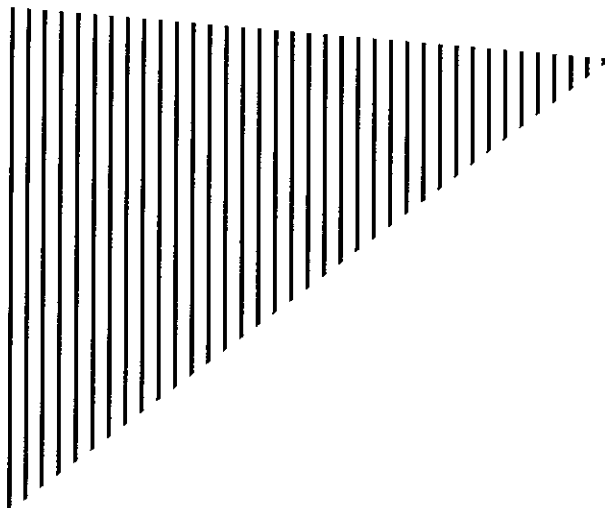


Financial Statements

Centra Gas Manitoba Inc.

March 31, 2010



AUDITORS' REPORT

To the Shareholder of
Centra Gas Manitoba Inc.

We have audited the balance sheet of **Centra Gas Manitoba Inc.** as at March 31, 2010 and the statements of income, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Winnipeg, Canada,
June 4, 2010.

Ernst + Young LLP

Chartered Accountants

CENTRA GAS MANITOBA INC.

STATEMENT OF INCOME

For the year ended March 31

	Notes	2010	2009
<i>millions of dollars</i>			
Revenues			
Commodity		316	431
Distribution		136	147
		452	578
Cost of gas sold		316	431
		136	147
Other income		2	2
		138	149
Expenses			
Operating and administrative	3	61	60
Finance expense	3 & 4	19	20
Depreciation and amortization		24	25
Capital and other taxes		23	23
Corporate allocation	5	12	12
		139	140
Net (Loss) Income		(1)	9

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

STATEMENT OF RETAINED EARNINGS

For the year ended March 31

		2010	2009
<i>millions of dollars</i>			
Retained earnings, beginning of year		34	27
Adjustment for adoption of new accounting policy	2	-	(2)
Net (loss) income		(1)	9
Retained earnings, end of year		33	34

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

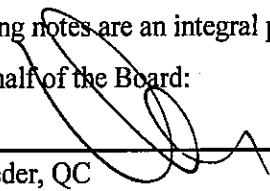
CENTRA GAS MANITOBA INC.**BALANCE SHEET**


As at March 31

	Notes	2010	2009
<i>millions of dollars</i>			
Assets			
Property, Plant and Equipment			
In service	6	600	585
Less accumulated depreciation	6	210	205
		390	380
Construction in progress	6	1	2
		391	382
Current Assets			
Accounts receivable and accrued revenue		79	138
Gas in storage		33	15
		112	153
Other Assets			
Regulated assets	7	70	64
Intangible assets	8	8	8
		78	72
		581	607
Liabilities and Shareholder's Equity			
Long-Term Debt			
	9	297	141
Current Liabilities			
Due to parent	10	24	109
Accounts payable and accrued liabilities	11	58	63
Current portion of long-term debt	9	-	93
		82	265
Other Liabilities			
Refundable advances from customers		16	16
		16	16
Contributions in Aid of Construction			
		32	30
Shareholder's Equity			
Share capital	15	121	121
Retained earnings		33	34
		154	155
		581	607

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

Approved on behalf of the Board:



Victor H. Schroeder, QC
Chairman of the Board

William Fraser, FCA
Chair of the Audit Committee

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

For the year ended March 31

	2010	2009
	<i>millions of dollars</i>	
Operating Activities		
Cash receipts from customers	506	593
Cash paid to suppliers	(425)	(537)
Interest paid	(20)	(22)
Cash provided by operating activities	61	34
Financing Activities		
Long-term advances from (repayments to) parent	62	(2)
Short-term (repayments to) advances from parent	(85)	10
Cash (used for) provided by financing activities	(23)	8
Investing Activities		
Property, plant and equipment, net of contributions	(25)	(30)
Other	(13)	(12)
Cash used for investing activities	(38)	(42)
Net change in cash and cash equivalents	-	-
Cash and cash equivalents, beginning of year	-	-
Cash and cash equivalents, end of year	-	-

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

CENTRA GAS MANITOBA INC.
NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2010

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

Rate Regulated Accounting - The prices charged for the sale of natural gas within Manitoba are subject to review and approval by the Public Utilities Board of Manitoba (PUB). The rate-setting process is designed such that rates charged to gas customers recover all costs incurred in providing gas service to customers. Accordingly, Centra Gas Manitoba Inc. (Centra) applies various accounting policies that differ from enterprises that do not operate in a rate-regulated environment. Such accounting policies allow for the deferral of certain costs or credits which will be recovered or refunded in future rates. These costs or credits would otherwise be included in the determination of net income in the year that the cost or credit is incurred. Centra refers to such deferred costs or credits as regulated assets or regulated liabilities which are generally comprised of the following:

- Deferred taxes - As a result of its acquisition by Manitoba Hydro in 1999, Centra became non-taxable and, in so doing, incurred a non-recurring tax expense. This non-recurring tax expense has been deferred and is being amortized over a period of 30 years.
- Power Smart programs - The costs of Centra's energy conservation programs, referred to as Power Smart, are deferred and amortized on a straight-line basis over a period of 10 years.
- Site restoration costs - Site restoration costs incurred are deferred and amortized on a straight-line basis over 15 years.
- Regulatory costs - Costs associated with regulatory hearings are deferred and amortized on a straight-line basis over periods ranging up to 5 years.
- Purchased gas variance accounts - Accounts are maintained to recover/ refund differences between the actual cost of gas and the cost of gas incorporated into rates charged to customers as approved by the PUB. The difference between the recorded cost of natural gas and the actual cost of natural gas is carried as an account receivable/ payable, and recovered or refunded in future rates.

Centra's other significant accounting policies are as follows:

a) **Property, Plant and Equipment**

Property, plant and equipment is stated at cost which includes direct labour, materials, contracted services, a proportionate share of overhead costs and interest applied at the average cost of debt. Finance expense 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, finance expense allocated to construction ceases and depreciation and finance expense charged to operations commences.

CENTRA GAS MANITOBA INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended March 31, 2010

b) **Depreciation**

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

The range of estimated service lives of each major asset category is as follows:

Transmission	40 - 65 years
Distribution	15 - 65 years
Other	5 - 22 years

c) **Intangible Assets**

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

Computer development	10 years
Land easements	65 years

d) **Contributions in Aid of Construction**

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

e) **Gas in Storage**

Gas in storage is valued at average cost.

f) **Revenues**

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

g) **Cost of Gas Sold**

Cost of natural gas sold is recorded at the same rates charged to customers.

CENTRA GAS MANITOBA INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended March 31, 2010

- h) **Pension Costs**
The costs and obligations of pension benefits are calculated by an independent actuary using the accrued benefit actuarial cost method and reflect management's best estimate of future compensation increases, service lives, inflation rates and expected rate of return on plan assets. Pension expense is comprised of the cost of pension benefits provided during the year, the amortization of past service benefits, experience gains and losses, and expected returns on fund assets net of interest on the obligation. The amount of expected returns on fund assets is calculated based on market related values using a five-year moving average approach.
- i) **Financial Instruments**
All financial instruments are measured at fair value on initial recognition as of the trade date. Measurement in subsequent periods depends on the classification of the instrument. Financial instruments are classified into one of the following five categories: held-to-maturity investments, loans and receivables, held-for-trading, available-for-sale, or other financial liabilities. Financial instruments classified as loans and receivables and other financial liabilities are measured at amortized cost using the effective interest method of amortization. Held-for-trading financial instruments are measured at fair value and all gains and losses are included in income in the period in which they arise.
- j) **Comprehensive Income**
Comprehensive income consists of net income and other comprehensive income (OCI). As Centra has no items related to OCI, comprehensive income for the year is equivalent to net income.
- k) **Foreign Currency Translation**
Current monetary assets and liabilities denominated in foreign currencies are translated into Canadian currency at the exchange rate prevailing at the balance sheet date. Gains or losses related to natural gas storage purchases which arise from the date of receipt to date of payment are included as inventoried cost. All other exchange gains and losses on the translation of current monetary assets and liabilities are credited or charged to finance expense in the current period.
- l) **Derivatives**
Centra does not engage in derivative trading or speculative activities. Centra mitigates natural gas price volatility to customers through the use of derivative products restricted to price swaps, call options and cashless collars. Settlement values related to cashless collars are recorded in the purchased gas variance account in the month the natural gas is delivered. Fixed price swaps are carried at fair value on the balance sheet with gains and losses recorded in income.
- m) **Debt Discounts and Premiums**
Debt discounts and premiums are amortized to finance expense using the effective interest method.

CENTRA GAS MANITOBA INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended March 31, 2010

n) **Use of Estimates**

The preparation of financial statements in accordance with Generally Accepted Accounting Principles (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual amounts could differ from those estimates, but differences are not expected to be material.

NOTE 2 ACCOUNTING CHANGES

Goodwill and Intangible Assets

Effective April 1, 2009, Centra adopted Canadian Institute of Chartered Accountants (CICA) Handbook Section 3064, Goodwill and Intangible Assets. The new Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. Adopting this standard resulted in \$8 million being reclassified from Property, Plant and Equipment to Intangible Assets. This standard was adopted retrospectively. The impact of this change on prior years was a cumulative reduction to retained earnings of \$2 million. This reduction relates to the write-off of general advertising and promotion costs related to Centra's Power Smart programs. The net income impact for the comparative year and the current year was not material.

Regulated Activities

For year ends beginning on or after January 1, 2009, the temporary exemption provided in CICA Section 1100, Generally Accepted Accounting Principles (GAAP), which allows the recognition and measurement of regulated assets and liabilities, was withdrawn. Pursuant to a practice allowed by Canadian GAAP, Centra will rely on Accounting Standards Codification 980, "Regulated Operations", issued by the U.S. Financial Accounting Standards Board, to maintain the current accounting treatment for regulated assets and liabilities. The withdrawal of the exemption therefore had no impact on Centra's financial statements.

Financial Instruments Disclosures

Effective April 1, 2009, Centra adopted CICA Section 3862, Financial Instruments Disclosures. This amended Section improves financial instrument fair value measurement and liquidity risk management disclosures. The amendments require an entity to classify fair value measurements using a fair value hierarchy in levels ranging from 1 to 3 that reflect the significance of the inputs used in making these measurements. These additional disclosures are provided in Note 13.

CENTRA GAS MANITOBA INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended March 31, 2010

Future Accounting Changes

International Financial Reporting Standards (IFRS)

In February 2008, the Canadian Accounting Standards Board confirmed that publicly accountable enterprises will be required to adopt IFRS in place of Canadian GAAP for fiscal years beginning on or after January 1, 2011. In October 2009, the Public Sector Accounting Board confirmed that public sector enterprises such as Centra will be required to follow IFRS for periods beginning January 1, 2011. Centra will be required to prepare financial statements in accordance with IFRS effective for its 2011-12 fiscal year with comparative statements presented for the 2010-11 fiscal year.

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

Centra continues to assess the impact of conversion to IFRS. The International Accounting Standards Board (IASB) issued an exposure draft on rate regulated activities in July 2009. Responses to the IASB's request for comments varied substantially. It is unclear at this time what the outcome of the IASB's deliberations will be and how that will impact Centra's reporting under IFRS. Accordingly, the impact on the financial position and results of the operations for Centra is not reasonably determinable at this time.

NOTE 3 RELATED PARTY TRANSACTIONS

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

	2010	2009
	<i>millions of dollars</i>	
Expense		
Net operating and administrative costs	61	60
Interest		
Advances from parent	19	20

CENTRA GAS MANITOBA INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended March 31, 2010

NOTE 4 FINANCE EXPENSE

	2010	2009
	<i>millions of dollars</i>	
Interest on debt	21	22
Amortization of premiums and discounts	1	1
Interest capitalized	(3)	(3)
	19	20

Included in interest on debt is \$3 million (2009 - \$3 million) in respect of the Provincial Debt Guarantee Fee. The fee during the year was 1.00% of the total outstanding debt guaranteed by the Province of Manitoba (2009 - 1.00%).

NOTE 5 CORPORATE ALLOCATION

Costs to acquire Centra and to integrate its operations into those of Manitoba Hydro are allocated between gas and electricity operations in accordance with the synergies and benefits derived by each segment of the business as a result of the acquisition.

NOTE 6 PROPERTY, PLANT AND EQUIPMENT

	2010			2009		
	In service	Accumulated depreciation	Construction in progress	In service	Accumulated depreciation	Construction in progress
	<i>millions of dollars</i>			<i>millions of dollars</i>		
Gas distribution	585	199	1	565	192	2
General plant and other	15	11	-	20	13	-
	600	210	1	585	205	2

CENTRA GAS MANITOBA INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended March 31, 2010

NOTE 7 REGULATED ASSETS

	2010	2009
	<i>millions of dollars</i>	
Deferred taxes	34	36
Power Smart programs	32	24
Site restoration costs	2	2
Regulatory costs	2	2
	70	64

If Centra was not subject to rate regulation, the costs associated with the regulated assets would be charged to operations in the period that they were incurred and the net loss for 2010 would have increased by \$6 million (2009 – net income decreased by \$5 million).

In total, regulated assets of \$9 million (2009 - \$11 million) were amortized to operations during the period.

NOTE 8 INTANGIBLE ASSETS

	2010			2009		
	Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
	<i>millions of dollars</i>			<i>millions of dollars</i>		
Computer development	10	5	5	11	6	5
Land easements	4	1	3	4	1	3
	14	6	8	15	7	8

The additions to intangible assets for the year were nil (2009 - nil). In total, intangible assets of \$3 million (2009 - \$3 million) were amortized to operations during the period.

NOTE 9 LONG-TERM DEBT

	2010	2009
	<i>millions of dollars</i>	
Long-term advances from parent	298	236
Debt discounts and premiums	(1)	(2)
Less: Current portion of long-term debt	-	(93)
	297	141

CENTRA GAS MANITOBA INC.
NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2010

Debt principal amounts (excluding debt discounts and premiums) and related yields are summarized by fiscal years in which advances are required to be repaid in the following table:

	2010		2009
	Total principal amount of repayment	Weighted average yield rate	Total principal amount of repayment
	<i>millions of dollars</i>		<i>millions of dollars</i>
2010	-	-	93
2011	-	-	-
2012	-	-	-
2013	63	5.98%	63
2014	-	-	-
	63	5.98%	156
2015-2019	35	3.78%	-
2020-2024	-	-	-
2025-2029	-	-	-
2030-2034	60	5.56%	30
2035-2039	110	4.57%	50
2040	30	5.18%	-
	298	4.92%	236

NOTE 10 DUE TO PARENT

Centra's short-term funding is provided by Manitoba Hydro with interest calculated monthly at floating rates. The effective rate for the fiscal year 2010 was 0.4% (2009 – 2.4%). There are no fixed repayment terms.

NOTE 11 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2010	2009
	<i>millions of dollars</i>	
Accounts payable and accrued liabilities	55	52
Regulated liabilities:		
Purchased gas variance accounts	3	11
	58	63

CENTRA GAS MANITOBA INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended March 31, 2010

Centra passes costs related to the purchase and transportation of natural gas onto its customers without markup. If Centra was not subject to rate regulation, the purchased gas variance accounts would not be maintained and the actual cost of gas would be expensed in the period incurred. For the fiscal year 2010, if actual gas costs were expensed and sales rates were not adjusted accordingly, net loss would have increased by \$8 million (2009 – net income increased by \$10 million).

NOTE 12 EMPLOYEE FUTURE BENEFITS

In 2001, former employees of Centra ceased earning current service benefits under the Centra pension plans and began earning benefits under the Civil Service Superannuation Board (CSSB) plan. The assets relating to the Centra curtailed pension plans are held in trust by the State Street Trust Co. of Canada and are not reflected on Centra's balance sheet.

The following table presents information concerning the Centra curtailed pension plans:

	2010	2009
	<i>millions of dollars</i>	
Plan assets at fair value		
Balance at beginning of year	57	72
Actual return (loss) on plan assets	12	(13)
Employer contributions	9	4
Benefit payments and refunds	(5)	(6)
	<u>73</u>	<u>57</u>
Accrued benefit obligation		
Balance at beginning of year	81	81
Interest on obligation	5	6
Benefit payments and refunds	(4)	(6)
	<u>82</u>	<u>81</u>
Deficit at end of year		
Unamortized past service costs	2	3
Unamortized transitional balance	(1)	(1)
Unamortized net actuarial loss	32	38
Accrued benefit asset	<u>24</u>	<u>16</u>

CENTRA GAS MANITOBA INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended March 31, 2010

Pension assets are valued at market rates and are invested as follows:

	2010	2009
	<i>millions of dollars</i>	
Equities	46	31
Bonds and debentures	19	22
Real estate	4	3
Short-term investments	4	1
	73	57

The return for the Centra curtailed plan fund assets was 21.7% (2009 – negative 18.1%). The weighted average term to maturity on fixed income investments is 8.6 years (2009 – 8.0 years).

The most recent actuarial valuations for Centra’s obligations for the Centra curtailed pension plans were performed with respect to the liabilities outstanding as at December 31, 2009. These valuations incorporated management’s best estimate assumptions and took into consideration the long-term nature of the pension plans. The next actuarial valuation for the plans will occur in December 2010.

The Centra curtailed pension plans are also subject to a solvency valuation for funding purposes with the latest valuation taking place as at December 31, 2008.

The significant actuarial assumptions adopted in measuring Centra’s accrued benefit obligation are as follows:

	2010	2009
Discount rate	6.50%	6.50%
Expected long-term rate of return on plan assets	7.00%	7.50%
Rate of compensation increase including merit and promotions	1.5 - 2.0%	1.5 - 2.0%
Expected average remaining service life of employees	10 years	10 years
Long-term inflation rate	2.5%	2.5%

CENTRA GAS MANITOBA INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended March 31, 2010

Centra's pension expense related to the curtailed pension plans is as follows:

	2010	2009
	<i>millions of dollars</i>	
Interest on obligation	5	5
Expected return on plan assets	(6)	(5)
Amortization of net experience loss	1	1
	-	1

NOTE 13 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

	2010		2009	
	Carrying value	Fair value	Carrying value	Fair value
Financial instruments	<i>millions of dollars</i>			
Loans and Receivables				
Accounts receivable and accrued revenue	79	79	138	138
Other Financial Liabilities				
Long-term debt (including current portion)	297	308	234	248
Accounts payable and accrued liabilities	58	58	63	63
Due to parent	24	24	109	109

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

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

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

CENTRA GAS MANITOBA INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended March 31, 2010

Financial Risks

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

a) Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. Exposure to credit risk related to accounts receivable arising from natural gas sales is minimized due to a large and diversified customer base.

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

	2010	2009
	<i>millions of dollars</i>	
Under 30 days	70	126
30 to 60 days	6	7
Over 60 days	6	8
	82	141
Provision at end of period	(3)	(3)
Total accounts receivable	79	138

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

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

b) Liquidity Risk

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

CENTRA GAS MANITOBA INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended March 31, 2010

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

	Carrying Value	2011	2012	2013	2014	2015	2016 and thereafter
<i>millions of dollars</i>							
Non-derivative financial liabilities							
Accounts payable and accrued liabilities	58	58	-	-	-	-	-
Due to parent	24	24	-	-	-	-	-
Long-term debt*	297	15	78	13	11	46	397
Derivative financial liabilities							
Natural gas collar obligations	-	18	-	-	-	-	-
Natural gas price swap obligations	1	1	-	-	-	-	-
		116	78	13	11	46	397

*including current portion and interest payments

c) Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Centra is exposed to interest rate risk and commodity price risk associated with the price of natural gas.

i. Interest Rate Risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Centra is exposed to interest rate risk associated with amounts due to the parent company and the purchased gas variance accounts. At March 31, 2010, an increase or decrease of 1% in the interest rate would reduce or increase net income, respectively, by \$0.2 million.

ii. Commodity Price Risk

Centra is exposed to natural gas price risk through its purchase of gas for delivery to customers throughout Manitoba. Centra mitigates natural gas price volatility through its use of derivative instruments restricted to price swaps, call options and cashless collars. Centra does not use derivative contracts for trading or speculative purposes.

Centra has entered into cashless collar contracts until January 2011 to purchase 16 878 000 gigajoules (GJ) of natural gas at a weighted average upper strike price of \$6.64/ GJ and a weighted average lower strike price of \$5.15/ GJ. The weighted

CENTRA GAS MANITOBA INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended March 31, 2010

average forward price of the cashless collars per the Alberta Energy Company Exchange (AECO) at March 31, 2010 is \$4.11/ GJ. Settlement values are recorded in the purchased gas variance account in the month the natural gas is delivered.

Centra has also entered into natural gas price swaps until April 2015 to purchase 292 150 gigajoules of natural gas at a weighted average fixed price of \$6.67/ GJ. The weighted average forward price of the swaps per AECO at March 31, 2010 was \$4.86/ GJ. These contracts are reported as derivatives and carried at fair value on the balance sheet.

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

	2010	2009
	<i>millions of dollars</i>	
Cashless collar contracts	(18)	(64)
Fixed price swap contracts	(1)	-

Fair value is calculated by using the monthly forward AECO price as reported by the Natural Gas Exchange as at March 31, 2010.

A change in fair value of cashless collars due to a 10% increase or decrease in the price of natural gas would increase or decrease the purchased gas variance account by \$7 million. A change in fair value of price swaps due to a 10% increase or decrease in the price of natural gas would have minimal impact on earnings.

NOTE 14 COMMITMENTS AND CONTINGENCIES

Centra has energy purchase commitments of \$149 million (2009 – \$163 million) that relate to future purchases of natural gas (including transportation and storage contracts), the majority of which expire in 2013.

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

CENTRA GAS MANITOBA INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended March 31, 2010

NOTE 15 SHARE CAPITAL

	2010	2009
	<i>millions of dollars</i>	
Share capital		
Authorized		
Unlimited number of common shares		
Issued		
1 505 common shares	121	121
	121	121

NOTE 16 CAPITAL MANAGEMENT

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

NOTE 17 COMPARATIVE FIGURES

Where appropriate, comparative figures for 2009 have been reclassified in order to conform to the presentation adopted in 2010.

