example, IAS 23 specifies that a qualifying asset is an asset that necessarily takes a "substantial period of time" to get ready for its intended use or sale. Manitoba Hydro will need to review its policies in this area to ensure compliance with IFRS upon transition. ▪ Assets acquired or constructed with financial assistance in the form of capital contributions from customers are treated as a contra account under Canadian GAAP. The IFRIC issued recently a draft D24 – *Customer Contributions*: The proposal is that the asset contributed should be measured at fair value and a corresponding obligation be established. The obligation shall be reduced and revenue recognized over the period which the entity has an obligation to continue to provide access to the network, not exceeding the economic life of the asset. Upon transition, customer contributions may be required to be reclassified to provisions. This guidance is, however, being further considered by IFRIC. ▪ The estimated service lives and removal costs of the assets are based upon depreciation studies conducted periodically by Manitoba Hydro. IFRS requires estimates of useful life and residual value and the method of depreciation to be reviewed at least at each annual reporting date. ▪ Subsequent to initial recognition, IFRS permits companies to revalue a class of PP&E to fair value if fair value can be measured reliably. If an asset's carrying amount is increased as a result of a revaluation, the increase shall be credited directly to equity under the heading of revaluation surplus along with corresponding increases in future depreciation.
First-time Adoption of IFRS					▪ IFRS 1 sets out all transitional requirements and exemptions available on first-time adoption of IFRS as well as additional disclosures/reconciliations requirements. ▪ An opening balance sheet is prepared at the date of transition to IFRS. ▪ Accounting policies are chosen from IFRS in effect at the reporting date and are generally applied retrospectively. ▪ In selecting IFRS accounting policies, Manitoba Hydro has the option to evaluate its current financial reporting and make accounting policy decisions that could significantly affect its future financial reporting. ▪ In addition to the selection of IFRS accounting policies, there are several transitional decisions to be considered. These decisions include the careful consideration of 14
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Potential Impact	P&L	Balance Sheet	Disclosure	Difficulty	Comments
					elective exemptions available under IFRS 1. With these elective exemptions Manitoba Hydro can avoid the otherwise required full retrospective application of IFRS, which can significantly affect its conversion efforts. ▪ The most significant of these elective exemptions that Manitoba Hydro may wish to avail itself of are: – the option to eliminate all unamortized pension fund actuarial gains/losses on transition – the option to adopt the new IAS 23 *Borrowing Costs* prospectively and reverse, rather than restate, the interest costs capitalized on items of PP&E – the option to avoid the restatement of past business combinations – the option to use fair value at the date of transition as deemed cost for individual items of PP&E rather than reconstructing the cost base of assets under IFRS – the option to designate any financial asset or liability as at fair value through profit & loss and any financial asset as available-for-sale at transition date. ▪ Under a mandatory IFRS 1 exemption, Manitoba Hydro will need to review its hedge accounting to ensure hedge relationships continue to meet the conditions for hedge accounting at the transition date ▪ The disclosure requirements of IFRS 1 are onerous and need to be carefully considered in your project plan. Your first IFRS financial statements will require full disclosure of the IFRS accounting policy choices, elective exemptions taken, as well as detailed historical reconciliations of previously reported Canadian GAAP earnings and equity to that reported under IFRS. ▪ In September 2008, an Exposure Draft was issued that proposed additional exemptions to IFRS 1, including: – a rate regulated entity could elect to use the carrying amount of items of property, plant and equipment held, or previously held, for use in such operations as their deemed cost at the date of transition to IFRS if both retrospective restatement and using fair value as deemed cost are impracticable. ▪ Manitoba Hydro will need to be flexible in its transition plans, as it is unlikely the final amendments, if passed, will be available until late in 2009. Furthermore there is concern that the proposed amendment for the rate regulated entities will not be effective since the impractability test is an onerous test to satisfy.

Regulatory Assets and Liabilities

Potential Impact	P&L	Balance Sheet	Disclosure	Difficulty
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Comments

- Regulatory accounting is generally not applied under IFRS at this time. IFRS does not, however, preclude the recognition of regulatory assets and liabilities. IFRS requires entities to apply existing standards, including the IFRS *Framework*, carefully to the items they are considering recognizing. IFRS does not permit the automatic application of the US GAAP model for regulatory accounting, as it is not fully compliant with the IFRS *Framework*. In order for assets or liabilities to be recognized under IFRS, they must meet the definition of an asset or a liability.
  - "An asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity."
  - "A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits."
- In December 2008, the IASB decided to add to its agenda a project on rate-regulated activities. The issue to be examined is whether regulated entities could or should recognize an asset or a liability as a result of rate regulation imposed by regulatory bodies or governments.

Intangible Assets

Potential Impact	P&L	Balance Sheet	Disclosure	Difficulty
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Comments

- IFRS specifically prohibits the capitalization as intangible assets of: "research" type costs, including costs to develop customer lists, start-up costs, and expenditures incurred on training or advertising and promotional activities. Canadian GAAP currently does not have a specific prohibition on costs to develop customer lists or expenditures incurred on training or advertising and promotional activities. Manitoba Hydro should review its practices for capitalizing such amounts
- Manitoba Hydro will also need to review whether certain items currently included in PP&E should be more appropriately classified and measured as intangible assets (e.g. rights of way, easements).
- The company should prioritize this review as these differences will be eliminated upon adoption of the new CICA requirements for intangible assets effective for Manitoba Hydro April 1, 2009.

Employee Benefits

Potential Impact	P&L	Balance Sheet	Disclosure	Difficulty
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Comments

- Manitoba Hydro provides employee future benefits, including pension and other post-retirement benefits, to both existing and retired employees, through various plans (CSSB, EBBP, Centra Gas). The EBBP is a defined benefit pension plan with multiple participating employers. Many differences exist when accounting for defined benefit plans under IFRS as compared to Canadian GAAP.

Potential Impact	P&L	Balance Sheet	Disclosure	Difficulty	Comments
					▪ The multi-employer defined benefit plan (EBBP) may need to be accounted for as defined benefit plans if sufficient information exists. ▪ If an entity applies defined contribution plan accounting to a multi-employer defined benefit plan and there is an agreement that determines how a surplus in the plan would be distributed or a deficit in the plan funded, then an asset or liability that arises from the contractual agreement is recognized. ▪ Past service costs are recognized on a straight-line basis over the expected future years of service of active participants under Canadian GAAP, whereas under IFRS these should be recognized immediately if vested and on a straight-line basis over the average remaining vesting period if unvested. This can increase the volatility in the income statement depending on Manitoba Hydro's practice of granting such benefits to its employees or retirees. ▪ Differences exist with respect to the calculation of the asset ceiling. Under IFRS there are certain limitations around the amount of changes in valuation allowance to be recognized immediately in net income when changes arise from actuarial losses in the period. ▪ The use of market-related values to calculate the expected return on plan assets is not permitted under IFRS; the expected return on plan assets must be calculated based on the fair value of plan assets. Manitoba Hydro currently uses market-related values. ▪ IFRS provides a number of accounting policy choices for recognition of actuarial gains and losses. Manitoba Hydro can choose to record all actuarial gains and losses directly in equity on an ongoing basis, it can choose the corridor method, or it can choose another method that will result in faster recognition in the income statement than the corridor method. Additionally, IFRS requires the use of a consistent policy for accounting for actuarial gains and losses from plan to plan. ▪ IFRS 1 allows companies to reset unamortized actuarial gains and losses for all defined benefit plans to zero on transition against opening retained earnings. Past service costs do not qualify for this exemption. Given the difficulties in retroactively applying IFRS, many companies availed themselves of this first time adoption exemption. Manitoba Hydro should assess this option on transition, including the impact to equity and future earnings. ▪ Manitoba Hydro will also need to review accounting policies for other employee future benefits currently recorded and amortized through deferred charges upon transition to IFRS.

Potential Impact	P&L	Balance Sheet	Disclosure	Difficulty	Comments
Asset Retirement Obligations (AROs)					▪ Manitoba Hydro has recognized AROs under Canadian GAAP for the decommissioning of two thermal generating stations and for the removal and disposal of PCBs in HVDC converter station capacitors. ▪ Canadian GAAP requires a provision for asset retirement obligations only when there is a legal obligation. The definition of a provision is broader under IFRS and requires a liability to be recorded for constructive obligations as well as for legal obligations. A constructive obligation is an obligation that derives from an entity's actions where: (a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and (b) as a result the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities. ▪ Further, IFRS differs in respect of the timing of recognition in that obligations are only recognized to the extent they are probable of occurring. Whereas under Canadian GAAP, all asset retirement obligations are recognized at fair value regardless of the likelihood of them occurring. Uncertainties around whether or not the obligation will occur are factored into the measurement of the obligation under Canadian GAAP. ▪ Under IFRS, the basis of measurement also differs in that asset retirement obligations are measured at management's best estimate of the expenditure required to settle the obligation at the balance sheet date; whereas these obligations are measured based on fair value under Canadian GAAP. Further, changes in the estimated amount of the obligation are treated differently. Specifically, IFRS requires the obligation to be remeasured each period for changes in the discount rate. Changes in the discount rate alone are not remeasurement events under Canadian GAAP and changes in estimate are treated differently depending on whether the change results in an increase or decrease to the obligation. ▪ IFRS states that in the extremely rare case where no reliable estimate can be made - then that liability is disclosed as a contingent liability. ▪ Manitoba Hydro will need to review whether additional obligations will be recognized on transition and whether adjustments to the carrying amounts of existing obligations may be required.
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Financial Instruments – Recognition & Measurement & Hedging					▪ Canadian GAAP for financial instruments and hedging has recently been substantially converged with IFRS. There are, however, a number of differences, and given the complexity of Manitoba Hydro's financial instruments, the applicability of each should be evaluated.
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Potential Impact	P&L	Balance Sheet	Disclosure	Difficulty	Comments
					▪ Manitoba Hydro uses various derivatives to hedge its exposure to gas price risk (swaps, call options and cashless collars) and also participates in various energy trading activities (e.g. renewable energy credits; Financial Transmission Rights; Ancillary services market). In addition, under its Exposure Management Program, Manitoba Hydro hedges exposure to foreign exchange risk on U.S. denominated sales and cash flow hedge accounting is applied. There are some differences between IFRS and Canadian GAAP in respect of hedging. For example, under IFRS, the use of the short-cut method or critical terms match is not permitted and hedge effectiveness must be measured. This may require modification to existing hedge documentation prior to the transition date. ▪ Differences exist with the accounting for hedges of anticipated transactions when there are delays in the hedged transaction. Canadian GAAP permits a 2-month grace period before accumulated gains and losses from the hedging relationship must be recognized in profit or loss. Under IFRS, if the anticipated transaction is not expected to occur within the original time period or a relatively short period thereafter (a period that will be less than two months), then accumulated gains and losses are recognized in profit or loss. ▪ Canadian GAAP requires that contracts to buy or sell non-financial items should be accounted for as financial instruments (i.e., non-financial derivatives). However, contracts that were entered into and continue to be held for the purpose of receipt or delivery of a non-financial item in accordance with the entity’s expected purchase, sale or usage requirements are not required to be accounted for as non-financial derivatives provided there is appropriate documentation supporting the fact that the purpose of the contracts is for receipt or delivery of a non-financial item in accordance with its expected purchase, sale or usage requirements (i.e., the “normal purchase/sale” exemption). If there is no documentation to support the normal purchase/sale exemption, the contracts are accounted for as derivatives. Such documentation requirements are not prescribed under IFRS. Hence the normal purchase/sale exemption is elective under current Canadian GAAP, but not elective under IFRS. ▪ Certain differences can exist on the initial classification of financial instruments. Manitoba Hydro should re-evaluate these classifications upon transition. ▪ There are also different requirements for the accounting for foreign currency translation gains and losses relating to monetary assets that are classified as Available-For-Sale (AFS). Under Canadian GAAP, the entire change in fair value of a monetary AFS asset, including foreign exchange gains and losses, is recognized directly in other

Potential Impact	P&L	Balance Sheet	Disclosure	Difficulty	Comments
					comprehensive income. Under IFRS, such foreign exchange gains and losses are required to be recognized in the income statement. Accordingly, Manitoba Hydro will need to review the accounting for the changes in fair value of its U.S. sinking fund investments. ▪ IFRS requires impairment losses to be reversed if the circumstances giving rise to the impairment change in the future. Under IFRS reversal of impairments are recorded immediately in profit or loss, except for available-for-sale equity securities for which the reversal is recorded through equity. Reversal of impairment losses under Canadian GAAP are prohibited, except in the case of loan losses.
Financial Instruments – Disclosures					▪ Canadian GAAP for Financial Instruments - *Disclosures* will be converged with IFRS and will be applicable to Manitoba Hydro for fiscal 2009 with the implementation of CICA Sections 3862 and 1535. ▪ The objective of the new Section 3862 is to require entities to provide disclosures in their financial statements that enable users to evaluate: (a) the significance of financial instruments for the entity's financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks. ▪ The disclosure requirements focus on the risks that arise from financial instruments. These risks typically include credit risk, liquidity risk in addition to market risk. ▪ Qualitative disclosure: for each type of risk arising from financial instruments, Manitoba Hydro shall disclose (a) the exposure to risk and how they arise; (b) its objectives, policies and processes for managing the risk and the methods used to measure the risk; and (c) any changes in (a) or (b) from the previous period. ▪ Quantitative disclosure: for each type of risk arising from financial instruments, Manitoba Hydro shall disclose (a) summary quantitative data about its exposure to that risk at the balance sheet date, including sensitivity analysis. This disclosure shall be based on the information provided internally to key management personnel of the entity; (b) concentrations of risks if not apparent from (a). ▪ The objective of the new Section 1535 – *Capital Disclosures* is to require entities to provide disclosures in their financial statements that enable users to evaluate objectives, policies and processes for managing financial capital. Manitoba Hydro will need to review their existing disclosures to assess their compliance with the new standard.
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Potential Impact	P&L	Balance Sheet	Disclosure	Difficulty	Comments
Provisions and Contingencies					▪ The threshold for recognizing a provision under IFRS is lower than Canadian GAAP as probable is defined under IFRS as "more likely than not" and IFRS requires recognition of constructive obligations. Examples of where constructive obligations sometimes reside can include AROs and obligations under employee benefit plans. ▪ Measurement differences also exist between the two standards. For example, under IFRS, provisions are measured based on management's best estimate of the amount required to settle the obligation; whereas Canadian GAAP requires measurement based on a reasonable estimate of the amount to be paid, other than where specifically required to be measured at fair value in certain circumstances. Also, under IFRS, discounting is required on all provisions where the effect of the time value of money is material. The unwinding of the discount in subsequent periods is presented as interest expense rather than as operating expense. Provisions must be remeasured when discount rates change. ▪ Under IFRS, when a range of estimates exists, and no single estimate within the range is better than another, the obligation is measured at the mid-point of the range, rather than the low end of the range as required by Canadian GAAP. A range of estimates is often encountered with legal claims and can introduce additional volatility in reported earnings period over period. ▪ Provisions for loss-making executory contracts (i.e. onerous contracts) are also required under IFRS. For example, for losses on subleases that are considered onerous, a provision would be required to be set-up under IFRS. Manitoba Hydro will need to evaluate its agreements such as long-term purchase and supply contracts and various leasing arrangements to assess whether provisions would be required under IFRS.
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Impairment					▪ IFRS contains a single comprehensive impairment standard under which assets are tested for impairment either individually or within cash-generating units (CGUs). ▪ Establishing CGUs is the most difficult part of the standard. IFRS requires management to identify CGUs based on the smallest group of assets that is capable of generating largely independent cash inflows, which may differ from asset groups under Canadian GAAP. CGUs may be identified for each production plant, each transmission network, each distribution network, or another basis, depending on the company's facts and circumstances. ▪ With respect to goodwill, a CGU is not necessarily the same as a reporting unit or asset group identified under Canadian GAAP. Typically CGUs are identified at a lower level within the organization than reporting units which may result in more
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Potential Impact	P&L	Balance Sheet	Disclosure	Difficulty	Comments
					frequent impairment charges under IFRS. ▪ Impairment charges relating to long lived assets may be more frequent under IFRS as the cash flow test for recoverability is based on discounted cash flows. Under Canadian GAAP recoverability of long lived assets is initially assessed using undiscounted cash flows. Also there is a presumption under IFRS that the growth rate used in extrapolating the cash flow projections beyond a five year period is generally not reliable and therefore a steady or declining growth rate should be used. ▪ Differences exist when measuring an impairment charge. For assets other than goodwill, Canadian GAAP requires measurement based on fair value; whereas IFRS uses the recoverable amount, which is the higher of fair value less costs to sell and value in use for all assets or CGUs. ▪ Under IFRS, reversal of impairment charges other than for goodwill is required if the circumstances / estimates leading to the impairment have changed. Such recoveries are prohibited under Canadian GAAP
Consolidation					▪ IFRS requires the use of consistent accounting policies across subsidiaries, equity-method investees and joint ventures. Manitoba Hydro will need to review the accounting policies of its subsidiaries and align accounting policies where applicable. ▪ Under IFRS, non-controlling interests in the balance sheet are classified within equity and presented as an allocation of net profit or loss in the income statement rather than as a deduction in arriving at profit or loss.
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Presentation of the Statement of Operations					▪ IFRS requires expenses to be presented either by nature or by function on the face of the statement of operations or in the notes (in practice, this is presented most often on the face of the statement). Therefore, the format of Manitoba Hydro's statement of operations will need to be reviewed in advance upon transition to IFRS. ▪ Finance income and expense is presented separately under IFRS.
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Related Parties					▪ IFRS has no special recognition or measurement requirements for related party transactions, unlike Canadian GAAP. Related party transactions are recognized and measured in accordance with the applicable accounting sections, and subject to the requirements of both the relevant accounting standard and disclosure required in the related party standard. ▪ Both IFRS and Canadian GAAP require extensive disclosure of related party transactions. IFRS also requires disclosure of the compensation of key management personnel for each of the following categories: employee benefits, post-employment
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Potential Impact	P&L	Balance Sheet	Disclosure	Difficulty	Comments
					benefits, other long-term benefits, termination benefits and share-based payments.
Lease Accounting					▪ Manitoba Hydro has long-term supply agreements for wind generation and for transportation and storage of gas. Upon transition to IFRS, Manitoba Hydro will have to determine whether these arrangements contain a lease in accordance with IFRIC 4 / IAS17. ▪ IFRS gives primary indicators for which the presence of any one indicator would point to classification as a finance lease. These primary indicators are the same as those under Canadian GAAP; however, they are not necessarily interpreted as “bright line” rules, but rather, as guidelines. IFRS also provides additional indicators, beyond those explicitly addressed in Canadian GAAP, which may lead to the conclusion that the lease is a finance lease. Some of these secondary indicators include the lessor’s losses associated with the cancellation of a lease being borne by the lessee, changes in the fair value of the residual being borne by the lessee and bargain renewal options. Further, there can be differences in the way the present value of the minimum lease payments is calculated. Arrangements such as power/gas purchase and sale agreements will need to be analyzed under IFRS. In addition, Manitoba Hydro will need to reassess existing lease classifications at the IFRS transition date based on circumstances existing at the inception of the lease, and at the date the agreement was modified, if applicable. ▪ The IASB currently has a project on leases which proposes substantial change to lessee accounting, expected to be effective in 2013. A Canadian entity can address these changes subsequent to 2011. The extent of change in 2011 is expected to be less significant.
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Revenue					▪ Revenue recognition guidance under IFRS is less detailed and requires more judgment in its application. IAS 18 addresses revenue recognition for the sale of goods, rendering of services and the use of an entity’s assets by another party. If IAS 18 does not apply to a specific situation, other authoritative literature can be applied as long as it is not inconsistent with the IASB framework. ▪ Manitoba Hydro should review its revenue recognition policies, including accounting for gas distribution agreements, power sale agreements, and any multiple element arrangements, to ensure they comply with IFRS, or assess whether there are any benefits to modifying its policies on adoption of IFRS.
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