Rating Report

The Manitoba Hydro-Electric Board

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Insight beyond the rating.

Ratings

Debt	Rating	Trend
Long-Term Obligations	A (high)	Stable
Short-Term Obligations	R-1 (middle)	Stable

Note: These Obligations are based on the status of the Manitoba Hydro-Electric Board as a Crown agent of the Province of Manitoba and the unconditional guarantee provided by the Province on Manitoba Hydro's third-party debt, and thus reflect the Province's debt ratings.

Rating Update

DBRS Limited (DBRS) has updated its report on the Manitoba Hydro-Electric Board (Manitoba Hydro or the Utility). The ratings assigned to the Utility's Long-Term Obligations and Short-Term Obligations are a flow-through of the ratings of the Province of Manitoba (the Province; rated A (high) and R-1 (middle) with Stable trends by DBRS). Pursuant to *The Manitoba Hydro Act*, the Province unconditionally guarantees almost all of Manitoba Hydro's outstanding third-party debt (please see the *DBRS Criteria: Guarantees and Other Forms of Support* methodology for further details). The Province also provides most of the Utility's financing through provincial advances (approximately 99% of total debt as at March 31, 2016). DBRS considers Manitoba Hydro to be self-supporting, as it is able to fund its own operations and service debt obligations.

In early 2016, Manitoba Hydro engaged the Boston Consulting Group to conduct a review of its financial, operating and capital plans, with particular focus on the Bipole III Transmission Reliability Project (Bipole III), the Keeyask Infrastructure and Generating Station Project (the Keeyask Project) and the Manitoba-Minnesota Transmission Project (MMTP). The results, issued in September 2016 (the BCG Report), concluded that although the decision to proceed with the Keeyask Project was imprudent as some major risks were not fully considered, the best path forward was to continue construction on all three projects. The BCG Report noted, however, that total cost overruns of $1 billion could occur along with possible delays to the in-service dates of 12 months for Bipole III and 21 months for the Keeyask Project. The BCG Report also noted the rising leverage at the Utility as a result of the substantial capex; debt-to-capital at Manitoba Hydro had risen to 83% at F2016 and had been expected to peak at 88%, significantly above the target capital structure of 75% debt. A new board appointed at Manitoba Hydro in 2016 intends to limit the deterioration in the Utility's balance sheet. As a result, the Utility has begun reviewing initiatives to help alleviate pressure on its key financial ratios, such as improving operational efficiencies, requesting annual rate increases higher than the previously planned 3.95%, as well as a potential equity injection from the Province. DBRS sees these initiatives, if actualized, as positive to Manitoba Hydro's financial profile, as they will provide some financial flexibility for the Utility, especially in the event of adverse drought conditions or further cost overruns on the projects.

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Financial Information

The Manitoba Hydro-Electric Board — For the year ended March 31 [1]

(CAD millions where applicable)	2016	2015	2014	2013	2012
Total debt in capital structure [2]	83.0%	81.3%	79.4%	78.5%	77.9%
Cash flow/Total debt	5.4%	5.3%	6.4%	6.1%	6.3%
EBIT gross interest coverage (times)	0.91	1.07	0.96	0.89	0.80
Net income before non-recurring items	55	145	178	92	61
Cash flow from operations	791	665	691	589	567

1 2015 to 2016 based on IFRS; 2012 to 2014 based on Canadian GAAP. 2 Adjusted for other comprehensive income.

Issuer Description

The Manitoba Hydro-Electric Board, a wholly owned Crown corporation of the Province of Manitoba, is a vertically integrated electric utility that provides generation, transmission and distribution of electricity to approximately 567,634 customers throughout Manitoba, and natural gas service to approximately 276,858 customers via its subsidiary, Centra Gas Manitoba Inc. The Utility also exports electricity to more than 25 electric utilities through its participation in four wholesale markets in Canada and in the Midwestern United States.

Rating Update (CONTINUED)

DBRS continues to view Manitoba Hydro as self-supporting, as its earnings and cash flows continue to be sufficient to cover its operating expenses and to service its outstanding debt. However, DBRS could consider reclassifying a portion of the Utility's debt to be tax-supported should the financial health of the Utility deteriorate to the point where its expenses cannot be recovered through rates. If this were to occur, it could potentially put downward pressure on the Province's credit rating. Similarly, a large equity injection by the Province that materially increases tax-supported debt could also put downward pressure on the Province's credit profile. At this time, however, DBRS expects the Province's ratings to remain stable.

Rating Considerations

Strengths

1. Debt is a direct obligation of the Province
Manitoba Hydro is an agent of the Crown, and its debt securities, except for $65 million of Manitoba Hydro-Electric Board Bonds (less than 1% of total debt at March 31, 2016), are held or guaranteed by the Province; therefore, the ratings assigned to Manitoba Hydro's obligations are a flow-through of the ratings assigned to the Province.

2. Low-cost hydro-based generation
Low-cost hydroelectric-based generating capacity results in one of the lowest variable cost structures in North America, which has enabled Manitoba Hydro to provide electricity to its domestic customers at one of the lowest rates on the continent. This gives the Utility the flexibility to increase rates in the future, especially in light of the substantially heightened capex requirements.

3. Access to export markets
Manitoba Hydro's interconnections (approximately 43% of installed capacity), with firm export transfer capability of 2,100 megawatts (MW) to the United States, 175 MW to Saskatchewan and 200 MW to Ontario, along with additional non-firm transfer capability, provide the Utility with access to favourable export markets. The interconnections also provide a secure supply of electricity for domestic customers during times of poor hydrology.

Challenges

1. High leverage
Leverage at Manitoba Hydro has been increasing over the past years as a result of the significant capital projects currently being undertaken. As such, the debt-to-capital ratio reached 83% at F2016, above the target capital structure of 75% debt. The Utility had forecast leverage to peak at 88% when the Keeyask Project is brought in service, but with the possibility of cost overruns and delays detailed in the BCG Report for Bipole III and the Keeyask Project, leverage could potentially further increase if mitigants are not enacted. The Utility is currently reviewing potential initiatives, such as requesting higher rate increases or an equity injection from the Province, which could help alleviate pressure on its key financial ratios.

2. High level of planned capex
The Utility is currently undergoing a period of substantial capex, with major projects that include Bipole III (total capex of approximately $4.65 billion) and the Keeyask Project (total capex of approximately $6.5 billion). As a result, capex for the Utility had been forecast to average approximately $2.4 billion per year before falling to $900 million beginning in F2022. However, the BCG Report notes that total capex for Bipole III could increase to $5 billion, while the Keeyask Project could reach $7.8 billion. As such, average capex for the medium term may continue to climb and further pressure the already high debt levels.

3. Hydrology risk
Given that approximately 92% of Manitoba Hydro's installed generating capacity is hydroelectricity-based, earnings and cash flows are highly sensitive to hydrological conditions. The Utility is also exposed to significant price and volume risk because of its export commitments under the fixed price-to-volume contract, which may require the Utility to procure power supply from import markets if hydrological conditions are unfavourable.

Major Projects (Under Construction and Planned)

Project	Estimated Cost ($ millions)	Planned Construction Start Date	In-Service Target Date
Bipole III Transmission Reliability Project	4,650	2013	2019
Keeyask Infrastructure and Generating Station Projects	6,500	2014	2021
Manitoba-Minnesota Transmission Project	450	2017	mid-2020

- **Bipole III**: This project involves the construction of a 500-kilovolt (kV) high-voltage direct current transmission line, along with new converter stations. Construction began during winter 2013/2014, and the transmission line is expected to be in service for 2018. The BCG Report noted that the cost for the project may increase to approximately $5 billion with the in-service date delayed until mid-2019.
- **Keeyask Project**: This project includes the development of a 695 MW generation station on the Nelson River. Construction began in July 2014; the first generator is expected to be in service for 2019 and the remaining units are expected to be in service by 2021. The BCG Report noted that the cost for the project may increase to approximately $7.8 billion with the in-service date delayed until mid-2021.
- **MMTP**: This proposed project involves the construction of a 500 kV alternating current transmission line from Winnipeg to the Manitoba-Minnesota border, where it will interconnect with the Great Northern Transmission Line (GNTL) to be built by Minnesota Power. The Province authorized Manitoba Hydro to proceed with the project in July 2014, and the Utility filed an Environmental Impact Statement in September 2015, which began the formal regulatory review process. Minnesota Power has received all major regulatory approvals for the GNTL including a Presidential Permit, and expects to start construction early in 2017.

Earnings and Outlook

(CAD millions where applicable)	2016	2015	2014	2013	2012
	For the year ended March 31 [1]				
Total electricity revenues	1,791	1,812	1,861	1,733	1,573
Net gas revenues	172	161	163	147	132
Total revenues	**1,963**	**1,973**	**2,024**	**1,880**	**1,705**
EBITDA	983	990	1,068	991	865
EBIT	595	621	626	568	484
Gross interest expense	654	581	654	636	603
Earning before taxes	45	134	156	79	61
Net income before non-recurring items	55	145	178	92	61
Reported net income	49	136	174	92	61
Return on equity [2]	1.9%	5.0%	6.6%	3.5%	2.4%

1 2015 to 2016 based on IFRS; 2012 to 2014 based on Canadian GAAP. 2 Adjusted for other comprehensive income.

F2016 Summary

- Earnings declined in F2016 as milder winter temperature for the period reduced revenues from both the domestic electric and natural gas segments, while depreciation and interest expense rose from the continued high capex.
  - This was slightly offset by a 3.95% rate increase effective August 1, 2015.

F2017 Outlook

- Manitoba Hydro has forecast earnings in F2017 to remain low, with expected net income of approximately $25 million. While rates increased by 3.36% effective August 1, 2016, this will likely be more than offset by rising depreciation and interest costs.
  - The Utility had requested a rate increase of 3.95% effective April 1, 2016. The delay in implementation and lower approved increase will also have a negative impact on earnings.
- DBRS expects the Utility's profitability to remain challenged over the medium term as the Utility continues to invest significant amounts for Bipole III and the Keeyask Project. However, the new board at Manitoba Hydro appointed earlier in 2016 intends to improve leverage at the Utility back to the target debt-to-capital ratio of 75%.
  - While Manitoba Hydro had planned to file for more moderate annual rate increases of 3.95% until F2029, the Utility is currently considering requesting higher rate increases for the next few years to help improve the leverage ratio. DBRS had noted that rate increases of 3.95% were expected to be insufficient for Manitoba Hydro to recover costs related to major projects for the medium term.
  - Other initiatives include the plan to reduce the workforce (approximately 6,000 employees), largely through attrition and managing vacancies, to help contain operating costs at the Utility.

Financial Profile

(CAD millions where applicable)	2016	2015	2014	2013	2012
	For the year ended March 31 1				
Cash receipts from customers	2,298	2,359	2,176	2,015	1,998
Cash paid to suppliers and employees	(950)	(1,203)	(1,053)	(981)	(1,048)
Interest paid	(580)	(517)	(502)	(489)	(418)
Interest received	23	26	70	44	35
Cash flow from operations	**791**	**665**	**691**	**589**	**567**
Dividends paid	0	0	0	0	0
Capital expenditures	(2,280)	(1,730)	(1,394)	(1,037)	(1,124)
Free cash flow	**(1,489)**	**(1,065)**	**(703)**	**(448)**	**(557)**
Acquisitions & investments	(89)	(105)	(103)	(98)	(90)
Net sinking fund withdrawals/(payments)	114	(3)	206	22	(75)
Net debt change	1,803	1,556	707	565	673
Other	123	(31)	3	(59)	29
Change in cash	**462**	**352**	**110**	**(18)**	**(20)**
Total debt (net sinking fund investments)	14,527	12,566	10,757	9,633	9,010
Cash and equivalents	953	487	142	32	50
Total debt in capital structure 2	83.0%	81.3%	79.4%	78.5%	77.9%
Cash flow/Total debt	5.4%	5.3%	6.4%	6.1%	6.3%
EBIT gross interest coverage (times)	0.91	1.07	0.96	0.89	0.80
Dividend payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%

1 2015 to 2016 based on IFRS; 2012 to 2014 based on Canadian GAAP. 2 Adjusted for other comprehensive income.

F2016 Summary

- Manitoba Hydro's key financial ratios weakened in F2016 largely because of the increase in debt to fund the large capex requirements.
- Cash flow from operations increased in F2016 from higher payable balances related to the capex projects and to the lower cost of gas and purchase gas costs caused by warmer weather.
- Gross capex of $2.4 billion included $872 million for Bipole III and $742 million for the Keeyask Project.
- The significant free cash flow deficit for the fiscal period was funded through advances from the Province.

F2017 Outlook

- Manitoba Hydro's key financial ratios are expected to remain weak for the medium term as it continues its large capex program. While the debt-to-capital ratio had been forecast to peak at 88% in F2022, the Utility is currently reviewing potential initiatives to help improve its financial health.
  - Manitoba Hydro is seeking to identify internal efficiencies to improve operating results.
  - The Utility may request higher annual rate increases than the planned 3.95% in order to improve its earnings and cash flows.
  - A potential equity injection from the Province would also help alleviate pressure on Manitoba Hydro's leverage.
- Manitoba Hydro has forecast capex of approximately $3.5 billion for F2017, including around $1.5 billion for Bipole III and $1.1 billion for the Keeyask Project.
  - The Utility had forecast capex to peak in F2017 and F2018 ($3.1 billion) when Bipole III comes in service. It had also forecast capex to moderate to around $900 million a year following the in-service date of the Keeyask Project in F2021.
  - However, the BCG Report estimates that an additional approximately $1 billion may be needed for the two projects to be completed. As well, the BCG Report also expects delays to the in-service date of the two projects.
- The high level of capex is expected to result in continued negative free cash flows, which will likely be funded through advances from the Province. Without a corresponding increase in equity, either through higher earnings or an equity injection from the Province, the increasing debt load could further weaken Manitoba Hydro's key financial ratios.
  - The Utility does have some financial flexibility, as it has no mandatory dividend payment requirements.

Long-Term Debt Maturities and Bank Lines

		For the year ended March 31		
Debt Profile (CAD millions)	**%**	**2016**	**2015**	**2014**
Advances from the Province	98.8%	14,437	12,485	10,683
Manitoba Hydro Bonds	0.2%	26	76	169
Manitoba Hydro-Electric Board Bonds*	1.0%	145	157	158
	100.0%	**14,608**	**12,718**	**11,010**
Other adjustments		(81)	(38)	(142)
Total		**14,527**	**12,680**	**10,868**

* Includes $65 million of unguaranteed bonds at March 31, 2016.

Debt Maturities

Year	**2017**	**2018**	**2019**	**2020**	**2021**	**Thereafter**	**Total**
(CAD millions)	326	331	996	345	1,299	11,311	**14,608**
%	2%	2%	7%	2%	9%	78%	**100%**

Summary

- The Province supports Manitoba Hydro by advancing funds or guaranteeing the Utility's long-term debt issuances. Long-term debt at March 31, 2016, consisted of the following:
  - $14,437 million in advances from the Province (all of which have annual sinking fund requirements).
  - $26 million of Manitoba Hydro Bonds.
  - $145 million of Manitoba Hydro-Electric Board Bonds.
- Only $65 million of Manitoba Hydro-Electric Board Bonds, which were issued for mitigation projects, do not carry the provincial guarantee.
- Manitoba Hydro maintains a relatively smooth maturity profile with potential volatility from foreign currency debt, mostly mitigated through natural and cash flow hedges and a moderate level of floating-rate debt (10% of total debt at March 31, 2016), which adds stability to debt servicing costs and minimizes interest rate risk.
- The Utility has bank credit facilities that provide for overdrafts and notes payable of up to $500 million denominated in Canadian and/or U.S. dollars. At March 31, 2016, there were no amounts outstanding. Manitoba Hydro issues short-term promissory notes in its own name for its short-term cash requirements and does not receive short-term funding from the Province. These short-term notes are guaranteed by the Province.

Regulation

Manitoba Hydro is governed by *The Manitoba Hydro Act*, and its electricity and natural gas rates are regulated by the Public Utilities Board (PUB).

Electricity

- Each year, Manitoba Hydro reviews its financial targets with particular focus on its debt-to-equity target capital structure of 75% to 25%. If the Utility deems a rate adjustment necessary to continue progress toward attaining its financial targets, it submits a rate application to the PUB.
- The PUB reviews the rate adjustment application with the objective of allowing Manitoba Hydro to recover its cost of service and achieve its long-term debt-to-equity target. The PUB does not have the mandate to pre-approve capex. The capex planning responsibility resides with Manitoba Hydro and the government of Manitoba.
- Manitoba Hydro submitted its 2015/16 & 2016/17 General Rate Application (GRA) in January 2015, requesting 3.95% rate increases effective April 1, 2015, and April 1, 2016.
  - The PUB advised the Utility that it would not set rates for 2016/17 as part of this application.
  - On July 24, 2015, the PUB finalized the previously approved interim rate increase of 2.75% effective May 1, 2014, and approved a 3.95% increase in rates effective August 1, 2015. In its decision, the PUB indicated that it would consider various options regarding a process to review rates effective for April 1, 2016.
  - For the 2015 rate increase, the PUB directed 1.80% of the revenues associated with the rate increase to be applied to general revenues, and for the remaining 2.15% to be placed in a deferral account to mitigate rate increases when Bipole III comes in service. This was similar to the PUB's direction for rate increases approved in 2013/14 and 2014/15, where a portion of the revenues was also allocated to the Bipole III deferral account.
- On November 18, 2015, the Utility submitted its Supplemental Filing for Interim Rates effective April 1, 2016, requesting a 3.95% general rate increase.
  - In April 2016, the PUB approved an interim rate increase of 3.36% effective August 1, 2016.
  - Manitoba Hydro expects to file its 2016/17 and 2017/18 GRA in early 2017.
- While Manitoba Hydro is the sole retail electricity supplier in Manitoba, under *The Manitoba Hydro Amendment Act* (the Act), other utilities may access the transmission system to reach customers in neighbouring provinces and states.
- The Act also explicitly allows Manitoba Hydro to build new generating capacity for export sales, to offer new energy-related services, to enter into strategic alliances and joint ventures, and to create subsidiaries.
- There are presently no plans to move to full retail competition in the Province.
- Manitoba retail customers currently enjoy rates that are among the lowest in North America as a result of Manitoba Hydro's predominantly hydroelectric generation and efficient resource management.

Natural Gas Distribution

- Manitoba Hydro distributes natural gas through its wholly owned subsidiary, Centra Gas Manitoba Inc. (Centra Gas). In accordance with the rate-setting methodology for natural gas, commodity rates are changed every quarter based on 12-month forward natural gas market prices.
  - The commodity cost of gas is a pass-through with no markup to customers.
  - Non-commodity costs, such as transportation and storage are also passed on.
- The PUB allows Centra Gas to target an annual profit of approximately $3 million, which is fairly modest compared with Manitoba Hydro's consolidated earnings.
- Centra Gas filed its 2015/16 Cost of Gas Application in June 2015, requesting, effective November 1, 2015, the approval of supplemental gas, transportation and distribution rates, including rate riders to dispose of balances in its non-Primary Gas deferral accounts.
  - In October 2015, the PUB approved, on an interim basis, new rates for supplemental gas, transportation and distribution, as well as rate riders to dispose of the balance in the non-Primary Gas deferral accounts.

Watershed Storage Capacity

Manitoba Hydro draws water from five distinct watersheds: Nelson River, Winnipeg River, Saskatchewan River, Churchill River (including the Laurie River) and Burntwood River. This provides the Utility with some geographic diversification, especially during times of low hydrology. The main generation source is the Nelson River, which accounted for approximately 78% of power generated in F2016.

Source of Electrical Energy Generated and Imported

For the year ended March 31, 2016

Nelson River	**78.32%**
Billion kWh generated	**28.1**
Limestone	25.26%
Kettle	24.04%
Long Spruce	20.08%
Kelsey	6.62%
Jenpeg	2.32%
Winnipeg River	**10.45%**
Billion kWh generated	**3.8**
Seven Sisters	3.21%
Great Falls	2.31%
Pine Falls	1.75%
Pointe du Bois	0.80%
Slave Falls	1.15%
McArthur	1.23%
Saskatchewan River	**4.25%**
Billion kWh generated	**1.5**
Grand Rapids	4.25%
Laurie River	**0.10%**
Billion kWh generated	**0.0**
Laurie River #1	0.05%
Laurie River #2	0.05%
Burntwood River	**4.10%**
Billion kWh generated	**1.5**
Wuskwatim	4.10%
Thermal	**0.16%**
Billion kWh generated	**0.1**
Brandon	0.14%
Selkirk	0.02%
Purchases (excl. wind)	**0.24%**
Billion kWh imported	**0.1**
Wind	**2.38%**
Billion kWh	**0.9**

Source: Manitoba Hydro

Favourable characteristics inherent in Manitoba Hydro's watersheds include the following:

- Cold temperatures reduce overall evaporation rates, as many of the reservoirs are frozen over for up to five months of the year.
- A significant portion of the watersheds consists of rock, which has lower seepage rates and higher runoff than predominantly soil-covered watersheds.
- Lake Winnipeg, Cedar Lake and Southern Indian Lake serve as large storage reservoirs. The Utility's water storage capacity is a competitive advantage in trading electricity (buying surplus U.S. power at low off-peak prices and selling its electricity during peak demand periods at higher prices).

In addition to its own generating stations in Manitoba, Manitoba Hydro purchases all electricity from two wind farms in southern Manitoba (St. Joseph and St. Leon). The installed capacity of these facilities is 258.5 MW. The Wuskwatim Generating Station is owned by the Wuskwatim Power Limited Partnership, in which Manitoba Hydro is the majority owner. Manitoba Hydro purchases all the electricity generated from the Wuskwatim Generating Station.

Generating Capacity

Manitoba Hydro's Generating Stations and Capabilities

For the year ended March 31, 2016

Power Station	Location	# of Units	Net Capacity (MW)
Hydroelectric			
Great Falls	Winnipeg River	6	129
Seven Sisters	Winnipeg River	6	165
Pine Falls	Winnipeg River	6	84
McArthur Falls	Winnipeg River	8	56
Pointe du Bois	Winnipeg River	16	75
Slave Falls	Winnipeg River	8	68
Grand Rapids	Saskatchewan River	4	479
Kelsey	Nelson River	7	286
Kettle	Nelson River	12	1,220
Jenpeg	Nelson River	6	115
Long Spruce	Nelson River	10	980
Limestone	Nelson River	10	1,350
Laurie River (2)	Laurie River	3	10
Wuskwatim	Burntwood River	3	211
Total Hydroelectric Generation		**105**	**5,228**
Thermal			
Brandon (coal: 93 MW, gas: 234 MW)		3	327
Selkirk (gas)		2	125
Total Thermal Generation		**5**	**452**
Isolated Diesel Capabilities			
Brochet			3
Lac Brochet			2
Shamattawa			3
Tadoule Lake			2
Total Isolated Diesel Generation			**10**
Total Generation Capacity			**5,690**

Source: Manitoba Hydro

The Manitoba Hydro-Electric Board [1]

Balance Sheet (CAD millions)	March 31 2016	2015	2014		March 31 2016	2015	2014
Assets				**Liabilities & Equity**			
Cash & equivalents	953	487	142	S.T. borrowings	0	0	0
Accounts receivable	372	427	520	Accounts payable	723	529	561
Inventories	117	99	81	Current portion L.T.D.	326	377	408
Prepaid expenses & other	43	54	0	Other current liab.	192	190	100
Total Current Assets	**1,485**	**1,067**	**743**	**Total Current Liab.**	**1,241**	**1,096**	**1,069**
Net fixed assets	17,208	15,222	13,627	Long-term debt (net sinking fund investments)	14,201	12,189	10,349
Goodwill & intangibles	301	290	281	Sinking fund investments	0	114	111
Investments & others	786	988	988	Other L.T. liab.	2,146	1,989	1,225
				Shareholders' equity	2,192	2,179	2,885
Total Assets	**19,780**	**17,567**	**15,639**	**Total Liab. & SE**	**19,780**	**17,567**	**15,639**

1 2015 to 2016 based on IFRS; 2014 based on Canadian GAAP.

Balance Sheet & Liquidity & Capital Ratios	For the year ended March 31 [1] 2016	2015	2014	2013	2012
Current ratio	1.20	0.97	0.70	0.48	0.65
Total debt in capital structure	86.9%	85.2%	78.9%	76.6%	75.8%
Total debt in capital structure [2]	83.0%	81.3%	79.4%	78.5%	77.9%
Cash flow/Total debt	5.4%	5.3%	6.4%	6.1%	6.3%
(Cash flow-dividends)/Capex	0.35	0.38	0.50	0.57	0.50
Dividend payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%
Coverage Ratios (times)					
EBIT gross interest coverage	0.91	1.07	0.96	0.89	0.80
EBITDA gross interest coverage	1.50	1.70	1.63	1.56	1.43
Fixed-charge coverage	0.91	1.07	0.96	0.89	0.80
Profitability Ratios					
Purchased power/Electricty revenues	6.5%	7.1%	8.6%	7.7%	9.3%
Operating margin	30.3%	31.5%	30.9%	30.2%	28.4%
Net margin	2.8%	7.3%	8.8%	4.9%	3.6%
Return on equity [2]	1.9%	5.0%	6.6%	3.5%	2.4%

1 2015 to 2016 based on IFRS; 2012 to 2014 based on Canadian GAAP. 2 Adjusted for other comprehensive income.

Rating History

	Current	2015	2014	2013	2012	2011
Long-Term Obligations	A (high)	A (high)	A (high)	A (high)	A (high)	A (high)
Short-Term Obligations	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (middle)

Note: These Obligations are based on the status of the Manitoba Hydro-Electric Board as a Crown agent of the Province of Manitoba and the unconditional guarantee provided by the Province on Manitoba Hydro's third-party debt, and thus reflect the Province's debt ratings.

Previous Action

- Confirmed, September 12, 2016.

Related Research

- *DBRS Confirms Province of Manitoba at A (high) and R-1 (middle)*, September 12, 2016.
- *Manitoba, Province of: Rating Report*, September 12, 2016.

Short-Term Promissory Notes Programme

- $500 million.

Previous Report

- Manitoba Hydro-Electric Board, The: Rating Report, November 26, 2015.

Notes:
All figures are in Canadian dollars unless otherwise noted.

For the definition of Issuer Rating, please refer to Rating Definitions under Rating Policy on **www.dbrs.com**.

Generally, Issuer Ratings apply to all senior unsecured obligations of an applicable issuer, except when an issuer has a significant or unique level of secured debt.

Rating Report

Province of Manitoba

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DBRS

Insight beyond the rating.

Ratings

Debt	Rating	Rating Action	Trend
Issuer Rating	A (high)	Confirmed	Stable
Long-Term Debt*	A (high)	Confirmed	Stable
Short-Term Debt*	R-1 (middle)	Confirmed	Stable

* Includes guaranteed long-term and short-term debt obligations issued by the Manitoba-Hydro Electric Board.

Rating Update

DBRS Limited (DBRS) has confirmed the Issuer Rating and the Long-Term Debt and Short-Term Debt ratings of the Province of Manitoba (Manitoba or the Province) at A (high), A (high) and R-1 (middle), respectively. All trends are Stable. The Province's credit profile continues to be supported by a stable, resilient and growing economy and a debt burden that remains commensurate with the ratings. Notwithstanding this stability, the Province's operating results have failed to improve in recent years, and without a concerted effort to reduce operating deficits and slow debt accumulation, the flexibility within the existing ratings may be eroded.

Preliminary results for 2015–16 indicate that the deficit widened significantly to $1.0 billion from a budgeted deficit of $422 million. On a DBRS-adjusted basis, which recognizes capital expenditures as incurred as opposed to as amortized, this equates to a deficit of $2.0 billion, or 2.8% of gross domestic product (GDP). As a result, DBRS-adjusted debt is estimated to have risen to $27.6 billion, or 42.0% of GDP, as of March 31, 2016.

The economic outlook for 2016 remains largely similar to previous years. The Province expects reasonably strong growth in both 2016 and 2017, though forecasts have weakened slightly since the time of the budget. The private sector consensus tracked by DBRS suggests growth of 2.2% and 2.1% in 2016 and 2017, respectively. Continued gains in manufacturing and export-oriented industries are expected to offset weakness in residential and non-residential investment.

Despite consistent economic growth in recent years, the Province has posted increasingly large operating deficits. The newly elected PC Government tabled a budget within six weeks of election night. As such, the budget focuses on the current year and the expenditure plan is consistent with that of prior years. The budget projects a deficit of $911 million, or $1.75 billion on a DBRS-adjusted basis (2.6% of GDP). Initial indications from the new government suggest a reluctance to raise taxes or make sharp and immediate spending reductions. The focus appears to be on continuing to invest in strategic infrastructure and slowing expenditure growth without significantly affecting front-line services. With this, the government has indicated that it is unlikely to balance the budget until its second term in office (i.e., it could take up to eight years). DBRS estimates the debt burden will rise to $30.1 billion, or 44.1% of GDP, by the end of 2016–17 and expects it could climb further in subsequent years, though the trajectory is uncertain in the absence of a more detailed multi-year fiscal plan.

A negative rating action is not expected in the near term, but could occur if operating results deteriorate significantly and the outlook for debt burden increases sharply. A positive rating action, while unlikely, would require a material improvement in operating results and a substantial reduction in the debt burden.

Financial Information

	For the year ended March 31				
(all financial figures DBRS adjusted)	2016-17B	2015-16F	2014-15	2013-14	2012-13
Debt/GDP 1	44.1%	42.0%	38.8%	37.3%	36.0%
Surplus (deficit)/GDP	(2.6%)	(2.8%)	(2.1%)	(2.1%)	(2.2%)
Federal transfers/total revenue	27.0%	26.0%	25.9%	27.2%	29.2%
Interest costs/total revenue	5.5%	5.4%	5.4%	5.4%	5.6%
Real GDP growth rate 2	2.4%	2.2%	2.3%	2.4%	3.0%

1 Tax-supported debt + unfunded pension liabilities. 2 GDP on a calendar year basis as forecast in the provincial budget.
B = Budget. F = Forecast.

Issuer Description

Manitoba is located in Central Canada and ranks fifth among Canadian provinces by population and sixth in terms of GDP. The Province is home to significant renewable energy resources, with almost all electricity generated from water.

Rating Considerations

Strengths

1. Diversified and resilient economy
Manitoba has one of the most resilient and diversified economies in the country. The Province has a mix of industries, including agriculture, mining, manufacturing, financial services and transportation, with no undue reliance on a particular industry. The Province has a relatively stable labour force characterized by low unemployment, and relatively strong population and labour force growth. The Province's interprovincial and international exports are relatively diversified in both composition and destination. With this broad diversification, the Province's economy tends to post stable growth and exhibit lower volatility than the economies of most other provinces.

2. Prudent debt management
Manitoba's debt burden has risen sharply in recent years, reaching 42% of GDP at March 31, 2016. Notwithstanding the increases, the debt burden remains commensurate with the ratings, and the Province's approach to debt management is prudent. The Province maintains a relatively smooth debt maturity profile, no unhedged foreign currency exposure and only a moderate level of floating-rate exposure. The Province also has good market access with well-established domestic and international borrowing programs.

3. Abundant low-cost hydroelectricity
Manitoba benefits from an abundance of low-cost hydroelectricity. The Province has among the lowest rates in North America, which gives Manitoba a distinct advantage when competing for new business investment in some industries.

Challenges

1. Substantial deficit
The Province has a large deficit and few substantial revenue options available to it. As such, the Province will likely face significant challenges over the medium term to return to balance without affecting front-line services.

2. Reliance on federal transfers
Federal transfers, including equalization, account for about one-quarter of provincial revenue. Outside of Atlantic Canada, Manitoba is the most reliant province on federal transfers, which exposes it to some risk of federal policy changes, though DBRS notes that material changes to the major transfer programs tend to be gradual and well communicated. Moreover, DBRS also notes that Manitoba's share of the equalization program has fallen in recent years, which reflects an improvement in the Province's fiscal capacity relative to the other provinces.

3. Below-average income and GDP per capita
Manitoba boasts a well-diversified economy and a healthy labour market, though the Province continues to have lower average incomes, which limits the ability of the Province to significantly increase own-source revenue. DBRS notes that the Province's economy has grown moderately in recent years, and this includes relatively strong growth in per-capital GDP.

2016–17 Budget

Exhibit #1: Surplus (deficit)/GDP

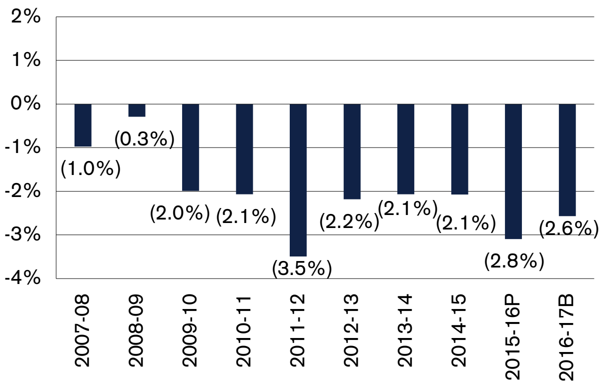
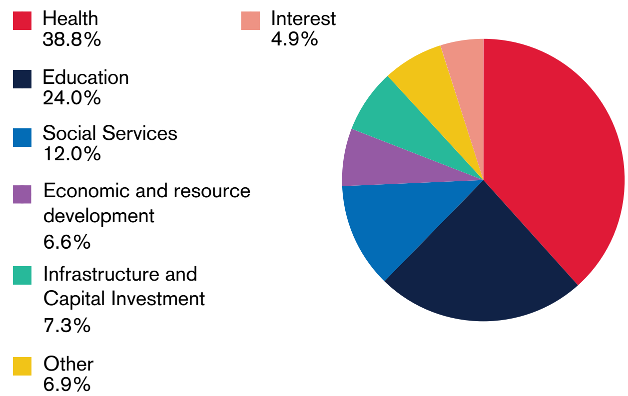


Exhibit #2: 2016-17 DBRS-Adjusted Expenditures



The newly elected Progressive Conservative government, led by Brian Pallister, introduced its first budget six weeks after being elected. The budget does not provide a multi-year outlook, but it does provide some insight into the government's longer-term fiscal and social policy objectives. Among its policy objectives, the budget speaks to restoring fiscal balance and discipline, limiting spending growth in core government, reviewing existing programs and continuing to invest in strategic infrastructure. A more substantive budget with a multi-year fiscal plan is expected in spring 2017.

The Province has projected a deficit of $911 million for 2016–17, which includes $150 million in unspecified revenue increases or expenditure savings. While it is a modest improvement over the prior year's preliminary result, it is one of the largest budget deficits for the Province and represents a significant challenge for the new government. On a DBRS-adjusted basis, the budget deficit equates to a $1.75 billion shortfall, or 2.6% of GDP.

Total DBRS-adjusted revenue is forecast to rise by 3.1% with moderate growth in tax revenue (+2.7%) and strong growth in federal transfers (+7.3%), which will offset some modest weakness in other own source revenue (-0.9%). Most of the revenue growth is attributable to underlying economic strength, though the government did begin to implement campaign promises with the partial indexation of the personal income tax system and the introduction of income testing for the Seniors' School Tax Rebate. Timing differences will provide a modest increase to revenue in 2016–17, but once fully implemented, the full-year net impact will be marginal.

Total DBRS-adjusted expenditures are budgeted to rise 1.1%, which includes a provision for $150 million in in-year savings. The budget includes fairly significant increases for health (+4.0%), education (+2.5%), social services (+4.6%) and justice (+3.1%). Much of the spending growth is being driven by both volume and cost pressures, though the Province has offset growth in these high pressure areas with significant reductions elsewhere in government, including economic development, general government and capital. As the spending plan has not significantly changed from previous years, it is likely that more substantive changes could be expected in the next budget, though the messaging from the elected government suggests a reluctance to significantly alter front-line services. The government has implemented an expenditure management process that could limit in-year spending increases and put a greater emphasis on doing more with less. While the potential savings may be limited, the new process does substantiate some of the shift in tone under the new government.

Capital investment remains significant but lower than in the prior year. The government will continue to invest in strategic infrastructure investments (e.g., roads, infrastructure, health care, education, etc.) and has committed to no less than $1 billion annually.

Outlook

The first budget was prepared quickly after the election and thus the spending plan was largely unchanged from previous years. DBRS expects the spring 2017 budget to provide greater clarity on the government's fiscal policy direction. The new government has emphasized its intention to restore the Province's finances but has indicated that it will be up to eight years before the budget is balanced. This reflects, in part, the limited revenue options available to the Province and the government's reluctance to adversely modify front-line services. As such, the strategy appears to be a slow grind back to balance, with the government seeking opportunities to slow expenditure growth, rationalize government services whenever possible.

To support this effort, the Province has initiated an enhanced expenditure management process and fiscal performance reviews. The expenditure management process requires greater oversight and approvals, and if sustained, could achieve modest savings through attrition and the avoidance of unnecessary

2016–17 Budget (CONTINUED)

expenses. The potentially more significant exercise appears to be the fiscal performance reviews, which are being conducted by a consultancy with the stated aim of improving the efficiency, efficacy and economy of government services. The challenge, however, is the constrained timeline required to complete thorough reviews, assess the findings, and implement the changes ahead of the next budget. While changes to tax systems or grants/transfers can be made relatively quickly, substantive changes to program areas generally require considerable lead time.

It is early in the new government's mandate, and while initial indications suggest the government is prepared to begin the process of fiscal consolidation, the challenge is considerable and the timeline is long. Without considerable upfront efforts to reduce near-term deficits, the Province's credit profile is likely to deteriorate further as a result of additional debt accumulation. While the Province's credit profile does have flexibility to accommodate ongoing deficits and the resulting growth in the debt burden in the near term, that flexibility is not unlimited. Without clear and credible action to demonstrate the government's resolve and to shift the outlook for debt growth, the credit rating could come under pressure over the medium term.

2015–16 Preliminary Results

Preliminary results for 2015–16 indicate that the budget deficit deteriorated significantly to $1.0 billion from the planned $422 million deficit. On a DBRS-adjusted basis, this equates to a $2.0 billion shortfall, or 2.8% of GDP. Total revenue rose marginally over the prior year but missed budget expectations primarily because of weaker-than-expected growth in tax revenue. Federal transfers rose slightly year over year; increases in Canada Health and Social transfers offset declines in equalization. Manitoba's equalization entitlement has been falling in recent years with the Province's improving fiscal capacity. On a per capita basis, Manitoba's entitlement has fallen to $1,344 from $1,591 over the last five years.

The deterioration in the operating result was largely driven by the significant increase in in-year spending. Budget projections suggested relatively little growth in DBRS-adjusted expenditures, but expenditures are projected to have been $700 million higher than planned, which contributed to relatively high year-over-year expenditure growth (+4.6%). The variance to budget was driven by health care and capital investment. Health-care spending was $162 million higher than planned as a result of price and volume pressures, while gross capital investment was about $144 million higher than planned. Other areas of government generally experienced more modest pressures or provided in-year savings.

Debt Profile

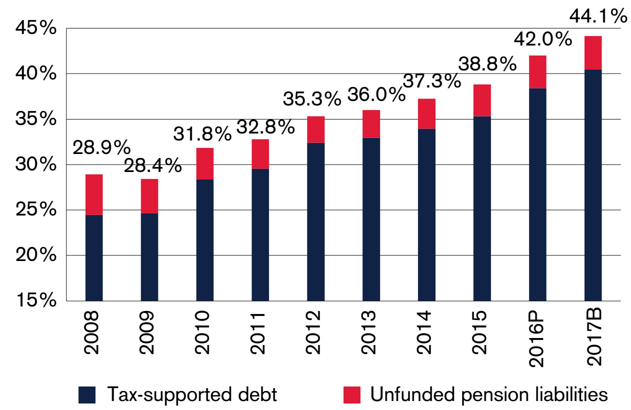
The Province's debt burden has continued to rise moderately with ongoing operating deficits and significant capital investment. DBRS estimates the Province's DBRS-adjusted debt burden, defined as tax-supported debt plus unfunded pension liabilities, to have risen by $2.8 billion in 2015–16 and reached 42.0% of GDP. This is about $1.5 billion, or 2.2% of GDP, higher than was anticipated at the time of DBRS's last review. The increase in the debt burden reflects both growth in outstanding debt and a negative revision to GDP.

The Province maintains a prudent debt structure with no unhedged foreign currency exposure and only moderate floating-rate exposure (18%) at March 31, 2016. The debt maturity profile remains relatively smooth with no substantial refinancing needs in any given year. Moreover, the Province has good market access with establish domestic and international borrowing programs.

The Province's unfunded pension liabilities are considerable and have continued to rise in recent years. At March 31, 2016, the unfunded pension liabilities totalled $2.3 billion, or 3.6% of GDP. The civil service superannuation plan and the teachers' pension plan account for the majority of the unfunded pension obligations. Contribution rates have increased in recent years, and indexing has been made conditional, though the unfunded liabilities have continued to rise in the absence of more substantial changes to plan design or funding.

The Province issues debt in its own name on behalf of the Manitoba Hydro, the provincial utility, and guarantees much of the utility's existing legacy debt. Notwithstanding the taxpayer-backed guarantee, both Manitoba Hydro and the Government of Manitoba expect the cost of this debt to be recovered through electricity rates. Manitoba Hydro is currently undertaking a significant capital program to increase capacity and reliability of its generation and transmission base. This is leading to a significant increase in debt, and because rate increases are being phased in gradually, leverage and coverage ratios are deteriorating. While the utility's financials are expected to deteriorate further over the medium term, leverage and coverage ratios will improve thereafter, and indications suggest that the rate increases will enable the utility to sustainably service its debt without direct subsidies from the Province. Moreover, the utility maintains considerable flexibility given its exceptionally low rates.

Exhibit #3: DBRS-Adjusted Debt-to-GDP



DBRS continues to classify Manitoba Hydro's debt as self-supported and excludes it from DBRS' estimate of tax-supported debt. DBRS would consider reclassifying a portion of Manitoba Hydro's debt as tax-supported if the outlook were such that the utility appears unable to service its debt with cash flow from operations for a sustained period of time.

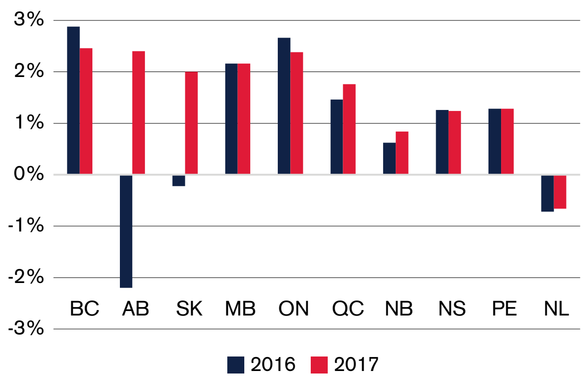
Outlook

In 2016–17, DBRS-adjusted debt is expected to rise by $2.5 billion to $30.1 billion on account of the budgetary deficit, capital requirements and rising unfunded pension liabilities. With the increase, the debt burden will rise to 44.1% of GDP, its highest level since the mid-1990s. The new government has stated its intention to stabilize the debt burden. In the absence of a more detailed fiscal plan and the long timeline for returning to balance, DBRS expects the debt burden to continue to rise over the medium term, though the trajectory and peak remain uncertain at this time.

The Province's gross borrowing requirement for 2016–17 is estimated to be $6.5 billion, of which the Province has already completed $2.4 billion. The Province typically targets 30% of its issuance outside of Canada, but has been borrowing more heavily in international markets this year.

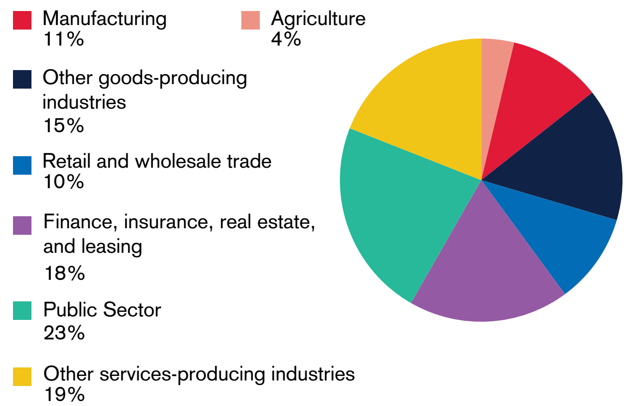
Economy

Exhibit #4: Real GDP Growth Outlook



Source: Major Canadian banks' economic forecasts at the time of this report.

Exhibit #5: 2015 Real GDP Breakdown



Source: Statistics Canada, CANSIM 379-0028.

Preliminary estimates from Statistics Canada indicate that Manitoba's economy grew by 2.3% in 2015, with fairly strong growth across both the goods and services producing sectors. The results were somewhat mixed among industries: Strong growth in construction, agriculture, transportation and warehousing, and financial services offset weakness in mining, oil and gas, and the public sector. Manitoba's economy is relatively stable given its broad diversification.

Overall manufacturing and exports showed mixed results, with agricultural exports (food and equipment) showing some weakness given the strength of the prior-year crop and weaker exports to some markets. Notwithstanding this softness, exports in the transportation, electronics, metals and energy industries did post reasonable growth, in part supported by an improving U.S. economy and a weaker Canadian dollar.

The labour market continued to perform well with a modest increase in unemployment, reflecting stronger growth in the labour market. Both the labour market (+1.8%) and employment (+1.5%) grew moderately, with employment gains largely driven by the private sector. Overall growth in the labour market continues to reflect strong underlying population trends. Manitoba continues to benefit from strong population growth driven by natural increase and international migration. Moreover, weakness in commodity-producing provinces has reduced interprovincial outflows. Altogether, Manitoba expects reasonably strong population growth to continue over the medium term.

Relatively strong household formation has supported strong gains in the housing market in recent years. This led to overbuilding in the years leading up to 2015, which weighed on residential construction in 2015. Despite the excess housing stock, housing market fundamentals have held up well, as the excess inventory is being absorbed. Non-residential investment more than offset weakness in the housing market, as a number of major projects were underway in 2015 (e.g., Canadian Museum for Human Rights, Stadium, Hydroelectric projects, and infrastructure).

Outlook

At the time the budget was presented, the Province projected real economic growth of 2.2% in 2016 and 2.4% in 2017. This is consistent with growth in recent years and the private sector expectations at the time of the budget. The economic outlook has since weakened marginally, though the Province and private sector forecasters continue to expect growth of at least 2.0% in this year and next. Overall, the economic outlook is stable with continued gains in export-oriented industries supporting moderate growth. The Province will continue to see moderately strong population growth, as international migration remains strong and interprovincial outmigration remains subdued, which will support further growth in the labour market. The economic forecast has relatively little upside potential given the completion of a number of major construction projects recently, though there is some downside risk to the outlook with the modestly slower growth outlook for the U.S. economy and a potentially weaker harvest as a result of the wetter-than-normal growing season. Notwithstanding the downside risks, the economic outlook for the Province continues to exhibit significant stability and resilience.

Economy (CONTINUED)

Economic Statistics

	For the year ended December 31						
	2017 P	**2016 P**	**2015**	**2014**	**2013**	**2012**	**2011**
Nominal GDP ($ millions)	71,313	68,308	65,807	64,077	61,897	59,781	56,197
Nominal GDP growth	4.4%	3.8%	2.7%	3.5%	3.5%	6.4%	5.4%
Real GDP growth	2.4%	2.2%	1.6%	2.3%	2.4%	3.0%	2.5%
Population (thousands)	1,323	1,309	1,293	1,280	1,265	1,250	1,234
Population growth	1.1%	1.2%	1.0%	1.2%	1.2%	1.4%	1.0%
Employment (thousands)	646	639	636	627	626	622	612
Unemployment rate	5.5%	5.8%	5.6%	5.4%	5.4%	5.3%	5.5%
Housing starts (units)	5,700	5,350	5,501	6,220	7,465	7,242	6,083
Retail sales ($ millions)	19,823	19,377	18,297	18,034	17,297	16,652	16,443
Inflation rate (CPI)	2.2%	1.8%	1.2%	1.9%	2.2%	1.6%	3.0%
Primary household income per capita ($)	34,141	33,675	33,509	32,210	31,687	30,822	29,605

Sources: Statistics Canada (actuals); Manitoba Finance and DBRS estimates; CMHC (housing projections). P= Projected.

Budget Summary

	Projected		Budget			
($ millions)	**2016-17**	**2015-16**	**2015-16**	**2014-15**	**2013-14**	**2012-13**
Revenue	15,190	14,729	14,912	14,691	14,152	13,540
Program expenditure	16,110	15,794	15,270	15,227	14,672	14,080
Program surplus (deficit)	**(920)**	**(1,065)**	**(358)**	**(536)**	**(520)**	**(540)**
Interest expense	834	790	790	794	759	765
DBRS-Adjusted Surplus (Deficit)	**(1,754)**	**(1,855)**	**(1,149)**	**(1,330)**	**(1,279)**	**(1,305)**
DBRS adjustments:						
Capital expenditures less amortization 1	843	844	727	877	757	745
Surplus (deficit), as reported	**(911)**	**(1,011)**	**(422)**	**(453)**	**(522)**	**(560)**
Tax-supported debt + unfunded pension liabilities	30,143	27,635	26,169	24,872	23,057	21,515
Gross borrowing requirements (all entities)	6,500	6,309	4,725	5,357	4,528	3,493
Gross capital expenditure	1,517	1,702	1,331	1,534	1,333	1,273

1 DBRS adjusts reported figures to recognize capital expenditures as incurred rather than as amortized, to improve interprovincial comparability.

Selected Financial Indicators (DBRS-Adjusted)

Debt/GDP 1	44.1%	42.0%	39.8%	38.8%	37.3%	36.0%
Surplus (deficit)/GDP	(2.6%)	(2.8%)	(1.7%)	(2.1%)	(2.1%)	(2.2%)
Surplus (deficit)/total revenue	(11.6%)	(12.6%)	(7.7%)	(9.1%)	(9.0%)	(9.6%)
Interest costs/total revenue	5.5%	5.4%	5.3%	5.4%	5.4%	5.6%
Total tax revenues/total revenue	52.7%	52.9%	53.5%	51.6%	50.7%	49.2%
Federal transfers/total revenue	27.0%	26.0%	26.0%	25.9%	27.2%	29.2%
Program expenditures/total revenue	106.1%	107.2%	102.4%	103.6%	103.7%	104.0%
Health expenditures/total expenditures	38.3%	37.3%	37.9%	37.3%	37.0%	36.7%
Program expenditure growth	0.8%	3.7%	0.3%	3.8%	4.2%	(5.1%)
Total expenditure growth	1.1%	3.5%	0.2%	3.8%	3.9%	(4.8%)
Total revenue growth	3.1%	0.3%	1.5%	3.8%	4.5%	(0.6%)

1 DBRS-adjusted debt: tax-supported debt + unfunded pension liabilities.

Political Background Information

Party in Power:	Progressive Conservative Party	**Legislature Seats:**	40 of 57
Premier:	Brian Pallister	**Election required by:**	October 2020

DBRS-Adjusted Statement of Operations

($ millions)

	Projected		Budget			
	2016-17	**2015-16**	**2015-16**	**2014-15**	**2013-14**	**2012-13**
Revenue						
Personal income tax	3,339	3,261	3,262	3,117	2,978	2,846
Retail sales tax	2,328	2,261	2,292	2,205	2,028	1,767
Corporate taxes	1,123	1,093	1,220	1,105	1,024	965
Fuel taxes	331	327	346	335	329	332
Tobacco taxes	256	256	252	256	272	252
Education property tax	533	500	493	461	434	380
Other taxes	93	95	108	101	105	124
Total tax revenue	**8,003**	**7,794**	**7,973**	**7,578**	**7,169**	**6,667**
Manitoba Liquor and Lotteries Corporation	586	583	582	597	554	558
Manitoba Hydro	42	49	125	114	174	92
Natural resource levies	152	169	172	169	176	168
Fees, permits, licences & other	2,299	2,306	2,178	2,425	2,237	2,102
Total Own-Source Revenue	**11,082**	**10,901**	**11,031**	**10,883**	**10,310**	**9,587**
Equalization payments	1,736	1,738	1,738	1,750	1,799	1,872
Canada health & social transfer	1,786	1,697	1,698	1,621	1,524	1,487
Other federal transfers	586	393	445	438	519	594
Total Federal Transfers	**4,108**	**3,828**	**3,881**	**3,809**	**3,842**	**3,953**
DBRS-Adjusted Revenue	**15,190**	**14,729**	**14,912**	**14,691**	**14,152**	**13,540**
Expenditures						
Health	6,497	6,250	6,088	5,979.9	5,706	5,454
Education and training	4,061	3,962	3,983	3,638.5	3,562	3,339
Social services	2,036	1,946	1,891	1,119.6	1,074	1,035
Justice	603	585	581	532.7	534	500
Infrastructure and transportation	389	269	373	544.3	501	540
Economic and resource development	1,115	1,168	1,109	1,997	1,914	1,883
Other general government	716	770	668	538	624	584
Capital expenditures less amortization 1	843	844	727	877.0	757	745
Targeted in-year savings	(150)	-	(150)	-	-	-
DBRS-Adjusted Program Expenditures	**16,110**	**15,794**	**15,270**	**15,227**	**14,672**	**14,080**
Net interest expense 2	834	790	790	794	759	765
DBRS-Adjusted Expenditures	**16,944**	**16,584**	**16,060**	**16,021**	**15,431**	**14,845**
DBRS-Adjusted Surplus (Deficit)	**(1,754)**	**(1,855)**	**(1,149)**	**(1,330)**	**(1,279)**	**(1,305)**
DBRS adjustments:						
Capital expenditures less amortization 1	843	844	727	877	757	745
Surplus (deficit), as reported	**(911)**	**(1,011)**	**(422)**	**(453)**	**(522)**	**(560)**

1 DBRS adjusts reported figures to recognize capital expenditures as incurred rather than as amortized, to improve interprovincial comparability.
2 Interest expense is net of sinking funds.

Province of Manitoba

Statement of Financial Position

($ millions)	2017B	2016P	2015
Assets			
Cash and cash equivalents	5,693	7,863	6,728
Amounts receivable	4,259	4,405	6,466
Loans & advances 1	32,172	32,712	30,703
Equity in gov't enterprises	3,829	3,692	3,415
Net tangible capital assets	18,023	17,217	15,796
Other assets	49	188	151
Total Assets	**64,025**	**66,077**	**63,259**

	2017B	2016P	2015
Liabilities			
A/P and accrued charges	4,200	4,204	4,204
Debt 1	45,547	39,874	35,742
Unfunded pension liability	2,513	2,354	2,245
Total Liabilities	**52,260**	**46,432**	**42,191**
Accumulated Deficit	**(9,685)**	**(8,812)**	**(7,923)**

Net Public Sector Debt

($ millions)	As at March 31							
	2017B	2016P	2015	2014	2013	2012	2011	2010
Net general purpose debt 2	19,714	18,499	16,784	15,730	14,851	13,956	11,907	10,949
Crown corporation & gov't agencies	3,710	3,309	2,827	2,511	2,246	1,926	1,641	1,478
Schools and universities	610	620	610	590	538	495	461	432
Health facilities	2,473	1,730	1,338	1,262	1,149	1,094	1,015	949
Municipalities 3	1,123	1,123	1,068	926	903	735	723	602
Net Tax-Supported Debt	**27,630**	**25,281**	**22,627**	**21,019**	**19,687**	**18,206**	**15,747**	**14,410**
Self-supporting debt:								
Manitoba Hydro 2	17,848	14,544	12,540	10,838	9,609	8,999	8,362	7,730
Total net public sector debt	**45,478**	**39,825**	**35,167**	**31,857**	**29,296**	**27,205**	**24,109**	**22,140**
Unfunded Pension Liabilities 4	2,513	2,354	2,245	2,038	1,828	1,634	1,731	1,768
DBRS-Adjusted Debt 5	**30,143**	**27,635**	**24,872**	**23,057**	**21,515**	**19,840**	**17,478**	**16,178**
Per Capita (CAD)								
Tax-supp. debt + unf. pension liabilities	23,029	21,366	19,427	18,222	17,206	16,082	14,316	13,386
Total public sector debt	34,745	30,791	27,469	25,176	23,429	22,051	19,747	18,319
As a % of GDP								
Tax-supp. debt + unf. pension liabilities	44.1%	42.0%	38.8%	37.3%	36.0%	35.3%	32.8%	31.8%
Total public sector debt	66.6%	60.5%	54.9%	51.5%	49.0%	48.4%	45.2%	43.6%
Debt Breakdown by Currency 6								
CAD pay	n/a	100%	100%	100%	100%	100%	100%	100%
Non-CAD pay	n/a	0%	0%	0%	0%	0%	0%	0%
Fixed/Floating Rate Debt Breakdown 6								
Fixed rate	n/a	82%	78%	79%	77%	80%	76%	82%
Floating rate	n/a	18%	22%	21%	23%	20%	24%	18%

1 Includes the assets and liabilities related to debt of Manitoba Hydro and Manitoba Lotteries Corporation. 2 Excludes pre-financing. 3 Not guaranteed by the Province.
4 Excludes pension liabilities for self-supporting Crown corporations. 5 DBRS-adjusted debt is defined as tax-supported debt plus unfunded pension liabilities (excluding those of self-support Crown corporations. 6 Net of hedges (if any). Floating-rate debt is defined as debt that matures or is reprised within 12 months.

Unfunded Pension Liabilities (Tax-Supported)

($ millions)	Valuation Date	Mar. 31, 2016
Civil service 1	Dec. 2015	2,813
Teachers 2	Jan. 2012	3,589
Other plans (incl. MLAs, judges, other)	Various	1,912
Total liabilities		**8,314**
Pension assets		5,960
Total Unfunded Pension Liabilities		**2,354**

1 Civil service pension plan includes amounts for indexation and unamortized pension adjustment. 2 Teachers' pension plan includes amount for indexation.

Gross Debt Maturity Schedule

($ millions)	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22 to 2025-26	2026-27 +	Total
Public Sector Debt ($ millions)	4,307	2,497	2,727	2,405	3,527	8,165	15,988	39,615
Public Sector Debt (%)	10.9%	6.3%	6.9%	6.1%	8.9%	20.6%	40.4%	100.0%

Rating History

	Current	2014	2013	2012	2011	2010
Issuer Rating	A (high)	A (high)	A (high)	A (high)	NR	NR
Long-Term Debt	A (high)	A (high)	A (high)	A (high)	A (high)	A (high)
Short-Term Debt	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (middle)

Previous Action

- Confirmed, August 17, 2015.

Related Research

- *Rating Canadian Provincial Governments,* May 25, 2016.
- *DBRS Criteria: Guarantees and Other Forms of Support,* February 9, 2016.
- *Manitoba Hydro-Electric Board: Rating Report,* August 17, 2015.

Treasury Bill Limit

- $1.95 billion.

Previous Report

- Province of Manitoba: Rating Report, August 17, 2015.

Notes:
All figures are in Canadian dollars unless otherwise noted.

For the definition of Issuer Rating, please refer to Rating Definitions under Rating Policy on **www.dbrs.com**.

Generally, Issuer Ratings apply to all senior unsecured obligations of an applicable issuer, except when an issuer has a significant or unique level of secured debt.

Rating Report

The Manitoba Hydro-Electric Board

DBRS

Insight beyond the rating.

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Ratings

Debt	Rating	Trend
Long-Term Obligations	A (high)	Stable
Short-Term Obligations	R-1 (middle)	Stable

Note: These Obligations are based on the status of the Manitoba Hydro-Electric Board as a Crown agent of the Province of Manitoba and the unconditional guarantee provided by the Province on Manitoba Hydro's third-party debt, and thus reflect the Province's debt ratings.

Rating Update

DBRS Limited (DBRS) has updated its report on the Manitoba Hydro-Electric Board (Manitoba Hydro or the Utility). The ratings assigned to the Utility's Long-Term Obligations and Short-Term Obligations are a flow-through of the ratings of the Province of Manitoba (the Province; rated A (high) and R-1 (middle) with Stable trends by DBRS). Pursuant to *The Manitoba Hydro Act*, the Province unconditionally guarantees almost all of Manitoba Hydro's outstanding third-party debt (please see the *DBRS Criteria: Guarantees and Other Forms of Explicit Support* methodology for further details). The Province also provides most of the Utility's financing through provincial advances (approximately 98% of total debt as at March 31, 2015).

In July 2015, the Public Utilities Board of Manitoba (the PUB) issued its decision on the Utility's 2015–16 and 2016–17 General Rate Application (GRA). The PUB finalized the previously approved interim rate increase of 2.75% effective May 1, 2014, and approved a 3.95% rate increase effective August 1, 2015. In its application, Manitoba Hydro noted that instead of applying for large rate increases when major projects, such as the Bipole III Transmission Reliability Project (Bipole III), the Keeyask Infrastructure and Generating Station Projects (Keeyask Project) and the Manitoba-Minnesota Transmission Project (MMTP), are brought in service, it currently plans to apply annually for gradual and more moderate increases. However, this rate lag will lead to significant timing differences between the actual capital expenditures (capex) spent and recognition into rates, and will likely result in weaker earnings and cash flows going forward.

As a result of the weaker earnings expected during this period of significant capex, the Utility has forecast substantial negative free cash flows for the medium-term. As such, the Utility's key financial ratios are expected to remain pressured, with leverage increasing from 81.0% at March 31, 2015, to a peak of around 88% in F2022, and above the target capital structure of 75% debt. DBRS notes that Manitoba Hydro's key financial metrics could further weaken in the event of adverse drought conditions or potential cost overruns on major projects. DBRS expects the Utility to continue to finance any cash shortfalls through advances from the Province.

Financial Information

The Manitoba Hydro-Electric Board

	For the year ended March 31				
(CAD millions where applicable)	**2015**	**2014**	**2013**	**2012**	**2011**
Total debt in capital structure 1	81.0%	79.4%	78.5%	77.9%	77.2%
Cash flow/Total debt	5.2%	6.4%	6.1%	6.3%	7.1%
EBIT gross interest coverage (times)	0.93	0.96	0.89	0.80	1.00
Net income before non-recurring items	114	178	92	61	150
Cash flow from operations	651	691	589	567	595

1 Adjusted for other comprehensive income.

Issuer Description

The Manitoba Hydro-Electric Board, a wholly owned Crown corporation of the Province of Manitoba, is a vertically integrated electric utility that provides generation, transmission and distribution of electricity to approximately 561,869 customers throughout Manitoba and natural gas service to approximately 274,817 customers via its subsidiary, Centra Gas Manitoba Inc. The Utility also exports electricity to more than 25 electric utilities through its participation in four wholesale markets in Canada and in the mid-western United States.

Rating Considerations

Strengths

1. Debt is a direct obligation of the Province
Manitoba Hydro is an agent of the Crown and its debt securities, except for $65 million of Manitoba Hydro-Electric Board Bonds (less than 1% of total debt at March 31, 2015), are held or guaranteed by the Province; therefore, the ratings assigned to Manitoba Hydro's obligations are a flow-through of the ratings assigned to the Province.

2. Low-cost hydro-based generation
Low-cost hydroelectric-based generating capacity results in one of the lowest variable cost structures in North America, which has enabled Manitoba Hydro to provide electricity to its domestic customers at one of the lowest rates on the continent. This gives the Utility the flexibility to increase rates in the future, especially in light of the substantially heightened capex requirements.

3. Access to export markets
Manitoba Hydro's interconnections (approximately 43% of installed capacity), with firm export transfer capability of 2,100 MW to the United States, 175 MW to Saskatchewan and 200 MW to Ontario, along with additional non-firm transfer capability, provide the Utility with access to favourable export markets. The interconnections also provide a secure supply of electricity for domestic customers during times of poor hydrology.

Challenges

1. Hydrology risk
Given that approximately 92% of Manitoba Hydro's installed generating capacity is hydroelectricity-based, earnings and cash flows are highly sensitive to hydrological conditions. The Utility is also exposed to significant price and volume risk because of its export commitments under the fixed price-to-volume contract, which may require the Utility to procure power supply from import markets if hydrological conditions are unfavourable.

2. High leverage
The Utility has forecast leverage (81.0% as at March 31, 2015) to increase to around 88% during this period of high capex. Additionally, due to the significant lag before electricity rates fully reflect the cost of the ongoing major projects, Manitoba Hydro has forecast weaker earnings, including two years of negative net income, and significant free cash flow deficits for the medium term in its 2015 Integrated Financial Forecast. This will result in further pressure on the Utility's key financial metrics, which could be exacerbated in the event of an adverse circumstance (i.e., severe drought). DBRS notes that Manitoba Hydro has no mandatory dividend payment requirements, which provides some financial flexibility.

3. High level of planned capex
The need to refurbish aging infrastructure, combined with the aggressive development of new hydro generation and transmission facilities, will require Manitoba Hydro to continue to deploy significant capital into its electricity infrastructure over the medium term. The Utility has forecast capex over the next five years will average approximately $2.7 billion per year, which will pressure the already-high debt levels.

Major Projects (Under Construction and Planned)

Project	Estimated Cost ($ millions)	Planned Construction Start Date	In-Service Target Date
Bipole III Transmission Reliability Project	4,700	2013–2014	2018
Keeyask Infrastructure and Generating Station Projects	6,500	2014	2019–2020
Manitoba-Minnesota Transmission Project	350	2015–2016	mid-2020

- ***Bipole III:*** This project involves the construction of a 500-kilovolt (kV) high voltage direct current transmission line, along with new converter stations. Construction began over winter 2013–2014 and the transmission line is expected to be in service for 2018.
- ***Keeyask Project:*** This project includes the development of a 695 MW generation station on the Nelson River. Construction began in July 2014 with the first generator expected to be in service for 2019 and the remaining units to be in service by 2020.
- ***MMTP:*** This proposed project involves the construction of a 500 kV alternating current transmission line from Winnipeg to the Manitoba-Minnesota border, where it will interconnect with the Great Northern Transmission Line to be built by Minnesota Power. The Province authorized Manitoba Hydro to proceed with the project in July 2014 and the Utility filed an Environmental Impact Statement in September 2015, which began the formal regulatory review process.

Earnings and Outlook

	For the year ended March 31				
(CAD millions where applicable)	2015	2014	2013	2012	2011
Total electricity revenues	1,861	1,861	1,733	1,573	1,616
Net gas revenues	154	163	147	132	143
Total revenues	**2,015**	**2,024**	**1,880**	**1,705**	**1,759**
EBITDA	1,066	1,068	991	865	968
EBIT	630	626	568	484	575
Gross interest expense	680	654	636	603	573
Earning before taxes	103	156	79	61	150
Net income before non-recurring items	114	178	92	61	150
Reported net income	114	174	92	61	150
Return on equity 1	4.0%	6.6%	3.5%	2.4%	6.3%

1 Adjusted for other comprehensive income.

F2015 Summary

- Earnings decreased in F2015 as the 2.75% increase in rates effective May 1, 2014, was insufficient to offset rising interest expense from the higher debt load.
- Earnings were also negatively impacted by the warmer weather, which reduced consumption and natural gas revenues. In addition, a U.S. transmission line outage also affected extra-provincial electricity sales.

F2016 Outlook

- Manitoba Hydro has forecast net income for F2016 at around $31 million, with a 3.95% rate increase effective August 1, 2015, offset by increases in finance expense from the higher debt used to fund the ongoing significant capex.
- As a result of rising costs to finance the significant capex program, Manitoba Hydro has forecast weaker net income for the medium term in its 2015 Integrated Financial Forecast.
  - Instead of applying for large rate increases as projects come in service, the Utility plans to apply for more moderate annual rate increases of 3.95% until F2029. As a result, these rate increases are expected to be insufficient for Manitoba Hydro to recover costs related to major projects for the medium term.

Financial Profile

(CAD millions where applicable)	For the year ended March 31 2015	2014	2013	2012	2011
Cash receipts from customers	2,379	2,176	2,015	1,998	2,029
Cash paid to suppliers and employees	(1,222)	(1,053)	(981)	(1,048)	(1,043)
Interest paid	(536)	(502)	(489)	(418)	(422)
Interest received	30	70	44	35	31
Cash flow from operations	**651**	**691**	**589**	**567**	**595**
Dividends paid	0	0	0	0	0
Capital expenditures	(1,746)	(1,394)	(1,037)	(1,124)	(1,166)
Free cash flow	**(1,095)**	**(703)**	**(448)**	**(557)**	**(571)**
Acquisitions & investments	(113)	(103)	(98)	(90)	(88)
Net sinking fund withdrawals/(payments)	(3)	206	22	(75)	527
Net debt change	1,556	707	565	673	192
Other	7	3	(59)	29	(164)
Change in cash	**352**	**110**	**(18)**	**(20)**	**(104)**
Total debt (net sinking fund investments)	12,566	10,757	9,633	9,010	8,365
Cash and equivalents	494	142	32	50	70
Total debt in capital structure 1	81.0%	79.4%	78.5%	77.9%	77.2%
Cash flow/Total debt	5.2%	6.4%	6.1%	6.3%	7.1%
EBIT gross interest coverage (times)	0.93	0.96	0.89	0.80	1.00
Dividend payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%

1 Adjusted for other comprehensive income.

F2015 Summary

- The Utility's key financial metrics continued to weaken in F2015 due to (a) the large increase in debt to fund ongoing capex and (b) lower earnings and cash flow for the year.
- Cash flow from operations decreased, largely due to higher interest payments for the year as a result of the higher debt load, and lower interest received on investments.
- Gross capex of $1.9 billion included (a) $609 million of maintenance capex, (b) $704 million for the Keeyask Project, (c) $365 million for Bipole III and (d) $132 million for the Pointe du Bois Spillway replacement.
- The significant cash flow deficit was funded largely through advances from the Province.

F2016 Outlook

- Manitoba Hydro's key financial metrics are expected to remain pressured during this period of high capex. The Utility has forecast its debt-to-capital ratio to rise to 88% in F2022, significantly higher than the long-term target capital structure of 75% debt. The debt-to-capital ratio is not expected to recover to the target capital structure until F2032.
- Manitoba Hydro has forecast gross capex of approximately $2.7 billion in F2016, including (a) $641 million of maintenance capex, (b) $819 million for the Keeyask Project and (c) $1.2 billion for Bipole III.
  - The Utility has forecast capex to peak in F2017 at $3.5 billion and in F2018 at $3.1 billion when Bipole III comes in service. Following the in-service of the Keeyask Project in 2019–2020, capex is expected to moderate to around $800 million a year.
- The high level of capex is expected to result in a negative free cash flow, which will likely be funded through advances from the Province. The increasing debt load will likely lead to further declines in Manitoba Hydro's key financial metrics.
  - However, with no mandatory dividend payment requirements, this should provide the Utility with some financial flexibility.

Long-Term Debt Maturities and Bank Lines

Debt Profile (CAD millions)

		For the year ended March 31		
	%	2015	2014	2013
Advances from the Province	98.2%	12,485	10,683	9,775
Manitoba Hydro Bonds	0.6%	76	169	55
Manitoba Hydro-Electric Board Bonds*	1.2%	157	158	182
	100.0%	**12,718**	**11,010**	**10,012**
Adjustments to carrying value of dual currency bonds		6	(12)	(20)
Debt discounts and premiums		0	(96)	22
Transaction costs		(44)	(34)	(29)
Total		**12,680**	**10,868**	**9,985**

* Includes $65 million of unguaranteed bonds at March 31, 2015.

Debt Maturities

Year	2016	2017	2018	2019	2020	Thereafter	Total
(CAD millions)	377	311	331	987	340	10,372	**12,718**
%	3%	2%	3%	8%	3%	82%	**100%**

Summary

- The Province supports Manitoba Hydro by advancing funds or guaranteeing the Utility's long-term debt issuances. Long-term debt at March 31, 2015, consisted of the following:
  - $12,485 million in advances from the Province (all of which have annual sinking fund requirements).
  - $76 million of Manitoba Hydro Bonds.
  - $157 million of Manitoba Hydro-Electric Board Bonds.
- Only $65 million of Manitoba Hydro-Electric Board Bonds, which were issued for mitigation projects, do not carry the provincial guarantee.
- Manitoba Hydro maintains a relatively smooth maturity profile with potential volatility from foreign currency debt, mostly mitigated through natural and cash flow hedges, and a moderate level of floating-rate debt (14% of total debt at March 31, 2015), which adds stability to debt servicing costs and minimizes interest rate risk.
- The Utility has bank credit facilities that provide for overdrafts and notes payable of up to $500 million denominated in Canadian and/or U.S. dollars. At March 31, 2015, there were no amounts outstanding. Manitoba Hydro issues short-term promissory notes in its own name for its short-term cash requirements and does not receive short-term funding from the Province. These short-term notes are guaranteed by the Province.

Regulation

Manitoba Hydro is governed by *The Manitoba Hydro Act* and its electricity and natural gas rates are regulated by the PUB.

Electricity

- Each year, Manitoba Hydro reviews its financial targets with particular focus on its debt-to-equity target capital structure of 75% to 25%. If the Utility deems a rate adjustment is necessary to continue progress towards attainment of its financial targets, it submits a rate application to the PUB.
- The PUB reviews the rate adjustment application with the objective of allowing Manitoba Hydro to recover its cost of service and achieve its long-term debt-to-equity target. The PUB does not have the mandate to pre-approve capex. The capex planning responsibility resides with Manitoba Hydro and the government of Manitoba.
- The Utility submitted an application for interim rates effective April 1, 2014, in March 2014. On May 6, 2014, the PUB approved a 2.75% increase in interim rates effective May 1, 2014.
- Manitoba Hydro submitted its 2015–16 & 2016–17 GRA in January 2015, requesting 3.95% rate increases effective April 1, 2015, and April 1, 2016.
  - The PUB advised the Utility that it would not set rates for 2016–17 as part of this application.
  - On July 24, 2015, the PUB finalized the previously approved interim rate increase of 2.75% effective May 1, 2014, and approved a 3.95% increase in rates effective August 1, 2015. In its decision, the PUB indicated that it would consider various options regarding a process to review rates effective for April 1, 2016.

Regulation (CONTINUED)

- For the 2015 rate increase, the PUB directed 1.80% of the revenues associated with the rate increase to be applied to general revenues, while the remaining 2.15% be placed in a deferral account to mitigate rate increases when Bipole III comes in service. This was similar to the PUB's direction for rate increases approved in 2013–14 and 2014–15, where a portion of the revenues was also allocated to the Bipole III deferral account.

- On November 18, 2015, the Utility submitted its Supplemental Filing for Interim Rates effective April 1, 2016, requesting a 3.95% general rate increase.
- While Manitoba Hydro is the sole retail electricity supplier in Manitoba, under *The Manitoba Hydro Amendment Act* (the Act), other utilities may access the transmission system to reach customers in neighbouring provinces and states.
- The Act also explicitly allows Manitoba Hydro to build new generating capacity for export sales, to offer new energy-related services, to enter into strategic alliances and joint ventures, and to create subsidiaries.
- There are presently no plans to move to full retail competition in the Province.
- Manitoba retail customers currently enjoy rates that are among the lowest in North America as a result of Manitoba Hydro's predominantly hydroelectric generation and efficient resource management.

Natural Gas Distribution

- Manitoba Hydro distributes natural gas through its wholly owned subsidiary, Centra Gas Manitoba Inc. (Centra Gas). In accordance with the rate-setting methodology for natural gas, commodity rates are changed every quarter based on 12-month forward natural gas market prices.
  - The commodity cost of gas is a pass-through with no markup to customers.
  - Non-commodity costs, such as transportation and storage are also passed on.
- The PUB allows Centra Gas to target an annual profit of approximately $3 million, which is fairly modest compared with Manitoba Hydro's consolidated earnings.
- Centra Gas filed its 2015–16 Cost of Gas Application in June 2015, requesting, effective November 1, 2015, the approval of supplemental gas, transportation and distribution rates, and for rate riders to disposal of balances in its deferral accounts.

Watershed Storage Capacity

Manitoba Hydro draws water from five distinct watersheds: Nelson River, Winnipeg River, Saskatchewan River, Churchill River (including the Laurie River) and Burntwood River. This provides the Utility with some geographic diversification, especially during times of low hydrology. The main generation source is the Nelson River, which accounted for approximately 76% of power generated in F2015.

Source Of Electrical Energy Generated And Imported For the year ended March 31, 2015

Nelson River	**75.66%**	**Saskatchewan River**	**6.45%**
Billion kWh generated	**27.4**	**Billion kWh generated**	**2.3**
Limestone	24.89%	Grand Rapids	6.45%
Kettle	23.66%		
Long Spruce	19.90%	**Laurie River**	**0.16%**
Kelsey	5.84%	**Billion kWh generated**	**0.1**
Jenpeg	1.37%	Laurie River #1	0.07%
		Laurie River #2	0.08%
Winnipeg River	**10.47%**		
Billion kWh generated	**3.8**	**Burntwood River**	**3.79%**
Seven Sisters	3.11%	**Billion kWh generated**	**1.4**
Great Falls	2.58%	Wuskwatim	3.79%
Pine Falls	1.66%		
Pointe du Bois	0.84%		
Slave Falls	1.27%		
McArthur	1.00%		
Thermal	**0.19%**	**Purchases (excl. wind)**	**0.60%**
Billion kWh generated	**0.1**	**Billion kWh imported**	**0.2**
Brandon	0.17%		
Selkirk	0.02%	**Wind**	**2.69%**
		Billion kWh imported	**1.0**

Source: Manitoba Hydro

Watershed Storage Capacity (CONTINUED)

Favourable characteristics inherent in Manitoba Hydro's watersheds include the following:

- Cold temperatures reduce overall evaporation rates, as much of the water is frozen for up to five months of the year.
- A significant portion of the watersheds consists of rock, which has lower seepage rates and higher runoff than predominantly soil-covered watersheds.
- Lake Winnipeg, Cedar Lake and Southern Indian Lake serve as large storage reservoirs. The Utility's water storage capacity is a competitive advantage in trading electricity (buying surplus U.S. power at low off-peak prices and selling its electricity during peak demand periods at higher prices).

In addition to its own generating stations in Manitoba, Manitoba Hydro purchases all electricity from two wind farms in southern Manitoba (St. Joseph and St. Leon). The installed capacity of these facilities is 258.5 MW. The Wuskwatim Generating Station is owned by the Wuskwatim Power Limited Partnership, in which Manitoba Hydro is the majority owner. Manitoba Hydro purchases all the electricity generated from the Wuskwatim Generating Station.

Generating Capacity

Manitoba Hydro's Generating Stations and Capabilities

For the year ended March 31, 2015

Power Station	Location	# of Units	Net Capacity (MW)
Hydroelectric			
Great Falls	Winnipeg River	6	129
Seven Sisters	Winnipeg River	6	165
Pine Falls	Winnipeg River	6	87
McArthur Falls	Winnipeg River	8	56
Pointe du Bois	Winnipeg River	16	75
Slave Falls	Winnipeg River	8	68
Grand Rapids	Saskatchewan River	4	479
Kelsey	Nelson River	7	287
Kettle	Nelson River	12	1,220
Jenpeg	Nelson River	6	122
Long Spruce	Nelson River	10	980
Limestone	Nelson River	10	1,350
Laurie River (2)	Laurie River	3	10
Wuskwatim	Burntwood River	3	211
Total Hydroelectric Generation		**105**	**5,239**
Thermal			
Brandon (coal: 93 MW, gas: 234 MW)		3	327
Selkirk (gas)		2	125
Total Thermal Generation		**5**	**452**
Isolated Diesel Capabilities			
Brochet			3
Lac Brochet			2
Shamattawa			3
Tadoule Lake			2
Total Isolated Diesel Generation			**10**
Total Generation Capacity			**5,701**

Source: Manitoba Hydro

The Manitoba Hydro-Electric Board

(CAD millions)	Mar. 31 2015	2014	2013
Assets			
Cash & equivalents	494	142	32
Accounts receivable	470	520	421
Inventories	99	81	93
Prepaid expenses & other	0	0	4
Total Current Assets	**1,063**	**743**	**550**
Net fixed assets	15,250	13,627	12,508
Goodwill & intangibles	293	281	276
Investments & others	988	988	1,208
Total Assets	**17,594**	**15,639**	**14,542**

	Mar. 31 2015	2014	2013
Liabilities & Equity			
S.T. borrowings	0	0	0
Accounts payable	560	561	397
Current portion L.T.D.	377	408	656
Other current liab.	95	100	103
Total Current Liab.	**1,032**	**1,069**	**1,156**
Long-term debt (net sinking fund investments)	12,189	10,349	8,977
Sinking fund investments	114	111	352
Other L.T. liab.	1,470	1,225	1,121
Shareholders' equity	2,789	2,885	2,936
Total Liab. & SE	**17,594**	**15,639**	**14,542**

	For the year ended March 31				
Balance Sheet & Liquidity & Capital Ratios	**2015**	**2014**	**2013**	**2012**	**2011**
Current ratio	1.03	0.70	0.48	0.65	1.22
Total debt in capital structure	81.8%	78.9%	76.6%	75.8%	74.6%
Total debt in capital structure 1	81.0%	79.4%	78.5%	77.9%	77.2%
Cash flow/Total debt	5.2%	6.4%	6.1%	6.3%	7.1%
(Cash flow-dividends)/Capex	0.37	0.50	0.57	0.50	0.51
Dividend payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%
Coverage Ratios (times)					
EBIT gross interest coverage	0.93	0.96	0.89	0.80	1.00
EBITDA gross interest coverage	1.57	1.63	1.56	1.43	1.69
Fixed-charge coverage	0.93	0.96	0.89	0.80	1.00
Profitability Ratios					
Purchased power/Electricty revenues	7.8%	8.6%	7.7%	9.3%	6.6%
Operating margin	31.3%	30.9%	30.2%	28.4%	32.7%
Net margin	5.7%	8.8%	4.9%	3.6%	8.5%
Return on equity 1	4.0%	6.6%	3.5%	2.4%	6.3%

1 Adjusted for other comprehensive income.

Rating History

	Current	2014	2013	2012	2011	2010
Long-Term Obligations	A (high)	A (high)	A (high)	A (high)	A (high)	A (high)
Short-Term Obligations	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (middle)

Note: These Obligations are based on the status of the Manitoba Hydro-Electric Board as a Crown agent of the Province of Manitoba and the unconditional guarantee provided by the Province on Manitoba Hydro's third-party debt, and thus reflect the Province's debt ratings.

Previous Action

- Confirmed, August 17, 2015.

Related Research

- DBRS Confirms Province of Manitoba at A (high) and R-1 (middle), August 17, 2015.
- Manitoba, Province of: Rating Report, August 17, 2015.

Short-Term Promissory Notes Programme

- $500 million

Previous Report

- Manitoba Hydro-Electric Board, The: Rating Report, October 23, 2014.

Notes:
All figures are in Canadian dollars unless otherwise noted.

For the definition of Issuer Rating, please refer to Rating Definitions under Rating Policy on **www.dbrs.com**.

Generally, Issuer Ratings apply to all senior unsecured obligations of an applicable issuer, except when an issuer has a significant or unique level of secured debt.

Rating Report

Province of Manitoba

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DBRS

Insight beyond the rating.

Ratings

Debt	Rating	Rating Action	Trend
Issuer Rating	A (high)	Confirmed	Stable
Long-Term Debt *	A (high)	Confirmed	Stable
Short-Term Debt *	R-1 (middle)	Confirmed	Stable

* Includes guaranteed long- and short-term obligations issued by the Manitoba-Hydro Electric Board.

Rating Update

DBRS Limited (DBRS) has confirmed the Issuer Rating and Long-Term Debt ratings of the Province of Manitoba (the Province) at A (high), along with its Short-Term Debt rating at R-1 (middle), all with Stable trends. Weak fiscal discipline has led to further delays in the Province's anticipated fiscal recovery timeline, with a return to balance not foreseen until 2018–19 for core government operations. Despite fiscal challenges, debt remains manageable for the current ratings and a well-diversified and resilient economy should keep Manitoba somewhat insulated from the economic challenges facing some of its more resource-dependent neighbours.

Based on preliminary results, the Province recorded a deficit of $424 million in 2014–15. On a DBRS-adjusted basis, after including capital expenditures as incurred rather than as amortized, this equates to a shortfall of $1.3 billion, or 2.0% of GDP, and was consistent with expectations. As a result, DBRS-adjusted debt is estimated to have grown by $1.3 billion, or 5.4%, as of March 31, 2015, pushing the debt-to-GDP ratio up to 38.2%, from 37.6% a year earlier. This positions Manitoba with the fourth-highest debt burden among Canadian provinces.

For 2015, the Province has assumed real GDP growth of 2.5%, which now appears somewhat optimistic in relation to the private sector consensus forecast tracked by DBRS of 2.2%. Regardless, Manitoba is expected to be among the provincial growth leaders, given its well-diversified economy and only modest exposure to the energy sector. While real growth has disappointed in both Canada and the United States in the first half of 2015, a strengthening U.S. economy and weaker Canadian dollar should be supportive of a transition to stronger export-led growth for Manitoba. In 2016, the current consensus points to real GDP growth of 2.5%, above the 2.3% budget assumption.

Despite a sound economic outlook, Manitoba's fiscal outlook continues to disappoint with efforts to restore fiscal balance now further delayed. The 2015 budget points to a return to balance by 2018–19 for core government operations, which compares to an expected balance by 2016–17 on a summary budget basis included in last year's plan. For 2015–16, a shortfall of $422 million is projected and equates to a DBRS-adjusted deficit of $1.1 billion. This represents 1.7% of GDP and is a wider-than-average fiscal gap relative to provincial peers. Over the medium term, debt growth is expected to slow to between 3% and 5% annually, as the Province continues to address the fiscal imbalance. Provided targets are adhered to, this points to the debt burden stabilizing around 40% of GDP by 2017–18, a modest deterioration from that envisioned last year but still considered manageable for the existing ratings.

With a federal election scheduled for this fall, Manitoba's next election – originally planned for October 2015 – is expected to be postponed until April 2016. Based on recent polls, a change in government is possible, with Progressive Conservatives well ahead of the governing New Democratic Party.

Financial Highlights

	For the year ended March 31				
(all financial figures DBRS adjusted)	2015-16B	2014-15P	2013-14	2012-13	2011-12
Debt */GDP	39.6%	38.2%	37.6%	36.4%	35.6%
Surplus (deficit)/GDP	(1.7%)	(2.0%)	(2.1%)	(2.2%)	(3.5%)
Federal transfers/total revenue	26.0%	26.6%	27.2%	29.2%	31.8%
Interest costs/total revenue	5.3%	5.3%	5.4%	5.6%	5.5%
Real GDP growth rate	2.5%	2.4%	2.2%	3.3%	2.1%

* DBRS-defined: tax-supported debt + unfunded pension liabilities. B = Budget.
Source: Province of Manitoba, Statistics Canada, and DBRS calculations.

Issuer Description

Manitoba is located in Central Canada and ranks fifth among Canadian provinces by population and sixth in terms of GDP. The Province is home to significant renewable energy resources, with almost all electricity generated from water.

Rating Considerations

Strengths

1. Diversified and resilient economy
Manitoba has one of the most resilient and well-diversified economies in the country. This strength was evident during the 2009 downturn, when the Province experienced only a very mild recession. The economy boasts a well-balanced mix of industries, including agriculture and mining, manufacturing, financial services and transportation, and has one of the lowest unemployment rates in Canada. In addition, the composition of Manitoba's exports also tends to be more diverse than that of other provinces. As a result of these factors, the provincial economy shows less volatility than its manufacturing- and resource-dependent neighbours.

2. Manageable debt and sound debt management practices
As of March 31, 2015, Manitoba's debt burden stood at 38.2% of GDP, and, although it has been creeping up since 2009–10, it is comparable to levels seen in the late 1990s and remains manageable for the current ratings. The Province maintains a relatively smooth debt maturity profile, with no unhedged foreign currency debt (excluding Manitoba Hydro) and a moderate level of floating-rate debt, which adds stability to debt-servicing requirements.

3. Abundant low-cost hydroelectricity
Manitoba benefits from an abundance of low-cost hydroelectricity, resulting in some of the lowest electricity rates in North America. This gives the Province a distinct advantage when competing for new business investment. Furthermore, construction began on the Keeyask generating station (695 MW for $6.5 billion) in July 2014 with an anticipated in-service date of 2019. Potential development of the Conawapa site (1,485 MW), has prudently been postponed due to energy conservation efforts and increasing supplies of low-cost energy from shale gas and renewable alternatives such as wind and solar. In this environment, it is becoming more difficult to secure additional export contracts sufficient to advance the development of Conawapa.

Challenges

1. Delayed fiscal recovery
Manitoba has further delayed its fiscal recovery target with a return to balance not anticipated until 2018–19. Furthermore, this target is based on core government operations only, not the consolidated entity, which may mean a somewhat longer string of deficits on a consolidated basis. This now marks one of the longest fiscal recovery plans among all provinces, despite having experienced only a very mild recession in 2009.

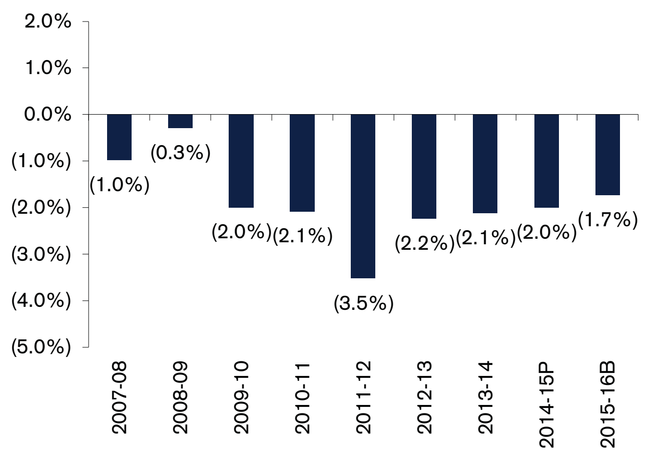
2. Renewal of public sector collective agreements
Adherence to fiscal targets will be dependent on the successful renewal of a number of collective agreements, including those with teachers and civil servants, which may be challenging in an environment of gradually improving economic conditions.

3. High reliance on federal transfers
Despite its relatively resilient economy, Manitoba receives approximately 27% of its revenues by way of federal transfers, including roughly 12% from equalization, leaving it exposed to changes in federal transfer programs. This represents the highest reliance on federal revenues outside of Atlantic Canada.

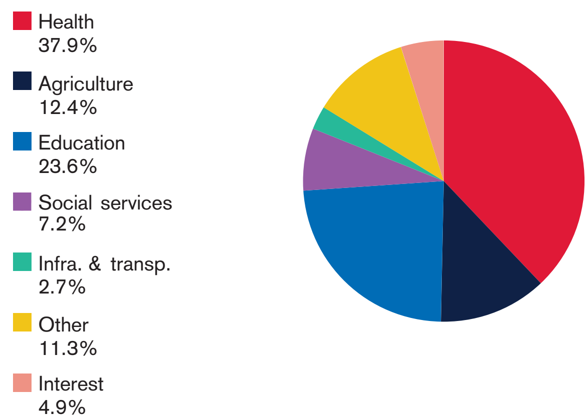
4. Below-average income and GDP per capita
Manitoba boasts a well-diversified economy and healthy labour market; however, it continues to exhibit below-average wealth. The Province recorded primary household income per capita of $31,396 in 2013, below the national average of $35,189 (the latest year for which information is available). Manitoba also generates below-average GDP per capita, suggesting that productivity and high value-added sectors may be lagging.

2015-16 Budget

DBRS-Adjusted Surplus (Deficit)-to-GDP



2015-16 DBRS-Adjusted Expenditures (Total: $16.1 billion)



Manitoba's fiscal outlook continues to disappoint, with efforts to restore balance now further delayed. Based on last year's plan, a balanced position was projected by 2016–17, on a consolidated basis. However, in the 2015 budget, fiscal balance is not anticipated until 2018–19 and is based on forecasts for core government operations (excluding government business enterprises, health authorities, school divisions, etc.). For 2015–16, a shortfall of $422 million is projected and equates to a DBRS-adjusted deficit of $1.1 billion (after including capital expenditures as incurred rather than as amortized). This represents 1.7% of GDP and is a wider-than-average fiscal gap relative to provincial peers.

Total DBRS-adjusted revenues are forecast to grow by just 1.3% in 2015–16, based on assumed nominal GDP growth of 3.8% for calendar 2015. The 2015 budget was light on revenue measures, with the most notable change being an increase to the small business income tax threshold. Starting January 1, 2016, the threshold at which the zero percent corporate income tax (CIT) rate applies will increase to $450,000 from $425,000. Despite this modest relief, CIT receipts are projected to grow by 6.6%. Personal income tax (PIT) collections are forecast to rise by 4.8%, followed by 3.9% growth for retail sales taxes. Meanwhile, most other revenue sources are projected to see only modest growth or even slight declines. Of note, federal transfers are estimated to fall by almost 1.0%, as increases in health and social transfers will not be sufficient to offset lower equalization and other transfer payments.

Based on budget projections, total DBRS-adjusted spending is forecast to rise by just 0.4% in 2015–16, an ambitious target when compared with average expenditure growth of 3.3% over the past five years. The government has emphasized its desire to protect core services and these areas will continue to be the primary drivers of expenditure growth. Health care expenditures are projected to rise by 3.2%, although efforts made to reduce the number of health authorities to five from eleven, direct patients to lower-cost forms of care and move to generic drugs have helped to slow the rate of growth. A new four-year agreement with doctors will help to provide cost certainty and also aims to find a further $50 million in efficiency savings over the term. Social services spending is budgeted to grow by 2.6%, driven by funding for 900 new child care spaces, while education will see an increase of 2.1%, due to continued efforts to reduce class sizes and increased operating funding for colleges and universities. Achieving these targets will be dependent on the government's ability to secure further collective agreements within the assumed budget envelopes. In particular, agreements have yet to be reached with civil servants and teachers. Gross capital spending is budgeted to decline by almost 5% but remains in line with the historical five-year average. Interest charges, net of sinking fund earnings, are projected to rise by 1.2%, although given the persistence of low interest rates, there is likely to be savings in this area.

Outlook

Over the medium term, the budget forecast points to a return to balance by 2018–19, although DBRS notes that these projections are now based on core government operations only and not the consolidated entity. As a result, DBRS anticipates that on a consolidated basis, deficits may persist somewhat longer, but nonetheless, the fiscal gap is expected to close gradually. The government remains averse to raising taxes and as such, any budget pressures that arise due to weaker-than-planned economic performance or cost escalation are likely to necessitate further expenditure reductions. To achieve this, would require greater fiscal discipline than has been achieved so far.

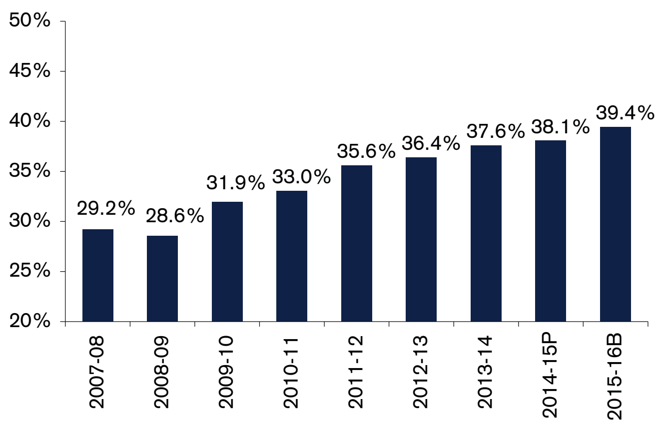
2014-15 Preliminary Results

Based on preliminary results, the Province recorded a deficit of $424 million in 2014–15. On a DBRS-adjusted basis, this equates to a shortfall of $1.3 billion, or 2.0% of GDP, and was consistent with expectations. Total revenues advanced by 4.0% year over year, and exceeded budget expectations largely due to higher than anticipated federal disaster assistance funding related to prior year flooding. Federal transfers grew by 1.8% as rising health and social transfers, along with other conditional federal transfers, were more than sufficient to offset lower equalization payments, which declined for the fifth straight year. Own-source revenues grew at a faster pace, driven by an 8.8% increase in sales tax collections reflecting the full-year impact of the 1.0% rate increase implemented in 2013. In addition, CIT and PIT receipts advanced by 10.9% and 4.5%, respectively.

Total DBRS-adjusted expenditures are estimated to have grown by 3.5% in 2014–15. Similar to revenues, spending growth exceeded expectations, driven by overspending in health care and higher than anticipated flood costs. Health care expenditures advanced by 3.4%, driven by volume pressures, although this is below the historical five-year average and demonstrates that the Province continues to make progress in this area despite missing budget targets. Education and social services also experienced growth of 4.1% and 4.4%, respectively, although this was partly offset by reductions in agricultural and economic development programs. Gross capital spending fell short of budget expectations, but remained consistent with the prior year's level. Interest charges grew by 3.0%, and too were below expectations due to the low interest rate environment.

Debt Profile

DBRS-Adjusted Debt-to-GDP



Steady deficits are continuing to boost provincial debt. DBRS-adjusted debt, defined as tax-supported debt plus unfunded pension liabilities, is estimated to have grown by $1.3 billion, or 5.4%, to reach $24.3 billion as of March 31, 2015. This somewhat exceeded expectations, but faster than anticipated growth in nominal GDP resulted in the debt-to-GDP ratio rising only modestly to 38.2%, from 37.6% a year earlier. This positions Manitoba with the fourth-highest debt burden among Canadian provinces.

In 2014–15, the Province completed total borrowing of $5.4 billion, primarily sourced through domestic markets, while one U.S. dollar deal was also transacted. DBRS's practice is to net pre-financing against debt, which amounted to $235 million for tax-supported obligations and $170 million for Manitoba Hydro in response to strong investor demand and an ongoing low-rate environment. Debt management practices remain prudent as the Province reported no unhedged foreign currency exposure and only moderate floating rate debt (22% of total debt) as of March 31, 2015. Furthermore, the Province aims for a smooth maturity profile and tries to limit maturing debt to no more than $2.0 billion in any fiscal year. This adds stability to borrowing costs, which accounted for only 5.3% of total revenues in 2014–15.

Sizable and growing unfunded pension liabilities continue to pressure DBRS-adjusted debt metrics. At March 31, 2015, unfunded pension liabilities were estimated at $2.3 billion, up 10.9% from the previous year. The civil service superannuation plan and teachers' pension plan account for majority of unfunded pension obligations. DBRS notes that contribution rates have been increasing annually since 2012 for both plans and indexing is limited to two-thirds of the national CPI, conditional upon one-half of the increase being funded within pension assets. The government periodically borrows to fund cash contributions to the plans in an effort to reduce unfunded liabilities, although no substantive changes have been made to plan design recently.

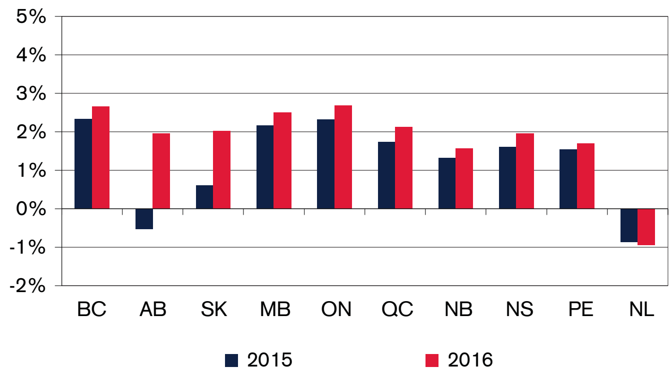
Outlook

For 2015–16, DBRS-adjusted debt is projected to rise by $1.9 billion, or 7.7%, and reflects ongoing deficits, capital spending in excess of amortization and rising unfunded pension liabilities. This is expected to push the debt-to-GDP ratio up to 39.6%, a level not seen since the late 1990s. Gross borrowing requirements are forecast at $4.7 billion and will be used to fund: refinancing needs ($2.0 billion); crown corporations ($2.0 billion), namely Manitoba Hydro; the fiscal shortfall and capital investment ($600 million). In addition, $100 million will be used to reduce unfunded pension obligations. At the time of writing, approximately $1.5 billion, or 30% of borrowing needs, had been fulfilled.

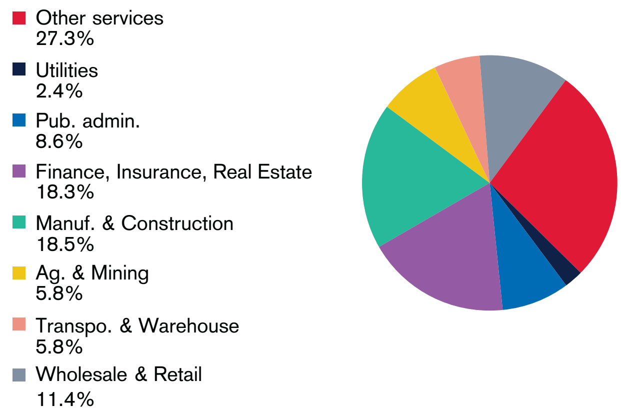
Over the medium term, debt growth is expected to slow to between 3% and 5% annually, as the Province continues to address the fiscal imbalance. Provided targets are adhered to, this points to the debt burden stabilizing around 40% of GDP, a modest deterioration from that envisioned last year but still considered manageable for the existing ratings.

Economy

Real GDP Growth Outlooks*



2014 Real GDP Breakdown**



*Based on major Canadian banks' forecasts at the time of this report. **Statistics Canada, CANSIM 379-0028. Figures may not add due to rounding.

The Province estimates real GDP to have grown by 2.4% in 2014, in line with the national average and somewhat above their 2014 budget assumption. However, based on preliminary estimates from Statistics Canada, real GDP is estimated to have grown by just 1.1% (GDP by industry). The Province attributes the difference to initially weak capital expenditure performance, which has subsequently been revised higher, although not yet reflected in Statistics Canada's GDP estimates, suggesting that upward revisions are likely later this fall. During the year, crop production was down from record levels achieved in 2013, but remained above the ten-year historical average. Meanwhile, crude oil production, which had been a key contributor to growth in recent years, is estimated to have slowed in 2014 as a result of the downturn in oil prices throughout the course of the year and lack of new discoveries. Driven by new developments in the utility sector, non-residential construction investment experienced solid growth, more than offsetting weakness in residential investment, which shrank year over year. In particular, housing starts declined by almost 17% due to a combination of lower construction of both single- and multi-family residences, although this was partially offset by renovation spending. Despite the decline, housing starts remained well above the historical ten-year average, supported by solid population growth. Manitoba has enjoyed relative success through the provincial nominee program, which has contributed to strong international migration in recent years and outweighed interprovincial outmigration. In turn, this helped to boost retail trade by a sound 4.3%. Employment growth was positive, albeit modest, during the year, with gains in full-time positions more than offsetting declines in part-time jobs. By sector, performance was mixed as health care, education and wholesale trade all saw healthy employment gains while business services, culture and recreation, and professional services experienced job losses. The unemployment rate remained unchanged at 5.4% in 2014 and represents the third-lowest rate among provinces.

Outlook

For 2015, the Province has assumed real GDP growth of 2.5%, which now appears somewhat optimistic in relation to the private sector consensus tracked by DBRS of 2.2%. Regardless, Manitoba is expected to be among the provincial growth leaders, given its well-diversified economy and only modest exposure to the energy sector. According to Statistics Canada's July 2015 survey of capital repair and expenditure intentions, non-residential construction, machinery and equipment investment is forecast to rise by 4.5% in 2015, well above the national average, which is expected to experience a decline. Population growth is projected to remain strong, likely buoyed by lower interprovincial outmigration to the more resource-intensive provinces. This should support the housing market, although a moderation is expected with starts forecast to decline by 3.5%, according to CMHC's second-quarter outlook. Both the labour force and employment are expected to see continued growth, helping to hold the unemployment rate steady. As of July 2015, the unemployment rate stood at 5.6%, slightly weaker than budget assumptions. Retail trade performance has also been soft, up only slightly year over year, as of May 2015.

While real growth has disappointed in both Canada and the United States in the first half of 2015, a strengthening U.S. economy and weaker Canadian dollar should be supportive of a transition to stronger export-led growth for Manitoba. In 2016, Manitoba is again expected to be among the provincial growth leaders as the current private sector consensus points to real GDP growth of 2.5%, above the 2.3% budget assumption. Slower than anticipated growth in the United States, or China, Manitoba's second-largest international export market, and weather and commodity prices volatility are viewed as key risks to the outlook over the medium term.

Economic Statistics

	For the year ended April 30						
	2016P	**2015P**	**2014**	**2013**	**2012**	**2011**	**2010**
Nominal GDP ($ millions)	69,178	66,136	63,715	61,323	59,126	55,758	52,896
Nominal GDP growth	4.6%	3.8%	3.9%	3.7%	6.0%	5.4%	4.5%
Real GDP growth	2.3%	2.5%	2.4%	2.2%	3.3%	2.1%	2.6%
Population (thousands)	1,316	1,299	1,282	1,265	1,250	1,234	1,221
Population growth	1.3%	1.3%	1.3%	1.2%	1.4%	1.0%	1.0%
Employment (thousands)	641	634	627	626	622	612	609
Unemployment rate	5.4%	5.4%	5.4%	5.4%	5.3%	5.5%	5.4%
Housing starts (units)	5,900	6,000	6,220	7,465	7,242	6,083	5,888
Retail sales ($ millions)	18,861	18,221	18,034	17,297	16,652	16,443	15,770
Inflation rate (CPI)	2.3%	0.9%	1.9%	2.2%	1.6%	3.0%	0.8%
Household income per capita ($)	30,337	32,488	31,704	31,396	30,579	29,314	28,260

Sources: Statistics Canada (actuals); Manitoba Finance and DBRS estimates; CMHC (housing projections). P= Projected. n.a. = not available.

Province of Manitoba

Budget Summary * ($ millions)	Budget **2015-16**	Projected **2014-15**	Budget **2014-15**	**2013-14**	**2012-13**	**2011-12**
Revenue	14,912	14,720	14,561	14,152	13,540	13,621
Program expenditure	15,270	15,214	15,088	14,694	14,097	14,839
Program surplus (deficit)	**(358)**	**(494)**	**(527)**	**(542)**	**(557)**	**(1,218)**
Interest expense	791	781	803	759	765	748
DBRS-Adjusted Surplus (Deficit)	**(1,149)**	**(1,275)**	**(1,330)**	**(1,301)**	**(1,322)**	**(1,966)**
DBRS adjustments:						
Capital expenditures less amortization	727	851	973	779	762	965
Other non-recurring items, incl. assets sales	-	-	-	-	-	-
Surplus (deficit), as reported	(422)	(424)	(357)	(522)	(560)	(1,001)
Tax-supported debt + unfunded pension	**26,169**	**24,308**	**24,142**	**23,057**	**21,515**	**19,840**
Gross borrowing requirements (all entities)	4,725	5,357	4,766	4,528	3,493	5,424
Gross capital expenditure	1,331	1,396	1,553	1,333	1,273	1,441

* DBRS adjusts reported figures to exclude certain non-recurring items (e.g. asset sales). DBRS also recognizes capital expenditures as incurred, rather than as amortized, to improve inter-provincial comparability.

Selected Financial Indicators (DBRS-Adjusted)

Debt */GDP	39.6%	38.2%	38.6%	37.6%	36.4%	35.6%
Surplus (deficit)/GDP	(1.7%)	(2.0%)	(2.1%)	(2.1%)	(2.2%)	(3.5%)
Surplus (deficit)/total revenue	(7.7%)	(8.7%)	(9.1%)	(9.2%)	(9.8%)	(14.4%)
Interest costs/total revenue	5.3%	5.3%	5.5%	5.4%	5.6%	5.5%
Total tax revenues/total revenue	53.5%	52.0%	54.0%	50.7%	49.2%	47.6%
Federal transfers/total revenue	26.0%	26.6%	26.0%	27.2%	29.2%	31.8%
Program expenditures/total revenue	102.4%	103.4%	103.6%	103.8%	104.1%	108.9%
Health expenditures/total expenditures	37.9%	36.9%	36.4%	36.9%	36.7%	34.2%
Program expenditure growth	0.4%	3.5%	2.7%	4.2%	(5.0%)	9.4%
Total expenditure growth	0.4%	3.5%	2.8%	4.0%	(4.7%)	9.2%
Total revenue growth	1.3%	4.0%	2.9%	4.5%	(0.6%)	3.4%

* DBRS-defined: tax-supported debt + unfunded pension liabilities.

Background Political Information

Party in power:	New Democratic Party	**Legislature seats:**	37 of 57
Premier:	Greg Selinger	**Election to be held by:**	October 2015 *

* If a federal election is held within two weeks of this date, the provincial election will be postponed until April 2016.

Province of Manitoba

Revenue ($ millions)	Budget 2015-16	Projected 2014-15	Budget 2014-15	2013-14	2012-13	2011-12
Personal income tax	3,262	3,113	3,102	2,978	2,846	2,697
Retail sales tax	2,292	2,207	2,207	2,028	1,767	1,658
Corporate taxes	1,210	1,135	1,096	1,024	965	919
Gasoline & motive fuel tax	346	340	340	329	332	269
Tobacco taxes	252	267	286	272	252	249
Education property tax 1	493	475	701	434	380	554
Energy, mining, and other taxes	118	114	131	105	124	142
Total tax revenue	7,973	7,651	7,864	7,169	6,667	6,488
Lottery income 2	582	601	575	554	298	338
Liquor control commission 2	-	-	-	-	261	254
Manitoba Hydro	125	120	62	174	92	61
Natural resource levies	173	170	178	176	168	187
Fees, permits, licences, & other	2,178	2,267	2,089	2,237	2,102	1,961
Total Own-Source Revenue	**11,030**	**10,809**	**10,768**	**10,310**	**9,587**	**9,289**
Equalization payments	1,738	1,750	1,750	1,799	1,872	1,942
Canada health & social transfer	1,698	1,623	1,610	1,524	1,487	1,417
Other federal transfers	**445**	**539**	**433**	**519**	**594**	**973**
Total Federal Transfers	**3,882**	**3,912**	**3,793**	**3,842**	**3,953**	**4,332**
DBRS-Adjusted Revenue	**14,912**	**14,720**	**14,561**	**14,152**	**13,540**	**13,621**
Expenditures ($ millions)						
Health	6,088	5,900	5,791	5,706	5,454	5,328
Education and training	3,789	**3,709**	**3,895**	**3,562**	**3,339**	**3,389**
Social services	1,151	1,121	1,115	1,074	1,035	1,013
Justice	539	535	542	534	500	460
Infrastructure and transportation	433	534	500	501	540	525
Agriculture, economic, & resource dev.	1,994	1,818	1,977	1,914	1,883	2,209
Other general government	700	784	444	624	584	950
Capital expenditures less amortization 3	727	851	973	779	762	965
Other	(150)	(38)	(150)	-	-	-
DBRS-Adjusted Program Expenditures	**15,270**	**15,214**	**15,088**	**14,694**	**14,097**	**14,839**
Net interest expense 4	791	781	803	759	765	748
DBRS-Adjusted Expenditures	**16,061**	**15,995**	**15,891**	**15,453**	**14,862**	**15,587**
DBRS-Adjusted Surplus (Deficit)	**(1,149)**	**(1,275)**	**(1,330)**	**(1,301)**	**(1,322)**	**(1,966)**
DBRS adjustments:						
Capital expenditures less amortization 3	727	851	973	779	762	965
Non-recurring revenue (expenditure)	-	-	-	-	-	-
Surplus (deficit), as reported	**(422)**	**(424)**	**(357)**	**(522)**	**(560)**	**(1,001)**

1 Starting in 2012-13 , education property tax is now reported net of tax credits. As a result, figures are not directly comparable with prior years. 2 In 2013-14, the Manitoba Lotteries Commission was merged with the Manitoba Liquor Control Commission. 3 This adjustment converts capital expenditures to a pay-as-you-go basis. 4 Interest expense is net of sinking fund earnings.

Province of Manitoba

Balance Sheet (Consolidated Statement)

($ millions)	As at March 31		
Financial Assets	**2014**	**2013**	**2012**
Cash and cash equivalents	1,802	1,522	1,579
Amounts receivable	1,548	1,661	1,647
Loans & advances 1	11,828	10,871	10,050
Equity in gov't enterprises	3,820	3,766	3,617
Net tangible capital assets	10,599	9,842	9,097
Other assets	2,488	2,655	2,934
Total Financial Assets	**32,085**	**30,317**	**28,924**

	As at March 31		
Liabilities	**2014**	**2013**	**2012**
A/P and accrued charges	4,043	3,862	3,936
Debt 1	32,662	30,602	28,742
Unamortized for. exch. fluc.	(33)	(39)	(44)
Unfunded pension liability	2,038	1,828	1,634
Other liabilities	-	-	-
Total Liabilities	**38,710**	**36,253**	**34,268**
Accumulated Deficit	**(6,625)**	**(5,936)**	**(5,344)**
Total Liabilities	**32,085**	**30,317**	**28,924**

Net Public Sector Debt *	As at March 31							
($ millions)	**2016B**	**2015P**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**
Net general purpose debt 2	17,560	16,318	15,730	14,851	13,956	11,907	10,949	9,739
Crown corporation & gov't agencies	3,034	2,655	2,511	2,246	1,926	1,641	1,478	1,341
Schools and universities	710	671	590	538	495	461	432	384
Health facilities	1,535	1,477	1,262	1,149	1,094	1,015	949	831
Municipalities 3	926	926	926	903	735	723	602	544
Net Tax-Supported Debt	**23,765**	**22,047**	**21,019**	**19,687**	**18,206**	**15,747**	**14,410**	**12,839**
Self-supporting debt:								
Manitoba Hydro 2	14,171	12,418	10,838	9,609	8,999	8,362	7,730	7,499
Total net public sector debt	**37,936**	**34,465**	**31,857**	**29,296**	**27,205**	**24,109**	**22,140**	**20,338**
Unfunded Pension Liabilities 4	2,404	2,261	2,038	1,828	1,634	1,731	1,768	1,991
Per Capita (CAD) 4								
Tax-supp. debt + unf. pension liabilities	20,150	18,960	18,221	17,205	16,082	14,316	13,386	12,382
Total public sector debt	29,211	26,883	25,175	23,427	22,051	19,747	18,319	16,980
As a % of GDP 4								
Tax-supp. debt + unf. pension liabilities	39.6%	38.2%	37.6%	36.4%	35.6%	33.0%	31.9%	28.6%
Total public sector debt	57.4%	54.1%	51.9%	49.5%	48.8%	45.6%	43.7%	39.2%
Debt Breakdown by Currency 5								
Cdn$ pay	n/a	100%	100%	100%	100%	100%	100%	100%
Non-CAD pay	n/a	0%	0%	0%	0%	0%	0%	0%
Fixed/Floating Rate Debt Breakdown 5								
Fixed rate	n/a	78%	79%	77%	80%	76%	82%	80%
Floating rate	n/a	22%	21%	23%	20%	24%	18%	20%

Unfunded Pension Liabilities (Tax-Supported) ($ millions)	**Valuation Date**	**Mar. 31, 2015**
Civil service 6	Dec. 2012	2,603
Teachers 6	Jan. 2012	3,323
Other plans (includes MLAs, judges, other)	Various	1,835
	Total liabilities:	7,761
	Less pension assets:	5,500
	Total Unfunded Pension Liabilities:	**2,261**

Gross Debt Maturity Profile Public Sector Debt	($ millions)	%
2015-16	3,840	10.8%
2016-17	2,680	7.5%
2017-18	2,526	7.1%
2018-19	2,736	7.7%
2019-20	2,509	7.1%
2020-21 to 2024-25	7,089	20.0%
2025-26+	14,148	39.8%
Total	**35,528**	**100%**

* Net of sinking fund and Debt Retirement Fund assets. B = budget; P = projected; n/a = not applicable.
1 Includes asset and liability items related to debt of The Manitoba Hydro-Electric Board and Manitoba Lotteries Corporation. 2 Excludes pre-financing of $235 million in 2014-15P for general purpose debt and $170 million for Manitoba Hydro. 3 Not guaranteed by the Province. DBRS estimate for 2015P; 2016B. 4 Excludes pension liabilities of self-supporting Crown corporations. 5 Net of hedges (if any). Floating rate debt is defined as debt that matures or is repriced within 12 months. 6 Civil Service includes amounts for indexation and unamortized pension adjustment; Teachers includes amount for indexation.

Rating History

	Current	2014	2013	2012	2011	2010
Issuer Rating	A (high)	A (high)	A (high)	A (high)	NR	NR
Long-Term Debt	A (high)	A (high)	A (high)	A (high)	A (high)	A (high)
Short-Term Debt	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (middle)

Previous Action

- Confirmed, October 17, 2014.

Related Research

- Rating Canadian Provincial Governments, June 9, 2015.
- DBRS Criteria: Guarantees and Other Forms of Explicit Support, February 23, 2015.
- Manitoba Hydro-Electric Board, The, October 23, 2014.

Treasury Bill Limit

- $1.95 billion.

Previous Report

- Manitoba, Province of, Rating Report, October 17, 2014.

Notes:
All figures are in Canadian dollars unless otherwise noted.

For the definition of Issuer Rating, please refer to Rating Definitions under Rating Policy on **www.dbrs.com**.

Generally, Issuer Ratings apply to all senior unsecured obligations of an applicable issuer, except when an issuer has a significant or unique level of secured debt.