Working for you

Manitoba Hydro-Electric Board 65th Annual Report
For the Year Ended March 31, 2016

Available in accessible formats upon request

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Chair's Letter to the Minister of Crown Services

July 29, 2016

Honourable Ron Schuler
Minister of Crown Services
Legislative Building
Winnipeg, Manitoba
R3C 0V8

Dear Minister,

I am honoured to present the 65th Annual Report of the Manitoba Hydro-Electric Board, together with the financial statements, for the fiscal year ended March 31, 2016.

Respectfully submitted,

H. Sanford Riley
Chair
Manitoba Hydro-Electric Board

Our service area in km²

650 000

Number of communities with natural gas service

nearly **100**

Total assets

$19.8 billion

Number of electricity customers

567 634

Number of natural gas customers

276 858

Total electricity capability

5 690 megawatts

Number of generating stations

17*

Kilometres of distribution lines

68 000

Kilometres of transmission lines

18 000

Kilometres of natural gas lines

10 070

Number of Indigenous employees

nearly **1 in 5**

Total number of full-time employees

6 410

*The Wuskwatim Generating Station is owned by the Wuskwatim Power Limited Partnership, a partnership involving Nisichawayasihk Cree Nation and Manitoba Hydro.

Corporate Profile

Manitoba Hydro is a provincial Crown Corporation and one of the largest integrated electricity and natural gas distribution utilities in Canada. We are a leader in providing renewable electricity and clean-burning natural gas. Our Power Smart* programs help Manitoba residents and businesses conserve energy and lower their energy costs.

We also trade electricity within three wholesale markets in the Midwestern United States and Canada. Nearly all of the electricity Manitoba Hydro produces each year is renewable hydro power generated using the province's abundant water resources. Our export of electricity helps keep our domestic rates low and displaces greenhouse emissions in markets where fossil fuels are used for electricity production.

Vision

To be recognized as a leading utility in North America with respect to safety, reliability, rates, customer satisfaction and environmental leadership.

Mission

To provide for the continuance of a supply of energy to meet the needs of the province and to promote economy and efficiency in the development, generation, transmission, distribution, supply and end-use of energy.

*Manitoba Hydro is a licensee of the Trademark and Official Mark.


Manitoba Hydro
EXOFIT
NEX

President & CEO's Letter to Customers

The theme of this report, working for you, reflects Manitoba Hydro's focus on serving our customers. We exist for the benefit of Manitobans and are dedicated to meeting your energy needs now and into the future.

An executive by experience, a professional engineer by training, and a prairie farm boy at heart, it was a great honour and privilege to assume the role of President & Chief Executive Officer of Manitoba Hydro in December 2015.

Manitoba has a tremendous advantage generating approximately 97 per cent of its electricity from renewable hydropower.

During my first 100 days on the job, I spent time travelling the province, visiting both Manitoba Hydro and customer operations as well as meeting with key stakeholders. Coming from outside the corporation, my intention was to learn about Manitoba Hydro by listening to employees, customers, Indigenous leaders and many others. In those conversations I heard common themes. Manitobans expect us to be reliable and fair. You expect us to manage our financial and human resources responsibly. There is an inherent understanding of the importance of our relationships with Indigenous communities and the importance of us interacting with the environment in a manner that meets the needs of the present without compromising the ability of future generations to meet their needs.

Conversations with stakeholders also confirmed what I knew to be Manitoba Hydro's strengths, including a highly skilled and diverse workforce, a level of customer satisfaction that is among the highest in the industry, and an energy system that produces practically all of our electricity from renewable sources. In a world that is increasingly concerned about reducing carbon emissions and transitioning to renewable energy, Manitoba has a tremendous advantage generating approximately

97 per cent of its electricity from renewable hydropower. This is very different from many other jurisdictions in North America where major investments are required to transition away from fossil fuel generated electricity. Aside from providing Manitobans with a reliable source of cost effective electricity, renewable resources also enable the province to be a major exporter of electricity to neighboring jurisdictions generating revenues which help deliver lower rates to our customers here at home.

We also deliver affordable, clean natural gas which provides efficient and cost effective heating to nearly 60 per cent of the homes in Manitoba and is an important energy source for business and industry in the province. Manitobans are currently benefiting from historically low natural gas costs, as Manitoba Hydro flows the benefits of lower prices directly through to our customers.

I've come to appreciate just how committed our employees are to carrying out their responsibilities and fulfilling the important mandate entrusted to us.

Meeting Manitoba's current and future energy needs requires ongoing investment in new capacity coupled with re-investment to upgrade and replace aging infrastructure. The significant investments being made towards ensuring a secure, reliable energy system for Manitobans create financial challenges for the corporation. Successfully addressing these challenges will require us to operate more efficiently but also requires raising additional revenues. We have continued with an approach of seeking moderate, predictable annual increases to electrical rates and in parallel we are doing our part to increase operating efficiency helping us limit increases in our operating and administrative expense to 1% annually, which is less than the rate of inflation. Over the past two years, we have driven cost reductions and reduced our operational staffing levels by taking advantage of retirements and normal employee turnover while continuously seeking to find new efficiencies in how we work.

Since joining Manitoba Hydro, I've come to appreciate just how committed our employees are to carrying out their responsibilities and fulfilling the important mandate entrusted to us. This commitment is most often on public display when we face challenging circumstances – such as when we have a major storm that knocks down lines and disrupts service. Yet, behind the scenes, where you can't always see their efforts, Manitoba Hydro employees work hard on a daily basis to deliver the energy and the customer service you count on.

This company has been and will continue to be successful thanks to the efforts of many who bring their considerable knowledge and experience to bear on the many facets of the corporation. On behalf of the employees of Manitoba Hydro, I would like to take this opportunity to thank the outgoing members of the Manitoba Hydro-Electric Board (MHEB) for the time and energy they dedicated to serving the energy needs of Manitobans.

I would also like to welcome the new MHEB members. Recognizing the mandate and direction given to the board by our new government, we are fully committed to working hard to ensure that together we set the right future direction in order to best serve Manitobans.

At Manitoba Hydro we remain wholeheartedly dedicated to having positive impact on the lives of our customers and on the prosperity of our province. We are committed to safely, reliably and affordably delivering the energy you count on. We are working for you.

Kelvin Shepherd, P.Eng
President and Chief Executive Officer
Manitoba Hydro

2015-16 Highlights

- Selected the final preferred route and filed an environmental impact statement with regulators for the Manitoba-Minnesota Transmission Project, a line that will allow us to fulfill current export sale agreements and double our import capability strengthening the reliability of our electricity supply, particularly in times of drought.

- Signed a 20-year agreement for the sale of 100 megawatts of renewable energy to SaskPower beginning in 2020 that will contribute to keeping rates lower in Manitoba.

- Named one of the nation's top employers for the sixth year-in-a-row by the editors of the Canada's Top 100 Employers Project.

- Improved our turnaround time for performing underground locates of electricity and natural gas lines with a new, fully electronic process that no longer requires the customer to be on-site.

- Launched a new system on our website enabling customers to report power outages using mobile devices as an alternative to using the phone.

- Introduced Power Smart for New Homes, a program providing incentives to encourage the use of innovative designs and energy efficient technologies by Manitoba's new home construction industry.

- Announced Power Smart Shops, a program aimed at lowering energy and water bills for small independent business across the province by providing free or low-cost efficiency upgrades and financial incentives.

- Received the 2015 Energy Star Market Transformation Award from Natural Resources Canada for our Fall 2014 Power Smart Residential LED Lighting Program.


Manitoba Hydro

Major projects update

Keeyask

At the Keeyask Generating Station, a project being built in partnership with four First Nations – Tataskweyak Cree Nation, War Lake First Nation, Fox Lake Cree Nation and York Factory First Nation – the first concrete was placed in the fall of 2015, approximately six months ahead of schedule. When complete in 2021, Keeyask will produce additional renewable electricity needed to maintain a reliable supply for Manitoba.

$6.5 billion – total estimated cost
$2.4 billion – total spent to March 31, 2016
$450 million – total contracts awarded to Indigenous contractors/joint ventures
6 860 total hires to the project

- 85 per cent Manitoba residents
- 54 per cent Indigenous persons

Bipole III

The past winter saw construction ramp up at two converter stations that are part of the Bipole III Transmission Reliability Project. Over 60 per cent of the tower foundations were completed for this transmission line with the first tower erected in March. Bipole III will strengthen the reliability and security of the province's energy supply by creating an alternate connection to deliver electricity from northern generating stations to customers in southern Manitoba.

$4.65 billion – total estimated cost
$1.8 billion – total spent to March 31, 2016
$305 million – total contracts awarded to Indigenous contractors/joint ventures
4 616 total hires to the project

- 84 per cent Manitoba residents
- 43 per cent Indigenous persons

SAFETY IN THE WORKPLACE

Promoting safety remains Manitoba Hydro's top priority. We are committed to continuously improving safety performance and focusing on strategies to instill a safety and health culture in all corporate activities. In doing so, we intend to maintain a steady decline in both workplace accident severity and frequency rates.

MEASURE	TARGET	PERFORMANCE
Accident severity rate (days per 200 000 hrs worked)	<12	12.51
Accident frequency rate (accidents per 200 000 hrs worked)	<0.6	0.59
Serious incidents	0	10

CUSTOMER VALUE

Providing excellent customer service, high system reliability and affordable rates drives us in everything we do. Manitoba Hydro is a leader in promoting conservation, providing numerous Power Smart programs to assist our customers in meeting their energy needs.

MEASURE	TARGET	PERFORMANCE
System average interruption duration (minutes per year)	<116	154
System average interruption frequency (outages per year)	<1.4	1.61
Customer satisfaction	>8.2/10	8.22

FINANCIAL STRENGTH

Maintaining the financial strength of the corporation is essential to making the investments in infrastructure needed to continue providing safe and reliable service to our customers, financially withstanding the risks and uncertainties that are inherent in Manitoba Hydro's operations and to providing customers with long-term rate stability and predictability. We are committed to carefully managing costs and utilizing resources efficiently and effectively to fulfill our mandate and provide maximum value to our stakeholders and ratepayers.

MEASURE	TARGET	PERFORMANCE
Debt:equity ratio	75:25	83:17
Interest coverage	>1.80	1.55
Capital coverage	>1.20	1.37

WORKFORCE MANAGEMENT & INDIGENOUS RELATIONS

Attracting, developing and retaining a highly skilled and motivated workforce that reflects the demographics of Manitoba is critical to our success. Engaging impacted Indigenous communities in a positive way is vital to enhancing working relationships. We continue to place emphasis on addressing the adverse effects of our operations, fostering an appreciation of Indigenous culture, developing and maintaining business relationships, providing opportunities in future development projects and implementing initiatives to recruit, develop and retain Indigenous employees.

MEASURE	TARGET	PERFORMANCE
Indigenous – corporate workforce	16%	18.2%
Indigenous – northern workforce	45%	47.5%
Persons with disabilities	6%	9.2%
Visible minorities	7%	8.2%

PROTECTING THE ENVIRONMENT

Protecting the environment is an integral part of everything we do. Manitoba Hydro integrates environmentally responsible practices into all aspects of our business. Environmental protection is carried out with dedication to monitoring programs, climate change initiatives, and environmental research and development.

MEASURE	TARGET	PERFORMANCE
Renewable electricity generated in Manitoba	≥99%	99.8%
Total annual GHG emissions	≤520 kt	167 kt
Repeat environmental audit findings	0 repeat findings	1

DEMAND SIDE MANAGEMENT

Demand side management plays a key role in meeting Manitoba's future energy needs in a sustainable manner as the province's population and economy continues to grow. Our efforts assist customers in using energy more efficiently and result in overall lower energy bills.

MEASURE	TARGET	PERFORMANCE
Annual incremental electric energy saved	292 GWh	346 GWh
Electric capacity saved annually	221 MW	244 MW
Natural gas energy saved annually	9 million cubic metres	9.5 million cubic metres

Corporate Integrity Program

Manitoba Hydro encourages employees and others to speak up on matters of concern without fear of reprisal, through its Integrity Program. All disclosures under the Integrity Program are protected by strict rules of confidentiality.

Below is a summary of all disclosures received during 2015-16 which allege wrongdoing as defined in The Public Interest Disclosure (Whistleblower Protection) Act:

Total number of disclosures received:	3
Number of disclosures ongoing from 2014-15:	0
Number of disclosures acted upon:	3
Number of disclosures not acted upon:	0
Number of investigations commenced/continued:	3
Number of disclosures that were verified:	3
Number of disclosures that were not verified:	0
Number of disclosures carried forward to 2016-17:	0

Corrective actions were taken for the verified incidents, as follows:

- Actions have been taken or are in progress to enhance policies and controls to deal with weak management oversight of a procurement process.
- A manager had taken steps but not sufficient steps to dispel perceptions of a conflict, and additional measures were taken to avoid any appearance of involvement in administration of a contract to address perceptions.
- Irregularities in the procurement of a contract resulted in termination of the contract and termination of the services of a consultant. Recommendations were made to enhance related policies and procedures, and action plans have been implemented.

Manitoba Hydro-Electric Board

Appearing from left to right:

Back row -

David Brown
Earl Edmondson
Michael Pyle
H. Sanford Riley, Chair
Steve Kroft
Cliff Graydon

Front row -

Dayna Spiring
Dr. Annette Trimbee
Allen Snyder

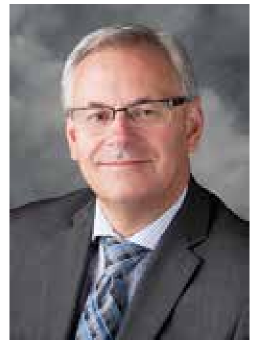
Missing: Jennefer Nepinak

Manitoba Hydro Senior Officers

Kelvin Shepherd, P.Eng
President and Chief Executive Officer

E. Ruth Kristjanson, BA (Hons), MA
Vice-President,
Corporate Relations

Lloyd Kuczek, P. Eng, MBA
Vice-President,
Customer Care & Energy Conservation

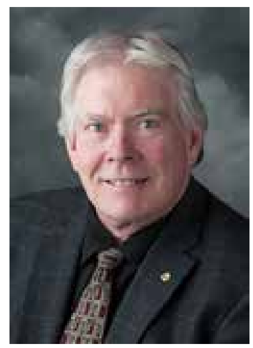


Bryan Luce
Vice-President,
Human Resources & Corporate Services

Shane Mailey, P. Eng
Vice-President,
Transmission

Lorne Midford, P. Eng
Vice-President,
Generation Operations

Darren B. Rainkie, CPA, CA, CBV
Vice-President,
Finance & Regulatory Affairs
& Chief Financial Officer



G. Brent Reed
Vice-President,
Customer Service & Distribution

Ken M. Tennenhouse, LL.B
Vice-President,
General Counsel & Corporate Secretary

Siobhan Vinish
Vice-President,
Corporate Communications & Public Affairs

Financial Review

The following Management's Discussion and Analysis (MD&A) provides comments on the financial results of Manitoba Hydro (the corporation) for the year ended March 31, 2016 with comparative information where applicable. The MD&A also provides an assessment of corporate risks and contains forward-looking statements regarding conditions and events which may affect financial performance in the future. Such forward-looking statements are subject to a number of uncertainties which are likely to cause actual results to differ from those anticipated. For context, the MD&A should be read in conjunction with the consolidated financial statements and notes.

Summary of consolidated results

The fiscal 2016 financial information discussed below has been prepared in accordance with International Financial Reporting Standards (IFRS). Effective April 1, 2015, the corporation adopted IFRS in place of Canadian Generally Accepted Accounting Principles (CGAAP). All comparative figures for the 2015 fiscal year that were previously reported in accordance with CGAAP are now reported in accordance with IFRS. Information presented in this MD&A for fiscal 2014 and earlier was prepared in accordance with CGAAP. The impacts on the financial statements and accounting policies of adopting IFRS are further discussed below and in the Notes to the Consolidated Financial Statements.

Consolidated Statement of Income

Manitoba Hydro's consolidated net income from electricity and natural gas operations for the fiscal year ended March 31, 2016 was $49 million compared to $136 million in the previous fiscal year. Net income decreased $87 million as a result of lower domestic revenues in both the electric and natural gas segments primarily due to milder winter weather and an increase in capital investment related expenses such as finance costs, depreciation and capital taxes associated with new plant going into service.

The following table provides results on the two primary operating segments of Manitoba Hydro as well as the consolidated results.

	Electric		Natural Gas		Consolidated*		
	2016	2015	**2016**	2015	**2016**	2015	Change
			millions of dollars				
Revenues							
Manitoba	**1 430**	1 454	**356**	429	**1 843**	1 932	(89)
Extraprovincial	**415**	384	**-**	-	**415**	384	31
	1 845	1 838	**356**	429	**2 258**	2 316	(58)
Expenses	**1 893**	1 779	**329**	415	**2 266**	2 229	37
Net income (loss) before net movement in regulatory balances	**(48)**	59	**27**	14	**(8)**	87	(95)
Net movement in regulatory balances	**75**	41	**(28)**	(3)	**47**	38	9
Net income (loss)	**27**	100	**(1)**	11	**39**	125	(86)
Net income (loss) attributable to:							
Manitoba Hydro	**37**	111	**(1)**	11	**49**	136	(87)
Non-controlling interests	(10)	(11)	-	-	(10)	(11)	1
	27	100	**(1)**	11	**39**	125	(86)
Total assets and regulatory debits	**19 230**	17 054	**677**	692	**19 780**	17 567	2 213
Retained earnings	**2 696**	2 659	**65**	66	**2 828**	2 779	49
Financial Ratios							
Debt:equity					**83:17**	82:18	
Interest coverage					**1.55**	1.73	
Capital coverage					**1.37**	1.20	

*includes other segments and eliminations

Consolidated net income attributable to Manitoba Hydro of $49 million for the 2016 fiscal year was comprised of net income of $37 million in the electric segment, a net loss of $1 million in the natural gas segment, net income of $9 million from subsidiaries and a $4 million net income related to adjustments required on consolidation to harmonize accounting policies between electric and natural gas operations related to the gas meter exchange program.

At the beginning of fiscal 2015-16 Manitoba Hydro forecasted consolidated net income of $126 million. Manitoba Hydro revised the forecast during the fiscal year to $31 million. The $95 million decrease in net income between forecasts is primarily related to lower electricity export prices and domestic revenues.

The export price forecast decreased as a result of lower natural gas prices and growing volumes of wind energy in the U.S., which are continuing to depress market prices for electricity. Domestic revenues were lower than forecast due to the later implementation of the 3.95% rate increase on August 1, 2015 which was forecast to be effective April 1, 2015. Further, 2.15% of the rate increase accrued to the Bipole III deferral account rather than to net income.

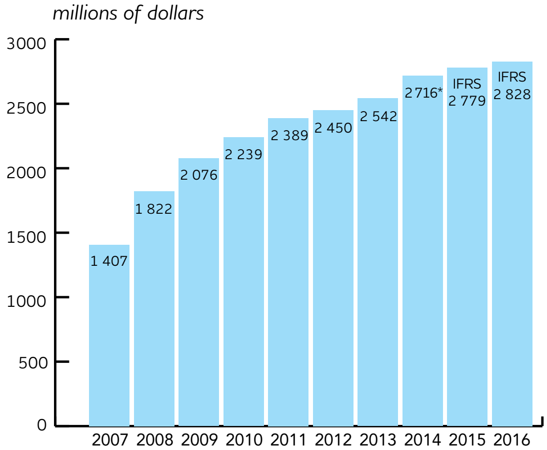
Consolidated net income for 2015-16 was $18 million higher than the forecasted net income of $31 million resulting from additional regulatory deferrals flowing from recent Public Utilities Board (PUB) rate decisions as well as higher net extraprovincial revenues as a result of lower Manitoba load which allowed more energy to be sold into the export market. These increases were partially offset by lower domestic revenues as a result of warmer than normal winter weather and lower customer usage.

Financial Targets

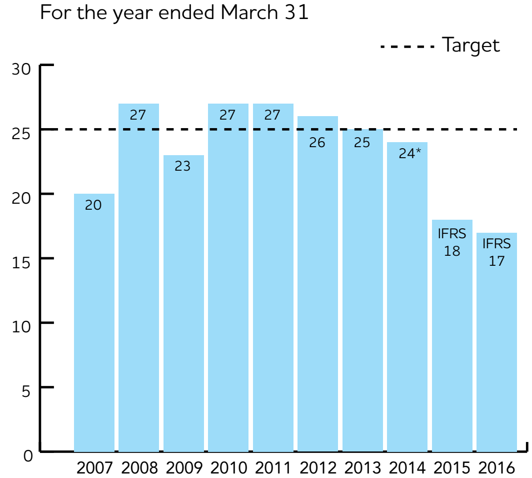
Manitoba Hydro has three primary financial targets which are used to assess the financial strength of the corporation. The first is to maintain a minimum equity ratio of 25%, a measure of the portion of assets that are financed by internally generated funds rather than debt. The second is an earnings before interest, taxes, depreciation and amortization interest coverage ratio with a minimum target of greater than 1.80, which measures the ability to meet interest payment obligations with cash flow. The third is to maintain a capital coverage ratio of greater than 1.20, which is a measure of the ability of cash flow from operations to fund sustaining capital expenditures.

Consolidated net income of $49 million contributed to the corporation's retained earnings of $2 828 million at March 31, 2016. The equity ratio of 17% is lower than the 25% target. The decline in the equity ratio since 2014 is primarily due to higher debt levels to fund significant investment in major new generation and transmission facilities as well as transitional adjustments upon adoption of IFRS. The interest coverage ratio of 1.55 was below the target level of 1.80. The capital coverage ratio of 1.37 exceeded the target level of 1.20.

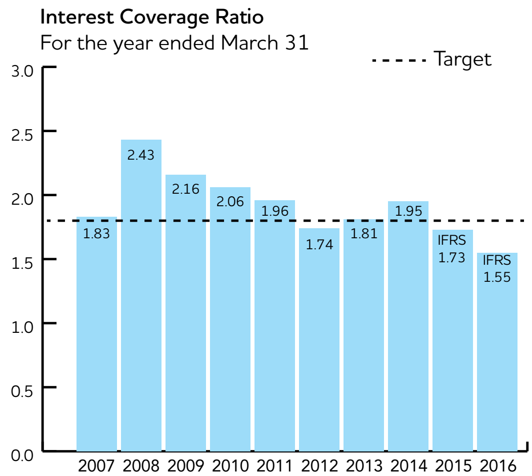
Retained Earnings
For the year ended March 31
millions of dollars

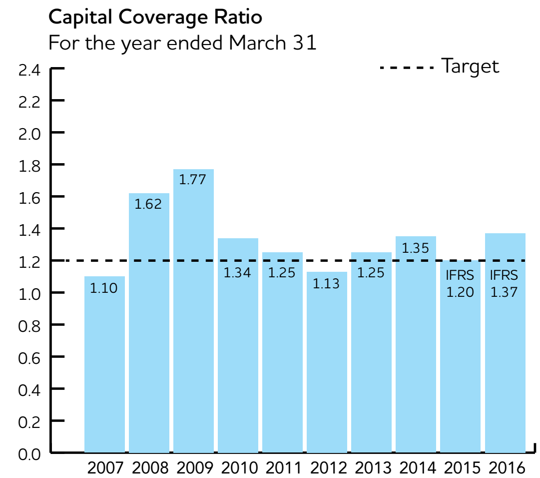


Equity Ratio
For the year ended March 31



*On transition to IFRS on April 1, 2014, retained earnings was adjusted to $2 643 which reduced the equity ratio to 21%.





Consolidated Statement of Financial Position

The following table provides a summary of Manitoba Hydro's consolidated statement of financial position.

	2016	2015	increase/ (decrease)
	millions of dollars		
Current assets	**1 485**	1 067	418
Property, plant and equipment	**17 208**	15 222	1 986
Non-current assets	**601**	868	(267)
Total assets	**19 294**	17 157	2 137
Regulatory balances	**486**	410	76
Total assets and regulatory balances	**19 780**	17 567	2 213
Current liabilities	**1 241**	1 096	145
Long-term debt	**14 201**	12 303	1 898
Non-current liabilities	**2 094**	1 966	128
Total liabilities	**17 536**	15 365	2 171
Equity	**2 192**	2 179	13
Total liabilities and equity	**19 728**	17 544	2 184
Regulatory balances	**52**	23	29
Total liabilities, equity and regulatory balances	**19 780**	17 567	2 213

Significant changes are explained below:

Current assets increased by $418 million primarily as a result of the corporation's practice to maintain larger cash balances to enhance liquidity during the period of intensive capital investment. Manitoba Hydro's practice is to be funded approximately three months in advance of the corporation's cash requirements.

Property, plant and equipment increased by $1 986 million for capital expenditures required to enhance reliability, and to address new and increasing load requirements as well as infrastructure renewal.

Non-current assets decreased by $267 million as a result of the repayment of the advance by the St. Joseph Windfarm and a reduction in sinking fund investments, partially offset by increases in advances to the Indigenous partners investing in the Keeyask Generating Station.

Current liabilities increased by $145 million due to an increase in payables related to major capital projects while long-term debt increased by $1 898 million to fund the investment in these projects. Non-current liabilities increased by $128 million due to an increase in revenue set aside in the Bipole III deferral account and higher employee future benefit obligations, which increased primarily as a result of lower returns on pension assets.

Regulatory balances increased due to annual investment on Power Smart programs including the Demand Side Management (DSM) deferral which captures the difference between actual and planned spending in Power Smart programs. There were additional regulatory deferrals related to depreciation and overhead costs, which were partially offset by the reduction of the purchased gas variance account (PGVA) associated with the collection of prior period gas commodity costs from customers.

Consolidated Statement of Cash Flow

Manitoba Hydro's primary sources of liquidity and capital are funds generated from operations and debt financing through the Province of Manitoba. These sources are used for multiple purposes including investment in generation, transmission and distribution facilities, to fund operating and maintenance activities and to service long-term debt.

The following table provides a summary of Manitoba Hydro's consolidated statement of cash flows.

	2016	2015	change
	millions of dollars		
Cash and cash equivalents, beginning of year	**494**	142	-
Cash provided by operating activities	**791**	665	126
Cash used for investing activities	**(2 440)**	(1 873)	(567)
Cash provided by financing activities	**2 111**	1 560	551
Cash and cash equivalents, end of year	**956**	494	462

Cash from operating activities includes cash receipts from customers, cash paid to suppliers and employees as well as interest payments.

Cash provided from operations in 2015-16 was $791 million, an increase of $126 million from the previous year. The change reflects higher payable balances primarily related to the construction of the Keeyask generation and transmission facilities and the Bipole III Reliability project and lower cost of gas largely due to warmer weather and lower purchase gas costs compared to the previous year. This change is partially offset by increased financing costs on higher levels of debt and lower domestic sales than the previous year.

The corporation's electric and natural gas segments are capital intensive in nature and require continued investment in infrastructure to construct new generation, transmission and distribution facilities, increase capacity of existing facilities and maintain and improve service, reliability, safety and environmental performance.

Cash flow used in investing activities in 2015-16 was $2 440 million, compared to $1 873 million in 2014-15. The increase was primarily due to higher expenditures for the Bipole III Reliability project.

Manitoba Hydro's authority to issue debt is provided through *The Loan Act*, which is approved each year and grants borrowing authority to meet the corporation's new debt financing requriements. *The Manitoba Hydro Act* grants the corporation the power to issue short-term promissory notes in the name of the MHEB up to an aggregate sum of $500 million of principal outstanding at any one time. Authority to refinance any maturing long-term debt is provided through *The Financial Administration Act*. The majority of Manitoba Hydro's long-term debt is obtained through advances from the Province of Manitoba.

The primary use of the long-term borrowing program is to provide debt financing for investment in new generation and transmission. The primary use of the short-term borrowing program is to safeguard the corporation from liquidity risk by providing a credit facility to support the corporation's temporary cash requirements. Both long and short-term borrowings are unconditionally guaranteed as to principal and interest by the Province of Manitoba (except for mitigation bonds issued by the MHEB).

Cash provided by financing activities in 2015-16 was $2 111 million, compared to $1 560 million in 2014-15 and is comprised primarily of proceeds from long-term debt through advances from the Province. Proceeds from financing arranged by the corporation amount to $2 165 million compared to $2 210 million in the previous year. Current year proceeds were used to fund new capital requirements and to refinance long-term debt maturing during the year. As a result of the low financing rates during 2015-16, the corporation was able to issue debt at a weighted average rate of 2.87%. During 2015-16, the corporation refinanced $362 million of debt which matured and was comprised of Provincial Advances of $300 million, HydroBonds of $50 million and MHEB Bonds of $12 million.

Electric segment

The electric segment is responsible for the generation, transmission and distribution of electrical energy adequate for the needs of the Province of Manitoba and engages in wholesale power related transactions in order to assist in providing a reliable and dependable supply of power to Manitoba and to minimize the net costs to Manitoba customers. The electric segment includes Manitoba Hydro's ownership interests in the Wuskwatim Power Limited Partnership, the Keeyask Hydropower Limited Partnership and a subsidiary formed to participate in the development of a new transmission line to the U.S. Manitoba Hydro provides electric service to 497 699 residential and 69 935 commercial and industrial customers in Manitoba.

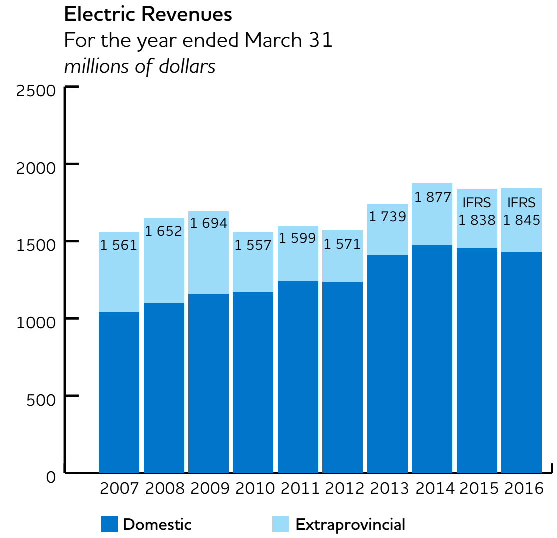
Net income attributable to Manitoba Hydro in the electric segment was $37 million in 2015-16 compared to a net income of $111 million in the previous fiscal year. The decrease in net income is a result of lower domestic revenues primarily due to milder winter weather as well as an increase in capital investment related expenses such as finance costs, depreciation and capital taxes associated with new plant going into service.

Electric Revenues

Domestic revenue includes the sale of electricity to residential, commercial and industrial customers in Manitoba and other miscellaneous revenues. Residential customers are comprised of all housing types including apartment blocks, seasonal cottages and farm houses. Commercial customers are comprised of small and medium establishments including retail outlets, schools, universities and hospitals. Industrial customers are comprised of large establishments who own their own transformation and are primarily engaged in mining and/or manufacturing activities. Revenues are impacted by weather, electricity rates, customer growth and energy usage. Other revenue in the electric segment includes amortization of customer contributions, provision of services on customer owned plant and net rental revenue between Manitoba Hydro and other telecom and cable providers.

Extraprovincial revenue includes revenues from Canadian and U.S. export sales as well as revenues from other related export market activities such as arbitrage opportunities between wholesale energy markets, transmission credits and the sale of renewable energy certificates. Canadian and U.S. sales include both dependable and opportunity sales. Dependable sales are export contracts sourced from Manitoba Hydro's hydraulic energy available during lowest water conditions and are typically negotiated at least one year in advance and have a duration of greater than six months. Opportunity sales are based on excess energy, are generally over shorter periods and are transacted primarily in markets operated by an independent system operator such as the Midcontinent Independent System Operator (MISO). Opportunity sales are also negotiated directly with a purchasing party. Extraprovincial sales are impacted by changes in water flow conditions, export prices, foreign exchange rates and domestic usage. Extraprovincial sales volumes are dependent on the availability of surplus generation that requires favorable water flow conditions and the availability of transmission to export markets.

Total electric revenues were $1 845 million, an increase of $7 million or 0.4% from the previous year. This was the result of an increase of $31 million in extraprovincial revenues, partially offset by a $24 million decrease in domestic revenues. Higher extraprovincial revenues were primarily due to favorable U.S. exchange rates and higher volumes sold in the opportunity sales market, which were made available through lower domestic load requirements during the milder winter, partially offset by lower export prices in the U.S. Decreases in domestic revenues are a result of warmer winter weather and lower customer usage.



The breakdown of electric revenues is as follows:

Electric Revenues and kWh Sales

For the year ended March 31

	2016	2015	% change	**2016**	2015	% change
	millions of dollars			*millions of kWh*		
Domestic						
Electricity sales						
Residential	**575**	602	(4.5)	**7 181**	7 788	(7.8)
Commercial	**495**	501	(1.2)	**6 876**	7 158	(3.9)
Industrial	**329**	321	2.5	**7 597**	7 512	1.1
	1 399	1 424	(1.8)	**21 654**	22 458	(3.6)
Other revenue	**31**	30	3.3			
Domestic revenue	**1 430**	1 454	(1.7)	**21 654**	22 458	(3.6)
Extraprovincial						
Dependable	**206**	183	12.6	**2 701**	3 132	(13.8)
Opportunity	**197**	193	2.1	**7 580**	6 679	13.5
Other	**12**	8	50.0			
Extraprovincial revenue	**415**	384	8.1	**10 281**	9 811	4.8
	1 845	1 838	0.4	**31 935**	32 269	(1.0)

Revenues from electricity sales in Manitoba totaled $1 399 million in 2015-16, a decrease of $25 million from the previous year. Electricity consumption in Manitoba was 21 654 million kilowatt-hours, 804 million kilowatt-hours lower than the previous year. The decrease in consumption was mainly due to warmer winter weather and lower customer usage.

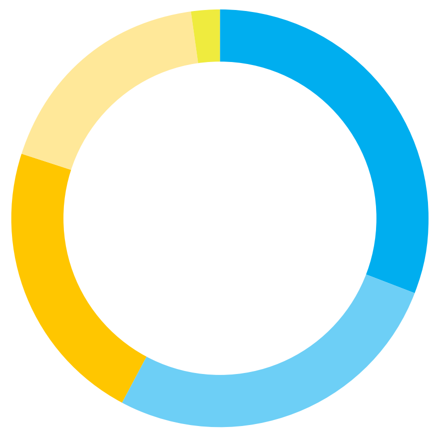
Revenues from sales to residential customers for 2015-16 amounted to $575 million, a decrease of $27 million or 4.5% from the previous year. The decrease was primarily a result of a lower heating load from 15% warmer winter weather and lower customer usage partially offset by rate increases implemented during the year and increases in the number of residential customers of 5 424 to 497 699, an increase of 1.1% compared to the previous year.

Revenues from commercial customers amounted to $495 million in 2015-16, a decrease of $6 million or 1.2% from the previous year. The decrease was mainly attributable to warmer winter weather and lower customer usage partially offset by rate increases implemented during the year and an increase of 334 customers.

Revenues from industrial customers amounted to $329 million, an increase of $8 million or 2.5% from the previous year. The increase was mainly the result of rate increases implemented during the year, an increase in consumption by customers and an increase of 7 customers.

Extraprovincial revenues totaled $415 million in 2015-16, an increase of $31 million from the previous year. The increase reflects favorable foreign exchange rates on U.S. sales and higher opportunity sales volumes due to lower Manitoba consumption, partially offset by lower export prices. Of the total extraprovincial revenues, $385 million or 93% was derived from the U.S. market, $27 million or 6% was from sales to Canadian markets and $3 million or 1% was related to arbitrage opportunities between wholesale energy markets.

Electric Revenues
For the year ended March 31, 2016

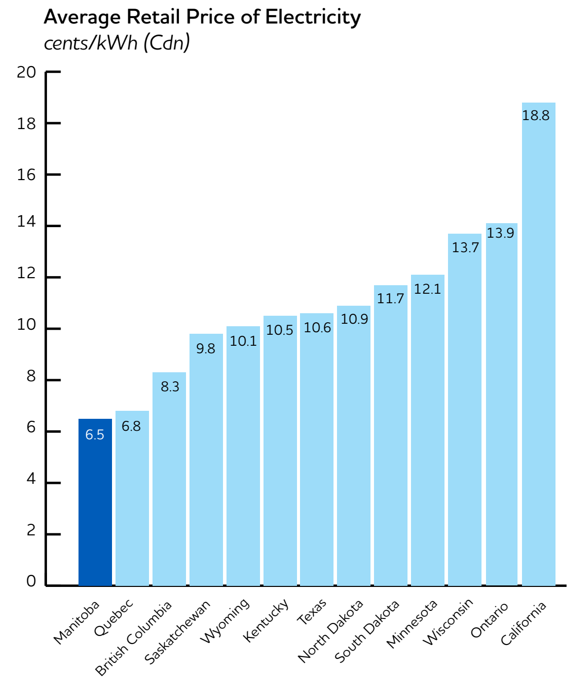


Residential	31%
General service	27%
Extraprovincial	22%
Industrial	18%
Other	2%

Electric Rates

The PUB approved a 3.95% electricity rate increase for all customer classes effective August 1, 2015 and directed that 1.8% of the increase be included in general revenue and the remaining 2.15% be added to the previously established deferred revenue account to mitigate rate increases when the Bipole III project comes into service. During the 2015-16 fiscal year $51 million was set aside for this purpose, which reflects the total of 1.5% approved by the PUB effective May 1, 2013, the 0.75% effective May 1, 2014 and the 2.15% effective August 1, 2015. At the end of fiscal 2016, the balance in this deferral account totals $100 million.

Manitoba Hydro's domestic electricity rates continue to be among the lowest overall in North America. This is illustrated in the accompanying chart which was excerpted from utilities' annual reports and United States Department of Energy and Edison Electric Institute publications.



Electric Expenses

Electric expenses totaled $1 893 million for 2015-16, an increase of $114 million or 6.4% over the previous year. The increase in expenses was mainly the result of a $71 million increase in net finance expense, $28 million increase in other expenses, a $15 million increase in depreciation and amortization, a $7 million increase in capital and other taxes and a $5 million increase in operating and administrative, partially offset by a $12 million decrease in fuel and power purchased.

The breakdown of electric expenses is as follows:

Electric Expenses

For the year ended March 31

	2016	2015	% change
	millions of dollars		
Operating and administrative	**543**	538	0.9
Finance expense	**582**	515	13.0
Depreciation and amortization	**367**	352	4.3
Water rentals and assessments	**126**	125	0.8
Fuel and power purchased	**117**	129	(9.3)
Capital and other taxes	**107**	100	7.0
Other expenses	**65**	37	75.7
Corporate allocation	**8**	9	(11.1)
Finance income	**(22)**	(26)	(15.4)
	1 893	1 779	6.4

Operating and administrative expenses are comprised primarily of labour and benefits, materials, contracted services and overhead costs associated with operating, maintaining and administering the facilities and programs of the corporation and providing services to customers.

In 2015-16, operating and administrative expenses for electric operations amounted to $543 million, an increase of $5 million or 0.9% over 2014-15 which is lower than the Manitoba Consumer Price Index of 1.3%. The minimal year over year increase demonstrates Manitoba Hydro's ongoing efforts to manage its operating and administrative expenses to below inflationary levels. This reduction is a benefit to both electric and natural gas segments.

The increase in operating and administrative expenses is attributable to lower capitalization of overhead costs, an increase to bad debt expense and higher software license and maintenance contract expenditures. This increase is partially offset by lower benefit costs as a result of changes in the discount rate as well as the impact of various cost saving initiatives including the reduction of 400 operational positions over the past two years through attrition, the application of technology and the consolidation and elimination of work processes.

Finance expense includes interest on short and long-term borrowings and the provincial debt guarantee fee paid to the Province of Manitoba, foreign exchange gains and losses, accretion expense on provisions and other long-term liabilities, partially offset by interest capitalized for those qualifying assets under construction. Finance expense is impacted by borrowing requirements for capital investment, interest rates on borrowings and the capitalization of interest.

Finance expense totaled $582 million in 2015-16, an increase of $67 million or 13.0% from the previous year. The increase was primarily due to financing costs associated with plant being placed into service including a full year of finance expense on the replacement of the Pointe du Bois spillway and the new Riel 230/500 kV station. The foreign exchange impact from the weakening Canadian dollar increased interest costs on U.S. long-term debt. These increases to finance expense were partially offset by lower interest rates on new long-term debt issues.

Depreciation and amortization includes depreciation of property, plant and equipment and amortization of intangible assets as well as any gains or losses on disposal of assets.

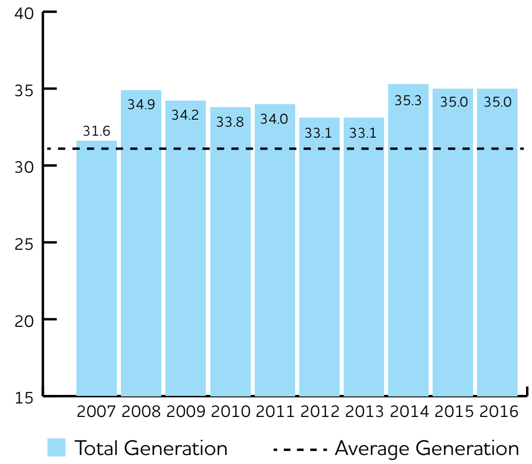
Depreciation and amortization expense amounted to $367 million in 2015-16, an increase of $15 million or 4.3% from the previous year. The increase was mainly attributable to new additions to plant and equipment coming into service including a full year of depreciation for the replacement of the Pointe du Bois spillway and the new Riel 230/500 kV station.

Water rentals and assessments includes water rentals paid to the Province of Manitoba for the use of water resources in the operation of the corporation's hydraulic generating stations and assessments paid to various regulatory and market organizations. Water rentals and assessments amounted to $126 million in 2015-16 as compared to $125 million in the prior year. The slight increase is due to higher assessments to participate in the U.S. export market as a result of foreign exchange impacts. Hydraulic generation amounted to 35.0 billion kilowatt-hours in 2015-16 which is consistent with the previous year.

Fuel and power purchased includes fuel for the thermal generating stations and remote diesel sites, purchased electrical energy from external Canadian and U.S. suppliers, wind power purchased from the independently-owned St. Leon and St. Joseph wind farms and transmission charges. Fuel and power purchases are impacted by weather, market prices for electricity and water flow conditions. If water conditions are low, electricity purchases are necessary to meet the energy requirements of Manitobans. Manitoba Hydro has experienced higher than average hydraulic generation over the past several years largely as a result of favorable water supply conditions reducing the requirement to purchase power.

Fuel and power purchased was $117 million in 2015-16, a decrease of $12 million or 9.3% from 2014-15. The decrease was primarily due to lower wind purchases resulting from lower wind generation and reduced import volumes due to milder winter weather compared to the previous year, partially offset by increased U.S. transmission charges due to the impact of the weakening Canadian dollar.

Hydraulic Generation
For the year ended March 31
billions of kWh



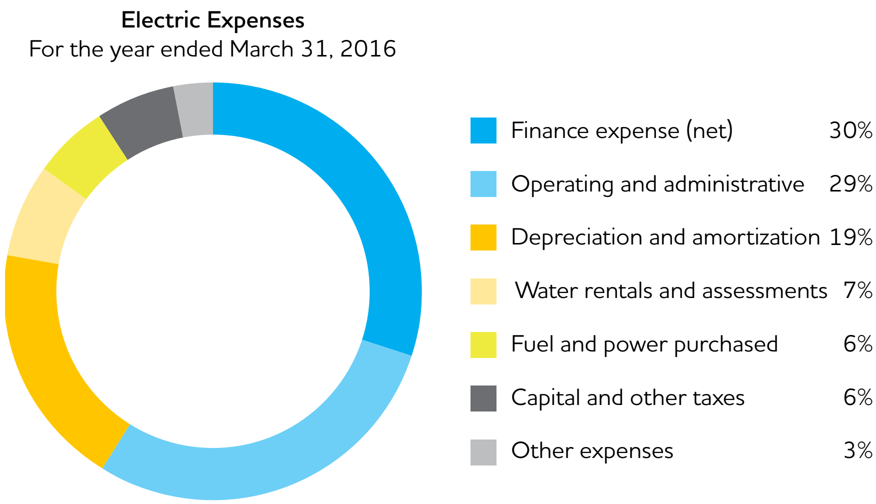
*Average hydraulic generation is based on the historic river flows since 1912 and the current hydroelectric generation fleet

Capital and other taxes includes payments to the Province of Manitoba for capital and payroll tax and to municipalities within the Province of Manitoba for property taxes.

Capital and other taxes amounted to $107 million in 2015-16, an increase of $7 million or 7.0% compared to the previous year. The change was primarily due to increased capital taxes as a result of higher debt levels related to additional capital investment.

Other expenses include expenditures associated with Power Smart programs designed to reduce overall energy consumption and assist customers in managing their energy costs as well as other miscellaneous expenditures. The majority of other expenses are removed from the statement of income, deferred and subsequently amortized through net movement in regulatory balances.

Other expenses amounted to $65 million in 2015-16, an increase of $28 million or 75.7% compared to the previous year. The increase was primarily due to higher investment in Power Smart programs related to the implementation of LED street lighting, an oilfield project to convert the harnessing of flare gases at oil pumping rigs to electricity and increased customer participation for the commercial lighting and fridge recycling programs. Electric Power Smart expenditures for the year totaled $54 million, an increase of $23 million over 2014-15.



Electric Net Movement in Regulatory Balances

The corporation's financial results were prepared using the interim standard IFRS 14 *Regulatory Deferral Accounts* which allows Manitoba Hydro to continue to recognize regulated balances for financial reporting purposes. This results in the deferral of costs and recoveries that under IFRS would otherwise be recorded as expenses or income in the current accounting period. The deferred amounts are either recovered or refunded through future rate adjustments.

The net movement in regulatory balances captures the timing differences between financial reporting under IFRS and those amounts approved by the PUB for rate-setting purposes. The change in the net movement in regulatory balances of $34 million was primarily due to higher Power Smart expenditures, as discussed above, which are removed from the statement of income through net movement in regulatory balances, deferred and subsequently amortized to net income.

Electric Capital Expenditures

The electric capital expenditure program relates to investments in major new generation and transmission facilities, as well as additions, improvements and replacement of existing infrastructure, referred to as sustaining capital.

Expenditures for capital construction totaled $2 255 million in 2015-16 compared to $1 849 million during the previous fiscal year. This includes $1 722 million for the development of new major generation and transmission facilities, an increase of $398 million when compared to 2014-15. Current year expenditures include $872 million (2015 - $360 million) for the Bipole III Reliability project and $742 million (2015 - $700 million) for the Keeyask Generating Station.

The Bipole III Reliability project will strengthen reliability of Manitoba Hydro's electricity supply by reducing dependency on existing high voltage direct current transmission lines and the Dorsey Converter Station which are relied upon to deliver over 70 per cent of the electricity produced in Manitoba. The Bipole III Reliability project includes a 1 384 kilometre, 500 kilovolt (kV) transmission line with two converter stations.

The two new converter stations, the Keewatinohk Converter Station and the Riel Converter Station, will provide additional capacity to existing Bipole I and II HVDC transmission systems. The project also provides additional capacity for delivery of existing and proposed hydroelectric generation to southern Manitoba.

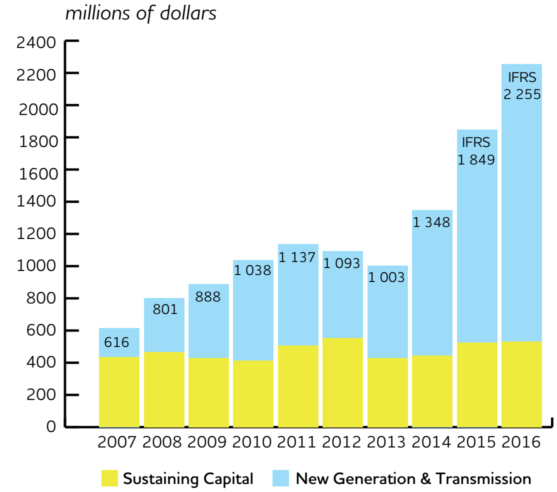
During the 2016 fiscal year, site development work was completed at the Keewatinohk site with the grand opening of the Keewatinohk Lodge in September 2015. Fall of 2015 marked the full ramp up of construction at both the Keewatinohk and Riel Station sites. To date, all land has been secured, transmission line clearing is 95 per cent complete, over 60 per cent of anchors and foundations have been installed and the first tower was erected. At March 31, 2016 expenditures for the Bipole III Reliability project totaled $1 779 million.

The Keeyask Generating Station will be a source of renewable energy, providing approximately 695 megawatts of capacity and producing an average of 4 400 gigawatt hours of electricity each year. The renewable hydroelectric energy produced will be integrated into the corporation's electric system to maintain a reliable supply for Manitoba with surplus energy available for export until necessary to meet domestic requirements.

During the 2016 fiscal year, excavation for the spillway was completed and powerhouse excavation was substantially complete which will allow for major concrete activities to occur in the spring and summer of 2016. In addition, the construction of the 2 000 person Keeyask camp was completed. At March 31, 2016, total expenditures for Keeyask generation and related transmission amounted to $2 359 million.

Capital expenditures needed for additions, improvements and replacement of existing infrastructure amounted to $533 million, an increase of $9 million compared to the previous fiscal year. This includes investments in urban and rural distribution station development such as the new Madison and Adelaide substations required to address increasing load requirements. In addition, transmission capacity enhancements in the Winnipeg area and Lake Winnipeg East vicinity were necessary to accommodate higher than average load growth and system expansion. Manitoba Hydro is also investing in the replacement and refurbishment of existing assets to address asset degradation and obsolescence given that many of the corporation's assets were installed several decades earlier.

Electric Capital Expenditures
For the year ended March 31
millions of dollars



Wuskwatim Power Limited Partnership

The Wuskwatim Power Limited Partnership (WPLP) owns and operates the Wuskwatim Generating Station and related works, excluding the transmission facilities. The WPLP has two limited partners, Manitoba Hydro and Taskinigahp Power Corporation, which is owned beneficially by Nisichawayasihk Cree Nation, and a General Partner which is a wholly-owned subsidiary of Manitoba Hydro.

The WPLP reported a net loss for 2015-16 of $31 million which is consistent with the expectations for the early years of operation. This is compared to a net loss of $34 million in 2014-15. Manitoba Hydro's 67% share of the loss was $21 million (2015 - $23 million) and TPC's 33% share of the loss was $10 million (2015 - $11 million).

Keeyask Hydropower Limited Partnership

The Keeyask Hydropower Limited Partnership (KHLP) was formed to carry on the business of developing, owning and operating the Keeyask Generating Station and related works excluding the transmission facilities but including all dams, dikes, channels, excavations and roads. Manitoba Hydro, Cree Nation Partners (owned beneficially by Tataskweyak Cree Nation and War Lake), FCLN Keeyask Investments Inc. (owned beneficially by Fox Lake) and York Factory First Nation Limited Partnership (owned beneficially by York Factory) are limited partners of KHLP. The General Partner is a wholly-owned subsidiary of Manitoba Hydro. The KHLP will have no impact on the statement of income until the generating station goes into service.

Natural gas segment

Centra Gas Manitoba Inc. (Centra) is a wholly-owned subsidiary of Manitoba Hydro. Centra distributes natural gas to 251 142 residential and 25 716 commercial and industrial customers in Manitoba.

The net loss in the natural gas segment was $1 million in 2015-16 compared to net income of $11 million in the previous fiscal year. The decrease in net income over the previous year was primarily attributable to lower demand due to milder weather during the winter of 2015-16 compared to the winter of 2014-15 and lower customer usage partially offset by a decrease in operating and administrative expenses.

Natural Gas Revenues and Cost of Gas

For the natural gas segment, customer classes are distinguished based on the level of annual consumption and include residential, large and small general service, large commercial and industrial as well as interruptible and transportation service. Interruptible customers may have service interrupted periodically upon notice in exchange for a reduced rate. Transportation service customers purchase their own gas commodity and pay only for the delivery of natural gas.

Revenues from the sale and distribution of natural gas during 2015-16 were $354 million, a decrease of $74 million from the previous year. The decrease in revenue is primarily due to the impact of warmer winter weather, lower gas costs and lower customer usage. Natural gas deliveries were 1 846 million cubic metres in 2015-16 compared to 2 071 million cubic metres in 2014-15. The cost of gas is incorporated into the rates charged to customers and as such, as gas costs decrease there is a corresponding decrease in revenue.

As directed by the PUB, $3.8 million of revenue from 2015-16 was set aside to continue a program targeted to low-income customers and qualifying seniors on fixed incomes to assist in the replacement of low efficiency furnaces with high efficiency furnaces. At March 31, 2016, there is a remaining balance of $21 million in the Furnace Replacement Program.

The breakdown of natural gas revenue is as follows:

Natural Gas Revenues and Deliveries
For the year ended March 31

	2016	2015	% change	**2016**	2015	% change
	millions of dollars			*millions of cubic metres*		
Residential	**177**	213	(16.9)	**498**	597	(16.6)
Large general service	**109**	132	(17.4)	**463**	537	(13.8)
Large commercial & industrial	**29**	32	(9.4)	**154**	166	(7.2)
Small general service	**26**	34	(23.5)	**87**	109	(20.2)
Interruptible	**7**	11	(36.4)	**44**	58	(24.1)
Transportation service and other	**6**	6	-	**600**	604	(0.7)
Revenue	**354**	428	(17.3)	**1 846**	2 071	(10.9)

The actual cost of gas purchased is comprised of all expenses incurred in the procurement and delivery of natural gas to the Manitoba marketplace, including commodity supply, transportation and storage costs either from Western Canada or U.S. sources.

Centra purchased 936 million cubic metres of natural gas based on monthly Alberta indexed pricing, 193 million cubic metres under daily Alberta indexed pricing and 230 million cubic metres from a number of other supply sources. Centra also delivered natural gas on behalf of brokers to 14 145 (2015 – 15 875) customers receiving natural gas under Direct Purchase arrangements.

The cost of gas during 2015-16 was $181 million, a decrease of $85 million from the previous year. This decrease results from lower purchased gas costs driven by low market prices and an abundant supply of natural gas as well as lower purchased volumes due to the impact of warmer winter weather and lower customer usage.

The differences between the cost of gas embedded in customer rates and the actual cost of gas purchased are accumulated in the PGVAs, which ensures that only the actual cost of gas, no more or less, is passed on to customers. Any differences in these accounts are either refunded to, or collected from customers in future rates.

For income statement purposes the actual cost of gas purchased is adjusted in the net movement in regulatory balances for the impact of the PGVA accounts. For 2015-16, the total of actual cost of gas purchased combined with the PGVA adjustment is $215 million compared to $274 million for 2014-15.

The resulting gross margin after considering the net movement in PGVAs is $139 million for 2015-16 compared to $154 million for 2014-15, which is a reduction of $15 million due to warmer winter weather and lower customer usage.

Natural Gas Rates

In accordance with Centra's quarterly rate-setting methodology, annualized rates for natural gas supplied to residential customers changed during 2015-16 as follows:

- May 1, 2015 1.7% decrease
- August 1, 2015 unchanged
- November 1, 2015 0.7% increase
- February 1, 2016 3.2% decrease

The change in natural gas rates reflects the fluctuations in pricing for natural gas purchased by Centra, as well as the recovery of gas costs from prior periods.

Natural gas prices have been declining since 2009 and natural gas customers have benefited as a result. The total annual natural gas bill for a typical residential customer in Manitoba in 2015-16 was 32% lower than in 2005-06.

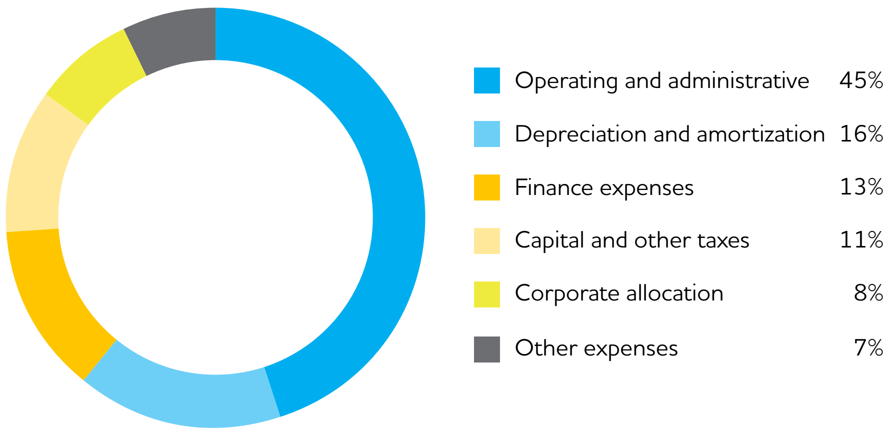
Centra did not apply to the PUB for a general rate increase related to non-gas costs in 2015-16.

Centra offers a fixed rate service for primary natural gas supply which allows customers to fix their natural gas rates for terms of up to five years. The fixed rate service is offered to residential and commercial customers. At March 31, 2016 there were 154 customers (2015 – 209 customers) on Centra's fixed rate service. Total natural gas deliveries under this service were 1.4 million cubic metres (2015 – 2.9 million cubic metres).

Natural Gas Expenses

Expenses attributable to the natural gas operations, excluding cost of gas sold amounted to $148 million in 2015-16, which was $1 million lower than the previous year primarily due to a decrease of $3 million in operating and administrative expense partially offset by a $1 million increase in depreciation and amortization and a $1 million increase in finance expense. The decrease in operating and administrative expenses results from the effects of ongoing cost saving initiatives as well as fewer requests from customers for miscellaneous services. The increase in depreciation and amortization and finance expense is due to additions to capital assets and associated financing costs.

Natural Gas Expenses
For the year ended March 31, 2016



Natural Gas Expenses
For the year ended March 31

	2016	2015	% change
		millions of dollars	
Operating and administrative	**67**	70	(4.3)
Finance expense	**20**	19	5.3
Depreciation and amortization	**23**	22	4.5
Capital and other taxes	**16**	16	-
Other expenses	**10**	10	-
Corporate allocation	**12**	12	-
	148	149	(0.7)

Natural Gas Net Movement in Regulatory Balances
The natural gas net movement in regulatory balances captures the timing differences between financial reporting under IFRS and those amounts approved by the PUB for rate-setting purposes. The change in the net movement in regulatory balances of $25 million was primarily the result of the change in the PGVA balance due to lower purchased gas costs.

Natural Gas Capital Expenditures
The capital expenditure program relates to new business, system improvement and other expenditures to meet the needs of the natural gas customers. Capital expenditures in the natural gas sector were $40 million in 2015-16 compared to $27 million in the previous fiscal year. The increase is primarily due to providing additional capacity to areas surrounding Winnipeg as well as system upgrades in order to meet reliability, safety and operational requirements.

Other segment

In addition to Centra, Manitoba Hydro has the following wholly-owned subsidiaries involved in energy-related business enterprises:

Manitoba Hydro International Ltd. (MHI) provides professional consulting, operations, maintenance and project management services to energy sectors world-wide, either exclusively or through partnerships. MHI also provides research and development services and products to the electrical power system industry.

Manitoba Hydro Utility Services Ltd. (MHUS) provides meter reading and related services to Manitoba Hydro, Centra and other utilities.

Manitoba Hydro also owns Minell Pipelines Ltd. (Minell) and Teshmont LP Holdings Ltd. (Teshmont).

The following table provides a summary of the financial results of the subsidiary companies, excluding Centra, for the fiscal year ended March 31, 2016 compared to the previous fiscal year. The results of Minell and Teshmont are included in Other in the table below:

	MHI		**MHUS**		**Other**		**Total**	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
				millions of dollars				
Revenues	**61.5**	51.9	**4.9**	5.3	**0.8**	0.5	**67.2**	57.7
Expenses	**52.8**	43.3	**5.0**	5.5	**0.3**	0.2	**58.1**	49.0
Net income (loss)	**8.7**	8.6	**(0.1)**	(0.2)	**0.5**	0.3	**9.1**	8.7

Risk management

Manitoba Hydro faces a number of risks in the fulfillment of its mission and mandate. These risks are managed through a systematic, proactive and integrated process which is designed to balance the objectives of:

- identifying threats that affect the achievement of the corporation's mission and mandate;
- mitigating the consequences of negative occurrences; and
- taking advantage of opportunities to provide benefits to all stakeholders.

Most risk management efforts are focused on reducing the occurrence of negative events. However, the corporation also has plans in place to reduce the impacts should a negative event occur. These plans are under continual assessment. In addition, all safety and reliability risks are managed through strict adherence to design, construction and operating standards and practices together with extensive public education and employee training programs. A comprehensive Emergency Response Program is also in place to ensure an effective and coordinated response to possible emergencies or disasters.

The financial and operational risks associated with the management of an integrated electricity and natural gas utility are significant. These risks include the impacts of new infrastructure development, aging infrastructure renewal and replacement, weather on supply and demand, price and market uncertainties, interest, inflation and foreign exchange rates, skilled labour availability and costs, increasing regulatory, environmental and legal requirements and accelerated technological change. Manitoba Hydro manages these risks through an integrated control framework and through the maintenance of an adequate level of financial reserves through retained earnings.

The most significant risks facing Manitoba Hydro are catastrophic infrastructure failure, extreme drought, loss of export market access and higher interest rates. These risks are quantified in the following table:

RISK	POTENTIAL FINANCIAL IMPACT
Infrastructure	Greater than $2.0 billion
Drought	Greater than $1.9 billion for a five year drought
Loss of export market	Greater than 30% of electricity revenue
Interest rates	Approximately $1.0 billion for a 1% change over 10 years

Transition to IFRS

Manitoba Hydro transitioned to IFRS on April 1, 2014 with retrospective application of changes in accounting policies resulting from differences from existing Canadian generally accepted accounting principles. The transition to IFRS also resulted in the restatement of net income and other comprehensive income for 2014-15 for comparative purposes. In addition, adjustments to net income for 2014-15 reflect recent PUB rate decisions with respect to the deferral of differences in depreciation methods and overhead costs. The following table summarizes the changes to equity to March 31, 2015. Information pertaining to these adjustments is included in Note 6 of the Consolidated Financial Statements.

	Retained Earnings	**Accumulated Other Comprehensive Loss**
	millions of dollars	
Equity under Canadian GAAP - March 31, 2015	2 830	(161)
April 1, 2014 IFRS opening balance adjustments	(73)	(432)
2014-15 IFRS net income/other comprehensive income adjustments	(28)	(127)
2014-15 net income regulatory deferral adjustments	50	–
	(51)	(559)
Equity under IFRS - March 31, 2015	2 779	(720)

Outlook

Manitoba Hydro entered fiscal 2016-17 with above average water storage levels but runoff in the spring of 2016 was slightly below average due to below normal snowpack conditions over much of the basin. Inflows recovered to average by early June as a result of late spring rains. The May through September period is critical to overall water supply conditions as this is the period when most precipitation occurs. Although there remains considerable uncertainty in overall water supply conditions for the remainder of the year, given the above average storage levels at the beginning of the fiscal year and assuming normal precipitation going forward, hydraulic generation is expected to be above average for 2016-17. Short term export market prices in 2015-16 were down considerably from 2014-15 largely due to low natural gas prices combined with mild winter conditions throughout much of the mid-western U.S. Export prices for the first three quarters of 2016-17 are expected to resemble prices experienced this past year, with a recovery expected for the last quarter assuming normal winter weather. Based on current conditions, Manitoba Hydro expects its net income for 2016-17 to be marginally higher than what was experienced in 2015-16.

The corporation's earnings can fluctuate significantly due to various non-controllable factors such as the level of water inflows, weather, domestic load requirements, market prices for electricity and interest rates. The impact on earnings with respect to water inflows is particularly sensitive to spring and summer precipitation levels. The net income outlook for 2016-17 assumes the continuation of current water flow and export market conditions and normal winter weather.

Management Report

For the year ended March 31, 2016

The accompanying consolidated financial statements have been prepared by management of the Manitoba Hydro-Electric Board (the corporation), who are responsible for the integrity, consistency and reliability of the information presented. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards.

The preparation of the consolidated financial statements necessarily involves the use of estimates and assumptions based on management's judgments, particularly when transactions affecting the current period cannot be finalized with certainty until future periods. Estimates and assumptions are based on historical experience, current conditions and various other assumptions believed to be reasonable in the circumstances. The preparation of the consolidated financial statements includes information regarding the estimated impact of future events and transactions. Actual results in the future may differ from the present assessment of this information because future events and circumstances may not occur as expected. The consolidated financial statements have been prepared within reasonable limits of materiality in light of information available up to July 6, 2016.

In meeting its responsibility for the reliability of financial information, management maintains and relies on a comprehensive system of internal controls, which is designed to provide reasonable assurance that that the corporation's assets are safeguarded and appropriately accounted for, that financial information is relevant, reliable and accurate, and that transactions are properly authorized and executed. The system includes formal policies and procedures as well as the appropriate delegation of authority and segregation of responsibilities within the organization. An internal audit function evaluates the effectiveness of these controls and reports its findings to management and the Audit Committee of the Board of Directors.

The Board of Directors, through the Audit Committee, is responsible for ensuring that management fulfills its responsibility for financial reporting and internal controls. The Audit Committee, which is comprised of outside and unrelated directors, meets periodically with management, the internal auditors and the external auditors to satisfy itself that each group has properly discharged its responsibility with respect to internal controls and financial reporting. The Audit Committee reviews the consolidated financial statements and management's discussion and analysis and recommends their approval to the Board of Directors. The external auditors have full and open access to the Audit Committee, with and without the presence of management, to discuss their audit and their findings as to the integrity of the financial reporting and the effectiveness of the system of internal controls.

The consolidated financial statements were reviewed by the Audit Committee, and on their recommendation, were approved by the Board of Directors. The consolidated financial statements have been examined by Ernst & Young LLP, Chartered Professional Accountants, as appointed by the Lieutenant Governor in Council. The external auditors' responsibility is to express their opinion on whether the consolidated financial statements are fairly presented in accordance with International Financial Reporting Standards. The Auditors' Report outlines the scope of their examination and their opinion.

On behalf of management:

Kelvin Shepherd, P. Eng
President & Chief Executive Officer
Manitoba Hydro

Darren B. Rainkie, CPA, CA, CBV
Vice-President, Finance & Regulatory Affairs
& Chief Financial Officer

Winnipeg, Canada
July 6, 2016

Independent Auditors' Report

To the Board of Directors of Manitoba Hydro-Electric Board

We have audited the accompanying consolidated financial statements of **Manitoba Hydro-Electric Board**, which comprise the consolidated balance sheet as at March 31, 2016 and 2015, and April 1, 2014, and the consolidated statements of income, comprehensive income, accumulated other comprehensive income, retained earnings and cash flows for the years ended March 31, 2016 and 2015, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Manitoba Hydro-Electric Board** as at March 31, 2016, and 2015, and April 1, 2014, and the results of its operations and its cash flows for the years ended March 31, 2016 and 2015 in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Chartered Professional Accountants

Winnipeg, Canada,
July 6, 2016

Consolidated Statement of Income

For the year ended March 31

millions of Canadian dollars

	Notes	**2016**	2015
Revenues			
Domestic			
Electric		**1 399**	1 424
Gas		**353**	427
Extraprovincial	7	**415**	384
Other	8	**91**	81
		2 258	2 316
Expenses			
Cost of gas sold		**181**	266
Finance expense	9	**620**	551
Operating and administrative	10	**614**	614
Depreciation and amortization	11	**394**	378
Water rentals and assessments		**126**	125
Fuel and power purchased	12	**117**	129
Capital and other taxes	13	**123**	115
Other expenses	14	**114**	77
Finance income		**(23)**	(26)
		2 266	2 229
Net income (loss) before net movement in regulatory balances		**(8)**	87
Net movement in regulatory balances	22	**47**	38
Net Income		**39**	125
Net income (loss) attributable to:			
Manitoba Hydro		**49**	136
Non-controlling interests	30	(10)	(11)
		39	125

The accompanying notes are an integral part of the consolidated financial statements.

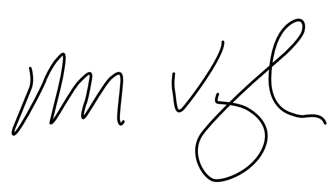
Consolidated Statement of Financial Position

millions of Canadian dollars

As at	Notes	**March 31, 2016**	March 31, 2015	April 1, 2014
Assets				
Current Assets				
Cash and cash equivalents	15	**956**	494	142
Accounts receivable and accrued revenue	16	**372**	427	478
Prepaid expenses		**40**	47	47
Inventory	17	**117**	99	81
		1 485	1 067	748
Property, Plant and Equipment	18	**17 208**	15 222	13 629
Non-Current Assets				
Sinking fund investments	19	**-**	114	111
Goodwill		**107**	107	107
Intangible assets	20	**194**	183	174
Loans and other receivables	21	**300**	464	411
		601	868	803
Total assets before regulatory deferral balance		**19 294**	17 157	15 180
Regulatory deferral balance	22	**486**	410	371
Total assets and regulatory deferral balance		**19 780**	17 567	15 551

On behalf of the Board of Directors:

H. Sanford Riley
Chair of the Board



Michael C. Pyle, MBA
Chair of the Audit Committee

As at	Notes	**March 31, 2016**	March 31, 2015	April 1, 2014
Liabilities and Equity				
Current Liabilities				
Current portion of long-term debt	23	**326**	377	408
Accounts payable and accrued liabilities	24	**723**	529	537
Other liabilities	25	**88**	94	84
Accrued interest		**104**	96	93
		1 241	1 096	1 122
Long-Term Debt	23	**14 201**	12 303	10 460
Non-Current Liabilities				
Other long-term liabilities	26	**670**	686	530
Employee future benefits	27	**859**	804	618
Deferred revenue	28	**535**	459	398
Provisions	29	**30**	17	21
		2 094	1 966	1 567
Total liabilities		**17 536**	15 365	13 149
Equity				
Retained earnings		**2 828**	2 779	2 643
Accumulated other comprehensive loss		**(776)**	(720)	(336)
Equity attributable to Manitoba Hydro		**2 052**	2 059	2 307
Non-controlling interests	30	**140**	120	73
Total equity		**2 192**	2 179	2 380
Total liabilities and equity before regulatory deferral balance		**19 728**	17 544	15 529
Regulatory deferral balance	22	**52**	23	22
Total liabilities, equity and regulatory deferral balance		**19 780**	17 567	15 551

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended March 31

millions of Canadian dollars

	Notes	**2016**	2015
Operating Activities			
Cash receipts from customers		**2 298**	2 359
Cash paid to suppliers and employees		**(950)**	(1 203)
Interest received		**23**	26
Interest paid		**(580)**	(517)
Cash provided by operating activities		**791**	665
Investing Activities			
Additions to property, plant and equipment	18	**(2 372)**	(1 802)
Contributions received	28	**92**	72
Cash paid to the City of Winnipeg	26	**(16)**	(16)
Cash paid for mitigation obligations	26	**(33)**	(13)
Cash paid for major development obligations	26	**(22)**	(9)
Other		**(89)**	(105)
Cash used for investing activities		**(2 440)**	(1 873)
Financing Activities			
Proceeds from long-term debt	23	**2 165**	2 210
Retirement of long-term debt	23	**(362)**	(654)
Repayment from/(advances to) external entities	21	**164**	(51)
Proceeds from partnership issuances	30	**30**	58
Sinking fund investment withdrawals	19	**246**	111
Sinking fund investment purchases	19	**(132)**	(114)
Cash provided by financing activities		**2 111**	1 560
Net increase in cash and cash equivalents		**462**	352
Cash and cash equivalents, beginning of year		**494**	142
Cash and cash equivalents, end of year		**956**	494

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Comprehensive Loss

For the year ended March 31

millions of Canadian dollars

	Notes	**2016**	2015
Net Income		**39**	125
Other comprehensive loss			
Items that will not be reclassified to income			
Net experience losses on pensions	**6**	**(8)**	(127)
Items that will be reclassified to income			
Cash flow hedges - unrealized foreign exchange losses on debt		**(47)**	(249)
Items that have been reclassified to income			
Cash flow hedges - realized foreign exchange gains on debt	**9**	**(1)**	(8)
		(56)	(384)
Comprehensive Loss		**(17)**	(259)
Comprehensive loss attributable to:			
Manitoba Hydro		**(7)**	(248)
Non-controlling interests		(10)	(11)
		(17)	(259)

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended

millions of Canadian dollars

	Notes	Retained Earnings	Accumulated Other Comprehensive Income/ (Loss)	**Manitoba Hydro**	Non-Controlling Interests	Total Equity
Balance as at April 1, 2014		2 643	(336)	**2 307**	73	2 380
Net income (loss)		136	-	**136**	(11)	125
Other comprehensive loss		-	(384)	**(384)**	-	(384)
Comprehensive income (loss)		136	(384)	**(248)**	(11)	(259)
Change in ownership interest	30	-	-	**-**	58	58
Balance as at March 31, 2015		2 779	(720)	**2 059**	120	2 179
Net income (loss)		49	-	**49**	(10)	39
Other comprehensive loss		-	(56)	**(56)**	-	(56)
Comprehensive income (loss)		49	(56)	**(7)**	(10)	(17)
Change in ownership interest	30	-	-	**-**	30	30
Balance as at March 31, 2016		**2 828**	**(776)**	**2 052**	**140**	**2 192**

The accompanying notes are an integral part of the consolidated financial statements.

Note 1 Reporting entity

The Manitoba Hydro-Electric Board and the Manitoba Power Commission were amalgamated in 1961 by enactment of *The Manitoba Hydro Act* to form a Crown corporation in the Province of Manitoba named Manitoba Hydro (the corporation). Manitoba Hydro's mandate is to provide for the continuance of a supply of energy adequate for the needs of the Province and to engage in and to promote economy and efficiency in the development, generation, transmission, distribution, supply and end-use of energy. The head office of the corporation is located at 360 Portage Avenue, Winnipeg, Manitoba.

These consolidated financial statements include the accounts of Manitoba Hydro and its wholly-owned subsidiaries including Centra Gas Manitoba Inc. (Centra), Minell Pipelines Ltd. (Minell), Manitoba Hydro International Ltd. (MHI), Manitoba Hydro Utility Services Ltd. (MHUS), Teshmont LP Holdings Ltd. (which has a 40% ownership interest in the Teshmont Consultants Limited Partnership) and 6690271 Manitoba Ltd. (a subsidiary which was formed to participate in the development of a new transmission line in the U.S.). These consolidated financial statements also include Manitoba Hydro's 67% ownership interest in the WPLP and its 75% ownership interest in the KHLP. For purposes of consolidation, all significant intercompany accounts and transactions have been eliminated.

Note 2 Basis of presentation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). IFRS 1 *First-time Adoption of IFRS* has been applied as at April 1, 2014, the corporation's transition date to IFRS. For all periods up to and including the year ended March 31, 2015, Manitoba Hydro prepared its consolidated financial statements in accordance with Canadian Generally Accepted Accounting Principles (CGAAP). These consolidated financial statements for the year ended March 31, 2016 are the first Manitoba Hydro has prepared in accordance with IFRS.

An explanation of the application of IFRS 1 is included in Note 5 – Transition to IFRS and an explanation of how the transition to IFRS from CGAAP affected the corporation's previously reported financial position, financial performance and cash flows is included in Note 6 – Reconciliations of CGAAP to IFRS.

These consolidated financial statements were approved for issue by the Manitoba Hydro-Electric Board on July 6, 2016.

(b) Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis except for the following material items in the consolidated statement of financial position:

- Financial instruments accounted for in accordance with the financial instruments categories defined in Note 3(n)
- Employee future benefits defined in Note 3(k)
- Provisions defined in Note 3(l)

(c) Functional and presentation currency

The consolidated financial statements are presented in millions of Canadian dollars, the functional currency of the corporation.

(d) Use of estimates and judgment

The preparation of consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect amounts reported as assets, liabilities, income and expenses.

Areas of significant management estimates are outlined in the following summary and significant accounting policies included in Note 3:

- Accrued revenue for domestic electricity and natural gas deliveries not yet billed at year-end and allowance for doubtful accounts (Note 3(b))
- Useful life estimates for depreciable assets (Notes 3(g), 18 and 20)
- Measurement of accrued liabilities (Note 24)
- Measurement of other long-term liabilities and underlying estimates of future cash flows (Note 26)
- Measurement of employee future benefits and underlying actuarial assumptions (Notes 3(k) and 27)
- Measurement of provisions and underlying estimates of future cash flows (Notes 3(l) and 29)
- Fair value measurement of financial instruments (Notes 3(n) and 31)

Estimates and underlying assumptions are reviewed on an ongoing basis. Actual amounts could differ from those estimates, but differences are not expected to be material.

(in millions of Canadian dollars)

Note 3 Significant accounting policies

(a) Regulatory deferral accounts

In January 2014, the International Accounting Standards Board (IASB) issued an interim standard, IFRS 14 *Regulatory Deferral Accounts*, which provides guidance on accounting for the effects of rate regulation under IFRS. This guidance allows entities that conduct rate-regulated activities to continue to recognize regulatory deferral accounts. This interim standard is effective for financial reporting periods beginning on or after January 1, 2016, and is available to first-time adopters only. As early adoption is permitted, the corporation has elected to adopt IFRS 14 in its first consolidated financial statements under IFRS. The interim standard is only intended to provide temporary guidance until the IASB completes its comprehensive project on rate-regulated activities. IFRS 14 remains in force until either repealed or replaced by permanent guidance on rate-regulated accounting from the IASB.

Regulatory deferral account balances usually represent timing differences between the recognition of items of income or expenses for regulatory purposes and the recognition of those items for financial reporting purposes. Regulatory deferral account balances arising from rate-regulated activities are recognized and measured separately if they do not meet the criteria to be recognized as an asset or liability in accordance with other standards. The balances recorded as regulatory deferral balances will be recovered or refunded in future rates, based on approvals by the Public Utilities Board of Manitoba (PUB). These amounts would otherwise have been included in the determination of net income in the year they are incurred.

Under rate regulation, the prices charged for the sale of electricity and natural gas within Manitoba are subject to review and approval by the PUB. The rate-setting process is designed such that rates charged to electricity and natural gas customers recover costs incurred by Manitoba Hydro in providing electricity and natural gas service plus a sufficient contribution to retained earnings.

The following regulatory deferral account balances are initially recorded at cost and amortized on a straight-line basis using the specified periods:

Power Smart programs	10	years*
Site restoration costs	15	years
Deferred taxes	30	years
Acquisition costs	30	years
Regulatory costs	up to 5	years

*The Power Smart regulatory deferral debit balance includes the differences between actual and planned spending on electric and gas demand side management (DSM) for the 2013 to 2016 fiscal years with a corresponding regulatory deferral credit balance. The disposition of these balances will be determined by the PUB at a future regulatory proceeding.

The Affordable Energy Fund is amortized to the consolidated statement of income at the same rate as the obligation is drawn down. The purchased gas variance account (PGVA) is recovered or refunded over a period determined by the PUB.

The amortization of the loss on disposal of assets, change in depreciation methodologies from average service life (ASL) to equal life group (ELG), deferred ineligible overhead and the impact of the 2014 depreciation study will be determined by the PUB at a future regulatory proceeding.

(b) Revenue recognition

Domestic electricity and natural gas revenues are recognized upon delivery to the customer and charged in accordance with rates approved by the PUB. Unbilled revenues are recorded based on an estimated amount of electricity and natural gas delivered and not yet billed at year-end.

Extraprovincial electricity revenue is recorded upon the delivery of energy or settlement of the financial transaction.

Consulting, technology and maintenance services and other miscellaneous revenue is recognized when services are provided or goods are shipped to the customer. Revenue from fixed price contracts is recognized under the percentage-of-completion method. The percentage of completion is determined by comparing the costs incurred at the consolidated statement of financial position date to the total estimated costs, which include costs incurred plus anticipated costs for completing a contract.

Deferred revenue related to customer contributions is recognized over the life of the related asset for which the contribution was received.

(c) Cost of gas

Natural gas is recorded at purchased cost upon delivery to gas customers.

(d) Finance expense and finance income

Finance expense includes interest on short and long-term borrowings and the provincial debt guarantee fee paid to the Province of Manitoba, foreign exchange gains and losses, accretion expense on provisions and other long-term liabilities, offset by interest capitalized for those qualifying assets under construction. All borrowing costs are recognized using the effective interest rate method. Finance income includes interest earned on loans and advances to external parties and temporary investments.

(e) Cash and cash equivalents

Cash and cash equivalents include cash on hand and short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

(f) Inventory

Materials and supplies, fuel and natural gas inventories are valued at the lower of average cost and net realizable value. Replacement cost is used as management's best estimate of the net realizable value for materials and supplies and fuel inventory.

Materials, supplies, fuel and natural gas are charged to inventory when purchased and not immediately required for use. These inventories are expensed or capitalized when used. Those materials, supplies and fuel purchased for immediate use are expensed directly.

(g) Property, plant and equipment

Property, plant and equipment is recorded at cost less accumulated depreciation. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, contracted services, direct labour and interest applied at the weighted average cost of debt outstanding during the period. Interest is allocated to construction until a capital project becomes operational or a decision is made to abandon, cancel or indefinitely defer construction. Once the transfer to in-service property, plant and equipment is made, interest allocated to construction ceases and depreciation and interest charged to operations commences.

Depreciation is calculated on a straight-line remaining life basis using the ELG procedure. The major components of generating stations are depreciated over the lesser of the remaining life of the major components or the remaining life of the associated generating station.

Generation	4 – 125 years
Transmission lines	10 – 85 years
Substations	15 – 65 years
Distribution systems	10 – 75 years
Other	5 – 100 years

The estimated service lives of the assets are based upon depreciation studies conducted periodically by the corporation. A depreciation study was last completed in 2015.

The net gain or loss on retirement of these assets is charged to depreciation in the period incurred and then removed through net movement in regulatory balances to a regulatory debit balance. When the costs of removing an asset from service are incurred to facilitate the installation of a new asset, the costs to remove the asset from service are added to the costs of the new asset. When an asset is retired from service and not replaced with a similar asset, the costs of removing the asset from service are treated similarly to the net gain or loss on retirement of assets.

A reasonable estimate of the present value of the future cash flows required to retire an asset from service is recorded when the recognition criteria for a provision (Note 3(l)(i)) are met. An equivalent amount is added to the carrying cost of the related asset and is amortized over the asset's remaining service life. The discount rate used to measure the cash flows reflects current market assessments of the time value of money and the risks specific to the obligation.

(h) Goodwill

Goodwill represents the amount of the corporation's investments in Centra and Winnipeg Hydro over and above the fair market value of the identified net assets acquired. The goodwill balance is evaluated annually to determine whether any impairment has occurred.

(i) Intangible assets

Intangible assets include computer application development costs, land easements and transmission rights. Intangible assets are recorded at cost less accumulated amortization. The cost of computer application development includes software, direct charges for labour, materials, contracted services and interest during development applied at the weighted average cost of debt outstanding during the period. The corporation's intangible assets have finite useful lives and are amortized over their useful lives on a straight-line basis with the amortization included in depreciation and amortization expense. The expected useful lives are as follows:

Computer application development	5 - 11 years
Land easements	75 years
Transmission rights	1 - 12 years

Transmission rights are amortized over the contractual period of the right plus a one-term renewal. The estimated service lives of computer application development and land easements are based upon depreciation studies conducted periodically by the corporation. A depreciation study was last completed in 2015.

(j) Impairment of non-financial assets

Non-financial assets subject to impairment testing include goodwill, intangible assets and property, plant and equipment. The corporation tests goodwill and material intangible assets under construction at least annually for impairment. Assets subject to depreciation and amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment test is performed by comparing the carrying amount of the asset or cash generating unit (CGU) to its recoverable amount. The recoverable amount is calculated as the higher of the fair value less costs to sell and the present value of the future cash flows from an asset or CGU. The corporation has determined its CGUs to be at the segment level. This is the lowest level for which there are separately identifiable cash flows as rates for electricity and natural gas revenue are set by the PUB at the segment level. An impairment would be recognized as a charge against operations in the year of impairment if the carrying amount exceeds the recoverable amount.

(k) Employee future benefits

Manitoba Hydro provides future benefits, including pension and other benefits, to both existing and retired employees.

The costs and obligations of defined benefit pension plans and other benefits are determined by an independent actuary using the accrued benefit actuarial cost method and reflect management's best estimate of future compensation increases, service lives and inflation. Pension expense is comprised of the cost of pension benefits earned during the year and net interest income or expense. Interest income on plan assets is determined by multiplying the fair value of the plan assets by the discount rate used to determine the accrued benefit obligation at the start of the annual reporting period. This considers any changes in the plan assets held during the period as a result of contributions and benefit payments. Interest expense on the accrued benefit obligation is determined by multiplying the accrued benefit obligation by the discount rate used at the start of the annual reporting period.

Experience gains or losses on the asset and actuarial gains or losses on the obligation are recognized in other comprehensive income (OCI) in the period in which they occur. Past service costs, which arise when a change is made to plan benefits, are recognized immediately in profit or loss.

Other future benefits earned by employees include vacation, vested sick leave, severance and retirement health plans. Where applicable, the future costs of these benefits are determined by an independent actuary and reflect management's best estimates.

(l) Provisions

In accordance with International Accounting Standards (IAS) 37 *Provisions, Contingent Liabilities and Contingent Assets*, a provision is required to be recognized where there is a present legal or constructive obligation as a result of a past event that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation, the timing or amount of which are uncertain.

(i) Asset retirement obligations

Asset retirement obligations are estimated by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as a finance expense.

(ii) Affordable Energy Fund

The Affordable Energy Fund was determined based on Provincial Legislation. The timing of disbursements is uncertain due to the unpredictability of future customer participation.

(m) Government grants

Government grants are recognized when there is reasonable assurance they will be received and the corporation will comply with the conditions associated with the grant. Government grants that compensate the corporation for expenses incurred are recognized in profit or loss in the same period in which the expenses are recognized. Grants that compensate the corporation for the cost of an asset are recorded as deferred revenue and recognized in other revenue over the service life of the related asset.

(n) Financial instruments

All financial instruments are measured at fair value on initial recognition as of the trade date. Transaction costs are included in the initial carrying amount of financial instruments except for those financial instruments measured at fair value through profit or loss. Transaction costs directly attributable to the acquisition of financial instruments classified as fair value through profit or loss are expensed as incurred. Measurement in subsequent periods depends on the classification of the instrument. Financial instruments are classified into one of the following categories: loans and receivables, fair value through profit or loss, available-for-sale, or other financial liabilities.

Financial instruments classified as loans and receivables and other financial liabilities are carried at amortized cost using the effective interest method of amortization. Available-for-sale financial assets are subsequently measured at fair value with unrealized gains and losses recorded in OCI until the instrument is derecognized or impaired. Financial instruments classified as fair value through profit or loss are subsequently measured at fair value with changes in fair value recognized in the consolidated statement of income in the period in which they arise.

Financial assets classified as loans and receivables are subject to impairment testing at the end of each reporting period. Impairment losses are recorded when there is objective evidence that impairment has occurred due to one or more events such as default or delinquency in interest or principal payments, or significant financial difficulty experienced by the counterparty. Trade receivables that are not assessed for impairment individually are assessed for impairment on a collective basis. Objective evidence of impairment includes the corporation's past historical loss rates applied to groups for which the historical loss rates were observed.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or it expires. When an existing financial liability is replaced with substantially different terms or the terms of an existing liability are substantially modified, such an exchange or modification is treated as derecognition of the original liability and the recognition of a new liability is recorded at fair value. The differences in the respective carrying amounts are recognized as gains or losses in net income.

(o) Foreign currency translation

Revenues and expenses resulting from transactions in foreign currencies are translated to Canadian dollar equivalents at exchange rates approximating those in effect at the transaction date.

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the reporting date. Translation gains and losses are credited or charged to finance expense in the current period except for long-term debt obligations in hedging relationships with future export revenues. Translation gains and losses for long-term debt obligations in hedging relationships with future export revenues are recorded in OCI until such time that the hedged export revenues are realized, at which time accumulated exchange gains and losses are credited or charged to finance expense.

(p) Derivatives

The corporation does not engage in derivative trading or speculative activities. All derivative instruments are carried at fair value on the consolidated statement of financial position with the exception of those that were entered into for the purpose of physical receipt or delivery in accordance with the corporation's expected normal purchases and sales. Changes in the fair value of derivatives that are not designated in a hedging relationship and do not qualify for the normal purchase and sale exemption are recorded in the consolidated statement of income.

(q) Hedges

The corporation has designated cash flow hedges linking financial instruments to specific assets and forecasted transactions. Long-term cash flow hedges have been established between U.S. long-term debt balances and future U.S. export revenues as well as between U.S. interest payments on dual currency bonds and future U.S. export revenues. The corporation documents the relationship between the hedging instrument and the hedged item and assesses at inception, and on an ongoing basis, the effectiveness of the hedging relationship.

(r) Non-controlling interests

Non-controlling interests represent the outstanding ownership interests attributable to third parties in the corporation's limited partnerships. The portion of the equity not owned by the corporation is reflected as non-controlling interests within the equity section of the consolidated statement of financial position. The portion of the net income or net loss attributable to the parent and non-controlling interests is reported on the consolidated statement of income.

Note 4 Future accounting pronouncements

The following new standards and amendments are not yet effective for the year ended March 31, 2016, and have not been applied in preparing these consolidated financial statements. The corporation does not have any plans to early adopt the new or amended standards and the extent of the impact on adoption of the following standards is not known at this time:

IFRS 9 – *Financial Instruments*

IFRS 9 *Financial Instruments* was finalized in July 2014 and replaces IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance for the classification and measurement of financial assets and liabilities, a new expected credit loss model to measure impairment of financial assets and significant improvements in hedge accounting. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. This new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

IFRS 15 – *Revenue from Contracts with Customers*

IFRS 15 *Revenue from Contracts with Customers* was issued in May 2014 and replaces IAS 18 *Revenue* and IFRS Interpretations Committee (IFRIC) 18 *Transfers of Assets from Customers*. The standard provides a single five-step model to be applied to all contracts with customers to determine when to recognize revenue and at what amount. The underlying principle of IFRS 15 is that an entity recognizes revenue that shows the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. This new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

IFRS 16 – *Leases*

IFRS 16 *Leases* was issued in January 2016 and replaces current lease accounting requirements under IFRS. The standard provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. This new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted if IFRS 15 *Revenue from Contracts with Customers* has also been applied.

Disclosure Initiative

In December 2014, the IASB issued *Disclosure Initiative* (Amendments to IAS 1 *Presentation of Financial Statements*). These amendments improve the existing presentation and disclosure requirements and encourage entities to apply professional judgment regarding disclosure and presentation in their financial statements. These amendments are effective for annual periods beginning on or after January 1, 2016.

Note 5 Transition to IFRS

IFRS Exemptions under IFRS 1 *First-time Adoption of IFRS*

Manitoba Hydro adopted IFRS on April 1, 2015 and applied IFRS 1 for the preparation of these first annual IFRS consolidated financial statements. As IFRS require comparative financial information, the corporation has applied IFRS 1 on the transition date of April 1, 2014.

IFRS 1 provides optional and mandatory exemptions to the requirement for full retrospective application of IFRS. The corporation has applied the following relevant mandatory and optional exemptions in the opening IFRS consolidated statement of financial position:

IFRS mandatory exemptions:

(a) Significant estimates

IFRS 1 stipulates that estimates made in accordance with IFRS at the date of transition should be consistent with those estimates under previous generally accepted accounting principles (GAAP). As such, the estimates made under CGAAP were not revised at the transition date except where necessary to reflect differences in accounting policies.

(b) Non-controlling interests

IFRS 1 requires that certain components of IFRS 10 *Consolidated Financial Statements* be applied prospectively from the IFRS transition date. The foundation of consolidation under IFRS is a control model whereas CGAAP consolidation is based on a controlling financial interest model. The resulting difference is that some subsidiaries that were not consolidated under CGAAP may be consolidated under IFRS. This exemption allows any such subsidiaries to be consolidated prospectively. For Manitoba Hydro, there are no differences in consolidation as the corporation consolidated all subsidiaries since inception.

Presentation differences also exist between CGAAP and IFRS 10 for the consolidated statement of financial position, the consolidated statement of income and the consolidated statement of comprehensive loss as follows:

Consolidated statement of financial position:

Non-controlling interests are presented as a component of equity separate from the equity attributable to the owners of the parent on the statement of financial position under IFRS. This varies from the CGAAP balance sheet presentation where non-controlling interests are presented outside of liabilities and equity.

Consolidated statement of income and statement of comprehensive loss:

Non-controlling interests are presented below net income, indicating the net income attributable to the non-controlling interests and the net income attributable to the parent. This varies from the CGAAP presentation of non-controlling interests being a component of net income.

As required under this IFRS 1 exemption, the changes in presentation between CGAAP and IFRS have been applied prospectively.

IFRS optional exemptions:

(a) Business combinations

Under IFRS 1, entities may elect not to apply the requirements of IFRS 3 *Business Combinations* retrospectively for business combinations occurring before the transition date. Manitoba Hydro has applied this exemption.

(b) Deemed cost

IFRS 1 provides entities with rate-regulated activities the option to use the carrying amount of property, plant and equipment and intangible asset balances from their previous GAAP as deemed cost upon transition. Carrying amounts under CGAAP were based on cost. Manitoba Hydro has applied this exemption.

(c) Decommissioning liabilities included in the cost of property, plant and equipment

IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* requires specified changes in a decommissioning, restoration or similar liability to be added to or deducted from the cost of the asset to which it relates. IFRS 1 provides first-time adopters the option not to retroactively restate these liabilities upon transition to IFRS. Manitoba Hydro has applied this exemption.

(d) Borrowing costs

IFRS 1 provides first-time adopters the option of applying the requirements of IAS 23 *Borrowing Costs* prospectively from the transition date or from an earlier date. IAS 23 requires the interest capitalization rate to be the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period. Manitoba Hydro applied the requirements of IAS 23 effective April 1, 2010.

(e) Transfers of assets from customers

Under IFRS 1, entities have the option to apply the requirements of IFRIC 18 *Transfers of Assets from*

(in millions of Canadian dollars)

Customers prospectively from the transition date or from an earlier date. Manitoba Hydro applied these requirements at the transition date. As a result, contributions in aid of construction were reclassified to deferred revenue and are subsequently recognized in other revenue over the lives of the related assets.

Adjustments to Equity upon Adoption of IFRS

The transition to IFRS generally requires retrospective application of changes in accounting policies resulting from differences from existing GAAP. The following table summarizes the consolidated comparative adjustments as at April 1, 2014:

	Note	Retained earnings	AOCI
CGAAP as at April 1, 2014		2 716	96
Restatement of employee pensions	(a)	(41)	(432)
Restatement of employee benefits	(b)	(32)	-
Total IFRS adjustments		(73)	(432)
IFRS as at April 1, 2014		2 643	(336)

(a) Restatement of employee pensions

In accordance with IAS 19 *Employee Benefits*, opening retained earnings recognizes the retrospective re-measurement of the interest on the pension assets by applying the discount rate used to measure the pension obligation, in addition to the elimination of the corridor amortization and amortization of plan amendments. IAS 19 also requires all cumulative actuarial gains and losses to be recognized in the opening balance of accumulated other comprehensive income (AOCI).

(b) Restatement of employee benefits

Under CGAAP, only legally vested obligations were recorded whereas under IAS 19, employee service gives rise to an obligation regardless of whether the benefits are vested or unvested. As a result, upon transition to IFRS the sick leave vesting and severance obligations required re-measurement. These adjustments have been reflected in retained earnings.

Under IAS 19, re-measurements for employee benefits can no longer be deferred and amortized. Deferrals related to other employee future benefits were adjusted to retained earnings on transition to IFRS.

(in millions of Canadian dollars)

Note 6 Reconciliations of CGAAP to IFRS

Consolidated Statement of Financial Position

As at April 1, 2014	Notes	CGAAP	Adjustments	Reclassifications	IFRS
Assets					
Current Assets					
Cash and cash equivalents		**142**	-	-	**142**
Accounts receivable and accrued revenue	(i), (ii)	**520**	-	(42)	**478**
Prepaid expenses	(i)	**-**	-	47	**47**
Inventory		**81**	-	-	**81**
		743	-	5	**748**
Property, Plant and Equipment	A	**13 627**	2	-	**13 629**
Non-Current Assets					
Sinking fund investments		**111**	-	-	**111**
Goodwill		**107**	-	-	**107**
Intangible assets		**174**	-	-	**174**
Regulated assets	(iii)	**360**	-	(360)	**-**
Loans and other receivables	(ii), (iv), (v)	**517**	-	(106)	**411**
		1 269	-	(466)	**803**
Total assets before regulatory deferral balance		**15 639**	2	(461)	**15 180**
Regulatory deferral balance	(iii), (iv)	**-**	-	371	**371**
		15 639	2	(90)	**15 551**
Liabilities and Equity					
Current Liabilities					
Current portion of long-term debt		**408**	-	-	**408**
Accounts payable and accrued liabilities	(v)	**561**	-	(24)	**537**
Other liabilities	A, (viii)	**-**	5	79	**84**
Accrued interest		**100**	-	(7)	**93**
		1 069	5	48	**1 122**
Long-Term Debt		**10 460**	-	-	**10 460**
Non-Current Liabilities					
Regulated liabilities	(iii)	**22**	-	(22)	**-**
Other long-term liabilities	A, (iv), (v), (vi), (viii), (x)	**615**	(13)	(72)	**530**
Asset purchase obligation	(vi)	**207**	-	(207)	**-**
Employee future benefits	E, (v)	**-**	505	113	**618**
Deferred revenue	(x)	**381**	-	17	**398**
Provisions	A, (iv)	**-**	10	11	**21**
		1 225	502	(160)	**1 567**
Total liabilities		**12 754**	507	(112)	**13 149**
Equity					
Retained earnings	E	**2 716**	(73)	-	**2 643**
Accumulated other comprehensive income (loss)	E	**96**	(432)	-	**(336)**
		2 812	(505)	-	**2 307**
Non-controlling interests		**73**	-	-	**73**
		2 885	(505)	-	**2 380**
Total liabilities and equity before regulatory deferral balance		**15 639**	2	(112)	**15 529**
Regulatory deferral balance	(iii)	**-**	-	22	**22**
		15 639	2	(90)	**15 551**

(in millions of Canadian dollars)

Consolidated Statement of Financial Position

As at March 31, 2015	Notes	CGAAP	Adjustments	Reclassifications	IFRS
Assets					
Current Assets					
Cash and cash equivalents		**494**	-	-	**494**
Accounts receivable and accrued revenue	(i), (ii)	**470**	-	(43)	**427**
Prepaid expenses	(i)	**-**	-	47	**47**
Inventory		**99**	-	-	**99**
		1 063	-	4	**1 067**
Property, Plant and Equipment	A, B, C, D, F	**15 250**	(28)	-	**15 222**
Non-Current Assets					
Sinking fund investments		**114**	-	-	**114**
Goodwill		**107**	-	-	**107**
Intangible assets	C	**186**	(3)	-	**183**
Regulated assets	(iii)	**346**	-	(346)	**-**
Loans and other receivables	(ii), (iv), (v)	**528**	-	(64)	**464**
		1 281	(3)	(410)	**868**
Total assets before regulatory deferral balance		**17 594**	(31)	(406)	**17 157**
Regulatory deferral balance	C, F, (iii), (iv)	**-**	58	352	**410**
		17 594	27	(54)	**17 567**
Liabilities and Equity					
Current Liabilities					
Current portion of long-term debt		**377**	-	-	**377**
Accounts payable and accrued liabilities	(v)	**560**	-	(31)	**529**
Other liabilities	A, (viii)	**-**	4	90	**94**
Accrued interest		**95**	-	1	**96**
		1 032	4	60	**1 096**
Long-Term Debt		**12 303**	-	-	**12 303**
Non-Current Liabilities					
Regulated liabilities	(iii)	**22**	-	(22)	**-**
Other long-term liabilities	A, (iv), (v), (vi), (viii), (x)	**808**	(12)	(110)	**686**
Asset purchase obligation	(vi)	**199**	-	(199)	**-**
Employee future benefits	E, (v)	**-**	634	170	**804**
Deferred revenue	C, (x)	**441**	(1)	19	**459**
Provisions	A, (iv)	**-**	11	6	**17**
		1 470	632	(136)	**1 966**
Total liabilities		**14 805**	636	(76)	**15 365**
Equity					
Retained earnings	E	**2 830**	(51)	-	**2 779**
Accumulated other comprehensive loss	E	**(161)**	(559)	-	**(720)**
		2 669	(610)	-	**2 059**
Non-controlling interests		**120**	-	-	**120**
		2 789	(610)	-	**2 179**
Total liabilities and equity before regulatory deferral balance		**17 594**	26	(76)	**17 544**
Regulatory deferral balance	F, (iii)	**-**	1	22	**23**
		17 594	27	(54)	**17 567**

(in millions of Canadian dollars)

Consolidated Statement of Income

For the year ended March 31, 2015	Notes	CGAAP	Adjustments	Reclassifications	IFRS
Revenues					
Domestic					
Electric		**1 424**	-	-	**1 424**
Gas		**428**	(1)	-	**427**
Extraprovincial	(xi)	**400**	-	(16)	**384**
Other	C, (vii)	**68**	2	11	**81**
		2 320	1	(5)	**2 316**
Expenses					
Cost of gas sold	F	**274**	(8)	-	**266**
Finance expense	F, (ix)	**527**	(3)	27	**551**
Operating and administrative	B, C, E	**559**	55	-	**614**
Depreciation and amortization	D, F, (vii)	**436**	(68)	10	**378**
Water rentals and assessments		**125**	-	-	**125**
Fuel and power purchased	(xi)	**145**	-	(16)	**129**
Capital and other taxes	F	**120**	(5)	-	**115**
Other expenses	F	**31**	46	-	**77**
Finance income	(ix)	**-**	-	(26)	**(26)**
		2 217	17	(5)	**2 229**
Net income before net movement in regulatory balances		**103**	(16)	-	**87**
Net loss attributable to non-controlling interests	G	**11**	(11)	-	**-**
Net movement in regulatory balances	F	**-**	38	-	**38**
Net Income		**114**	11	-	**125**
Net income (loss) attributable to:					
Manitoba Hydro		**114**	22	-	**136**
Non-controlling interests	G	**-**	(11)	-	**(11)**
		114	11	-	**125**

Consolidated Statement of Comprehensive Loss

For the year ended March 31, 2015	Notes	CGAAP	Adjustments	Reclassifications	IFRS
Net Income		**114**	11	-	**125**
Other Comprehensive Loss					
Pension valuation loss	E	**-**	(127)	-	**(127)**
Unrealized foreign exchange losses on debt in cash flow hedges		**(249)**	-	-	**(249)**
Realized foreign exchange gains on debt in cash flow hedges reclassified to income		**(8)**	-	-	**(8)**
		(257)	(127)	-	**(384)**
Comprehensive Loss		**(143)**	(116)	-	**(259)**
Comprehensive Loss attributable to:					
Manitoba Hydro		**(143)**	(105)	-	**(248)**
Non-controlling interest		**-**	(11)	-	**(11)**
		(143)	(116)		**(259)**

Adjustments

A. Asset retirement obligation

There were several changes to the asset retirement obligation (ARO) as a result of the adoption of IFRS. The ARO balance was reclassified, revalued and split between current and non-current portions.

As the ARO meets the definition of a provision under IFRS, the long-term portion of this balance was reclassified from other long-term liabilities to provisions. This resulted in an increase to provisions of $13 million as at April 1, 2014 and $12 million as at March 31, 2015 and a corresponding decrease to other long-term liabilities.

IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* requires an ARO to be revalued for changes in the discount rate used to measure the obligation. This resulted in an increase of $2 million as at April 1, 2014 and $3 million as at March 31, 2015 to provisions and property, plant and equipment.

The current portion of the ARO was reclassified to other liabilities in the current liabilities section of the consolidated statement of financial position. This reclassification resulted in an increase to other liabilities of $5 million as at April 1, 2014 and $4 million as at March 31, 2015 with a corresponding decrease to provisions.

B. Meter exchanges

Under CGAAP, Manitoba Hydro's electric operations capitalized the cost of removing a meter from service with the costs to install the replacement meter. Manitoba Hydro's natural gas operations (Centra) expensed the cost of removing a meter from service when it was replaced with a new meter. IFRS 10 *Consolidated Financial Statements* requires that a parent company prepare consolidated financial statements using uniform accounting policies for like transactions. As such, upon its transition to IFRS, Centra's meter exchange costs have been capitalized on consolidation. For the year ended March 31, 2015, the impact of this change is to increase property, plant and equipment by $5 million with a corresponding decrease to operating and administrative expense.

C. Overhead not eligible for capitalization (ineligible overhead)

IFRS is more explicit than CGAAP with respect to the costs that may be included in the cost of a capital project. IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Asset*s do not permit the capitalization of overhead and administrative costs that are not directly attributable to a capital project. Consequently, Manitoba Hydro no longer capitalizes these costs.

In addition, under CGAAP, ineligible overhead recovered from customers was included in contributions in aid of construction and subsequently recognized over the service life of the related asset. Under IFRS, the ineligible overhead recovered from customers has been reclassified to other revenue.

(in millions of Canadian dollars)

For the year ended March 31, 2015, these changes had the following impacts on the consolidated statement of financial position:

Decrease to property, plant and equipment	$55 million
Decrease to intangible assets	$ 3 million
Decrease to regulatory deferral debit balance	$ 2 million
Decrease to deferred revenue	$ 2 million

For the year ended March 31, 2015, these changes had the following impacts on the consolidated statement of income:

Increase to other revenue	$ 2 million
Increase to operating and administrative expense	$59 million*

* $21 million of this increase to operating and administrative expense has been deferred as a regulatory deferral debit balance (Note 6, section F).

D. Depreciation valuation

IFRS is more specific than CGAAP with respect to the level of componentization by which assets can be grouped for determining depreciation. In order to comply with the componentization requirements of IAS 16, Manitoba Hydro changed from the ASL method of depreciation to the ELG method. The ELG method calculates depreciation with consideration of the different service lives for each of the assets within a component group. In addition to the change to the ELG method, Manitoba Hydro also eliminated the provision for asset decommissioning costs (negative salvage) that was previously included in depreciation rates under CGAAP. The provision represented a high level estimate of the costs to decommission an asset and was utilized to promote intergenerational equity in customer rate setting. The inclusion of this provision in depreciation rates is not permitted under IFRS. For the year ended March 31, 2015, these changes had the following impacts:

Decrease to depreciation and amortization for the following:

Removal of negative salvage value	$56 million
Depreciation valuation from ASL to ELG	($31) million**
Increase to property, plant and equipment	$25 million

** This impact to depreciation and amortization expense has been deferred as a regulatory deferral debit balance (Note 6, section F).

(in millions of Canadian dollars)

E. Pensions and benefits

Pension adjustment

IAS 19 *Employee Benefits* requires all cumulative actuarial gains and losses to be recognized in the opening balance of OCI. Under CGAAP these amounts were presented in loans and other receivables (previously other long-term assets).

Under CGAAP, the corporation utilized the corridor method of amortization for actuarial gains and losses for the Manitoba Hydro Plan, Enhanced Hydro Benefit Plan and Centra Gas pension plans. The corridor approach has been eliminated under IAS 19 requiring immediate recognition of actuarial gains and losses in OCI in the period in which they occur.

Under IFRS, the expected return on plan assets is replaced by interest income calculated using the fair value of plan assets with the same discount rate used to measure the pension obligations. Under CGAAP, market-related values were used to estimate the expected return on plan assets and to apply experience gains and losses in the corridor calculation. This adjustment is reflected in retained earnings.

Under IAS 19, past service costs arise when an entity introduces a new defined benefit plan or change to the benefits payable. These improvements are recognized immediately in profit or loss whereas under CGAAP, these costs were deferred and amortized. The requirements of IAS 19 were applied retrospectively with the adjustment reflected in retained earnings.

The impacts at April 1, 2014 and March 31, 2015 from this change were:

Impact to consolidated statement of financial position:

	March 31, 2015	April 1, 2014
Increase to employee future benefits liability	$592	$473
Decrease to accumulated other comprehensive income	$559	$432
Decrease to retained earnings	$ 41	$ 41

Impact to consolidated statement of income and consolidated statement of comprehensive loss:

	March 31, 2015	April 1, 2014
Decrease to operating and administrative expense	$ 8	-
Increase to other comprehensive loss	$127	-

(in millions of Canadian dollars)

Benefits adjustment

There are some measurement differences for some of the post-employment benefit liabilities. Under IAS 19, employee service gives rise to an obligation regardless of whether the benefits are vested or unvested for the sick leave vesting and severance liabilities whereas under CGAAP, only legally vested liabilities are recorded. For the retiree health spending and long-term disability liabilities, actuarial gains and losses resulting from experience adjustments and changes in actuarial assumptions are deferred and amortized under CGAAP whereas under IFRS, they are expensed as they occur. The impacts at April 1, 2014 and March 31, 2015 from this change were:

Impact to consolidated statement of financial position:

	March 31, 2015	April 1, 2014
Increase to employee future benefits liability	$42	$32
Decrease to retained earnings	$32	$32

Impact to consolidated statement of income:

	March 31, 2015	April 1, 2014
Increase to operating and administrative expense	$10	-

F. Regulatory deferral account balances

IFRS 14 *Regulatory Deferral Accounts* specifies the financial reporting requirements for regulatory deferral account balances that arise from rate-regulation. This standard requires the consolidated statement of income above net movement in regulatory balances to be presented in a manner that does not include the impacts of rate-regulation. As a result, additions to regulatory deferral balances have been expensed in the line items above net movement in regulatory balances and amortization has been removed. Consequently, the additions are ultimately deferred and amortization is recognized through net movement in regulatory balances. This presentation is intended to isolate the movement of regulatory deferral accounts to allow comparability with those entities not applying IFRS 14.

The following adjustments were made to the consolidated statement of income and consolidated statement of financial position:

Additions

Additions to regulatory deferral balances relating to carrying costs have been presented in finance expense. Finance expense also includes the derecognition of the deferred accretion on the perpetual obligation. These impacts resulted in a decrease to finance expense under IFRS of $5 million for the year ended March 31, 2015.

Additions to regulatory deferral debit balances relating to deferred ineligible overhead resulted in an increase to the regulatory deferral debit balance of $21 million as at March 31, 2015.

Additions to regulatory deferral debit balances relating to the change in depreciation method resulted in an increase to the regulatory deferral debit balance of $31 million as at March 31, 2015.

Additions to regulatory deferral debit balances relating to the loss on disposal of assets originally recorded in property, plant and equipment resulted in a decrease to property, plant and equipment, and increases to depreciation and amortization and regulatory deferral debit balances of $9 million as at and for the year ended March 31, 2015.

Additions to Power Smart programs, site restoration and regulatory costs have been presented in other expenses resulting in an increase to other expenses of $45 million for the year ended March 31, 2015.

Additions to regulatory deferral credit balances relating to the impact of the 2014 depreciation study have been presented in depreciation and amortization resulting in a decrease in depreciation and amortization and an increase in regulatory deferral credit balances of $1 million as at and for the year ended March 31, 2015.

Amortization

Amortization of regulatory deferral balances have been removed from depreciation and amortization under IFRS resulting in a decrease for the year ended March 31, 2015 of $51 million.

Amortization of deferred taxes has been removed from capital and other taxes under IFRS resulting in a decrease of $4 million for the year ended March 31, 2015.

Recovery or reversal of the PGVA

Cost of gas sold under CGAAP was calculated based on rates approved by the PUB. IFRS 14 requires the regulatory impacts on cost of gas sold to be removed to reflect actual commodity costs. The March 31, 2015 impact of removing regulatory impacts from cost of gas sold is a reduction in cost of gas sold of $8 million. Carrying costs have been presented in finance expense resulting in an increase to finance expense under IFRS of $1 million for the year ended March 31, 2015.

(in millions of Canadian dollars)

Net movement in regulatory deferral balances was impacted by these required changes for the year ended March 31, 2015 as follows:

Additions	
Finance expense	(5)
Operating and administrative expenses	21
Depreciation and amortization expense	39
Other expenses	45
	100
Amortization	
Depreciation and amortization	(51)
Capital and other taxes	(4)
	(55)
Recovery or reversal of the PGVA	
Cost of gas sold	(8)
Finance expense	1
	(7)
Net impact to net movement in regulatory deferral balances	**38**

G. Net loss attributable to non-controlling interest

IAS 1 requires the parent's consolidated statement of income to include 100% of the amounts relating to the subsidiaries under the parent's control. A separate table is presented to allocate net income between Manitoba Hydro and non-controlling interests. This presentation difference results in the removal of the net loss attributable to non-controlling interests on the consolidated statement of income.

Reclassifications

i. Prepaid expenses

Under CGAAP, prepaid expenses were included in accounts receivable and accrued revenue. Under IFRS, prepaid expenses are presented separately. The impact as at April 1, 2014 and March 31, 2015 was a decrease to accounts receivable and accrued revenue of $47 million and $47 million, respectively, and an increase to prepaid expenses of $47 million and $47 million, respectively.

ii. Assets held for sale

IAS 1 requires that the statement of financial position separately presents the total of assets classified as held for sale if material. Amounts previously included in loans and other receivables under CGAAP have been reclassified resulting in a reduction to loans and other receivables of $5 million and $4 million as at April 1, 2014 and March 31, 2015, respectively. As these assets held for sale are not significantly material, they have been classified as a current asset in accounts receivable and accrued revenue, resulting in an increase of $5 million and $4 million as at April 1, 2014 and March 31, 2015, respectively.

iii. Presentation of regulatory deferral balances

IFRS 14 requires separate disclosure in the statement of financial position for the total of all regulatory deferral debit balances and the total of all regulatory deferral credit balances. As such, amounts presented as regulated assets and regulated liabilities under CGAAP have been reclassified to regulatory deferral debit and regulatory deferral credit balances respectively on the consolidated statement of financial position. This resulted in decreases in the regulated assets balance of $360 million and $346 million as at April 1, 2014 and March 31, 2015 respectively, with corresponding increases to the regulatory deferral debit balance. Regulated liabilities decreased by $22 million and $22 million as at April 1, 2014 and March 31, 2015 respectively with a corresponding increase to the regulatory deferral credit balance.

iv. Classification of regulatory deferral balances

IFRS 14 requires that an item that would not be recognized as an asset or a liability in accordance with another Standard, but that qualifies for deferral because it is included, or is expected to be included, by the regulator in establishing the rates that can be charged to customers to be presented as a regulatory deferral account balance.

Affordable Energy Fund

Under CGAAP, the Affordable Energy Fund had an asset balance included in other long-term assets and a liability balance included in other long-term liabilities.

The asset balance was reclassified under IFRS to regulatory deferral debit balances, resulting in a decrease to loans and other receivables of $11 million and $6 million as at April 1, 2014 and March 31, 2015, respectively.

The liability balance was reclassified under IFRS to provisions as it meets the definition of a provision outlined in IAS 37. The impact as at April 1, 2014 and March 31, 2015 was a decrease to other long-term liabilities of $11 million and $6 million, respectively, with a corresponding increase to provisions.

v. Employee future benefits

In advance of the IFRS opening balance sheet adjustments discussed in E above, the following reclassifications were made:

The accrued benefit asset was reclassified to employee future benefits. The impact as at April 1, 2014 and March 31, 2015 was a decrease to loans and other receivables (previously other long-term assets) of $90 million and $54 million respectively, and an increase to the employee future benefits liability in the same amounts.

Under CGAAP, the accrued benefit liability was included in other long-term liabilities. As the total employee future benefit liability increased significantly with the adjustments to transition to IFRS, this balance was removed from other long-term liabilities and reflected in its own line. This reclassification resulted in a decrease to other long-term liabilities of $188 million as at April 1, 2014 and $211 million as at March 31, 2015, with corresponding increases to the employee future benefit liability.

Under CGAAP, the workers' compensation reserve was included in accounts payable and accrued liabilities. As the nature of this item is similar to accrued benefits, it has been reclassified to the employee future benefit liability under IFRS. This reclassification resulted in a decrease to accounts payable and accrued liabilities of $14 million as at April 1, 2014 and $13 million as at March 31, 2015, with a corresponding increase to the employee future benefit liability.

vi. Perpetual obligation

For consistency with other liabilities of a similar nature, the long-term portion of the perpetual obligation to the City of Winnipeg has been reclassified from its own line item in CGAAP to other long-term liabilities. This reclassification resulted in an increase to other long-term liabilities of $207 million as at April 1, 2014 and $199 million as at March 31, 2015 with corresponding decreases to the asset purchase obligation line item under CGAAP.

vii. Deferred revenue

Under IFRIC 18, contributions in aid of construction are initially recorded as deferred revenue and subsequently recognized in other revenue over the life of the related asset. Under CGAAP, amortization of contributions was recognized in depreciation and amortization. This reclassification resulted in an increase in other revenue of $10 million for the year ended March 31, 2015 with a corresponding increase to depreciation and amortization.

(in millions of Canadian dollars)

viii. Classification of liabilities

Under CGAAP, the obligations related to refundable contributions, mitigation and major development were classified as long-term liabilities. Under IFRS, the current portion has been reclassified to other liabilities in the current liabilities section of the consolidated statement of financial position. This reclassification resulted in an increase to other liabilities of $61 million as at April 1, 2014 and $71 million as at March 31, 2015, with a corresponding decrease to other long-term liabilities.

ix. Finance expense

IAS 1 requires material items of income or expenses to be separately disclosed. Due to materiality, finance income and expense have been presented separately. This reclassification resulted in an increase in finance expense and a corresponding increase in finance income at March 31, 2015 of $26 million.

x. Reclassification of customer contributions

Refundable contributions expected to be non-refundable have been reclassified to deferred revenue to be consistent with the presentation of non-refundable contributions. This reclassification resulted in an increase in deferred revenue of $15 million as at April 1, 2014 and $17 million as at March 31, 2015, with a corresponding decrease to other long-term liabilities.

xi. Arbitrage opportunities between wholesale energy markets

Arbitrage activities are presented in extraprovincial revenue to better reflect the substance of the transaction. This reclassification resulted in decreases in fuel and power purchased and extraprovincial revenue of $15 million at March 31, 2015.

The following table provides the impact on the consolidated statement of cash flows:

Consolidated Statement of Cash Flows

For the year ended March 31, 2015	CGAAP	Effect of transition	IFRS
Cash provided by operating activites	**651**	14	**665**
Cash used for investing activities	**(1 973)**	100	**(1 873)**
Cash provided by financing activities	**1 674**	(114)	**1 560**

(in millions of Canadian dollars)

The changes in classification of cash flows under IFRS are primarily due to:

- the reclassification of sinking fund investment purchases of $114 million from investing to financing activities. Manitoba Hydro is legislated under *The Manitoba Hydro Act* to make sinking fund payments to the Province of Manitoba. Sinking fund withdrawals are applied towards the repayment of advances made to, and moneys borrowed by, the corporation, and

- the reclassification of adjustments relating to regulatory balances within operating activities and investing activities related to ineligible overhead, change in depreciation method from ASL to ELG, meter exchanges and loss on disposal of assets.

Note 7 Extraprovincial revenue

	2016	2015
Dependable sales	**206**	183
Opportunity sales	**197**	193
Other	**12**	8
	415	384

Dependable sales are sourced from Manitoba Hydro's hydraulic energy available during lowest water conditions and typically with a duration of greater than six months. Opportunity sales are based on excess energy, are generally over shorter periods and are transacted primarily in markets operated by an independent system operator such as the Midcontinent Independent System Operator (MISO).

The majority of extraprovincial revenue is from sales to the U.S. The average effective exchange rate for the year was $1.00 U.S. = $1.30 Canadian (2015 - $1.00 U.S. = $1.13 Canadian).

Note 8 Other revenue

	2016	2015
Consulting, technology and maintenance services	**57**	49
Customer contributions	**15**	16
Miscellaneous revenue	**19**	16
	91	81

Consulting, technology and maintenance services are comprised of professional consulting, operations, maintenance and project management services provided to energy sectors world-wide.

(in millions of Canadian dollars)

Customer contributions are the recognition of deferred revenue related to contributions in aid of construction (Note 28) and the recovery of period costs from customers.

Note 9 Finance expense

	2016	2015
Interest on debt	**654**	581
Provincial debt guarantee fee	**122**	109
Accretion	**33**	30
Interest capitalized	**(177)**	(145)
Foreign exchange gain	**(12)**	(17)
Other	**-**	(7)
	620	551

The Provincial debt guarantee fee during the year was 1.00% of the corporation's total outstanding debt guaranteed by the Province of Manitoba (2015 - 1.00%). Interest was capitalized for the year at 5.03% (2015 – 5.35%).

Note 10 Operating and administrative

	2016	2015
Salaries and benefits	**461**	463
External services	**99**	99
Materials, motor vehicles and supplies	**35**	34
Other	**19**	18
	614	614

Additional salaries and benefits are included in other expenses (Note 14) in the amount of $16 million (2015 - $13 million).

(in millions of Canadian dollars)

Note 11 Depreciation and amortization

	2016	2015
Depreciation of property, plant and equipment (Note 18)	**366**	349
Amortization of intangible assets (Note 20)	**22**	20
Loss on disposal of property, plant and equipment	**6**	9
	394	378

Note 12 Fuel and power purchased

	2016	2015
Wind purchases	**63**	70
Transmission charges	**43**	34
Thermal fuel purchases	**8**	10
Power purchases	**3**	15
	117	129

Note 13 Capital and other taxes

	2016	2015
Corporate capital tax	**73**	65
Property tax and grants in lieu of tax	**37**	37
Payroll tax	**13**	13
	123	115

Note 14 Other expenses

	2016	2015
Power Smart expenses	**64**	41
Consulting, technology and maintenance expenses	**38**	29
Miscellaneous	**12**	7
	114	77

Of the total other expenses, $72 million (2015 - $45 million) are subsequently deferred in regulatory deferral balances through net movement in regulatory balances (Note 22).

(in millions of Canadian dollars)

Note 15 Cash and cash equivalents

	March 31, 2016	March 31, 2015	April 1, 2014
Temporary investments	**820**	416	115
Cash	**133**	71	23
Restricted cash	**3**	7	4
	956	494	142

Temporary investments are comprised of cash invested with the Province of Manitoba and have a maturity of less than 30 days. Restricted cash is comprised of deposits held for letters of guarantees for customer contracts, callable at any time.

Note 16 Accounts receivable and accrued revenue

	March 31, 2016	March 31, 2015	April 1, 2014
Trade accounts receivable	**241**	282	304
Accrued revenue	**79**	83	112
Current portion of loans and other receivables (Note 21)	**22**	33	32
Other receivables	**22**	21	28
Taxes receivable	**18**	17	11
Allowance for doubtful accounts	**(10)**	(9)	(9)
	372	427	478

Note 17 Inventory

	March 31, 2016	March 31, 2015	April 1, 2014
Materials and supplies	**66**	64	60
Natural gas	**32**	17	-
Fuel	**19**	18	21
	117	99	81

Inventory recognized as an expense during the year was $39 million (2015 - $69 million). The write-down of inventory during 2016 was nil (2015 - nil). No reversals of write-downs occurred during the year (2015 - nil).

(in millions of Canadian dollars)

Note 18 Property, plant and equipment

	Generation	Transmission lines	Substations	Distribution systems	Other	Construction in progress	Total
Cost or deemed cost							
Balance, April 1, 2014	5 138	717	1 648	2 347	836	2 943	13 629
Additions	454	11	102	189	61	1 144	1 961
Disposals and/or retirements	(5)	(1)	(7)	(19)	(7)	-	(39)
Assets placed in service*	239	10	444	88	27	(808)	-
Transfers to (from) PP&E	1	-	-	-	-	(1)	-
Balance, March 31, 2015	5 827	737	2 187	2 605	917	3 278	15 551
Additions	135	13	82	196	47	1 889	2 362
Disposals and/or retirements	(10)	-	(4)	(14)	(4)	-	(32)
Assets placed in service*	154	12	105	37	22	(330)	-
Transfers to (from) PP&E	-	1	2	-	(3)	-	-
Balance, March 31, 2016	**6 106**	**763**	**2 372**	**2 824**	**979**	**4 837**	**17 881**
Accumulated depreciation							
Balance, April 1, 2014	-	-	-	-	-	-	-
Depreciation expense	123	13	79	79	55	-	349
Disposals and/or retirements	(4)	-	(4)	(8)	(4)	-	(20)
Balance, March 31, 2015	119	13	75	71	51	-	329
Depreciation expense	128	13	85	84	56	-	366
Disposals and/or retirements	(8)	-	(5)	(7)	(2)	-	(22)
Balance, March 31, 2016	**239**	**26**	**155**	**148**	**105**	**-**	**673**
Net book value							
Balance, April 1, 2014	5 138	717	1 648	2 347	836	2 943	13 629
Balance, March 31, 2015	5 708	724	2 112	2 534	866	3 278	15 222
Balance, March 31, 2016	**5 867**	**737**	**2 217**	**2 676**	**874**	**4 837**	**17 208**

*Represents projects that were in "Construction in progress" at the beginning of the year.

At April 1, 2014, the corporation applied the deemed cost exemption that is available under IFRS 1. This exemption allows rate-regulated entities that are first-time adopters of IFRS the option to use the carrying amount of property, plant and equipment from their previous GAAP as deemed cost upon transition. The application of this exemption to these balances resulted in an opening accumulated depreciation balance of zero for property, plant and equipment as at April 1, 2014.

Included in additions is interest capitalized during construction of $174 million (2015 - $143 million).

(in millions of Canadian dollars)

Note 19 Sinking fund investments

Manitoba Hydro is legislated under *The Manitoba Hydro Act* to make annual sinking fund payments to the Province of Manitoba of not less than 1% of the principal amount of the outstanding debt on the preceding March 31 and 4% of the balance in the sinking fund at such date. Payments to the sinking fund during the year were $132 million (2015 - $114 million). Interest earned on sinking fund investments is recognized in finance expense.

	March 31, 2016	March 31, 2015	April 1, 2014
Canadian investments	**-**	114	-
U.S. investments	**-**	-	111
	-	114	111

Canadian investments have a weighted average term to maturity of 0 days (2015 - 1 day) and an effective yield to maturity of 0.00% (2015 - 0.75%).

(in millions of Canadian dollars)

Note 20 Intangible assets

	Computer application development	Land easements	Transmission rights	Under development	Total
Cost or deemed cost					
Balance, April 1, 2014	80	57	5	32	174
Additions	11	8	5	7	31
Assets placed into service*	21	6	-	(27)	-
Balance, March 31, 2015	112	71	10	12	205
Additions	7	13	-	15	35
Retirements	(2)	-	-	-	(2)
Assets placed into service*	3	3	-	(6)	-
Balance, March 31, 2016	**120**	**87**	**10**	**21**	**238**
Accumulated amortization					
Balance, April 1, 2014	-	-	-	-	-
Amortization	19	1	3	-	23
Retirements	(1)	-	-	-	(1)
Balance, March 31, 2015	18	1	3	-	22
Amortization	20	1	2	-	23
Retirements	(1)	-	-	-	(1)
Balance, March 31, 2016	**37**	**2**	**5**	**-**	**44**
Net book value					
Balance, April 1, 2014	80	57	5	32	174
Balance, March 31, 2015	94	70	7	12	183
Balance, March 31, 2016	**83**	**85**	**5**	**21**	**194**

*Represents projects that were in "Under development" at the beginning of the year.

The corporation applied the deemed cost exemption available under IFRS 1 as at April 1, 2014 which allows first-time adopters of IFRS subject to rate regulation the option to use the carrying amount of intangible asset balances from their previous GAAP as deemed cost upon transition. Applying this exemption resulted in an opening accumulated amortization balance of zero for intangible assets as at April 1, 2014.

Computer application development is a combination of internally developed and externally acquired intangible assets.

(in millions of Canadian dollars)

Note 21 Loans and other receivables

	March 31, 2016	March 31, 2015	April 1, 2014
Loan to Wuskwatim investment entity (Note 30)	**128**	116	112
Contract receivables and other	**104**	106	104
Loans to Keeyask investment entities (Note 30)	**90**	57	-
Loan to St. Joseph Windfarm Inc.	**-**	218	227
	322	497	443
Less: current portion (Note 16)	**(22)**	(33)	(32)
	300	464	411

The St. Joseph wind farm is owned by Pattern Energy and operated by St. Joseph Windfarm Inc. Financing for the wind farm was provided partly by Manitoba Hydro. In accordance with the loan agreement, Manitoba Hydro provided advances totaling $250 million, which were fully repaid in the current year.

Accrued interest related to loans receivable is included in the loan balances above and is recognized in finance income.

(in millions of Canadian dollars)

Note 22 Regulatory deferral balances

	March 31, 2015	Balances arising in the year	Recovery / reversal	**March 31, 2016**	Remaining recovery / reversal period
					(years)
Regulatory deferral debit balances					
Electric					
Power Smart programs[1]	184	81	(33)	**232**	1 - 10
Site restoration	31	3	(3)	**31**	1 - 15
Change in depreciation method	29	31	-	**60**	*
Deferred ineligible overhead	20	20	-	**40**	*
Acquisition costs	11	-	(1)	**10**	15 - 18
Affordable Energy Fund	6	-	(2)	**4**	**
Loss on disposal of assets	6	3	-	**9**	*
Regulatory costs	1	4	(1)	**4**	1 - 5
Gas					
Power Smart programs[1]	55	10	(8)	**57**	1 - 10
PGVA	32	181	(213)	**-**	***
Deferred taxes	25	2	(4)	**23**	1 - 30
Site restoration	3	-	-	**3**	1 - 15
Loss on disposal of assets	3	3	-	**6**	*
Change in depreciation method	2	2	-	**4**	*
Regulatory costs	1	1	(1)	**1**	1 - 5
Deferred ineligible overhead	1	1	-	**2**	*
	410	342	(266)	**486**	
Regulatory deferral credit balances					
Electric					
DSM deferral	16	27	-	**43**	*
Gas					
DSM deferral	6	-	-	**6**	*
PGVA	-	-	1	**1**	***
Impact of 2014 depreciation study	1	1	-	**2**	*
	23	28	1	**52**	
Net movement in regulatory balances		314	(267)	**47**	

[1] Included in Power Smart programs is the difference between actual and planned expenditures for electric and gas DSM programs.

* The amortization periods for these accounts will be determined by the PUB as part of a future regulatory proceeding.

** The Affordable Energy Fund is amortized to the consolidated statement of income at the same rate as the provision (Note 29) is drawn down.

*** The PGVA is recovered or refunded in future rates.

(in millions of Canadian dollars)

	April 1, 2014	Balances arising in the year	Recovery / reversal	March 31, 2015	Remaining recovery / reversal period
					(years)
Regulatory deferral debit balances					
Electric					
Power Smart programs[1]	184	32	(32)	184	1 - 10
Site restoration	33	2	(4)	31	1 - 15
Change in depreciation method	-	29	-	29	*
Deferred ineligible overhead	-	20	-	20	*
Acquisition costs	19	(7)	(1)	11	15 - 18
Affordable Energy Fund	11	-	(5)	6	**
Loss on disposal of assets	-	6	-	6	*
Regulatory costs	-	1	-	1	1 - 5
Gas					
Power Smart programs[1]	54	9	(8)	55	1 - 10
PGVA	39	266	(273)	32	***
Deferred taxes	27	2	(4)	25	1 - 30
Site restoration	3	-	-	3	1 - 15
Loss on disposal of assets	-	3	-	3	*
Change in depreciation method	-	2	-	2	*
Regulatory costs	1	1	(1)	1	1 - 5
Deferred ineligible overhead	-	1	-	1	*
	371	367	(328)	410	
Regulatory deferral credit balances					
Electric					
DSM deferral	16	-	-	16	*
Gas					
DSM deferral	6	-	-	6	*
Impact of 2014 depreciation study	-	1	-	1	*
	22	1	-	23	
Net movement in regulatory balances		366	(328)	38	

[1] Included in Power Smart programs is the difference between actual and planned expenditures for electric and gas DSM programs.

* The amortization periods for these accounts will be determined by the PUB as part of a future regulatory proceeding.

** The Affordable Energy Fund is amortized to the consolidated statement of income at the same rate as the provision (Note 29) is drawn down.

*** The PGVA is recovered or refunded in future rates.

The balances arising in the year consist of additions to regulatory deferral balances. The recovery/reversal consists of amounts recovered from customers through the amortization of existing regulatory balances or rate riders. The net impact of these transactions results in the net movement in regulatory deferral balances on the consolidated statement of income.

Balances arising in the year include $2 million (2015 - $3 million) for carrying costs on deferred taxes, the Affordable Energy Fund and the PGVA.

The regulatory deferral debit balances of the corporation consist of the following:

Power Smart program expenditures are incurred for energy conservation programs to encourage residential, commercial and industrial customers to use energy more efficiently.

Site restoration expenditures are incurred for the remediation of contaminated corporate facilities and diesel generating sites.

Change in depreciation method represents the cumulative annual difference in depreciation expense between the ASL method of depreciation as applied by Manitoba Hydro prior to its transition to IFRS and the ELG method as applied by Manitoba Hydro under IFRS.

Deferred ineligible overhead is the cumulative annual difference in overhead capitalized for financial reporting purposes under IFRS and overhead capitalized for rate setting purposes.

Acquisition costs relate to costs associated with the acquisition of Centra and Minell (July 1999) and Winnipeg Hydro (September 2002).

The Affordable Energy Fund relates to future DSM expenditures in connection with *The Winter Heating Cost Control Act*. The intent of the Affordable Energy Fund is to provide funding for projects that would not otherwise be funded by Power Smart programs.

Loss on disposal of assets is the net asset retirement losses for those assets retired prior to or subsequent to reaching their expected service life as determined under the ELG method of depreciation.

Regulatory costs are those incurred as a result of electric and gas regulatory hearings.

Deferred taxes are the taxes paid by Centra (July 1999) as a result of its change to non-taxable status upon acquisition by Manitoba Hydro.

The regulatory deferral credit balances of the corporation consist of the following:

Purchased gas variance accounts are maintained to recover/refund differences between the actual cost of gas and the cost of gas incorporated into rates charged to customers as approved by the PUB. Purchased gas variance accounts are reflected as a regulatory debit or credit depending if the amounts represent a recovery from or a refund to the customers, respectively.

Impact of 2014 depreciation study represents the cumulative unamortized difference in depreciation between the ASL method based on the 2010 depreciation study and the ASL method based on the 2014 depreciation study. The PUB requires the use of 2010 ASL depreciation rates for Centra for rate setting purposes pending review at the next gas regulatory proceeding.

DSM deferral - In Orders 43/13 and 85/13, the PUB directed that the differences between actual and planned spending on electric and gas Power Smart programs for the 2012-13 and 2013-14 fiscal years be recognized as a liability. In Order 73/15, the PUB further directed that the difference in fiscal 2014-15 and 2015-16 spending be added to this deferral. The cumulative differences have been recorded as a regulatory deferral account credit balance with an offsetting balance recorded as a regulatory deferral debit balance. The disposition of these balances will be determined by the PUB at a future regulatory proceeding.

(in millions of Canadian dollars)

Note 23 Long-term debt

	Advances from the Province	Manitoba HydroBonds	Manitoba Hydro-Electric Board Bonds	Other*	Total
Balance, April 1, 2014	10 683	169	158	(142)	10 868
Issues	2 127	-	-	83	2 210
Maturities	(561)	(93)	-	-	(654)
Foreign exchange adjustments	236	-	-	18	254
Amortization of net premiums and transaction costs	-	-	(1)	3	2
Balance, March 31, 2015	12 485	76	157	(38)	12 680
Issues	2 208	-	-	(43)	2 165
Maturities	(300)	(50)	(12)	-	(362)
Foreign exchange adjustments	44	-	-	(2)	42
Amortization of net premiums and transaction costs	-	-	-	2	2
	14 437	26	145	(81)	14 527
Less: current portion	(301)	(25)	-	-	(326)
Balance, March 31, 2016	**14 136**	**1**	**145**	**(81)**	**14 201**

*Other includes adjustments to carrying value of dual currency bonds, transaction costs and debt discounts and premiums.

During the year, the corporation arranged long-term financing of $2 165 million (2015 - $2 210 million). The current year financing was in the form of provincial advances with the majority at fixed interest rates.

Included in the current portion of long-term debt are $301 million (2015 - $312 million) of debt maturities and $25 million (2015 - $65 million) of floating-rate Manitoba HydroBonds with maturity dates in 2016 and 2018. Floating rate Manitoba HydroBonds are redeemable at the option of the holder.

Long-term debt is guaranteed by the Province of Manitoba, with the exception of Manitoba Hydro-Electric Board Bonds in the amount of $65 million (2015 - $65 million) issued for mitigation projects.

(in millions of Canadian dollars)

Debt principal amounts (excluding adjustments to the carrying value of dual currency bonds, transaction costs, debt discounts and premiums) and related yields are summarized by fiscal years of maturity in the following table:

Years of maturity	Canadian	Cdn. yields	U.S.	U.S. yields	**2016 Total**	2015 Total
2017	326	3.5%	-	-	**326**	311
2018	331	6.7%	-	-	**331**	331
2019	936	6.6%	60	10.4%	**996**	987
2020	150	4.2%	195	8.8%	**345**	340
2021	975	3.1%	324	9.6%	**1 299**	892
	2 718	4.5%	579	9.4%	**3 297**	2 861
2022-2026	1 857	3.7%	1 038	6.9%	**2 895**	2 476
2027-2031	1 020	8.4%	-	-	**1 020**	870
2032-2036	325	5.1%	-	-	**325**	325
2037-2041	1 885	4.7%	-	-	**1 885**	1 885
2042-2046	2 300	3.9%	-	-	**2 300**	2 300
2047-2064	2 886	3.6%	-	-	**2 886**	1 624
	12 991	4.2%	1 617	7.6%	**14 608**	12 341

Included in the above Canadian maturity amounts are six dual currency bonds with the principal amount repayable in Canadian currency and interest payments denominated in U.S. currency. Five dual currency bonds mature in the 2018-19 fiscal year in the amount of $430 million Canadian while the sixth matures in the 2025-26 fiscal year in the amount of $130 million Canadian. U.S. debt is translated into Canadian dollars at the exchange rate prevailing at the consolidated statement of financial position date, $1.00 U.S. = $1.30 Canadian (2015 - $1.00 U.S. = $1.27 Canadian).

(in millions of Canadian dollars)

Note 24 Accounts payable and accrued liabilities

	March 31, 2016	March 31, 2015	April 1, 2014
Trade and other payables	**602**	416	427
Employee payroll and benefit accruals	**77**	71	67
Taxes payable	**33**	32	33
Water rentals and assessments	**11**	10	10
	723	529	537

Included in accounts payable and accrued liabilities are accruals based on an estimated amount of services completed or goods and materials received but not invoiced.

Note 25 Other liabilities

	March 31, 2016	March 31, 2015	April 1, 2014
Current portion of other long-term liabilities (Note 26)	**85**	87	78
Current portion of deferred revenue (Note 28)	**2**	3	1
Current portion of provisions (Note 29)	**1**	4	5
	88	94	84

The current portion of other long-term liabilities is comprised of the current portion of mitigation liability of $38 million (2015 - $32 million), major development liability of $26 million (2015 - $35 million), perpetual obligation to the City of Winnipeg for the acquisition of Winnipeg Hydro of $16 million (2015 - $16 million) and refundable advances from customers of $5 million (2015 - $4 million).

The current portion of provisions represents the asset retirement obligation for the removal and disposal of polychlorinated biphenyl (PCB) contaminated fluid in equipment bushings at transmission and distribution stations. Prior year current portion of provisions related to the decommissioning of the Pointe du Bois Generating Station spillway, which was completed in the current year.

The current portion of deferred revenue represents advance payments from customers for software maintenance and international consulting work.

(in millions of Canadian dollars)

Note 26 Other long-term liabilities

	March 31, 2016	March 31, 2015	April 1, 2014
Mitigation liability	**238**	254	229
Major development liability	**219**	218	67
Perpetual obligation	**215**	215	223
Refundable advances from customers	**80**	82	87
Other	**3**	4	2
	755	773	608
Less: current portion (Note 25)	**(85)**	(87)	(78)
	670	686	530

Mitigation

Manitoba Hydro's mitigation program addresses past, present and ongoing adverse effects of historical hydro-electric development. The mitigation program, established in the late 1970s to address project impacts through alleviation of adverse effects, remedial works and residual compensation, grew out of the experience of planning and development of the Lake Winnipeg Regulation and Churchill River Diversion Projects. The Northern Flood Agreement, signed December 16, 1977, created a process that addressed ongoing mitigation and compensation for adverse effects of hydro-electric development in five signatory First Nation communities. The mitigation program was expanded to address impacts arising from all past hydro-electric developments (prior to the Wuskwatim generating station), particularly for Indigenous people residing or engaged in resource harvesting in the project areas, and it is essential for operating and future development purposes.

Expenditures recorded or settlements reached to mitigate the impacts of historical hydro-electric development amounted to $31 million during the year (2015 - $56 million). In recognition of future mitigation payments, the corporation has recorded a liability of $238 million (2015 - $254 million). To March 31, 2016, $1 088 million (2015 - $1 057 million) has been recorded to mitigate and compensate for all project-related impacts. These expenditures are included in the costs of the associated projects and amortized over the respective remaining lives. There are other mitigation issues, the outcomes of which are not determinable at this time.

Included in mitigation liabilities are obligations assumed on behalf of the Province of Manitoba with respect to certain northern development projects. The corporation has assumed obligations totaling $146 million for which water power rental charges were fixed until March 31, 2001. The obligation outstanding as at March 31, 2016 totaled $9 million (2015 - $11 million).

The discount rates used to determine the present value of mitigation obligations range from 4.15% to 8.50%.

(in millions of Canadian dollars)

Major development

Beginning with the development of the Wuskwatim generating station, project-related adverse effects are identified and addressed during project planning (including the environmental assessment process), which is done in advance of project construction. As such, mitigation measures are built into project design where possible. The costs for these mitigation measures, as well as any residual compensation requirements, are therefore accounted for in the capital cost estimates for each individual project.

Programs and adverse effects agreements have been negotiated to mitigate and compensate for all anticipated project-related impacts for major new generation and transmission development projects including Wuskwatim, Keeyask and Bipole III. The corporation has recorded a liability of $219 million (2015 - $218 million) to reflect these agreements. These expenditures are included in the costs of the associated projects and amortized over the life of the assets.

The discount rates used to determine the present value of the major development obligation range from 4.50% to 5.05%.

Perpetual obligation

Effective September 3, 2002, the corporation acquired the net assets of Winnipeg Hydro from the City of Winnipeg. The obligation represents the net present value of payments to the City of Winnipeg of $16 million per annum in perpetuity.

The discount rate used to determine the present value of the perpetual obligation was 7.45%.

Note 27 Employee future benefits

	March 31, 2016	March 31, 2015	April 1, 2014
Net pension liability	**588**	538	383
Other employee future benefits liability	**271**	266	235
	859	804	618

Pension plans

Manitoba Hydro and its employees are participating members of the Civil Service Superannuation Plan (the Plan) established under *The Civil Service Superannuation Act* (CSSA). Manitoba Hydro employees are eligible for pension benefits based on years of service and on the average earnings of the five best years. As a non-matching employer, the provisions of the CSSA require the corporation to contribute approximately 50% of the pension disbursements made to retired employees. Manitoba Hydro provides its portion of pension benefits through a separately administered fund, the Manitoba Hydro Pension Fund (MHPF).

The employee and employer contribution rates have been increasing since 2012 with the latest increase of 0.50% occurring in January 2015. These increased contributions were necessary to fund the pension benefits in the future and ensure the ongoing financial health of the Plan.

Manitoba Hydro employees with pensionable service after June 1, 2006 are eligible for an additional pension benefit under the Enhanced Hydro Benefit Plan (EHBP). The EHBP improves the pension formula used to calculate pension benefits. Manitoba Hydro funds the enhanced pension benefit through contributions based on 0.50% of pensionable earnings to a separate trust account that is managed by the Civil Service Superannuation Board (CSSB). The EHBP funds are co-mingled with the Civil Service Superannuation Fund (CSSF) assets for investment purposes.

The former employees of Centra are entitled to pension benefits earned under the Centra curtailed pension plans. The Centra curtailed pension plans are Registered Pension Trusts as defined in the *Income Tax Act (Canada)*. The Master Trust is made up of three individual plans including the Centra Gas Manitoba Inc. Pension Plan for Salaried Employees, the Centra Gas Manitoba Inc. Union Employees' Pension Plan and the Centra Gas Manitoba Inc. (Rural) Local 681 Pension Plan. Centra is required to make special payments to the plans at amounts considered necessary to ensure that the benefits will be fully provided for at retirement as determined in the actuarial valuation dated December 31, 2014. The plans are registered with the Pension Commission of Manitoba and subject to the rules and regulations of *The Pension Benefits Act of Manitoba*. The Master Trust assets are held in trust with State Street Trust Company of Canada. The CSSB acts as the investment manager.

MHUS employees are eligible for pension benefits under the Plan. As a matching employer under the CSSA, MHUS is required to match employee contributions at a prescribed rate. MHUS' pension expense is recognized at the time contributions are made. Manitoba Hydro does not carry a pension asset or obligation on its consolidated financial statements related to MHUS.

The former employees of Winnipeg Hydro continue to earn benefits under the Winnipeg Civic Employee Benefits Program (WCEBP), which upon the acquisition of Winnipeg Hydro, Manitoba Hydro became a participating employer. The WCEBP is a defined benefit plan that provides pension benefits based on years of service and on the average earnings of the five best years. Manitoba Hydro does not carry a pension asset or obligation on its consolidated statements related to the former employees of Winnipeg Hydro. The WCEBP is governed by an independent board of trustees and a trust agreement that limits Manitoba Hydro's contribution rates. The structure of the trust agreement also limits Manitoba Hydro's exposure to future unfunded liabilities. Contributions to the plan are accounted for similar to a defined contribution plan.

MHI sponsors a defined contribution group registered retirement plan. MHI matches 100% of the employee contributions at prescribed contribution rates. The cost of the pension benefits is charged to pension expense as services are rendered. Manitoba Hydro does not carry a pension asset or obligation on its consolidated financial statements for the MHI defined contribution plan.

(in millions of Canadian dollars)

An independent actuary calculates the liability for pension expense purposes as at December 31 each year with the most recent actuarial valuations being completed as at December 31, 2015. The next actuarial valuations for all plans will occur as at December 2016.

These valuations incorporate management's assumptions and take into consideration the long-term nature of the pension plans. The actuary selects the demographic assumptions. The corporation's management in consultation with the actuary determines the economic assumptions such as discount rate. The accrued benefit actuarial cost method with salary projection is used to determine the pension benefit obligation and current service cost.

The following table presents information pertaining to the Manitoba Hydro Plan, the EHBP and the Centra curtailed plans that are recognized in the consolidated financial statements:

	Manitoba Hydro Plan		EHBP		Centra curtailed pension plans		Total	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
Plan assets at fair value								
Balance at beginning of year	**974**	883	**21**	17	**126**	115	**1 121**	1 015
Return (loss) on assets	**(13)**	107	**1**	2	**(2)**	15	**(14)**	124
Employer contributions	**36**	33	**2**	2	**2**	2	**40**	37
Benefit payments and refunds	**(59)**	(49)	**-**	-	**(5)**	(6)	**(64)**	(55)
	938	974	**24**	21	**121**	126	**1 083**	1 121
Pension obligation								
Balance at beginning of year	**1 503**	1 265	**32**	22	**124**	111	**1 659**	1 398
Interest cost	**55**	57	**1**	1	**5**	5	**61**	63
Current service cost	**59**	45	**4**	3	**-**	-	**63**	48
Benefit payments and refunds	**(60)**	(50)	**-**	-	**(5)**	(5)	**(65)**	(55)
Actuarial losses (gains) arising from changes in financial assumptions	**(42)**	186	**(2)**	6	**(3)**	13	**(47)**	205
	1 515	1 503	**35**	32	**121**	124	**1 671**	1 659
Net pension (liability) asset	**(577)**	(529)	**(11)**	(11)	**-**	2	**(588)**	(538)

The loss on pension fund assets for the MHPF for the fiscal year ended March 31, 2016 was 0.97% (2015 - 12.80% return). The loss for the Centra curtailed plan fund assets for the year ended March 31, 2016 was 1.39% (2015 - 12.80% return). The weighted average term to maturity on fixed income investments is 9.8 years (2015 - 9.4 years).

The investment income earned on the EHBP funds is based on the market rate of return that is earned by the CSSF. For the year ended December 31, 2015, the CSSF earned a rate of return of 7.63% (2015 - 9.20%) on fund assets.

(in millions of Canadian dollars)

The most recent actuarial valuations for the pension plans for going concern funding purposes were prepared as at December 31, 2015, at which date the Manitoba Hydro Plan was 87% and the EHBP was 103% funded. The Manitoba Hydro Plan is exempt from the funding and solvency test funding requirements of *The Pension Benefits Act*. The Centra curtailed pension plans are subject to a solvency valuation for funding purposes with the latest valuation taking place as at December 31, 2015. The Centra Salaried, Union and Rural plans were 92%, 106% and 91% funded, respectively, at that date.

The corporation's pension expense related to each of the pension benefit plans is as follows:

	Manitoba Hydro Plan		EHBP		Centra curtailed pension plans	
	2016	2015	**2016**	2015	**2016**	2015
Current service cost	**59**	45	**4**	3		
Interest on assets	**(38)**	(42)	**(1)**	(1)	**-**	-
Interest on obligation	**55**	57	**1**	1	**(5)**	(5)
Administrative fees	**3**	3	**-**	-	**5**	5
	79	63	**4**	3	**-**	-

Pension expense for the former Winnipeg Hydro employees is equal to employer contributions to the WCEBP. Total contributions to the WCEBP during the year amounted to $1 million (2015 - $1 million) and reflect an employer contribution rate approximating 5.50% of pensionable earnings as of January 2, 2016. Pension expense for MHUS and MHI is equal to the employer contributions and is expensed during the year. The amounts are not material.

Assumptions

The significant actuarial assumptions adopted in measuring the corporation's pension and other employee benefit obligations are as follows:

	2016	2015	2014
Discount rate - pensions	**3.90%**	3.70%	4.50%
Discount rate - other benefits	**3.90%**	3.70%	3.70%
Rate of compensation increase, including merit and promotions	**1.50 - 2.00%**	1.50 - 2.00%	1.50 - 2.00%
Long-term inflation rate	**2.00%**	2.00%	2.00%

(in millions of Canadian dollars)

Sensitivity of assumptions

The sensitivities of the principle assumptions used to measure the defined benefit obligations are set out below:

Assumption	Change in assumption	Impact on Manitoba Hydro Plan	Impact on EHBP	Impact on Centra curtailed pension plans
Discount rate	+/-0.50%	125	4	8
Inflation rate	+/-0.10%	3	-	-
Wage rate	+/-0.10%	3	-	-

The sensitivity analyses are based on a change in a significant assumption, keeping all other assumptions constant. The sensitivity analyses may not be representative of an actual change in the defined benefit obligation as it is unlikely that the changes in assumptions would occur in isolation of one another.

Benefit plan asset allocation

The following is a summary of the asset mix of the plans' investments at fair value:

	MHPF			Centra curtailed pension plans		
	March 31, 2016	March 31, 2015	April 1, 2014	**March 31, 2016**	March 31, 2015	April 1, 2014
Equities	**62%**	64%	65%	**61%**	65%	66%
Bonds and debentures	**21%**	20%	20%	**22%**	21%	20%
Real estate	**11%**	10%	10%	**11%**	10%	9%
Infrastructure	**5%**	4%	3%	**4%**	3%	3%
Short-term investments	**1%**	2%	2%	**2%**	1%	2%
	100%	100%	100%	**100%**	100%	100%

(in millions of Canadian dollars)

Other employee future benefits

Manitoba Hydro also provides some unfunded non-pension employee future benefits including banked incidental days, vacation days, long-term disability, workers compensation, retiree health spending, sick leave vesting and severance. The following table presents information concerning other employee future benefits:

	2016	2015
Balance at beginning of year	**266**	235
Interest cost	**7**	7
Current service cost	**22**	27
Benefit payments	**(24)**	(23)
Actuarial loss from changes in financial assumptions	**-**	18
Actuarial loss from changes in demographic assumptions	**-**	2
Benefits liability	**271**	266

Key management personnel

The key management personnel of the corporation have been defined as members of the Manitoba Hydro-Electric Board and Manitoba Hydro's executives. The directors' fees are authorized by the Lieutenant Governor in Council. Manitoba Hydro's executives receive a base salary, in addition to non-cash benefits, employer contributions to the corporation's post-employment defined pension plan and other post-employment benefits.

Key management personnel compensation is as follows:

	2016	2015
Salaries and other short-term employee benefits	**3**	3
Post-employment benefits*	**-**	-
	3	3

*Amounts round to less than $1 million.

(in millions of Canadian dollars)

Note 28 Deferred revenue

	March 31, 2016	March 31, 2015	April 1, 2014
Contributions in aid of construction	**434**	408	377
Bipole III contribution	**100**	49	19
Deferred revenue	**3**	5	3
	537	462	399
Less: current portion (Note 25)	**(2)**	(3)	(1)
	535	459	398

Contributions in aid of construction are required from customers whenever the costs of extending service exceed specified construction allowances. These contributions include government grants. Contributions are initially recorded as deferred revenue and are subsequently recognized as revenue over the lives of the related assets.

The PUB has directed that the following percentages of approved rate increases be set aside as a Bipole III contribution to be utilized to mitigate the required rate increases when Bipole III is placed in-service:

- Order 43/13 1.50% of the approved 3.50%
- Order 49/14 0.75% of the approved 2.75%
- Order 73/15 2.15% of the approved 3.95%

During the year, $51 million (2015 - $30 million) was set aside for this purpose. The period over which this balance will be recognized into net income will be determined by the PUB at a future regulatory proceeding.

(in millions of Canadian dollars)

Note 29 Provisions

	Asset retirement obligation	Affordable Energy Fund	Total
Balance, April 1, 2014	15	11	26
Provisions made	2	-	2
Provisions used	(2)	(5)	(7)
Balance, March 31, 2015	15	6	21
Provisions made	15	-	15
Provisions used	-	(2)	(2)
Gain on derecognition	(3)	-	(3)
Balance, March 31, 2016	**27**	**4**	**31**

	March 31, 2016	March 31, 2015	April 1, 2014
Analyzed as:			
Current (Note 25)	**1**	4	5
Non-current	**30**	17	21
	31	21	26

Asset retirement obligations

An asset retirement obligation continues to be recognized for the future decommissioning of the Brandon Thermal Generating Station. The corporation estimates the undiscounted cash flows required to settle the asset retirement obligations are approximately $15 million (2015 - $15 million), which is expected to be incurred in 2024.

The corporation established a new asset retirement obligation in 2015-16 for the removal and disposal of PCB contaminated fluid in equipment bushings at transmission and distribution stations. The estimated undiscounted cash flows required to settle the asset retirement obligation are approximately $19 million, which is expected to be incurred by 2024.

The asset retirement obligation related to the partial decommissioning of the Pointe du Bois Generating Station spillway was fully extinguished in 2015-16.

No funds are being set aside to settle the asset retirement obligations. The discount rates used to determine the fair market value of asset retirement obligations range from 3.88% to 3.92% (2015 - 2.10% to 6.75%).

(in millions of Canadian dollars)

Affordable Energy Fund

In accordance with the requirements of *The Winter Heating Cost Control Act*, Manitoba Hydro established an Affordable Energy Fund in the initial amount of $35 million for the purpose of providing funding for projects that would not otherwise be funded by Power Smart programs. Expenditures of $2 million (2015 - $5 million) during the year were charged to operations with the regulatory deferral balance and the provision reduced accordingly.

Note 30 Non-controlling interests

	March 31, 2016	March 31, 2015	April 1, 2014
Wuskwatim Power Limited Partnership			
Taskinigahp Power Corporation	**52**	62	73
Keeyask Hydropower Limited Partnership			
Cree Nation Partners Limited Partnership	**52**	34	-
Fox Lake Cree Nation Keeyask Investments Inc.	**18**	12	-
York Factory First Nation Limited Partnership	**18**	12	-
	88	58	-
	140	120	73

Manitoba Hydro has entered into the Wuskwatim Power Limited Partnership (WPLP) with Taskinigahp Power Corporation (TPC) to carry on the business of developing, owning and operating the Wuskwatim Generating Station. TPC is owned beneficially by Nisichawayasihk Cree Nation (NCN). The generating station and associated transmission assets were placed into service during the 2012-13 year.

The 33% ownership interest of TPC in the WPLP of $52 million (2015 - $62 million) is represented as a non-controlling interest within the equity section of the consolidated statement of financial position. TPC's portion of the net loss of the WPLP during 2015-16 is $10 million (2015 - $11 million).

In accordance with the partnership agreements, Manitoba Hydro provides debt financing to TPC for investment in WPLP. As at March 31, 2016, Manitoba Hydro has provided advances to TPC of $88 million (2015 - $88 million). In addition, Manitoba Hydro provides advances on future WPLP distributions to NCN. As at March 31, 2016, Manitoba Hydro has provided advances to NCN of $6 million (2015 - $3 million). The advances plus interest are repayable by TPC through distributions from the WPLP.

(in millions of Canadian dollars)

Manitoba Hydro has also entered into the Keeyask Hydropower Limited Partnership (KHLP) with Tataskweyak Cree Nation (TCN) and War Lake First Nation (War Lake) operating as Cree Nation Partners (CNP), York Factory First Nation (York Factory) and Fox Lake Cree Nation (Fox Lake) to carry on the business of developing, owning and operating the Keeyask Generating Station. Cree Nation Partners Limited Partnership (CNPLP) is owned beneficially by TCN and War Lake through CNP, FLCN Keeyask Investments Inc. (FLCNKII) is owned beneficially by Fox Lake and York Factory First Nation Limited Partnership (YFFNLP) is owned beneficially by York Factory. The generating station is currently under construction and projected to be placed into service in 2019.

The 15% ownership interest of CNPLP, the 5% ownership interest of FLCNKII and the 5% ownership interest of YFFNLP in the KHLP totaling $88 million (2015 – $58 million) is represented as a non-controlling interest within the equity section of the consolidated statement of financial position.

In accordance with the partnership agreements, Manitoba Hydro provides debt financing to CNPLP, FLCNKII and YFFNLP. As at March 31, 2016, Manitoba Hydro has provided advances to CNPLP of $52 million (2015 - $33 million), FLCNKII of $17 million (2015 - $11 million) and YFFNLP of $17 million (2015 - $11 million). The advances plus interest are repayable by CNPLP, FLCNKII and YFFNLP through distributions from the KHLP.

Summarized financial information before intercompany eliminations for WPLP and KHLP are as follows:

	March 31, 2016	March 31, 2015	April 1, 2014
WPLP			
Current assets	**16**	48	10
Non-current assets	**1 548**	1 572	1 601
Current liabilities	**23**	25	39
Non-current liabilities	**1 383**	1 406	1 350
Revenue	**86**	84	
Net loss	**(31)**	(34)	
KHLP			
Current assets	**8**	19	-
Non-current assets	**2 303**	1 600	-
Current liabilities	**156**	172	-
Non-current liabilities	**1 651**	1 117	-

(in millions of Canadian dollars)

Note 31 Financial instruments

The carrying amounts and fair values of the corporation's non-derivative financial instruments were as follows:

		March 31, 2016		March 31, 2015		April 1,2014	
	Level	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Fair value through profit and loss							
Cash and cash equivalents	1	**956**	**956**	494	494	142	142
Loans and receivables							
Accounts receivable and accrued revenue	*	**350**	**350**	394	394	446	446
Loans and other receivables (including current portion)	2	**322**	**347**	497	618	443	512
Available-for-sale							
Sinking fund investments	1	**-**	**-**	114	114	111	111
Other financial liabilities							
Accounts payable and accrued liabilities	*	**723**	**723**	529	529	537	537
Long-term debt (including current portion)	2	**14 527**	**16 948**	12 680	15 903	10 868	12 592
Mitigation liability (including current portion)	2	**238**	**282**	254	311	229	277
Major development liability (including current portion)	2	**219**	**240**	218	252	67	68
Perpetual obligation (including current portion)	2	**215**	**375**	215	410	223	327

*carried at values that approximate fair value

The fair value measurement of financial instruments is classified in accordance with a hierarchy of three levels, based on the type of inputs used in making these measurements:

Level 1 - Quoted prices in active markets for identical assets and liabilities;
Level 2 - Inputs other than quoted prices that are observable in active markets for the asset or liability; and
Level 3 - Inputs for the asset or liability that are not based on observable market data.

Fair value Level 2 measurements are derived from quoted market yields at the close of business on the consolidated statement of financial position date for similar instruments available in the capital market. There are nominal amounts measured at Level 3 which are based on internally developed valuation models, and are consistent with valuation models developed by other market participants in the wholesale power markets. The carrying values of all other financial assets and liabilities approximate their fair values.

Financial risks

During the normal course of business, Manitoba Hydro is exposed to a number of financial risks including credit and liquidity risks and market risk resulting from fluctuations in foreign currency, interest rates and commodity prices. Risk management policies, processes and systems have been established to identify and analyze financial risks faced by the corporation and its subsidiaries, to set risk tolerance limits, establish controls and to monitor risk and adherence to policies. An integrated risk management plan has been developed and reviewed by the Manitoba Hydro-Electric Board to ensure the adequacy of the risk management framework in relation to the risks faced by the corporation. The nature of the financial risks and Manitoba Hydro's strategy for managing these risks has not changed significantly from the prior year.

(in millions of Canadian dollars)

a) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. Manitoba Hydro is exposed to credit risk related to sinking fund investments, temporary investments and pension fund investments. The corporation limits its exposure to credit risk by only investing in government-guaranteed bonds, highly rated investments and well-diversified investment portfolios.

The corporation is also exposed to credit risk related to domestic and export energy sales. Credit risk related to domestic sales is mitigated by the large and diversified electric and gas customer base. Customers participating in residential financing programs are subject to credit reviews and must meet specific criteria before they are approved for a residential loan or financing. Equity loans advanced to Indigenous partners are secured by their ownership investment units in the Wuskwatim and Keeyask Generating Stations. Credit risk in the export power market is mitigated by establishing credit requirements, conducting standard credit reviews of all counterparties and setting and monitoring exposure limits for each of these counterparties. Letters of credit and netting provisions are also in place to further mitigate credit risk. The maximum exposure to credit risk related to domestic and export energy sales is its fair value.

The values of the corporation's aged accounts receivable and related allowance for doubtful accounts are presented in the following table:

	Manitoba	Extraprovincial	**March 31, 2016**	March 31, 2015	April 1, 2014
Under 30 days	172	21	**193**	228	247
31 to 60 days	15	-	**15**	19	25
61 to 90 days	8	-	**8**	9	9
Over 90 days	25	-	**25**	26	23
	220	21	**241**	282	304
Allowance for doubtful accounts	(10)	-	**(10)**	(9)	(9)
Total accounts receivable	210	21	**231**	273	295

The provision for bad and doubtful accounts is reviewed annually, based on an estimate of aged receivables that are considered uncollectible.

(in millions of Canadian dollars)

b) Liquidity risk

Liquidity risk refers to the risk that Manitoba Hydro will not be able to meet its financial obligations as they come due. The corporation meets its financial obligations when due through cash generated from operations, short-term borrowings, long-term borrowings advanced from the Province of Manitoba and sinking fund withdrawals.

The following is an analysis of the contractual undiscounted cash flows payable under financial liabilities as at the consolidated statement of financial position date:

	Carrying value	2017	2018	2019	2020	2021	2022 and thereafter
Non-derivative financial liabilities							
Accounts payable and accrued liabilities	723	723					
Long-term debt**	14 631	1 139	1 156	1 769	1 061	1 984	21 492
Mitigation liability	238	38	18	29	18	65	424
Major development liability	219	26	15	14	15	15	648
Perpetual obligation	215	16	16	16	16	16	16 *
	16 026	1 942	1 205	1 828	1 110	2 080	22 580

*per year in perpetuity

**includes current portion and interest payments

c) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Manitoba Hydro is exposed to three types of market risk: foreign exchange risk, interest rate risk and commodity price risk associated with the price of electricity and natural gas. Manitoba Hydro continually monitors its exposure to these risks and may use hedges or derivative contracts to manage these risks.

(i) Foreign exchange risk

Manitoba Hydro has exposure to U.S. dollar foreign exchange rate fluctuations primarily through the sale and purchase of electricity in the U.S. and through borrowing in U.S. markets. This exposure is managed through a long-term natural hedge between U.S. dollar cash inflows from export revenues and U.S. dollar cash outflows for long-term coupon and principal payments.

To mitigate annual net income impacts due to foreign exchange rate fluctuations, long-term cash flow hedges have been established between U.S. long-term debt balances and future U.S. export revenues as well as between U.S. interest payments on dual currency bonds and future U.S. export revenues. Accordingly, translation gains and losses for U.S. long-term debt obligations in effective hedging relationships with future export revenues, are recognized in OCI until future hedged U.S.

export revenues are realized, at which time the associated gains or losses in AOCI are recognized in net income. For the year ended March 31, 2016, unrealized foreign exchange translation losses of $47 million (2015 - $249 million losses) were recognized in OCI and net gains of $1 million (2015 - $8 million) were reclassified from OCI into net income.

In addition to natural hedging relationships, cross currency swap arrangements transacted by the Province of Manitoba on the corporation's behalf are utilized to manage exchange rate exposures and as a means to capitalize on favourable financing terms in either U.S. or Canadian capital markets. Cross currency agreements represent an exchange of principal and/or interest flows denominated in one currency for principal and/or interest flows denominated in another. Such transactions effectively amend the terms of the original debt obligation with the Province of Manitoba with the swapped debt arrangement.

As at March 31, 2016, a change in the Canadian dollar of plus (minus) $0.10 relative to the U.S. dollar would increase (decrease) net income by nil (2015 - decrease (increase) net income by $2.8 million), while OCI would increase (decrease) by $125 million (2015 - $140 million).

(ii) Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Manitoba Hydro is exposed to interest rate risk associated with temporary investments, floating rate short-term and long-term debt, fixed rate long-term debt maturing within 12 months, less sinking fund withdrawals, offset by the change in interest capitalization. As at March 31, 2016, an increase or decrease of 1% in the interest rate would reduce or increase net income, respectively, by $4 million (2015 - $10 million), with no impact to OCI.

Interest rate swap agreements transacted by the Province of Manitoba on the corporation's behalf are utilized to manage the fixed and floating interest rate mix of the total debt portfolio, interest rate exposure and related overall cost of borrowing. Interest rate swap agreements represent an agreement between two parties to periodically exchange payments of interest without the exchange of the principal amount upon which payments are based. The Province of Manitoba may also enter into forward start interest rate swap arrangements where the agreement to exchange interest payments commences at some future date. In either swap arrangement, the terms of the debt advanced by the Province of Manitoba to the corporation are amended by the swap.

(iii) Commodity price risk

The corporation is exposed to electricity price risk that results from volatility of market prices and natural gas price risk through its purchase of gas for delivery to customers throughout Manitoba. The corporation mitigates commodity price risk through its limited use of derivative financial instruments. Manitoba Hydro does not use derivative contracts for trading or speculative purposes.

(in millions of Canadian dollars)

The corporation has open financial transmission rights as at March 31, 2016. These rights are reported as derivatives and carried at fair value on the consolidated statement of financial position in accounts receivable and accrued revenue. The unrealized fair value gains of $1 million (2015 - $2 million) are classified as Level 3 fair value measurements based on a valuation model that was internally developed for the wholesale power markets.

Note 32 Capital management

Manitoba Hydro manages its capital structure to ensure that there is sufficient equity to absorb the financial effects of adverse circumstances and to ensure continued access to stable low-cost funding for capital projects and ongoing operational requirements.

The corporation monitors its capital structure on the basis of its equity ratio. Manitoba Hydro's long-term target is to achieve a minimum equity ratio of 25%.

The corporation's equity ratio was as follows:

	March 31, 2016	March 31, 2015	April 1, 2014
Long-term debt	**14 201**	12 303	10 460
Current portion of long-term debt	**326**	377	408
Less: Cash and cash equivalents (Note 15)	**(956)**	(494)	(142)
Sinking fund investments (Note 19)	**-**	(114)	(111)
Net debt	**13 571**	12 072	10 615
Retained earnings	**2 828**	2 779	2 643
Accumulated other comprehensive loss	**(776)**	(720)	(336)
Contributions in aid of construction (Note 28)	**434**	408	377
Bipole III contribution (Note 28)	**100**	49	19
Non-controlling interest (Note 30)	**140**	120	73
Total equity	**2 726**	2 636	2 776
Equity ratio	**17%**	18%	21%

Manitoba Hydro issues debt for its capital requirements under the authority of *The Manitoba Hydro Act, The Loan Act* and *The Financial Administration Act. The Manitoba Hydro Act* grants the corporation the power to issue up to $500 million of short-term promissory notes. Manitoba Hydro submits annual requests under *The Loan Act* for the necessary borrowing authority for new capital requirements. Authority to refinance any maturing long-term debt is provided through *The Financial Administration Act*. The majority of Manitoba Hydro's long-term debt is obtained through advances from the Province of Manitoba.

Note 33 Related parties

Manitoba Hydro is a Crown corporation controlled by the Province of Manitoba. As a result, the corporation has a related party relationship with all entities that are controlled, jointly controlled or significantly influenced by the Province of Manitoba. However, as permitted by IAS 24 *Related Party Disclosures*, the corporation is exempt from disclosure requirements relating to transactions with the Province of Manitoba and any other entity that is a related party because the Province of Manitoba has control, joint control or significant influence over both the corporation and the other entity.

Significant transactions with the Province of Manitoba and other related provincial entities are comprised of:

- Long-term debt – the corporation obtains the majority of its long-term debt through advances from the Province of Manitoba (Note 23),

- Provincial Debt Guarantee Fee – the corporation pays the Province of Manitoba an annual fee on the outstanding debt. The Provincial Debt Guarantee Fee of $122 million (2015 - $109 million) for the year was 1.00% (2015 – 1.00%) of the corporation's total outstanding debt guaranteed by the Province of Manitoba,

- Sale of electricity and natural gas – energy sales to related parties,

- Water rentals – amounts are paid to the Province of Manitoba for the use of water resources in the operation of the corporation's hydroelectric generating stations. Water rental rates during the year were $3.34 per MWh (2015 - $3.34 per MWh) totaling $117 million (2015 - $117 million), and

- Taxes – amounts are paid to the Province of Manitoba for corporate capital tax, payroll tax (Note 13) and provincial sales tax all of which are incurred in the normal course of business.

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

Note 34 Commitments and contingencies

Manitoba Hydro has energy purchase commitments of $1 454 million (2015 - $1 499 million) that relate to future purchases of wind, natural gas (including transportation and storage contracts), coal and electricity. Commitments are primarily for wind, which expire in 2038, and natural gas purchases, which expire in 2020. In addition, other outstanding commitments principally for construction are approximately $3 511 million (2015 - $3 567 million).

The corporation will incur future costs associated with the assessment and remediation of contaminated lands and facilities and for the phase-out and destruction of PCB mineral oil from electrical equipment. Although these costs cannot be reasonably determined at this time (except for items already recognized as asset retirement obligations), a contingent liability exists.

Due to the size, complexity and nature of Manitoba Hydro's operations, various legal and operational matters are pending. Management believes that any settlements related to these matters will not have an adverse effect on Manitoba Hydro's consolidated financial position or results of operations.

Manitoba Hydro provides guarantees to counterparties as part of its use of natural gas derivative commodity contracts. Guarantees issued as at March 31, 2016 totaled $368 million (2015 - $361 million) and do not have specific maturity dates. Letters of credit in the amount of $68 million (2015 - $67 million) have been issued for construction and energy related transactions with maturities until 2049.

Note 35 Segmented information

Operating segments are reported consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of operations, has been identified as the President and Chief Executive Officer. The corporation is managed as three segments, electricity operations, natural gas operations and all other segments, based on how financial information is produced internally for the purposes of making operating decisions.

Segment descriptions

Electric Operations

Electric operations derives its revenue from the sale of electricity in both Manitoba and to the export markets. Manitoba Hydro's electric operations also includes subsidiaries WPLP, KHLP and 6690271 Manitoba Ltd. Electricity is sold in Manitoba to residential, commercial and industrial customers while extraprovincial sales of electricity are to the U.S. and Canadian markets. Domestic electricity sales are regulated by the PUB.

Natural Gas Operations

The operations of Centra make up the entire natural gas operations segment. Centra is regulated by the PUB and generates revenue through the sale and distribution of natural gas to residential, commercial and industrial customers throughout Manitoba.

All Other Segments

All other segments includes the operations of all other subsidiaries of the corporation, including MHI, MHUS, Minell and Teshmont.

MHI derives its revenue by providing professional consulting, operations, maintenance and project management services to energy sectors world-wide, either exclusively or through partnerships. MHI also provides research and development services and products to the electrical power system industry.

MHUS generates revenue by providing meter reading, interactive voice response systems and contracted services primarily to Manitoba Hydro and Centra.

Minell operates a pipeline transmission system extending from Moosomin, Saskatchewan to Russell, Manitoba and is regulated by the National Energy Board. Revenues are derived through the rentals of Minell's gas transmission facilities to Centra as they are used solely for the transportation of natural gas on behalf of Centra.

Teshmont is a holding company established to acquire a 40% ownership of Teshmont Consultants Limited Partnership, which carries on a high voltage engineering and consulting practice.

(in millions of Canadian dollars)

Segmented results

Results by operating segment for the years ended March 31, 2016 and 2015 are shown below. Intersegment eliminations are presented to reconcile segment results to the corporation's consolidated totals. Eliminations have been made for intersegment transactions and balances.

	Electric operations		Natural gas operations		All other segments		Eliminations		Total	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Revenues										
External revenue	**1 845**	1 838	**355**	428	**58**	50	**-**	-	**2 258**	2 316
Intersegment revenue	**-**	-	**1**	1	**9**	8	**(10)**	(9)	**-**	-
	1845	1 838	**356**	429	**67**	58	**(10)**	(9)	**2 258**	2 316
Expenses										
Cost of gas sold	**-**	-	**181**	266	**-**	-	**-**	-	**181**	266
Finance expense	**582**	515	**20**	19	**-**	(2)	**18**	19	**620**	551
Operating and administrative	**543**	538	**67**	70	**16**	17	**(12)**	(11)	**614**	614
Depreciation and amortization	**367**	352	**23**	22	**1**	2	**3**	2	**394**	378
Water rentals and assessments	**126**	125	**-**	-	**-**	-	**-**	-	**126**	125
Fuel and power purchased	**117**	129	**-**	-	**-**	-	**-**	-	**117**	129
Capital and other taxes	**107**	100	**16**	16	**-**	(1)	**-**	-	**123**	115
Other expenses	**65**	37	**10**	10	**42**	33	**(3)**	(3)	**114**	77
Finance income	**(22)**	(26)	**-**	-	**(1)**	-	**-**	-	**(23)**	(26)
Corporate allocation	**8**	9	**12**	12	**-**	-	**(20)**	(21)	**-**	-
	1 893	1 779	**329**	415	**58**	49	**(14)**	(14)	**2 266**	2 229
Net income (loss) before net movement in regulatory deferral balances	**(48)**	59	**27**	14	**9**	9	**4**	5	**(8)**	87
Net movement in regulatory deferral balances	**75**	41	**(28)**	(3)	**-**	-	**-**	-	**47**	38
Net Income (Loss)	**27**	100	**(1)**	11	**9**	9	**4**	5	**39**	125
Net income (loss) attributable to:										
Manitoba Hydro	**37**	111	**(1)**	11	**9**	9	**4**	5	**49**	136
Non-controlling interests	(10)	(11)	-	-	-	-	-	-	(10)	(11)
	27	100	**(1)**	11	**9**	9	**4**	5	**39**	125

(in millions of Canadian dollars)

	Electric operations			Natural gas operations			All other segments			Eliminations			Total		
	March 31, 2016	March 31, 2015	April 1, 2014	**March 31, 2016**	March 31, 2015	April 1, 2014	**March 31, 2016**	March 31, 2015	April 1, 2014	**March 31, 2016**	March 31, 2015	April 1, 2014	**March 31, 2016**	March 31, 2015	April 1, 2014
Total assets	**18 840**	16 766	14 761	**581**	570	565	**71**	61	50	**(198)**	(240)	(196)	**19 294**	17 157	15 180
Total regulatory deferral debit balances	**390**	288	247	**96**	122	124	**-**	-	-	**-**	-	-	**486**	410	371
Total liabilities	**17 126**	14 979	12 707	**482**	498	507	**13**	12	9	**(85)**	(124)	(74)	**17 536**	15 365	13 149
Total regulatory deferral credit balances	**43**	16	16	**9**	7	6	**-**	-	-	**-**	-	-	**52**	23	22
Retained earnings	**2 696**	2 659	2 548	**65**	66	55	**57**	48	39	**10**	6	1	**2 828**	2 779	2 643

Financial statistics

For the year ended March 31	IFRS		CGAAP							
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
					dollars are in millions					
Revenues										
Domestic Electric	**1399**	1424	1 405	1 341	1 193	1 200	1 145	1 127	1 074	1 024
Gas	**353**	427	413	328	328	403	452	578	526	506
Extraprovincial	**415**	384	402	329	333	358	385	533	555	521
Other	**91**	81	72	70	46	42	29	36	25	18
	2 258	2 316	2 292	2 068	1 900	2 003	2 011	2 274	2 180	2 069
Expenses										
Cost of gas sold	**181**	266	252	182	197	261	316	431	386	379
Finance expense	**620**	551	470	489	423	425	410	471	440	506
Operating and administrative	**614**	614	558	533	481	463	440	429	381	381
Depreciation and amortization	**394**	378	442	423	381	393	384	368	349	332
Water rentals and assessments	**126**	125	125	118	119	120	121	123	124	112
Fuel and power purchased	**117**	129	140	109	116	66	62	86	64	155
Capital and other taxes	**123**	115	117	105	103	102	99	87	80	77
Other expenses	**114**	77	36	30	19	23	16	13	10	5
Finance income	**(23)**	(26)	-	-	-	-	-	-	-	-
	2 266	2 229	2 140	1 989	1 839	1 853	1 848	2 008	1 834	1 947
Net income before net movement in regulatory accounts	**(8)**	87	152	79	61	150	163	266	346	122
Net movement in regulatory accounts	**47**	38	-	-	-	-	-	-	-	-
Net Income	**39**	125	152	79	61	150	163	266	346	122
Net income (loss) attributable to:										
Manitoba Hydro	**49**	136	174	92	61	150	164	266	346	122
Non-controlling	**(10)**	(11)	(22)	(13)	-	-	-	-	-	-
	39	125	152	79	61	150	164	266	346	122
Assets										
Property, plant and equipment	**17 208**	15 222	13 627	12 508	11 797	10 954	10 128	9 382	8 935	8 378
Sinking fund investments	**-**	114	111	352	372	282	822	666	718	630
Current and other assets	**2 086**	1 821	1 901	1 682	1 622	1 646	1 487	1 499	2 113	1 914
Regulatory deferral debits	**486**	410	-	-	-	-	-	-	-	-
	19 780	17 567	15 639	14 542	13 791	12 882	12 437	11 547	11 766	10 922
Liabilities and Equity										
Long-term debt	**14 201**	12 303	10 460	9 329	9 101	8 617	8 228	7 668	7 218	6 822
Current and other liabilities	**2 800**	2 603	1 913	1 937	1 495	1 127	1 328	1 637	2 097	2 380
Deferred revenue	**535**	459	381	340	318	295	295	296	300	298
Regulatory deferral credits	**52**	23	-	-	-	-	-	-	-	-
Non-controlling interests	**140**	120	73	95	100	87	62	39	24	15
Retained earnings	**2 828**	2 779	2 716	2 542	2 450	2 389	2 239	2 076	1 822	1 407
Accumulated other comprehensive income (loss)	**(776)**	(720)	96	299	327	367	285	(169)	305	-
	19 780	17 567	15 639	14 542	13 791	12 882	12 437	11 547	11 766	10 922
Cash Flows										
Operating activities	**791**	665	691	589	567	595	589	688	633	443
Financing activities	**2 111**	1 560	1 125	635	725	674	1 124	424	487	227
Investing activities	**(2 440)**	(1 873)	1 706	1 242	1 312	1 373	1 698	1 086	988	788
Financial Indicators										
Equity ratio [1]	**17%**	18%	24%	25%	26%	27%	27%	23%	27%	20%
Interest coverage [2]	**1.55**	1.73	1.95	1.81	1.74	1.96	2.06	2.16	2.43	1.83
Capital coverage [3]	**1.37**	1.20	1.35	1.25	1.13	1.25	1.34	1.77	1.62	1.10

[1] Equity ratio represents equity (retained earnings plus accumulated other comprehensive income plus contributions in aid of construction plus non-controlling interest) divided by equity plus debt (long-term debt plus notes payable minus sinking fund investments and temporary investments).

[2] Interest coverage represents earnings before finance expense and depreciation and amortization divided by finance expense.

[3] Capital coverage represents internally generated funds divided by capital construction expenditures.

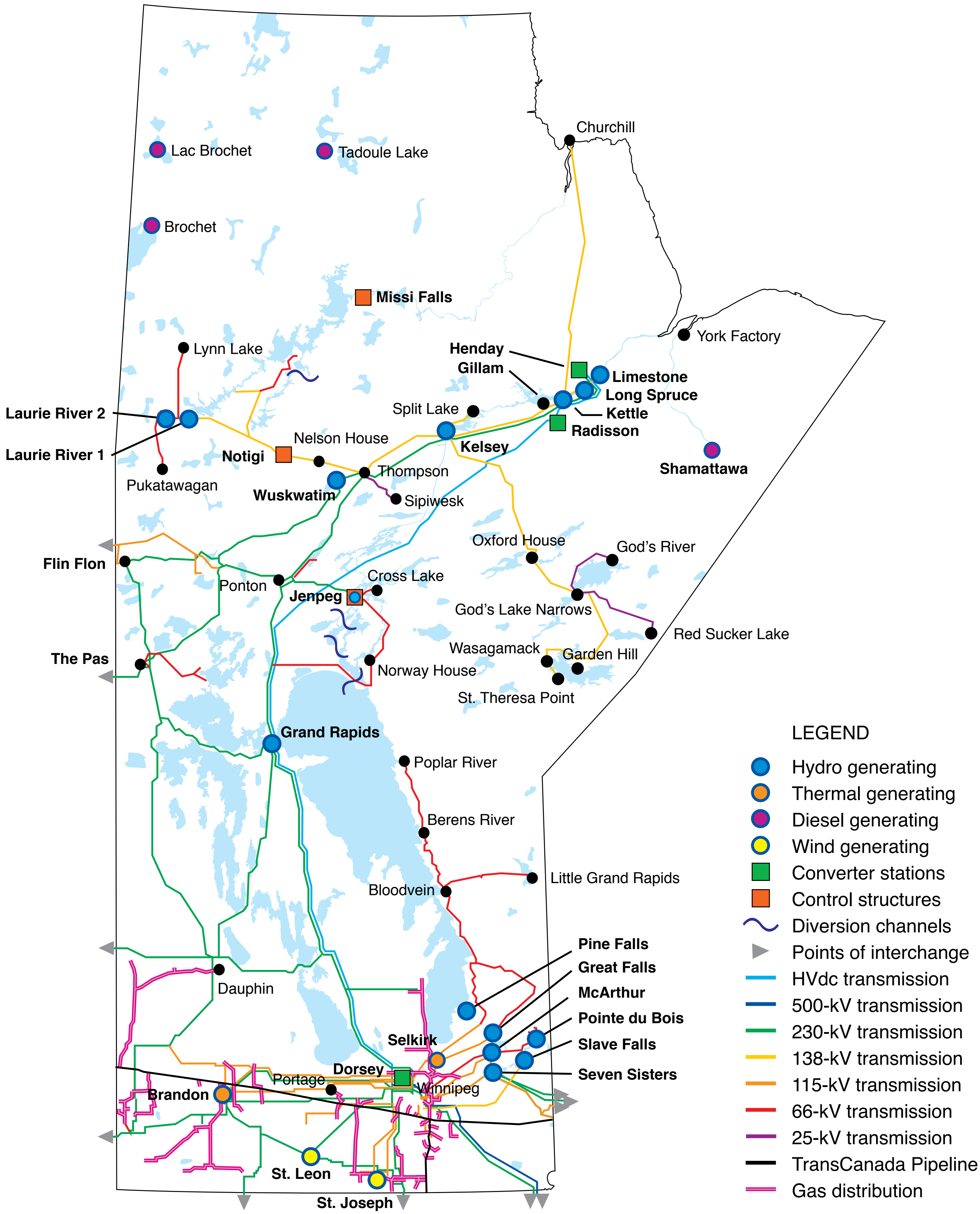
Operating statistics

For the year ended March 31

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Electric System Capability										
Capability (000 kW)	**5 680**	5 691	5 715	5 675	5 475	5 489	5 501	5 480	5 465	5 461
Manitoba firm peak demand (000 kW)	**4 460**	4 688	4 720	4 535	4 343	4 261	4 359	4 477	4 273	4 184
Per cent change	**(4.9)**	(0.7)	4.1	4.4	1.9	(2.2)	(2.6)	4.8	2.1	3.2
Electric System Supply										
Total energy supplied (millions of kWh)	**34 990**	35 044	35 392	33 230	33 235	34 102	33 961	34 528	35 354	32 132
Generation	**14**	15	14	14	14	13	13	13	12	12
Isolated systems	**35 004**	35 059	35 406	33 244	33 249	34 115	33 974	34 541	35 366	32 144
Electric Load at Generation (millions of kWh)										
Integrated system	**24 566**	25 399	25 510	24 650	23 499	23 783	23 295	24 285	23 985	23 327
Isolated system	**14**	15	14	14	14	13	13	13	12	12
	24 580	25 414	25 524	24 664	23 513	23 796	23 308	24 298	23 997	23 339
Per cent change	**(3.3)**	(0.4)	3.5	4.9	(1.2)	2.1	(4.1)	1.3	2.8	3.1
Electric System Deliveries (millions of kWh)										
Energy delivered in Manitoba										
Residential	**7 181**	7 788	7 888	7 334	6 930	7 060	6 899	6 954	6 838	6 539
Commercial / Industrial	**14 473**	14 670	14 450	14 143	13 840	13 727	13 587	14 256	14 223	13 965
	21 654	22 458	22 338	21 477	20 770	20 787	20 486	21 210	21 061	20 504
Extraprovincial	**10 281**	9 811	10 537	9 087	10 244	10 344	10 860	10 122	11 086	10 100
	31 935	32 269	32 875	30 564	31 014	31 131	31 346	31 332	32 147	30 604
Gas Deliveries (millions of cubic metres)										
Residential	**498**	597	664	602	509	591	581	696	682	653
Commercial / Industrial	**748**	870	964	849	728	821	803	866	856	811
Transportation	**600**	604	652	598	629	584	619	603	618	592
	1 846	2 071	2 280	2 049	1 866	1 996	2 003	2 165	2 156	2 056
Number of Customers										
Electric:										
Residential	**497 699**	492 275	486 654	480 254	474 661	469 635	465 055	460 804	455 430	450 823
Commercial / Industrial	**69 935**	69 594	69 106	68 520	68 020	67 664	67 304	66 668	66 169	66 038
	567 634	561 869	555 760	548 774	542 681	537 299	532 359	527 472	521 599	516 861
Gas:	**251 142**	249 313	247 010	244 768	242 813	241 123	239 535	239 597	237 724	236 086
Residential	**25 716**	25 504	25 218	25 018	24 886	24 838	24 766	23 411	23 435	23 483
Commercial / Industrial	**276 858**	274 817	272 228	269 786	267 699	265 961	264 301	263 008	261 159	259 569
Full Time Equivalent (FTE) [1]	**6 410**	6 483	6 556	6 463	6 413	6 394	6 236	6 080	5 841	5 773

[1] Regular FTEs (the straight time hours of work for one employee) for Manitoba Hydro, including subsidiaries.

Major electric & gas facilities



Sources of electrical energy generated & purchased

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 purchased	**0.1**
Wind	**2.38 %**
Billion kWh purchased	**0.9**

Manitoba Hydro generating stations & capabilities

Interconnected Capabilities

Station	Location	Number of units	Net Capability (MW)
Hydraulic			
Great Falls	Winnipeg River	6	**129**
Seven Sisters	Winnipeg River	6	**165**
Pine Falls	Winnipeg River	6	**84**
McArthur	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	**1220**
Jenpeg	Nelson River	6	**115**
Long Spruce	Nelson River	10	**980**
Limestone	Nelson River	10	**1350**
Laurie River (2)	Laurie River	3	**10**
Wuskwatim	Burntwood River	3	**211**
Thermal			
Brandon		3	**327**
Selkirk		2	**125**
Isolated Capabilities			
Diesel			
Brochet			**3**
Lac Brochet			**2**
Shamattawa			**3**
Tadoule Lake			**2**
Total Generating Capability			**5 690**

Manitoba Hydro

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