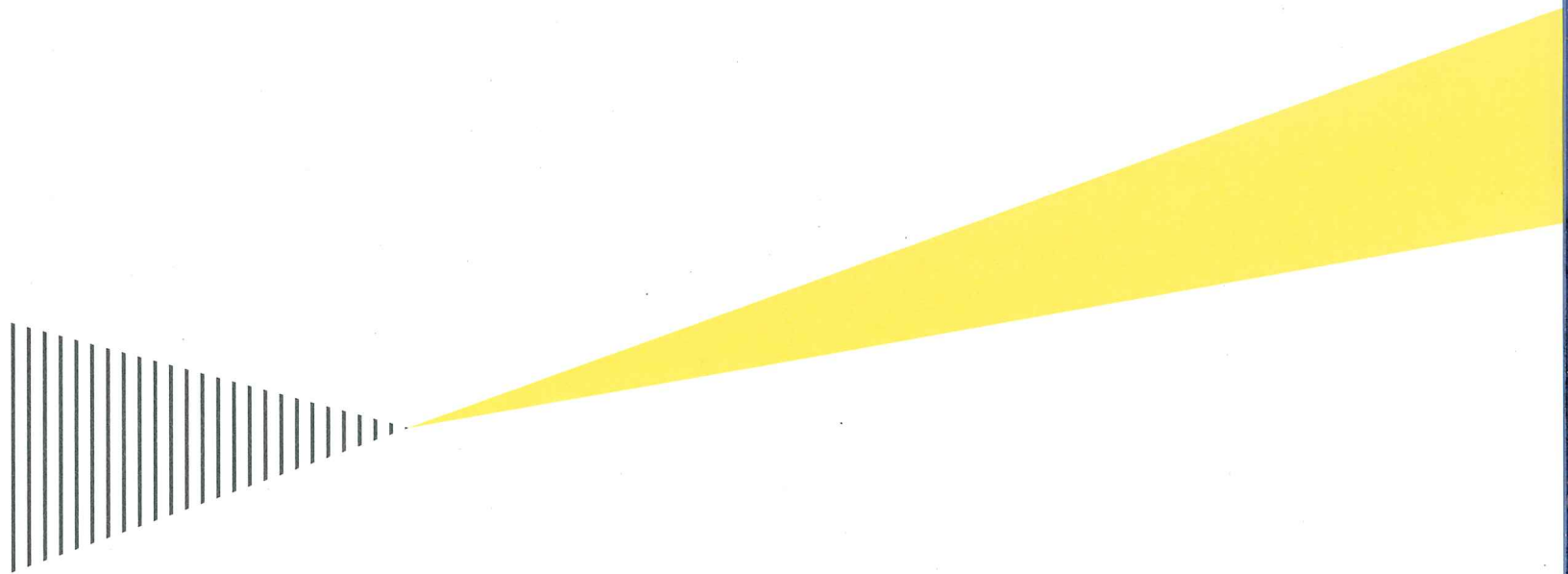


Financial Statements

Centra Gas Manitoba Inc.
March 31, 2015



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, 2015, 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.



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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, 2015, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Winnipeg, Canada
June 24, 2015

Ernst & Young LLP

Chartered Accountants



CENTRA GAS MANITOBA INC.

STATEMENT OF INCOME

For the year ended March 31

	Notes	2015	2014
<i>millions of dollars</i>			
Revenues			
Commodity		274	252
Distribution		152	161
		426	413
Cost of gas sold		274	252
		152	161
Other income		2	2
		154	163
Expenses			
Operating and administrative	4	67	67
Finance expense	4 & 5	16	16
Depreciation and amortization	6	29	28
Capital and other taxes	7	20	20
Corporate allocation	8	12	12
		144	143
Net Income		10	20

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

STATEMENT OF RETAINED EARNINGS

For the year ended March 31

	2015	2014
<i>millions of dollars</i>		
Retained earnings, beginning of year	62	42
Net income	10	20
Retained earnings, end of year	72	62

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

CENTRA GAS MANITOBA INC.
BALANCE SHEET

As at March 31

	Notes	2015	2014
<i>millions of dollars</i>			
Assets			
Property, Plant and Equipment	9	466	448
Current Assets			
Accounts receivable and accrued revenue		83	109
Gas in storage		17	-
		100	109
Other Assets			
Regulated assets	10	116	124
Intangible assets	11	7	8
		123	132
		689	689
Liabilities and Shareholder's Equity			
Long-Term Debt	12	305	270
Current Liabilities			
Due to parent	13	79	34
Accounts payable and accrued liabilities		50	107
Current portion of long-term debt	12	-	35
		129	176
Other Liabilities			
Regulated liabilities	10	6	6
Refundable advances from customers		14	12
		20	18
Contributions in Aid of Construction		42	42
Shareholder's Equity			
Share capital	16	121	121
Retained earnings		72	62
		193	183
		689	689

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

Approved on behalf of the Board:



William Fraser, FCA
Chair of the Board and
Acting Chair of the Audit Committee

CENTRA GAS MANITOBA INC.

STATEMENT OF CASH FLOWS

For the year ended March 31

	2015	2014
	<i>millions of dollars</i>	
Operating Activities		
Cash receipts from customers	462	318
Cash paid to suppliers	(442)	(271)
Interest paid	(18)	(18)
Cash provided by operating activities	2	29
Financing Activities		
Long-term advances from parent	-	10
Short-term advances from parent	45	8
Cash provided by financing activities	45	18
Investing Activities		
Property, plant and equipment, net of contributions	(36)	(35)
Other	(11)	(12)
Cash used for investing activities	(47)	(47)
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.

CENTRA GAS MANITOBA INC.
NOTES TO THE FINANCIAL STATEMENTSFor the year ended March 31, 2015

NOTE 1 NATURE OF THE ORGANIZATION

Centra Gas Manitoba Inc. (Centra) distributes natural gas to more than 274 000 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 9 900 kilometres 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).

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

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 Chartered Professional Accountants (CPA) of Canada Handbook - Accounting - 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 natural gas customers recover all costs incurred in providing gas service to customers. As permitted under Canadian GAAP, Centra applies standards issued by the Financial Accounting Standards Board (FASB) in the United States as another source of Canadian 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 have been 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 or regulated liabilities (Note 10) 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

CENTRA GAS MANITOBA INC.
NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2015

cost of natural gas and the actual cost of natural gas is recovered or refunded in future rates.

- Demand side management (DSM) deferral - In Board Order 85/13, the PUB directed that the differences between actual and planned spending on gas DSM for the 2013-14 fiscal year be recorded in a regulatory deferral account. The cumulative difference for 2013-14 has been recorded as a regulated liability with an offsetting balance recorded as a regulated asset. The disposition of this regulatory deferral will be determined at a future PUB proceeding.

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 - 68 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. A depreciation study was completed during 2014-15 which resulted in changes to the estimated service lives.

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	7 - 10 years
Land easements	75 years

The estimated service lives of intangible assets are based upon depreciation studies conducted periodically by Centra. A depreciation study was completed during 2014-15 which resulted in changes to the estimated service lives.

CENTRA GAS MANITOBA INC.
NOTES TO THE FINANCIAL STATEMENTSFor the year ended March 31, 2015

- 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**
Gas sales are recognized upon delivery to the customer and include an estimate of gas deliveries not yet billed at period-end.
- 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 as 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.

CENTRA GAS MANITOBA INC.
NOTES TO THE FINANCIAL STATEMENTSFor the year ended March 31, 2015

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 3 ACCOUNTING CHANGES**Depreciation Rate Estimates**

Depreciation is recognized on a straight-line remaining-life basis with estimated service lives of assets being based upon depreciation studies conducted periodically by Centra. In accordance with a depreciation study completed in 2014-15, the estimated useful lives of a number of asset components were adjusted. This change in estimate was applied prospectively effective April 1, 2014 and resulted in a \$1 million decrease in depreciation and amortization expense in 2014-15.

Future Accounting Changes**International Financial Reporting Standards (IFRS)**

The Canadian Accounting Standards Board (AcSB) and the Public Sector Accounting Board confirmed that government business enterprises such as Centra would be required to follow IFRS for fiscal years beginning on or after January 1, 2011. However, the AcSB has announced a number of optional deferrals on the adoption of IFRS for qualifying entities with rate-regulated activities. As Centra is a qualifying entity with rate-regulated activities, the Company was permitted to defer the adoption of IFRS until years beginning on or after January 1, 2015.

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. Centra is in the process of finalizing the transition from Canadian GAAP to IFRS and intends to adopt IFRS for its 2015-16 fiscal year with comparative information presented for the 2014-15 fiscal year.

On January 30, 2014, the International Accounting Standards Board (IASB) issued the interim standard IFRS 14 *Regulatory Deferral Accounts* for rate regulated activities effective January 1, 2016 with earlier adoption permitted. Centra will adopt the interim standard upon transition to IFRS effective April 1, 2015 and will continue to recognize regulatory deferral accounts for its financial reporting. The new interim standard is only intended to provide temporary guidance until the IASB completes its comprehensive project on Rate-regulated activities.

CENTRA GAS MANITOBA INC.
NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2015

NOTE 4 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:

	2015	2014
	<i>millions of dollars</i>	
Expense		
Net operating and administrative costs	67	67
Interest on advances from parent	16	16

NOTE 5 FINANCE EXPENSE

	2015	2014
	<i>millions of dollars</i>	
Interest on debt	18	19
Interest capitalized	(2)	(3)
	16	16

Included in interest on debt is \$3 million (2014 - \$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 (2014 - 1.0%).

NOTE 6 DEPRECIATION AND AMORTIZATION

	2015	2014
	<i>millions of dollars</i>	
Depreciation of property, plant and equipment	17	17
Amortization of regulated assets	9	8
Amortization of intangible assets	3	3
	29	28

CENTRA GAS MANITOBA INC.
NOTES TO THE FINANCIAL STATEMENTS
 For the year ended March 31, 2015

NOTE 7 CAPITAL AND OTHER TAXES

	2015	2014
	<i>millions of dollars</i>	
Property taxes	12	11
Capital taxes	3	3
Payroll taxes	1	1
Other	4	5
	20	20

NOTE 8 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 9 PROPERTY, PLANT AND EQUIPMENT

	2015			
	In service	Accumulated depreciation	Construction in progress	Total
	<i>millions of dollars</i>			
Distribution	698	242	6	462
General plant	11	7	-	4
	709	249	6	466

	2014			
	In service	Accumulated depreciation	Construction in progress	Total
	<i>millions of dollars</i>			
Distribution	672	232	4	444
General plant	12	8	-	4
	684	240	4	448

CENTRA GAS MANITOBA INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended March 31, 2015

NOTE 10 REGULATED ASSETS AND REGULATED LIABILITIES

	2015	2014
	<i>millions of dollars</i>	
Regulated assets		
Power Smart programs	55	54
Purchased gas variance accounts	32	39
Deferred taxes	25	27
Site restoration costs	3	3
Regulatory costs	1	1
	116	124
Regulated liabilities		
DSM deferral	6	6
	6	6

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 2015 would have increased by \$1 million (2014 - net income decreased by \$1 million).

In total, regulated assets of \$13 million (2014 - \$12 million) were amortized to operations during the period.

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 2015, if actual gas costs were expensed and sales rates were not adjusted accordingly, net income would have increased by \$7 million (2014 - decreased by \$63 million).

CENTRA GAS MANITOBA INC.
NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2015

NOTE 11 INTANGIBLE ASSETS

	2015		
	Cost	Accumulated amortization	Net book value
	<i>millions of dollars</i>		
Computer application development	8	6	2
Land easements	6	1	5
	14	7	7

	2014		
	Cost	Accumulated amortization	Net book value
	<i>millions of dollars</i>		
Computer application development	8	4	4
Land easements	5	1	4
	13	5	8

The additions to intangible assets for the year were \$1 million (2014 - \$1 million). In total, intangible assets of \$1 million (2014 - \$1 million) were amortized to operations during the period.

NOTE 12 LONG-TERM DEBT

	2015	2014
	<i>millions of dollars</i>	
Long-term advances from parent	305	305
Less: Current portion of long-term debt	-	35
	305	270

CENTRA GAS MANITOBA INC.
NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2015

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

	2015		2014
	Total principal amount of repayment	Weighted average yield rate	Total principal amount of repayment
	<i>millions of dollars</i>		<i>millions of dollars</i>
2020-2024	30	3.26%	30
2025-2029	-	-	-
2030-2034	80	4.95%	80
2035-2039	110	4.57%	110
2040-2044	50	4.43%	50
2045-2049	35	2.90%	-
	305	4.29%	270

NOTE 13 DUE TO PARENT

Centra's short-term funding is provided by Manitoba Hydro with interest calculated at the three-month T-Bill rate plus 1% Provincial Guarantee Fee on the outstanding balance. The effective rate for fiscal year 2015 was 0.84% (2014 - 0.95%). There are no fixed repayment terms.

NOTE 14 FINANCIAL INSTRUMENTS

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

	2015		2014	
	Carrying value	Fair value	Carrying value	Fair value
Financial instruments	<i>millions of dollars</i>			
Loans and Receivables				
Accounts receivable and accrued revenue	83	83	109	109
Other Financial Liabilities				
Long-term debt	305	378	305	334
Accounts payable and accrued liabilities	50	50	107	107
Due to parent	79	79	34	34

CENTRA GAS MANITOBA INC.
NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2015

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 values.

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

	2015	2014
	<i>millions of dollars</i>	
Under 30 days	77	103
31 to 60 days	4	4
Over 60 days	4	4
	85	111
Provision at end of year	(2)	(2)
Total accounts receivable	83	109

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

CENTRA GAS MANITOBA INC.
NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2015

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	2016	2017	2018	2019	2020	2021 and thereafter
		<i>millions of dollars</i>					
Non-derivative financial liabilities							
Accounts payable and accrued liabilities	50	50	-	-	-	-	-
Due to parent	79	79	-	-	-	-	-
Long-term debt*	305	12	13	13	13	13	507
Derivative financial liabilities							
Fixed price swap contracts	-	-	-	-	-	-	-
		141	13	13	13	13	507

*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, 2015, an increase or decrease of 1% in the interest rate would reduce or increase net income, respectively, by \$0.4 million (2014 - \$0.2 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 27 400 gigajoules (GJ) of natural gas at a weighted average fixed price of \$4.82/GJ. The weighted average forward price of the swaps per AECO at March

CENTRA GAS MANITOBA INC.
NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2015

31, 2015 was \$2.81/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 at March 31 are nil (2014 - nil).

NOTE 15 COMMITMENTS AND CONTINGENCIES

Centra has energy purchase commitments of \$199 million (2014 – \$182 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 16 SHARE CAPITAL

	2015	2014
	<i>millions of dollars</i>	
Share capital		
Authorized		
Unlimited number of common shares		
Issued		
1 505 common shares	121	121
	121	121

NOTE 17 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, Manitoba Hydro.

