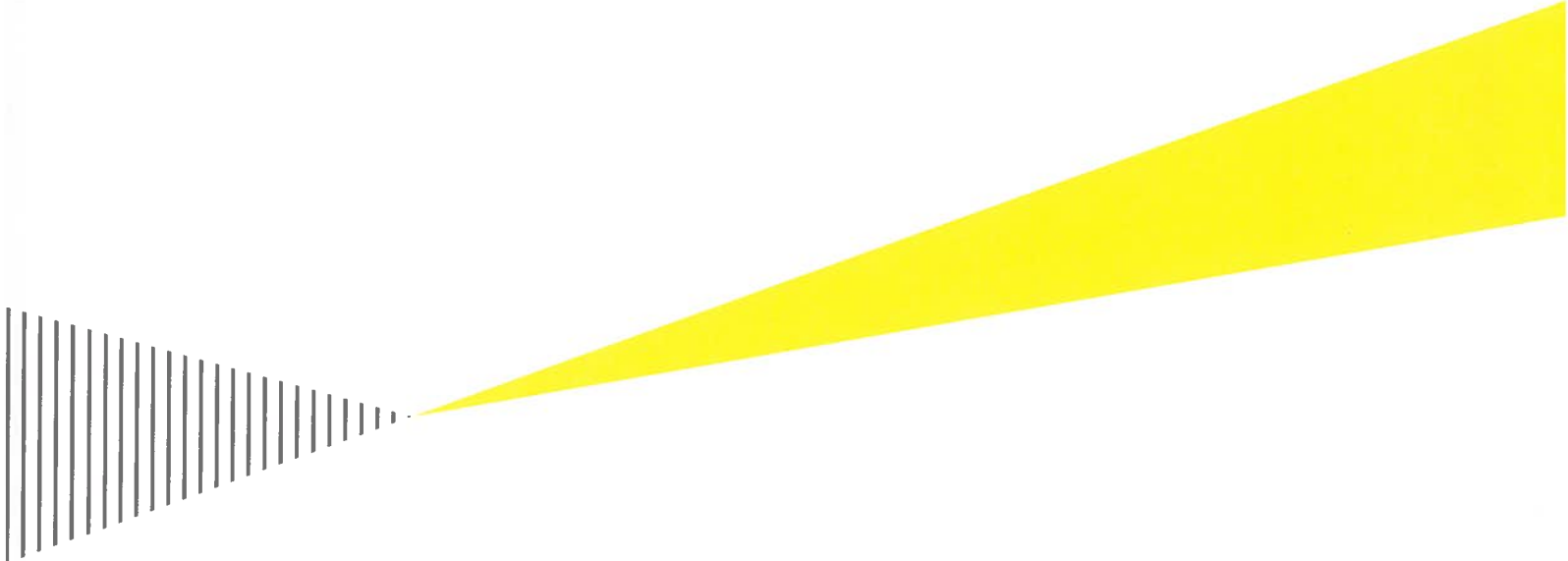


Financial statements

**Centra Gas Manitoba Inc.**

March 31, 2017



Building a better  
working world

## 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 statement of financial position as at March 31, 2017, and the statements of income, changes in equity 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 International Financial Reporting Standards, 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, 2017, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Winnipeg, Canada  
July 5, 2017

*Ernst + Young LLP*

Chartered Professional Accountants



**CENTRA GAS MANITOBA INC.**  
**STATEMENT OF INCOME (LOSS)**  
 For the year ended March 31  
*millions of Canadian dollars*

|   | Notes | 2017       | 2016       |
|---|-------|------------|------------|
| <b>Revenues</b>                                       |       |            |            |
| Commodity   |       | 199        | 215        |
| Distribution  |       | 144        | 139        |
| Other   |       | 2          | 2          |
|   |       | <b>345</b> | <b>356</b> |
| <b>Expenses</b>                                       |       |            |            |
| Cost of gas sold                                      |       | 183        | 181        |
| Finance expense                                       | 5     | 19         | 20         |
| Operating and administrative                          | 6     | 65         | 67         |
| Depreciation and amortization                         | 7     | 23         | 23         |
| Capital and other taxes                               | 8     | 16         | 16         |
| Corporate allocation                                  | 9     | 12         | 12         |
| Other expenses  | 10    | 12         | 10         |
|   |       | <b>330</b> | <b>329</b> |
| Net income before net movement in regulatory balances |       | 15         | 27         |
| Net movement in regulatory balances                   | 15    | (11)       | (28)       |
| <b>Net Income (Loss)</b>                              |       | <b>4</b>   | <b>(1)</b> |

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

**CENTRA GAS MANITOBA INC.**  
**STATEMENT OF FINANCIAL POSITION**

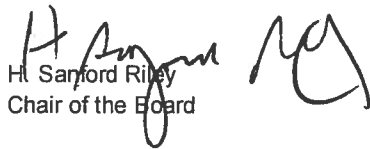
As at March 31

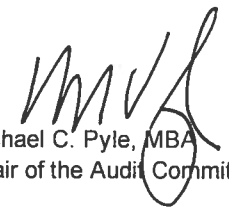
millions of Canadian dollars

|  | Notes | 2017       | 2016       |
|--|-------|------------|------------|
| <b>Assets</b>  |       |            |            |
| <b>Current Assets</b>  |       |            |            |
| Accounts receivable and accrued revenue                          | 11    | 56         | 53         |
| Natural gas inventory  | 12    | 25         | 33         |
|  |       | <b>81</b>  | <b>86</b>  |
| <b>Property, Plant and Equipment</b>                             | 13    | <b>528</b> | <b>488</b> |
| <b>Non-Current Assets</b>  |       |            |            |
| Intangible assets  | 14    | 8          | 7          |
| Total assets before regulatory deferral balance                  |       | <b>617</b> | <b>581</b> |
| Regulatory deferral balance                                      | 15    | <b>104</b> | <b>96</b>  |
| <b>Total assets and regulatory deferral balance</b>              |       | <b>721</b> | <b>677</b> |
| <b>Liabilities and Equity</b>                                    |       |            |            |
| <b>Current Liabilities</b>                                       |       |            |            |
| Due to parent  | 17    | 33         | 40         |
| Accounts payable and accrued liabilities                         | 18    | 51         | 45         |
|  |       | <b>84</b>  | <b>85</b>  |
| <b>Long-term Debt</b>  | 16    | <b>360</b> | <b>340</b> |
| <b>Non-Current Liabilities</b>                                   |       |            |            |
| Refundable advances from customers                               |       | 14         | 12         |
| Deferred revenue   | 19    | 45         | 45         |
|  |       | <b>59</b>  | <b>57</b>  |
| Total liabilities  |       | <b>503</b> | <b>482</b> |
| <b>Equity</b>  |       |            |            |
| Share capital  | 21    | 121        | 121        |
| Retained earnings  |       | 69         | 65         |
| Total equity   |       | <b>190</b> | <b>186</b> |
| Total liabilities and equity before regulatory deferral balance  |       | <b>693</b> | <b>668</b> |
| Regulatory deferral balance                                      | 15    | <b>28</b>  | <b>9</b>   |
| <b>Total liabilities, equity and regulatory deferral balance</b> |       | <b>721</b> | <b>677</b> |

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

Approved on behalf of the Board of Directors:

  
H. Sanford Riley  
Chair of the Board

  
Michael C. Pyle, MBA  
Chair of the Audit Committee

**CENTRA GAS MANITOBA INC.  
STATEMENT OF CASH FLOWS**

For the year ended March 31

*millions of Canadian dollars*

|  | 2017        | 2016        |
|--|-------------|-------------|
| <b>Operating Activities</b>                  |             |             |
| Cash receipts from customers                 | 357         | 417         |
| Cash paid to suppliers and employees         | (268)       | (318)       |
| Interest paid                                | (31)        | (32)        |
| <b>Cash provided by operating activities</b> | <b>58</b>   | <b>67</b>   |
| <b>Investing Activities</b>                  |             |             |
| Additions to property, plant and equipment   | (59)        | (44)        |
| Additions to regulatory deferral balances    | (12)        | (11)        |
| Contributions received                       | 3           | 2           |
| Additions to intangible assets               | (3)         | (2)         |
| <b>Cash used for investing activities</b>    | <b>(71)</b> | <b>(55)</b> |
| <b>Financing Activities</b>                  |             |             |
| Long-term advances from parent               | 20          | 35          |
| <b>Cash provided by financing activities</b> | <b>20</b>   | <b>35</b>   |
| Net increase in cash                         | 7           | 47          |
| Advances from parent, beginning of year      | (40)        | (87)        |
| <b>Advances from parent, end of year</b>     | <b>(33)</b> | <b>(40)</b> |

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

**CENTRA GAS MANITOBA INC.**  
**STATEMENT OF CHANGES IN EQUITY**

For the year ended March 31

*millions of Canadian dollars*

|                                     | Note | Retained<br>earnings | Share<br>capital | Total<br>equity |
|-------------------------------------|------|----------------------|------------------|-----------------|
| Balance as at April 1, 2015         | 21   | 66                   | 121              | 187             |
| Net loss                            |      | (1)                  | -                | (1)             |
| Balance as at March 31, 2016        | 21   | 65                   | 121              | 186             |
| Net income                          |      | 4                    | -                | 4               |
| <b>Balance as at March 31, 2017</b> | 21   | <b>69</b>            | <b>121</b>       | <b>190</b>      |

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

**CENTRA GAS MANITOBA INC.  
NOTES TO THE FINANCIAL STATEMENTS**

For the year ended March 31, 2017  
(in millions of Canadian dollars)

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**NOTE 1 REPORTING ENTITY**

Centra Gas Manitoba Inc. (Centra) distributes natural gas to more than 279,000 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 10,200 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). Centra's head office is located at 360 Portage Avenue, Winnipeg, Manitoba.

**NOTE 2 BASIS OF PRESENTATION****(a) Statement of compliance**

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

These financial statements were approved for issue by the Board of Directors on July 5, 2017.

**(b) Basis of measurement**

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

- Financial instruments accounted for in accordance with the financial instruments categories defined in Note 3(j)

**(c) Functional and presentation currency**

The financial statements are presented in millions of Canadian dollars, Centra's functional currency.

**(d) Use of estimates and judgment**

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

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

- Accrued revenue for 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(f), 13 and 14)
- Measurement of accrued liabilities (Note 18)
- Fair value measurement of financial instruments (Notes 3(j) and 20)

**CENTRA GAS MANITOBA INC.  
NOTES TO THE FINANCIAL STATEMENTS**

For the year ended March 31, 2017  
(in millions of Canadian dollars)

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.

**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. Centra has elected to adopt IFRS 14 in its financial statements. 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 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 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 costs incurred by Centra in providing 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:

|                                       |               |
|---------------------------------------|---------------|
| Demand side management (DSM) programs | 10 years*     |
| Site restoration costs                | 15 years      |
| Deferred taxes                        | 30 years      |
| Regulatory costs                      | up to 5 years |

\*The DSM regulatory deferral debit balance includes the differences between actual and planned spending on gas DSM for the 2013 to 2017 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.



**CENTRA GAS MANITOBA INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended March 31, 2017

*(in millions of Canadian dollars)*

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The purchased gas variance account (PGVA) is recovered or refunded through customer rates 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**

Natural gas revenue is 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 natural gas delivered and not yet billed at year-end.

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**

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, offset by interest capitalized for those qualifying assets under construction. All borrowing costs are recognized using the effective interest rate method.

**(e) Inventory**

Natural gas inventory is valued at average cost.

Natural gas is charged to inventory when purchased and not immediately required for use. This inventory is expensed when used.

**(f) 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.

**CENTRA GAS MANITOBA INC.  
NOTES TO THE FINANCIAL STATEMENTS**

For the year ended March 31, 2017

(in millions of Canadian dollars)

Depreciation is calculated on a straight-line remaining life basis using the ELG procedure.

|                      |               |
|----------------------|---------------|
| Distribution systems | 10 – 75 years |
| Other                | 5 – 100 years |

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

**(g) Intangible assets**

Intangible assets include computer application development costs and land easements. 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. Centra'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     |

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

**(h) Impairment of non-financial assets**

Non-financial assets subject to impairment testing include intangible assets and property, plant and equipment. Centra tests 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.

**CENTRA GAS MANITOBA INC.  
NOTES TO THE FINANCIAL STATEMENTS**

For the year ended March 31, 2017  
(in millions of Canadian dollars)

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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. Centra has determined its CGU to be at the reporting unit level. This is the lowest level for which there are separately identifiable cash flows as rates for natural gas revenue are set by the PUB at the reporting unit level. An impairment would be recognized as a charge against operations in the year of impairment if the carrying amount exceeded the recoverable amount.

**(i) Government grants**

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

**(j) 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 loans and receivables 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.

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 Centra'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 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.

**CENTRA GAS MANITOBA INC.  
NOTES TO THE FINANCIAL STATEMENTS**

For the year ended March 31, 2017  
(in millions of Canadian dollars)

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**(k) 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 year.

**(l) Derivatives**

Centra does not engage in derivative trading or speculative activities. All derivative instruments are carried at fair value on the statement of financial position with the exception of those that were entered into for the purpose of physical receipt or delivery in accordance with Centra'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 statement of income (loss).

**(m) Comprehensive income**

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

**CENTRA GAS MANITOBA INC.  
NOTES TO THE FINANCIAL STATEMENTS**

For the year ended March 31, 2017  
(in millions of Canadian dollars)

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**NOTE 4 FUTURE ACCOUNTING PRONOUNCEMENTS**

The following new standards and amendments are not yet effective for the year ended March 31, 2017, and have not been applied in preparing these financial statements. Centra 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 Interpretation 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.

**CENTRA GAS MANITOBA INC.  
NOTES TO THE FINANCIAL STATEMENTS**

For the year ended March 31, 2017  
(in millions of Canadian dollars)

**NOTE 5 FINANCE EXPENSE**

|                               | 2017      | 2016      |
|-------------------------------|-----------|-----------|
| Interest on debt              | 14        | 14        |
| Provincial debt guarantee fee | 4         | 4         |
| Other                         | 1         | 2         |
|                               | <b>19</b> | <b>20</b> |

The Provincial debt guarantee fee during the year was equivalent to 1.0% of Centra's total outstanding debt (2016 – 1%).

**NOTE 6 OPERATING AND ADMINISTRATIVE**

|  | 2017      | 2016      |
|--|-----------|-----------|
| Salaries and benefits                  | 49        | 50        |
| External services                      | 9         | 10        |
| Materials, motor vehicles and supplies | 5         | 5         |
| Other                                  | 2         | 2         |
|  | <b>65</b> | <b>67</b> |

Additional salaries and benefits are included in other expenses (Note 10) in the amount of \$3 million (2016 - \$3 million).

**NOTE 7 DEPRECIATION AND AMORTIZATION**

|   | 2017      | 2016      |
|---|-----------|-----------|
| Depreciation of property, plant and equipment (Note 13) | 18        | 17        |
| Amortization of intangible assets (Note 14)             | 2         | 3         |
| Loss on disposal of property, plant and equipment       | 3         | 3         |
|   | <b>23</b> | <b>23</b> |

Included in the expense above is depreciation and amortization on common infrastructure assets that are allocated to Centra. These common infrastructure assets are not carried on Centra's financial statements as these assets reside on the financial statements of the parent company, Manitoba Hydro.

**CENTRA GAS MANITOBA INC.  
NOTES TO THE FINANCIAL STATEMENTS**

For the year ended March 31, 2017  
(in millions of Canadian dollars)

**NOTE 8 CAPITAL AND OTHER TAXES**

|  | 2017      | 2016      |
|--|-----------|-----------|
| Property tax and grants in lieu of tax | 12        | 12        |
| Corporate capital tax                  | 3         | 3         |
| Payroll tax                            | 1         | 1         |
|  | <b>16</b> | <b>16</b> |

**NOTE 9 CORPORATE ALLOCATION**

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

**NOTE 10 OTHER EXPENSES**

|                                 | 2017      | 2016      |
|---------------------------------|-----------|-----------|
| Demand side management programs | 11        | 10        |
| Miscellaneous                   | 1         | -         |
|                                 | <b>12</b> | <b>10</b> |

Of the total other expenses, \$11 million (2016 – \$10 million) are subsequently deferred in regulatory deferral balances through net movement in regulatory balances (Note 15).

**NOTE 11 ACCOUNTS RECEIVABLE AND ACCRUED REVENUE**

|                                 | 2017       | 2016       |
|---------------------------------|------------|------------|
| Trade accounts receivable       | 38         | 40         |
| Accrued revenue                 | 20         | 15         |
| Taxes receivable                | 1          | 1          |
| Allowance for doubtful accounts | <b>(3)</b> | <b>(3)</b> |
|                                 | <b>56</b>  | <b>53</b>  |

**NOTE 12 NATURAL GAS INVENTORY**

Natural gas inventory recognized as an expense during the year was \$26 million (2016 - \$22 million). The write-down of inventory during 2017 was nil (2016 – nil). No reversals of write-downs occurred during the year (2016 – nil).

**CENTRA GAS MANITOBA INC.  
NOTES TO THE FINANCIAL STATEMENTS**

For the year ended March 31, 2017  
(in millions of Canadian dollars)

**NOTE 13 PROPERTY, PLANT AND EQUIPMENT**

|                                 | Distribution<br>systems | Other    | Construction in<br>progress | Total      |
|---------------------------------|-------------------------|----------|-----------------------------|------------|
| <b>Cost or deemed cost</b>      |                         |          |                             |            |
| Balance, April 1, 2015          | 466                     | 3        | 6                           | 475        |
| Additions                       | 31                      | -        | 10                          | 41         |
| Disposals and/or retirements    | (3)                     | -        | -                           | (3)        |
| Assets placed in service*       | 4                       | -        | (4)                         | -          |
| <b>Balance, March 31, 2016</b>  | <b>498</b>              | <b>3</b> | <b>12</b>                   | <b>513</b> |
| Additions                       | 52                      | -        | 5                           | 57         |
| Disposals and/or retirements    | (4)                     | -        | -                           | (4)        |
| Assets placed in service*       | 10                      | -        | (10)                        | -          |
| <b>Balance, March 31, 2017</b>  | <b>556</b>              | <b>3</b> | <b>7</b>                    | <b>566</b> |
| <b>Accumulated depreciation</b> |                         |          |                             |            |
| Balance, April 1, 2015          | 12                      | -        | -                           | 12         |
| Depreciation expense            | 15                      | -        | -                           | 15         |
| Disposals and/or retirements    | (2)                     | -        | -                           | (2)        |
| <b>Balance, March 31, 2016</b>  | <b>25</b>               | <b>-</b> | <b>-</b>                    | <b>25</b>  |
| Depreciation expense            | 15                      | -        | -                           | 15         |
| Disposals and/or retirements    | (2)                     | -        | -                           | (2)        |
| <b>Balance, March 31, 2017</b>  | <b>38</b>               | <b>-</b> | <b>-</b>                    | <b>38</b>  |
| <b>Net book value</b>           |                         |          |                             |            |
| Balance, March 31, 2016         | 473                     | 3        | 12                          | 488        |
| <b>Balance, March 31, 2017</b>  | <b>518</b>              | <b>3</b> | <b>7</b>                    | <b>528</b> |

\*Represents projects that were in construction in progress at the beginning of the year.

Included in additions is interest capitalized during construction of \$0.9 million (2016 - \$0.3 million).



**CENTRA GAS MANITOBA INC.  
NOTES TO THE FINANCIAL STATEMENTS**

For the year ended March 31, 2017  
(in millions of Canadian dollars)

**NOTE 14 INTANGIBLE ASSETS**

|                                 | Computer<br>application<br>development | Land<br>easements | Total    |
|---------------------------------|--|-------------------|----------|
| <b>Cost or deemed cost</b>      |  |                   |          |
| Balance, April 1, 2015          | 4                                      | 4                 | 8        |
| Additions                       | -                                      | 1                 | 1        |
| Disposals and/or retirements    | (1)                                    | -                 | (1)      |
| Assets placed in service        | -                                      | -                 | -        |
| Balance, March 31, 2016         | 3                                      | 5                 | 8        |
| Additions                       | -                                      | 1                 | 1        |
| Disposals and/or retirements    | -                                      | -                 | -        |
| Assets placed in service        | -                                      | -                 | -        |
| <b>Balance, March 31, 2017</b>  | <b>3</b>                               | <b>6</b>          | <b>9</b> |
| <b>Accumulated amortization</b> |  |                   |          |
| Balance, April 1, 2015          | 1                                      | -                 | 1        |
| Amortization                    | 1                                      | -                 | 1        |
| Disposals and/or retirements    | (1)                                    | -                 | (1)      |
| Balance, March 31, 2016         | 1                                      | -                 | 1        |
| Amortization                    | -                                      | -                 | -        |
| Disposals and/or retirements    | -                                      | -                 | -        |
| <b>Balance, March 31, 2017</b>  | <b>1</b>                               | <b>-</b>          | <b>1</b> |
| <b>Net book value</b>           |  |                   |          |
| Balance, March 31, 2016         | 2                                      | 5                 | 7        |
| <b>Balance, March 31, 2017</b>  | <b>2</b>                               | <b>6</b>          | <b>8</b> |

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

**CENTRA GAS MANITOBA INC.**  
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**NOTE 15 REGULATORY DEFERRAL BALANCES**

|  | March 31,<br>2016 | Balances<br>arising in the<br>year | Recovery /<br>reversal | March 31,<br>2017 | Remaining<br>recovery /<br>reversal period<br>(years) |
|--|-------------------|------------------------------------|------------------------|-------------------|---|
| <b>Regulatory deferral debit balances</b>  |                   |                                    |                        |                   |   |
| DSM programs <sup>1</sup>                  | 57                | 13                                 | (9)                    | 61                | 1 - 10  |
| Deferred taxes                             | 23                | 2                                  | (4)                    | 21                | 1 - 30  |
| Site restoration                           | 3                 | -                                  | -                      | 3                 | 1 - 15  |
| Loss on disposal of assets                 | 6                 | 3                                  | -                      | 9                 | **  |
| Change in depreciation method              | 4                 | 2                                  | -                      | 6                 | **  |
| Regulatory costs                           | 1                 | 1                                  | (1)                    | 1                 | 1 - 5   |
| Deferred ineligible overhead               | 2                 | -                                  | -                      | 2                 | **  |
| Change in depreciation rate - meters       | -                 | 1                                  | -                      | 1                 |   |
|  | 96                | 22                                 | (14)                   | 104               |   |
| <b>Regulatory deferral credit balances</b> |                   |                                    |                        |                   |   |
| DSM deferral                               | 6                 | 2                                  | -                      | 8                 | **  |
| PGVA                                       | 1                 | (182)                              | 198                    | 17                | *   |
| Impact of 2014 depreciation study          | 2                 | 1                                  | -                      | 3                 | **  |
|  | 9                 | (179)                              | 198                    | 28                |   |
| <b>Net movement in regulatory balances</b> |                   | 201                                | (212)                  | (11)              |   |

<sup>1</sup> Included in DSM programs is the difference between actual and planned expenditures for gas DSM programs.

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

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

**CENTRA GAS MANITOBA INC.**  
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|  | March 31,<br>2015 | Balances<br>arising in the<br>year | Recovery /<br>reversal | March 31,<br>2016 | Remaining<br>recovery /<br>reversal period<br>(years) |
|--|-------------------|------------------------------------|------------------------|-------------------|---|
| <b>Regulatory deferral debit balances</b>  |                   |                                    |                        |                   |   |
| DSM programs <sup>1</sup>                  | 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                 | **  |
|  | 122               | 200                                | (226)                  | 96                |   |
| <b>Regulatory deferral credit balances</b> |                   |                                    |                        |                   |   |
| DSM deferral                               | 6                 | -                                  | -                      | 6                 | **  |
| PGVA                                       | -                 | -                                  | 1                      | 1                 | *   |
| Impact of 2014 depreciation study          | 1                 | 1                                  | -                      | 2                 | **  |
|  | 7                 | 1                                  | 1                      | 9                 |   |
| <b>Net movement in regulatory balances</b> |                   | 199                                | (227)                  | (28)              |   |

<sup>1</sup> Included in DSM programs is the difference between actual and planned expenditures for gas DSM programs.

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

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

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 of regulatory deferral balances on the statement of income (loss).

Balances arising in the year include \$2 million (2016 - \$2 million) for carrying costs on deferred taxes and the PGVA.

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

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

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.

Site restoration expenditures are incurred for the remediation of contaminated Centra facilities.

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.

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

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

Consistent with its parent company Manitoba Hydro, Centra is deferring the annual difference in overhead capitalized for financial reporting purposes under IFRS and overhead capitalized for rate setting purposes.

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

Demand side management deferral - In Order 85/13, the PUB directed that the differences between actual and planned spending on gas DSM programs for the 2012-13 and 2013-14 fiscal years be recognized as a liability. There were no differences in fiscal 2014-15 and 2015-16 spending to be added to this deferral. Consistent with Order 85/13, the difference in spending for 2016-17 has been added to the deferral. The cumulative differences have been recorded as a regulatory deferral 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.

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.

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**NOTE 16 LONG-TERM DEBT**

|                                |            |
|--------------------------------|------------|
| Balance, April 1, 2015         | 305        |
| Issues                         | 35         |
| Balance, March 31, 2016        | 340        |
| Issues                         | 20         |
|                                | 360        |
| Less: current portion          | -          |
| <b>Balance, March 31, 2017</b> | <b>360</b> |

Long-term debt consists of long-term advances from Centra's parent company, Manitoba Hydro. During the year, Centra arranged long-term financing of \$20 million (2016 - \$35 million).

Debt principal repayment amounts and related yields are summarized by fiscal years of maturity in the following table:

| Years of maturity | Principal | Weighted average yield rate | 2017 Total | 2016 Total |
|-------------------|-----------|-----------------------------|------------|------------|
| 2018              | -         | -                           | -          | -          |
| 2019              | -         | -                           | -          | -          |
| 2020              | 20        | 1.06%                       | 20         | -          |
| 2021              | -         | -                           | -          | -          |
|                   | 20        | 1.06%                       | 20         | -          |
| 2022-2026         | 65        | 2.81%                       | 65         | 65         |
| 2027-2031         | 30        | 4.73%                       | 30         | 30         |
| 2032-2036         | 80        | 4.88%                       | 80         | 80         |
| 2037-2041         | 110       | 4.74%                       | 110        | 110        |
| 2042-2046         | 20        | 3.41%                       | 20         | 20         |
| 2047-2051         | 35        | 2.90%                       | 35         | 35         |
|                   | 360       | 4.17%                       | 360        | 340        |

**NOTE 17 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% allocation related to the Provincial debt guarantee fee. The effective interest rate for the year was 0.50% (2016 – 0.49%). There are no fixed repayment terms.

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**NOTE 18 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

|                                       | 2017      | 2016      |
|---------------------------------------|-----------|-----------|
| Trade and other payables              | 42        | 37        |
| Taxes payable                         | 8         | 7         |
| Employee payroll and benefit accruals | 1         | 1         |
|                                       | <b>51</b> | <b>45</b> |

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 19 DEFERRED REVENUE**

Deferred revenue consists of contributions in aid of construction that 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.

**NOTE 20 FINANCIAL INSTRUMENTS**

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

|  | Level | 2017           |            | 2016           |            |
|--|-------|----------------|------------|----------------|------------|
|  |       | Carrying value | Fair value | Carrying value | Fair value |
| <b>Loans and receivables</b>               |       |                |            |                |            |
| Accounts receivable and accrued revenue    | *     | 56             | 56         | 53             | 53         |
| <b>Other financial liabilities</b>         |       |                |            |                |            |
| Accounts payable and accrued liabilities   | *     | 51             | 51         | 45             | 45         |
| Due to parent                              | *     | 33             | 33         | 40             | 40         |
| Long-term debt (including current portion) | 2     | 360            | 409        | 340            | 394        |

\* carried at values that approximate fair value

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The fair value measurement of financial instruments is classified in accordance with a three-level hierarchy, 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 statement of financial position date for similar instruments available in the capital market. The carrying values of all other financial assets and liabilities approximate their 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 foreign currency, 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 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 have 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.

Centra is exposed to credit risk related to domestic energy sales. Credit risk related to domestic sales is mitigated by the large and diversified gas customer base. The maximum exposure to credit risk related to domestic energy sales is its fair value.

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

|                                  | 2017       | 2016       |
|----------------------------------|------------|------------|
| Under 30 days                    | 33         | 34         |
| 31 to 60 days                    | 2          | 3          |
| 61 to 90 days                    | 1          | 1          |
| Over 90 days                     | 2          | 2          |
|                                  | <b>38</b>  | 40         |
| Allowance for doubtful accounts  | <b>(3)</b> | <b>(3)</b> |
| <b>Total accounts receivable</b> | <b>35</b>  | <b>37</b>  |

**CENTRA GAS MANITOBA INC.  
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The allowance for doubtful accounts is reviewed annually, based on an estimate of aged receivables that are considered uncollectible.

**b) Liquidity risk**

Liquidity risk refers to the risk that Centra will not be able to meet its financial obligations as they come due. Centra meets its financial obligations when due through cash generated from operations as well as short-term borrowings and long-term borrowings advanced from Manitoba Hydro.

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

|   | Carrying<br>value | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 and<br>thereafter |
|---|-------------------|------|------|------|------|------|------------------------|
| <b>Non-derivative financial liabilities</b> |                   |      |      |      |      |      |                        |
| Accounts payable and accrued liabilities    | 51                | 51   | -    | -    | -    | -    | -                      |
| Due to parent                               | 33                | 33   | -    | -    | -    | -    | -                      |
| Long-term debt (including current portion)  | 360               | 14   | 14   | 34   | 14   | 14   | 518                    |
|   |                   | 98   | 14   | 34   | 14   | 14   | 518                    |

**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. As at March 31, 2017, an increase or decrease of 1% in the interest rate would reduce or increase net income, respectively, by \$0.4 million (2016 - \$0.3 million).

(ii) Commodity price risk

Centra is exposed to commodity price risk through its purchase of natural gas for delivery to customers throughout Manitoba. Centra mitigates commodity price risk for its fixed rate service with the limited use of natural gas price swaps. As at March 31, 2017, there are no open gas derivative contracts (2016 – nil).



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**NOTE 21 SHARE CAPITAL**

|                                   | 2017 | 2016 |
|-----------------------------------|------|------|
| Share capital                     |      |      |
| Authorized                        |      |      |
| Unlimited number of common shares |      |      |
| Issued                            |      |      |
| 1 505 common shares               | 121  | 121  |

**NOTE 22 CAPITAL MANAGEMENT**

Centra manages its capital structure to ensure that there is sufficient retained earnings 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.

**NOTE 23 RELATED PARTIES**

Centra is a wholly-owned subsidiary of Manitoba Hydro, a Crown corporation controlled by the Province of Manitoba. As a result, Centra has a related party relationship with its parent, Manitoba Hydro, other subsidiaries of Manitoba Hydro, and all entities that are controlled, jointly controlled or significantly influenced by the Province of Manitoba.

As Centra's operations are significantly integrated with the operations of Manitoba Hydro, substantially all of Centra's cash receipts and disbursements are received or issued through Manitoba Hydro with the exception of transactions directly related to the purchase of natural gas. Related party transactions with its parent include operating and administrative costs, interest on advances and depreciation and amortization on common infrastructure assets.

**Key management personnel compensation**

Key management personnel services are provided to Centra by the Board of Directors and senior officers of Manitoba Hydro. Amounts incurred by Centra during the year for the provision of key management personnel services provided by Manitoba Hydro are immaterial (2016 – immaterial).

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NOTES TO THE FINANCIAL STATEMENTS**

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**NOTE 24 COMMITMENTS AND CONTINGENCIES**

Centra has energy purchase commitments of \$206 million (2016 - \$181 million) that relate to future purchases of natural gas (including transportation and storage contracts), which expire in 2021.

Due to the size, complexity and nature of Centra'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 Centra's financial position or results of operations.

**NOTE 25 COMPARATIVE FIGURES**

Where appropriate, comparative figures for 2016 have been reclassified in order to conform to the presentation adopted in 2017.

