Financial Statements of

CENTRA GAS MANITOBA INC.

March 31, 2018

KPMG LLP
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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, 2018, the statements of income, cash flows, and changes in equity for the year then ended, and notes, comprising 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 our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we 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, 2018 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Comparative Information

Without modifying our opinion, we draw attention to Note 3(n) to the financial statements which indicates that certain comparative information in the statement of cash flows presented for the year ended March 31, 2017 has been restated for changes in accounting policies.

The financial statements of Centra Gas Manitoba Inc. as at and for the year ended March 31, 2017, excluding the restatements described in note 3(n) to the financial statements, were audited by another auditor who expressed an unmodified opinion on those financial statements on July 5, 2017.

As part of our audit of the financial statements as at and for the year ended March 31, 2018 we audited the restatements described in Note 3(n) to the financial statements that were applied to restate the comparative information in the statement of cash flows presented for the year ended March 31, 2017. In our opinion, the restatements are appropriate and have been properly applied.

We were not engaged to audit, review, or apply any procedures to the March 31, 2017 financial statements other than with respect to the restatements described in Note 3(n) to the financial statements. Accordingly, we do not express an opinion or any other form of assurance on those financial statements taken as a whole.

KPMG LLP

Chartered Professional Accountants

June 27, 2018

Winnipeg, Canada

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

	Notes	**2018**	2017
Revenues			
Commodity		**193**	199
Distribution		**151**	144
Other		**2**	2
		346	345
Expenses			
Cost of gas sold		**196**	183
Finance expense	5	**21**	19
Operating and administrative	6	**63**	65
Depreciation and amortization	7	**24**	23
Capital and other taxes	8	**16**	16
Corporate allocation	9	**12**	12
Other expenses	10	**14**	12
		346	330
Net income before net movement in regulatory balances		**-**	15
Net movement in regulatory balances	15	**7**	(11)
Net Income		**7**	4

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	2018	2017
Assets			
Current Assets			
Accounts receivable and accrued revenue	11	**64**	56
Natural gas inventory	12	**25**	25
		89	81
Property, Plant and Equipment	13	**543**	528
Non-Current Assets			
Intangible assets	14	**10**	8
Total assets before regulatory deferral balance		**642**	617
Regulatory deferral balance	15	**110**	104
Total assets and regulatory deferral balance		**752**	721
Liabilities and Equity			
Current Liabilities			
Due to parent	17	**44**	33
Accounts payable and accrued liabilities	18	**55**	51
		99	84
Long-term Debt	16	**370**	360
Non-Current Liabilities			
Refundable advances from customers		**14**	14
Deferred revenue	19	**45**	45
		59	59
Total liabilities		**528**	503
Equity			
Share capital	21	**121**	121
Retained earnings		**76**	69
Total equity		**197**	190
Total liabilities and equity before regulatory deferral balance		**725**	693
Regulatory deferral balance	15	**27**	28
Total liabilities, equity and regulatory deferral balance		**752**	721

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

On behalf of the Board of Directors:

Marina James
Chair of the Board

Melanie McKague
Chair of the Audit Committee

CENTRA GAS MANITOBA INC.
STATEMENT OF CASH FLOWS
For the year ended March 31
millions of Canadian dollars

	Notes	**2018**	2017
Operating Activities			
Net income		**7**	4
Add back:			
Depreciation and amortization	7	**24**	23
Finance expense	5	**21**	19
Net movement impacts on depreciation and finance expense		**7**	7
Adjustments for non-cash items		**9**	10
Adjustments for changes in non-cash working capital accounts			
Accounts receivable and accrued revenue		**(9)**	13
Prepaid expenses			
Accounts payable and accrued liabilities		**4**	5
Other		**(1)**	8
Interest paid		**(33)**	(32)
Cash (used for) provided by operating activities		**29**	57
Investing Activities			
Additions to property, plant and equipment		**(35)**	(58)
Additions to regulatory deferral balances		**(12)**	(12)
Contributions received		**1**	3
Additions to intangible assets		**(4)**	(3)
Cash used for investing activities		**(50)**	(70)
Financing Activities			
Long-term advances from parent	16	**10**	20
Cash provided by financing activities		**10**	20
Net increase (decrease) in cash equivalents		**(11)**	7
Cash equivalents, beginning of year		**(33)**	(40)
Cash equivalents, end of year		**(44)**	(33)

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 earnings	Share capital	Total equity
Balance as at April 1, 2016	21	65	121	186
Net income		4	-	4
Balance as at March 31, 2017	21	69	121	190
Net income		7	-	7
Balance as at March 31, 2018	21	**76**	**121**	**197**

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

NOTE 1 REPORTING ENTITY

Centra Gas Manitoba Inc. (Centra) distributes natural gas to more than 281 000 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 10 300 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 June 27, 2018.

(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(k)

(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 and judgments 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 and amortizable assets (Notes 3(g), 13 and 14)
- Measurement of accrued liabilities (Note 18)

- Determination of cash generating unit as it pertains to impairment testing (Note 3 (i))
- Fair value measurement of financial instruments (Notes 3(k) and 20)

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

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
Ineligible overhead	34	years

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), difference in depreciation rate used for gas meters 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) Cash equivalents

Cash equivalents consist of amounts due to Centra's parent company, Manitoba Hydro.

(f) 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.

(g) Property, plant and equipment

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

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

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.

(h) 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.

(i) 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.

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 segment 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.

(j) 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.

(k) 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.

(l) 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.

(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).

(n) Change in accounting policy

For the year ended March 31, 2018, the company elected to present cash flows from operating activities using the indirect method, as compared to the direct method used for the year ended March 31, 2017, as it provides more relevant information. The comparative information has been reclassified for this change in presentation. Additionally, cash flows related to capitalized interest of $1 million in the year ended March 31, 2017 have been reclassified from investing activities to operating activities in order to present cash flows related to capitalized interest consistently with interest cash flows that are not capitalized.

NOTE 4 FUTURE ACCOUNTING PRONOUNCEMENTS

The following new standards and amendments are not yet effective for the year ended March 31, 2018, 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.

(in millions of Canadian dollars)

NOTE 5 FINANCE EXPENSE

	2018	2017
Interest on debt	**15**	14
Provincial debt guarantee fee	**4**	4
Other	**2**	1
	21	19

The Provincial debt guarantee fee during the year was equivalent to 1.0% of Centra's total outstanding debt (2017 – 1.0%).

NOTE 6 OPERATING AND ADMINISTRATIVE

	2018	2017
Salaries and benefits	**47**	49
External services	**10**	9
Materials, motor vehicles and supplies	**5**	5
Other	**1**	2
	63	65

Additional salaries and benefits, including termination benefits, are included in other expenses (Note 10) in the amount of $5 million (2017 - $3 million).

NOTE 7 DEPRECIATION AND AMORTIZATION

	2018	2017
Depreciation of property, plant and equipment (Note 13)	**19**	18
Amortization of intangible assets (Note 14)	**2**	2
Loss on disposal of property, plant and equipment	**3**	3
	24	23

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.

(in millions of Canadian dollars)

NOTE 8 CAPITAL AND OTHER TAXES

	2018	2017
Property tax and grants in lieu of tax	**12**	12
Corporate capital tax	**3**	3
Payroll tax	**1**	1
	16	16

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

	2018	2017
Demand side management programs	**11**	11
Miscellaneous	**3**	1
	14	12

Of the total other expenses, $11 million (2017 – $11 million) are subsequently deferred in regulatory deferral balances through net movement in regulatory balances (Note 15).

NOTE 11 ACCOUNTS RECEIVABLE AND ACCRUED REVENUE

	2018	2017
Trade accounts receivable	**47**	38
Accrued revenue	**18**	20
Taxes receivable	**1**	1
Allowance for doubtful accounts	**(2)**	(3)
	64	56

(in millions of Canadian dollars)

NOTE 12 NATURAL GAS INVENTORY

Natural gas inventory recognized as an expense during the year was $26 million (2017 - $26 million). The write-down of inventory during 2018 was nil (2017 – nil). No reversals of write-downs occurred during the year (2017 – nil).

NOTE 13 PROPERTY, PLANT AND EQUIPMENT

	Distribution systems	Other	Construction in progress	Total
Cost or deemed cost				
Balance, April 1, 2016	498	3	12	513
Additions	52	-	5	57
Disposals and/or retirements	(4)	-	-	(4)
Assets placed in service*	10	-	(10)	-
Balance, March 31, 2017	556	3	7	566
Additions	30	-	3	33
Disposals and/or retirements	(4)	-	-	(4)
Assets placed in service*	6	-	(6)	-
Balance, March 31, 2018	**588**	**3**	**4**	**595**
Accumulated depreciation				
Balance, April 1, 2016	25	-	-	25
Depreciation expense	15	-	-	15
Disposals and/or retirements	(2)	-	-	(2)
Balance, March 31, 2017	38	-	-	38
Depreciation expense	17	-	-	17
Disposals and/or retirements	(3)	-	-	(3)
Balance, March 31, 2018	**52**	**-**	**-**	**52**
Net book value				
Balance, March 31, 2017	518	3	7	528
Balance, March 31, 2018	**536**	**3**	**4**	**543**

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

Included in additions is interest capitalized during construction of $0.4 million (2017 - $0.9 million).

(in millions of Canadian dollars)

NOTE 14 INTANGIBLE ASSETS

	Computer application development	Land easements	Under development	Total
Cost or deemed cost				
Balance, April 1, 2016	3	5	-	8
Additions	-	1	-	1
Disposals and/or retirements	-	-	-	-
Assets placed in service	-	-	-	-
Balance, March 31, 2017	3	6	-	9
Additions	-	1	2	3
Disposals and/or retirements	-	-	-	-
Assets placed in service	-	-	-	-
Balance, March 31, 2018	**3**	**7**	2	**12**
Accumulated amortization				
Balance, April 1, 2016	1	-	-	1
Amortization	-	-	-	-
Disposals and/or retirements	-	-	-	-
Balance, March 31, 2017	1	-	-	1
Amortization	1	-	-	1
Disposals and/or retirements	-	-	-	-
Balance, March 31, 2018	**2**	-	-	**2**
Net book value				
Balance, March 31, 2017	2	6	-	8
Balance, March 31, 2018	**1**	**7**	2	**10**

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

(in millions of Canadian dollars)

NOTE 15 REGULATORY DEFERRAL BALANCES

	March 31, 2017	Balances arising in the year	Recovery / reversal	**March 31, 2018**	Remaining recovery / reversal period *(years)*
Regulatory deferral debit balances					
DSM programs[1]	61	11	(9)	**63**	1 - 10
Deferred taxes	21	2	(3)	**20**	11
Site restoration	3	-	-	**3**	1 - 15
Loss on disposal of assets	9	2	-	**11**	***
Change in depreciation method	6	2	-	**8**	**
Regulatory costs	1	1	(1)	**1**	1 - 5
Deferred ineligible overhead	2	1	-	**3**	34
Change in depreciation rate - meters	1	-	-	**1**	***
	104	19	(13)	**110**	
Regulatory deferral credit balances					
DSM deferral	8	-	-	**8**	***
PGVA	17	(195)	193	**15**	*
Impact of 2014 depreciation study	3	1	-	**4**	***
	28	(194)	193	**27**	
Net movement in regulatory balances		213	(206)	**7**	

[1] Included in DSM programs is the difference between actual and planned expenditures for gas DSM programs for the years 2014 to 2017.

* The PGVA is recovered or refunded in future rates.

** Consistent with Order 59/18 relating to the amortization of these amounts for electric operations, Centra Gas is not amortizing the cumulative depreciation difference between the ASL and ELG methods of depreciation for rate-setting.

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

(in millions of Canadian dollars)

	March 31, 2016	Balances arising in the year	Recovery / reversal	**March 31, 2017**	Remaining recovery / reversal period
					(years)
Regulatory deferral debit balances					
DSM programs[1]	57	13	(9)	**61**	1 - 10
Deferred taxes	23	2	(4)	**21**	12
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**	
Regulatory deferral credit balances					
DSM deferral	6	2	-	**8**	***
PGVA	1	(182)	198	**17**	*
Impact of 2014 depreciation study	2	1	-	**3**	***
	9	(179)	198	**28**	
Net movement in regulatory balances		201	(212)	**(11)**	

[1] Included in DSM programs is the difference between actual and planned expenditures for gas DSM programs for the years 2014 to 2017.

* The PGVA is recovered or refunded in future rates.
** Consistent with Order 59/18 relating to the amortization of these amounts for electric operations, Centra Gas is not amortizing the cumulative depreciation difference between the ASL and ELG methods of depreciation for rate-setting.
*** 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.

Balances arising in the year include $2 million (2017 - $2 million) for carrying costs on deferred taxes and the PGVA.

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

DSM 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.

Change in depreciation rate on meters represents the difference in depreciation on gas meters between the 20-year rate used for financial reporting purposes and the 25-year rate used for rate-setting purposes.

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

DSM deferral - In Order 85/13, the PUB directed that the differences between actual and planned spending on gas DSM programs for the 2014 fiscal year be recognized as a liability. There were no differences in fiscal 2015 and 2016 spending to be added to this deferral. Consistent with Order 85/13, the difference in spending for 2017 was 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. In Order 59/18, the PUB directed Manitoba Hydro to discontinue the deferral of differences between actual and planned DSM spending; as such, the difference in spending beginning in fiscal 2018 has not been added to the deferral. The disposition of the cumulative 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.

(in millions of Canadian dollars)

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.

NOTE 16 LONG-TERM DEBT

Balance, April 1, 2016	340
Issues	20
Balance, March 31, 2017	360
Issues	10
	370
Less: current portion	-
Balance, March 31, 2018	**370**

Long-term debt consists of long-term advances from Centra's parent company, Manitoba Hydro. During the year, Centra arranged long-term financing of $10 million (2017 - $20 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	**2018 Total**	2017 Total
2019	-	-	**-**	-
2020	20	1.66%	**20**	20
2021	-	-	**-**	-
2022	-	-	**-**	-
	20	0.00%	**20**	20
2023-2027	65	2.80%	**65**	65
2028-2032	40	4.19%	**40**	30
2033-2037	130	4.72%	**130**	130
2038-2042	60	4.92%	**60**	60
2043-2047	55	3.07%	**55**	55
	370	4.15%	**370**	360

(in millions of Canadian dollars)

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 0.94% (2017 – 0.50%). There are no fixed repayment terms.

NOTE 18 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2018	2017
Trade and other payables	**46**	42
Taxes payable	**8**	8
Employee payroll and benefit accruals	**1**	1
	55	51

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.

(in millions of Canadian dollars)

NOTE 20 FINANCIAL INSTRUMENTS

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

		2018		2017	
	Level	Carrying value	Fair value	Carrying value	Fair value
Loans and receivables					
Accounts receivable and accrued revenue	*	**64**	**64**	56	56
Other financial liabilities					
Accounts payable and accrued liabilities	*	**55**	**55**	51	51
Due to parent	*	**44**	**44**	33	33
Long-term debt (including current portion)	2	**370**	**421**	360	409

* carried at values that approximate fair value

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.

(in millions of Canadian dollars)

a) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.

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:

	2018	2017
Under 30 days	**41**	33
31 to 60 days	**3**	2
61 to 90 days	**1**	1
Over 90 days	**2**	2
	47	38
Allowance for doubtful accounts	**(2)**	(3)
Total accounts receivable	**45**	35

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 value	2019	2020	2021	2022	2023	2024 and thereafter
Non-derivative financial liabilities							
Accounts payable and accrued liabilities	55	55	-	-	-	-	-
Due to parent	44	44	-	-	-	-	-
Long-term debt (including current portion)	370	15	35	14	14	34	495
		114	35	14	14	34	495

(in millions of Canadian dollars)

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, 2018, an increase or decrease of 1% in the interest rate would reduce or increase net income, respectively, by $0.5 million (2017 - $0.4 million).

(ii) Commodity price risk

Centra is exposed to commodity price risk through its purchases of natural gas for delivery to its sales service customers throughout Manitoba. However, all of the costs associated with these expenditures are recovered from Centra's customers in their rates.

NOTE 21 SHARE CAPITAL

	2018	2017
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. Some of these costs are allocated to Centra through a cost allocation methodology using various cost drivers.

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 (2017 – immaterial).

NOTE 24 COMMITMENTS AND CONTINGENCIES

Centra has energy purchase commitments of $277 million (2017 - $206 million) that relate to future purchases of natural gas (including transportation and storage contracts), which expire in 2037.

During the year, Centra entered into an agreement with an independent third party pipeline company to increase pipeline capacity. As part of the agreement, Centra has committed to pay its share of the pre-license development costs associated with the contract, limited to $19 million, in the event that the federal license is not granted for the project. While the potential costs are quantified, no obligating event has occurred and so a provision has not been booked.

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.