Financial Statements

Centra Gas Manitoba Inc.
March 31, 2013

Ernst & Young

INDEPENDENT AUDITORS' REPORT

To the Shareholder of
Centra Gas Manitoba Inc.

We have audited the accompanying financial statements of **Centra Gas Manitoba Inc.**, which comprise the balance sheet as at March 31, 2013 and the statements of income (loss), retained earnings and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements present fairly, in all material respects, the financial position of **Centra Gas Manitoba Inc.** as at March 31, 2013 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Winnipeg, Canada,
June 26, 2013.

Chartered Accountants

CENTRA GAS MANITOBA INC.

STATEMENT OF INCOME (LOSS)

For the year ended March 31

	Notes	2013	2012
		millions of dollars	
Revenues			
Commodity		**182**	197
Distribution		**146**	131
		328	328
Cost of gas sold		**182**	197
		146	131
Other income		**1**	1
		147	132
Expenses			
Operating and administrative	3	**64**	62
Finance expense	3 & 4	**18**	19
Depreciation and amortization		**27**	26
Capital and other taxes		**18**	19
Corporate allocation	5	**12**	12
		139	138
Net Income (Loss)		**8**	(6)

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

STATEMENT OF RETAINED EARNINGS

For the year ended March 31

	2013	2012
	millions of dollars	
Retained earnings, beginning of year	**34**	40
Net income (loss)	**8**	(6)
Retained earnings, end of year	**42**	34

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

CENTRA GAS MANITOBA INC.

BALANCE SHEET

As at March 31

	Notes	2013	2012
		millions of dollars	
Assets			
Property, Plant and Equipment			
In service	6	**661**	637
Less accumulated depreciation	6	**232**	224
		429	413
Construction in progress	6	**2**	2
		431	415
Current Assets			
Accounts receivable and accrued revenue		**76**	47
Gas in storage		**21**	41
		97	88
Other Assets			
Regulated assets	7	**78**	77
Intangible assets	8	**8**	8
		86	85
		614	588
Liabilities and Shareholder's Equity			
Long-Term Debt	9	**295**	235
Current Liabilities			
Due to parent	10	**26**	14
Accounts payable and accrued liabilities	11	**76**	70
Current portion of long-term debt	9	**-**	63
		102	147
Other Liabilities			
Refundable advances from customers		**21**	18
		21	18
Contributions in Aid of Construction		**33**	33
Shareholder's Equity			
Share capital	14	**121**	121
Retained earnings		**42**	34
		163	155
		614	588

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

Approved on behalf of the Board:

William Fraser, FCA
Chair of the Board

James Husiak, CA
Chair of the Audit Committee

CENTRA GAS MANITOBA INC.
STATEMENT OF CASH FLOWS
For the year ended March 31

	2013	2012
	millions of dollars	
Operating Activities		
Cash receipts from customers	**294**	389
Cash paid to suppliers	**(239)**	(320)
Interest paid	**(20)**	(20)
Cash provided by operating activities	**35**	49
Financing Activities		
Long-term repayments to parent	**(63)**	-
Long-term advances from parent	**60**	-
Short-term advances from (repayments to) parent	**12**	(6)
Cash provided by (used for) financing activities	**9**	(6)
Investing Activities		
Property, plant and equipment, net of contributions	**(34)**	(31)
Other	**(10)**	(12)
Cash used for investing activities	**(44)**	(43)
Net change in cash and cash equivalents	**-**	-
Cash and cash equivalents, beginning of year	**-**	-
Cash and cash equivalents, end of year	**-**	-

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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

Nature of the Organization – Centra Gas Manitoba Inc. (Centra) distributes natural gas to more than 269 000 residential, commercial and industrial customers throughout Manitoba. Centra delivers natural gas to its customers through a network of transmission pipelines and distribution mains totaling approximately 9 300 kilometers in length. Centra is a wholly-owned subsidiary of the Manitoba Hydro-Electric Board (Manitoba Hydro) and is regulated by the Public Utilities Board of Manitoba (PUB).

Basis of Presentation – The financial statements were prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP) as set forth in Part V of the Canadian Institute of Chartered Accountants (CICA) Accounting Handbook, "Pre-Changeover Accounting Standards" and include the significant accounting policies described hereafter.

Rate-Regulated Accounting - The prices charged for the sale of natural gas within Manitoba are subject to review and approval by the PUB. The rate-setting process is designed such that rates charged to gas customers recover all costs incurred in providing gas service to customers. As permitted under GAAP, Centra applies standards issued by the Financial Accounting Standards Board (FASB) in the United States as another source of GAAP. FASB Accounting Standards Codification Section 980 – Regulated Operations, represents the standard Centra applies for rate-regulated accounting. These accounting policies differ from enterprises that do not operate in a rate-regulated environment. Such accounting policies allow for the deferral of certain costs or credits which will be recovered or refunded in future rates. These costs or credits would otherwise be included in the determination of net income in the year that the cost or credit is incurred. Centra refers to such deferred costs or credits as regulated assets (Note 7) or regulated liabilities (Note 11) which are generally comprised of the following:

- Power Smart programs - The costs of Centra's energy conservation programs, referred to as Power Smart, are deferred and amortized on a straight-line basis over a period of 10 years.

- Deferred taxes - As a result of its acquisition by Manitoba Hydro in 1999, Centra became non-taxable and, in so doing, incurred a non-recurring tax expense. This non-recurring tax expense has been deferred and is being amortized over a period of 30 years.

- Site restoration costs - Site restoration costs incurred are deferred and amortized on a straight-line basis over a period of 15 years.

- Regulatory costs - Costs associated with regulatory hearings are deferred and amortized on a straight-line basis over periods up to 5 years.

- Purchased gas variance accounts - 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. The difference between the recorded cost of natural gas and the actual cost of natural gas is carried as an account receivable/payable and recovered or refunded in future rates.

Centra's other significant accounting policies are as follows:

a) **Property, Plant and Equipment**
Property, plant and equipment is stated at cost which includes direct labour, materials, contracted services, a proportionate share of overhead costs and interest applied at the average cost of debt. 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.

b) **Depreciation**
Depreciation is provided on a straight-line remaining-life basis. The range of estimated service lives of each major asset category is as follows:

Distribution	5 - 65 years
General plant	10 - 45 years

Provision for removal costs of major property, plant and equipment is charged to depreciation expense on a straight-line basis over the remaining service lives of the related assets. Retirements of these assets, including costs of removal, are charged to accumulated depreciation with no gains or losses reflected in operations. The estimated service lives and removal costs of the assets are based upon depreciation studies conducted periodically by Centra.

c) **Intangible Assets**
Intangible assets include computer application development costs and land easements. Intangible assets are recorded at cost. The cost of computer application development includes direct labour, materials, contracted services, a proportionate share of overhead costs and interest applied at the average cost of debt. Intangible assets with finite useful lives are amortized over their useful lives on a straight-line basis. The expected useful lives are as follows:

Computer application development	10 years
Land easements	75 years

The estimated service lives of intangible assets are based upon depreciation studies conducted periodically by Centra.

d) **Contributions in Aid of Construction**
Contributions are required from customers whenever the costs of extending service exceed specified construction allowances. Contributions are amortized on a straight-line basis over the estimated service lives of the related assets.

e) **Gas in Storage**
Gas in storage is valued at average cost.

f) **Revenues**
Customers' meters are read and billed on a cyclical basis. Revenues are accrued in respect of energy delivered for those cycles not yet billed.

g) **Cost of Gas Sold**
Cost of natural gas sold is recorded at the same rates charged to customers.

h) **Financial Instruments**
All financial instruments are measured at fair value on initial recognition as of the trade date. Measurement in subsequent periods depends on the classification of the instrument. Financial instruments are classified into one of the following five categories: held-to-maturity investments, loans and receivables, held-for-trading, available-for-sale, or other financial liabilities. Financial instruments classified as loans and receivables and other financial liabilities are measured at amortized cost using the effective interest method of amortization. Held-for-trading financial instruments are measured at fair value and all gains and losses are included in income in the period in which they arise.

i) **Comprehensive Income**
Comprehensive income consists of net income and other comprehensive income (OCI). As Centra has no items related to OCI, comprehensive income for the year is equivalent to net income.

j) **Foreign Currency Translation**
Current monetary assets and liabilities denominated in foreign currencies are translated into Canadian currency at the exchange rate prevailing at the balance sheet date. Gains or losses related to natural gas storage purchases which arise from the date of receipt to date of payment are included as inventoried cost. All other exchange gains and losses on the translation of current monetary assets and liabilities are credited or charged to finance expense in the current period.

k) **Derivatives**
Centra does not engage in derivative trading or speculative activities. Centra mitigates natural gas price volatility to customers through the use of natural gas price swaps. Fixed price swaps are carried at fair value on the balance sheet with gains and losses recorded in income.

l) **Debt Discounts and Premiums**
Debt discounts and premiums are amortized to finance expense using the effective interest method.

m) **Use of Estimates**
The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual amounts could differ from those estimates, but differences are not expected to be material.

NOTE 2 ACCOUNTING CHANGES

Overhead Rate Estimate
Centra's policy is to include a proportionate share of overhead costs in property, plant and equipment based on overhead rate studies that are performed annually. In 2012, Centra revised its overhead rate estimate to remove information technology infrastructure and related support costs and common building depreciation and operating costs. This change in estimate was applied prospectively effective April 1, 2012 and resulted in a $2 million increase in operating and administrative expense in 2012-13.

Future Accounting Changes

International Financial Reporting Standards (IFRS)
In February 2008, the Canadian Accounting Standards Board (AcSB) announced that publicly accountable enterprises would be required to adopt IFRS in place of Canadian GAAP for fiscal years beginning on or after January 1, 2011. In October 2009, the Public Sector Accounting Board confirmed that government business enterprises such as Centra would be required to follow IFRS for periods beginning January 1, 2011.

Although IFRS and Canadian GAAP are premised on a similar conceptual framework, there are a number of differences with respect to recognition, measurement and disclosure. The areas with the highest potential to impact Centra include property, plant and equipment, regulatory assets and liabilities and the transitional requirements upon the adoption of IFRS under the provisions of IFRS 1, *First-Time Adoption of IFRS.*

In May 2010, the International Accounting Standards Board (IASB) issued the omnibus *Improvements to IFRS*, which includes an amendment to IFRS 1 for entities with rate-regulated activities. The amendment applies to first-time adopters by offering an optional exemption to use the carrying amount of property, plant and equipment and intangible assets as deemed cost of those assets on the transition date. This exemption eliminates the requirement to retrospectively adjust opening property, plant and equipment and/or intangible asset balances for costs that would otherwise not qualify for capitalization under IFRS. Centra intends to apply this exemption.

In September 2010, the AcSB implemented changes to Part I of the CICA Handbook – *Accounting*; allowing qualifying entities with rate-regulated activities to be permitted, but not required, to defer their adoption of Part I IFRS for one year. In March 2012, September 2012 and February 2013, the AcSB announced additional optional one-year deferrals of IFRS for qualifying entities with rate-regulated activities. Centra meets the AcSB criteria for deferral and intends to adopt Part I IFRS for its 2015-16 fiscal year with comparative information presented for the 2014-15 fiscal year.

On April 25, 2013, the IASB issued the Exposure Draft, "Regulatory Deferral Accounts". The Exposure Draft proposes an interim standard intended to allow entities that are first–time adopters of IFRS and that currently recognize regulatory deferral accounts (i.e. regulatory assets and liabilities) in accordance with their existing GAAP, to continue to do so upon transition. Under the proposed interim standard, entities will be able to avoid making major changes in accounting for regulatory assets and liabilities on transition to IFRS until the IASB can provide more guidance through its Rate-regulated Activities project. Comments on the Exposure Draft are due in September of 2013 and the IASB is not expected to make a decision on the proposed interim standard until December of 2013.

At this time, it is uncertain as to the final position the IASB will take as part of its Rate-regulated Activities project. In addition, the IASB has a number of on-going projects on its agenda which may result in changes to existing IFRS prior to the commencement of Centra's 2015-16 fiscal year. Centra continues to monitor and evaluate the impacts of current and prospective IFRS on its accounting policies, financial position and business activities.

NOTE 3 RELATED PARTY TRANSACTIONS

Centra has related party transactions with its parent which are recorded at the exchange amount. The following transactions are in addition to those disclosed elsewhere in the financial statements:

	2013	2012
	millions of dollars	
Expense		
Net operating and administrative costs	**64**	62
Interest on advances from parent	**18**	19

NOTE 4 FINANCE EXPENSE

	2013	2012
	millions of dollars	
Interest on debt	**21**	22
Interest capitalized	**(3)**	(3)
	18	19

Included in interest on debt is $3 million (2012 - $3 million) in respect of the Provincial Debt Guarantee Fee. The fee during the year was 1.0% of the total outstanding debt guaranteed by the Province of Manitoba (2012 – 1.0%).

NOTE 5 CORPORATE ALLOCATION

Financing costs related to the acquisition of Centra are allocated between gas and electricity operations in accordance with the synergies and benefits derived by each segment of the business at the time of acquisition.

NOTE 6 PROPERTY, PLANT AND EQUIPMENT

	2013			2012		
	In service	Accumulated depreciation	Construction in progress	In service	Accumulated depreciation	Construction in progress
	millions of dollars			*millions of dollars*		
Distribution	**648**	**223**	**2**	623	215	2
General plant	**13**	**9**	**-**	14	9	-
	661	**232**	**2**	637	224	2

NOTE 7 REGULATED ASSETS

	2013	2012
	millions of dollars	
Power Smart programs	**46**	44
Deferred taxes	**29**	30
Site restoration costs	**2**	2
Regulatory costs	**1**	1
	78	77

If Centra was not subject to rate regulation, the costs associated with the regulated assets would be charged to operations in the period that they were incurred and the net income for 2013 would have decreased by $1 million (2012 – net loss increased by $2 million).

In total, regulated assets of $11 million (2012 - $10 million) were amortized to operations during the period.

NOTE 8 INTANGIBLE ASSETS

	2013			2012		
	Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
		millions of dollars			*millions of dollars*	
Computer application development	**8**	**4**	**4**	7	3	4
Land easements	**5**	**1**	**4**	5	1	4
	13	**5**	**8**	12	4	8

The additions to intangible assets for the year were $1 million (2012 - $1 million). In total, intangible assets of $1 million (2012 - $2 million) were amortized to operations during the period.

NOTE 9 LONG-TERM DEBT

	2013	2012
	millions of dollars	
Long-term advances from parent	**295**	298
Less: Current portion of long-term debt	**-**	(63)
	295	235

Debt principal amounts and related yields are summarized by fiscal years in which advances are required to be repaid in the following table:

	2013		2012
	Total principal amount of repayment	Weighted average yield rate	Total principal amount of repayment
	millions of dollars		*millions of dollars*
2015	**35**	**1.74%**	35
2019-2023	**20**	**3.18%**	-
2024-2028	**-**	**-**	-
2029-2033	**60**	**5.57%**	30
2034-2038	**130**	**4.40%**	110
2039-2043	**50**	**4.43%**	60
	295	**4.56%**	235

NOTE 10 DUE TO PARENT

Centra's short-term funding is provided by Manitoba Hydro with interest calculated at the three-month T-Bill rate plus a 1% Provincial Guarantee Fee on the outstanding balance. The effective rate for fiscal year 2013 was 0.95% (2012 – 0.90%). There are no fixed repayment terms.

NOTE 11 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2013	2012
	millions of dollars	
Accounts payable and accrued liabilities	**52**	40
Regulated liabilities		
Purchased gas variance accounts	**24**	30
	76	70

Centra passes costs related to the purchase and transportation of natural gas onto its customers without markup. If Centra was not subject to rate regulation, the purchased gas variance accounts would not be maintained and the actual cost of gas would be expensed in the period incurred. For fiscal year 2013, if actual gas costs were expensed and sales rates were not adjusted accordingly, net income would have decreased by $6 million (2012 - net loss decreased by $17 million).

NOTE 12 FINANCIAL INSTRUMENTS

The carrying amounts and fair values of Centra's non-derivative financial instruments at March 31 were as follows:

	2013		2012	
Financial instruments	Carrying value	Fair value	Carrying value	Fair value
	millions of dollars			
Loans and Receivables				
Accounts receivable and accrued revenue	**76**	**76**	47	47
Other Financial Liabilities				
Long-term debt	**295**	**337**	298	330
Accounts payable and accrued liabilities	**76**	**76**	70	70
Due to parent	**26**	**26**	14	14

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.

Financial instrument measurements are Level 1 measurements with the exception of long-term debt which is a Level 2 measurement. Fair value measurement of Centra's long-term debt is based on market yields at close of business on the balance sheet date for similar instruments available in capital markets. The carrying values of all other financial assets and liabilities approximate fair value.

Financial Risks

During the normal course of business, Centra is exposed to a number of financial risks including credit and liquidity risks, and market risk resulting from fluctuations in interest rates and commodity prices. Risk management policies, processes and systems have been established to identify and analyze financial risks faced by Centra, 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 Audit Committee of the Centra Gas Board, to ensure the adequacy of the risk management framework in relation to the risks faced by Centra. The nature of the financial risks and Centra's strategy for managing these risks has not changed significantly from the prior year.

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. Exposure to credit risk related to accounts receivable arising from natural gas sales is minimized due to a large and diversified customer base.

The value of Centra's aged accounts receivable for customers and related bad debt provisions are presented in the following table:

	2013	2012
	millions of dollars	
Under 30 days	**71**	42
30 to 60 days	**4**	3
Over 60 days	**3**	4
	78	49
Provision at end of period	**(2)**	(2)
Total accounts receivable	**76**	47

The provision for bad and doubtful accounts is reviewed annually, based on an estimate of aged receivables that are considered uncollectible. There was no significant change to the allowance for doubtful accounts from last year.

To mitigate credit risk related to the use of derivative instruments, Centra adheres to well established credit exposure limits with institutions that possess a minimum credit rating of 'A' from recognized bond rating agencies or provide a parental guarantee from an 'A' rated parent company. The maximum exposure to credit risk related to Centra's derivative counterparties is equal to the positive fair value of its financial derivatives.

b) Liquidity Risk

Liquidity risk refers to the risk that Centra will not be able to meet its financial obligations as they come due. To meet forecasted cash requirements, Centra uses cash generated from operations, as well as short-term funding and long-term advances from Manitoba Hydro.

The following is an analysis of the contractual undiscounted cash flows payable under financial liabilities and derivative liabilities as at the balance sheet date:

	Carrying Value	2014	2015	2016	2017	2018	2019 and thereafter
				millions of dollars			
Non-derivative financial liabilities							
Accounts payable and accrued liabilities	76	76	-	-	-	-	-
Due to parent	26	26	-	-	-	-	-
Long-term debt*	295	13	48	12	12	12	458
Derivative financial liabilities							
Fixed price swap contracts	-	-	-	-	-	-	-
		115	48	12	12	12	458

*including 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. Centra is exposed to interest rate risk and commodity price risk associated with the price of natural gas.

i. 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. Centra is exposed to interest rate risk associated with amounts due to the parent company, floating rate long-term debt, fixed rate long-term debt maturing within 12 months, and the purchased gas variance accounts, offset by the change in interest capitalization. At March 31, 2013, an increase or decrease of 1% in the interest rate would reduce or increase net income, respectively, by $1 million (2012 - $1 million).

ii. Commodity Price Risk
Centra is exposed to natural gas price risk through its purchase of gas for delivery to customers throughout Manitoba. Centra mitigates commodity price risk for its fixed rate service with the use of natural gas price swaps. Centra does not use derivative contracts for trading or speculative purposes.

Centra has entered into natural gas price swaps until July 2016 to purchase 231 510 gigajoules of natural gas at a weighted average fixed price of $5.12/GJ. The weighted average forward price of the swaps per AECO at March 31, 2013 was $3.67/GJ. These contracts are reported as derivatives and carried at fair value on the balance sheet.

The unrealized fair value losses of these natural gas derivative contracts as at March 31 are as follows:

	2013	2012
	millions of dollars	
Fixed price swap contracts	-	(1)

Fair value is calculated by using the monthly forward AECO price as reported by the Natural Gas Exchange as at March 31, 2013.

NOTE 13 COMMITMENTS AND CONTINGENCIES

Centra has energy purchase commitments of $136 million (2012 – $39 million) that relate to future purchases of natural gas (including transportation and storage contracts), which expire in 2020.

Centra has various legal and operational matters pending. It is not possible at this time to predict with any certainty the outcome of these matters. Management believes that any settlements related to these matters will not have a material effect on Centra's financial position or results of operations.

NOTE 14 SHARE CAPITAL

	2013	2012
	millions of dollars	
Share capital		
Authorized		
Unlimited number of common shares		
Issued		
1 505 common shares	**121**	121
	121	121

NOTE 15 CAPITAL MANAGEMENT

Centra manages its capital structure to ensure sufficient retained earnings to enable it to absorb the financial effects of adverse circumstances. Centra's capital requirements are met through cash generated from operations as well as short-term funding and long-term advances from its parent company, the Manitoba Hydro-Electric Board.

NOTE 16 COMPARATIVE FIGURES

Where appropriate, comparative figures for 2012 have been reclassified in order to conform to the presentation adopted in 2013.