Appendix 20

Credit Rating Agency Reports for MHEB and the Province of Manitoba

Attachment#	Rating Agency	Subject	Publication Date
1.	DBRS	Manitoba Hydro-Electric Board	November 29, 2007
2.	DBRS	Manitoba Hydro-Electric Board	February 12, 2009
3.	DBRS	Manitoba Hydro-Electric Board	November 10, 2010
4.	DBRS	Manitoba Hydro-Electric Board	November 28, 2011
5.	DBRS	Manitoba Hydro-Electric Board	Pending Release
6.	DBRS	Province of Manitoba	December 15, 2008
7.	DBRS	Province of Manitoba	September 25, 2009
8.	DBRS	Province of Manitoba	October 8, 2010
9.	DBRS	Province of Manitoba	August 22, 2011
10.	DBRS	Province of Manitoba	September 4, 2012
11.	Moody’s	Manitoba Hydro-Electric Board	October 22, 2008
12.	Moody’s	Manitoba Hydro-Electric Board	October 15, 2009
13.	Moody’s	Manitoba Hydro-Electric Board	February 8, 2010
14.	Moody’s	Manitoba Hydro-Electric Board	February 7, 2011
15.	Moody’s	Manitoba Hydro-Electric Board	August 15, 2012
16.	Moody’s	Province of Manitoba	November 7, 2008
17.	Moody’s	Province of Manitoba	December 24, 2009
18.	Moody’s	Province of Manitoba	August 10, 2010
19.	Moody’s	Province of Manitoba	July 28, 2011
20.	Moody’s	Province of Manitoba	September 5, 2012
21.	S&P	Manitoba Hydro-Electric Board	November 20, 2008
22.	S&P	Manitoba Hydro-Electric Board	September 14, 2012
23.	S&P	Province of Manitoba	December 19, 2008
24.	S&P	Province of Manitoba	November 10, 2009
25.	S&P	Province of Manitoba	December 13, 2010
26.	S&P	Province of Manitoba	October 24, 2011
27.	S&P	Province of Manitoba	September 14, 2012

Rating Report

Report Date:
November 29, 2007

Previous Report:
November 15, 2005

The Manitoba Hydro-Electric Board

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The Utility

The Manitoba Hydro-Electric Board, a wholly owned Crown corporation of the Province of Manitoba, is a vertically integrated electric utility that provides generation, transmission and distribution of electricity to approximately 517,000 customers throughout the province and natural gas service to approximately 260,000 customers via its subsidiary, Centra Gas. The Utility also exports electricity to over 30 electric utilities through its participation in four wholesale markets in Canada and the mid-western United States. Installed generation mix comprises (1) hydro – 4,992 MW (91%), (2) thermal – 469 MW (9%), (3) diesel – 9 MW (less than 1%). In addition, Manitoba Hydro purchases wind power from the independently owned, 99-MW St. Leon Wind Farm in southwestern Manitoba.

Authorized Commercial Paper Limit:
$500 million

Recent Actions

September 25, 2007
Confirmed

Rating

Debt	Rating	Rating Action	Trend
Short-Term Obligations*	Confirmed	R-1 (middle)	Stable
Long-Term Obligations*	Confirmed	A (high)	Stable

*These obligations are based on the implicit support of the Province of Manitoba and the unconditional guarantee provided by the Province on Manitoba Hydro's third-party debt, and thus reflect the Province's debt ratings.

Rating Update

The ratings of Manitoba Hydro-Electric Board (Manitoba Hydro or the Utility), as listed above, reflect the Province of Manitoba's (the Province) short-term and long-term ratings. (see separate issuer research). Manitoba Hydro's Long-Term Obligations and Short-Term Obligations ratings are a flow through of the Province's ratings based upon: (1) the implicit support of the Province, as Manitoba Hydro is for all its purposes an agent of the Province (see Rating Methodology Update for further detail); and (2) the unconditional guarantee provided by the Province on the majority of its outstanding obligations.

Manitoba Hydro's ratings were confirmed along with the ratings of the Province of Manitoba on September 25, 2007. On October 6, 2006, DBRS upgraded Manitoba Hydro's Short-Term Obligations rating to R-1 (middle) following a change in methodology that resulted in an upgrade to the short-term debt rating of the Province to R-1 (middle) from R-1 (low).

The Province supports Manitoba Hydro by both advancing funds and guaranteeing its new issues. As at March 31, 2007, the Province has provided approximately 92% of the Utility's long-term debt in the form of provincial advances with the same terms and conditions as the Province's external debt. Manitoba Hydro has issued $530 million of long-term debt in its own name with an unconditional guarantee provided by the Province, except $57 million of Manitoba Hydro-Electric Board Bonds that does not benefit from an explicit provincial guarantee. Manitoba Hydro issues short-term debt in its own name for all its short-term cash requirements and does not receive short-term funding from the Province. These short-term notes are guaranteed by the Province. (Continued on page 2.)

Rating Considerations

Strengths

(1) Agent of the Crown with debt securities held or predominantly guaranteed by the Province
(2) Low-cost hydro-based generation with substantial storage capacity
(3) Supportive regulatory framework
(4) Interconnections with the United States, Saskatchewan and Ontario provide access to favourable export market

Challenges

(1) Hydrology risk
(2) Significantly high debt levels
(3) Heightened capital expenditure profile
(4) Export revenues are sensitive to fluctuations in exchange rates
(5) One Northern Flood Agreement (NFA) First Nation Claim has not been settled

Financial Information

	For the year ended March 31				
	2007	2006	2005	2004	2003
EBITDA interest coverage (times)	1.83	2.41	1.85	0.65	1.63
% debt in capital structure (1)	82.7%	83.7%	88.5%	90.2%	84.6%
Cash flow/total debt (times)	6.7%	11.1%	6.7%	(2.1%)	5.5%
Cash flow/capital expenditures (times)	0.70	1.49	0.89	(0.28)	0.73
Net income ($ millions)	122	415	136	(436)	71
Operating cash flow ($ millions)	454	737	447	(140)	352

(1) Net of sinking fund assets

Rating Update (Continued from page 1.)

The Utility's credit profile is also supported by the low-cost hydro-based generation, reasonable regulatory regime, and its vast interconnections (56% of installed capacity) that provide access to favourable export markets. Hydrology continues to be the primary risk factor affecting credit metrics, with some mitigation provided by the geographic diversification of the watersheds and import capacity.

Manitoba Hydro's operating income and cash flows from operations, though volatile, have been reasonable since F2004 largely due to healthy hydrological conditions. The increases in domestic electricity rates and favourable export market conditions also contributed positively to the operating results during this period. Amid strong cash flows from operations, the Utility, for the most part, continues to generate free cash flow deficits largely as a result of substantial capital investments.

Manitoba Hydro's leverage continues to remain one of the highest among government-owned integrated utilities in Canada. The ongoing heightened capital expenditure program is expected to continue to produce free cash flow deficits which will be primarily funded by debt and sinking fund withdrawals in the medium term. Although debt outstanding will increase over the medium term, leverage could improve modestly from current levels due to increased retained earnings.

In August 2007, Manitoba Hydro applied to the Manitoba Public Utilities Board (the PUB) for an electricity rate increase of 2.9% effective April 1, 2008, to improve its financial profile and reduce reliance on debt financing to fund capital projects.

Manitoba's first wind farm reached full commercial operation in 2006 with Manitoba Hydro having contracted for the power under a 25-year Power Purchase Agreement. The Company has issued a Request for Proposals to add an additional 300 MW of new wind energy to the Manitoba system. In August 2006, site preparation on the 200 megawatt Wuskwatim Generating Station began. The potential new hydro-based generation facilities, Conawapa and Keeyask, are still very much in the planning stages.

In October 2006, Manitoba Hydro signed an agreement with Xcel Energy's Northern States Power Minnesota (NSP, rated A (low) by DBRS) to provide over $2.2 billion in hydropower over ten years, starting in 2015. The ten-year agreement would provide for the sale of 375 MW of electricity to NSP starting in 2015 with the opportunity to increase to 500 MW in 2021. The proposed sale must be approved by the Minnesota Public Utilities Commission and the National Energy Board of Canada.

Looking ahead, DBRS believes that Manitoba Hydro will continue to generate reasonable levels of EBIT and cash flow from operations, with the potential for significant volatility resulting from hydrological and export market conditions. A heightened capital expenditure profile is expected to continue to pressure balance sheet and credit metrics.

Rating Considerations Details

Strengths

(1) Manitoba Hydro is an agent of the Crown and its debt securities are almost entirely held or guaranteed by the Province. Therefore, the ratings assigned to Manitoba Hydro's obligations are a flow through of the ratings of the Province.

(2) Low-cost hydroelectric-based generating capacity accounts for approximately 91% of installed capacity and results in one of the lowest variable cost structures in North America. The low-cost power generation has enabled Manitoba Hydro to provide electricity to its domestic customers at one of the lowest rates in the continent. This gives the Utility the flexibility to increase rates in the future, especially in light of the substantially heightened future capital expenditure requirements to replace aging infrastructure and develop new generation facilities. Further, given the water storage capacity of its hydroelectric-based generating facilities, Manitoba Hydro has the ability to trade power, buying low-cost power during off-peak hours and

selling its own power during peak periods at higher rates. Some geographic diversification of drainage basins somewhat reduces fluctuations in water flows and water levels.

(3) The regulatory environment in Manitoba is supportive. The PUB has been supportive of Manitoba Hydro's rate increase applications and its financial targets. Even though Manitoba Hydro does not benefit from an automatic pass-through of costs, this is mitigated by its low-cost hydroelectric-based generating capacity and the PUB's demonstrated track record of approving rate increases during drought conditions.

(4) Manitoba Hydro's interconnections (approximately 56% of installed capacity), with 2,250 MW to the United States, 550 MW to Saskatchewan and 300 MW to Ontario provide the Utility with access to favourable export markets. The interconnections also provide a secure supply of electricity for its domestic customers during times of poor hydrology.

Challenges

(1) Given that approximately 91% of Manitoba Hydro's installed generating capacity is hydroelectricity-based, earnings and cash flows are highly sensitive to hydrological conditions. The hydrology risk is somewhat mitigated by the geographic diversification of the watersheds and import capacity. The two thermal generating stations with a total capacity of 469 MW (Brandon, Selkirk) and the new 99-MW St. Leon wind farm provide a small amount of diversity to the generation mix. Given that 50% of Manitoba Hydro's exports are under a long-term fixed price/volume basis, during times of poor hydrological conditions such as in F2004, Manitoba Hydro may find itself procuring power supply from import markets to honour its export commitments under the fixed price/volume contract. This exposes Manitoba Hydro to significant price and volume risk. However Manitoba Hydro employs the following strategies to mitigate these impacts:

- Manitoba Hydro sells long-term forward contracts into the export markets based on its historically lowest water flow conditions. Any excess power after accounting for the long-term forward contract sales are sold into the spot market.

- The three primary advantages of long-term forward contracts are: (1) forward prices tend to be higher than spot market prices; (2) long-term large volume power contracts with other utilities provide an incentive for these utilities to build/expand transmission infrastructure in their respective jurisdictions to be able to import power, thus providing Manitoba Hydro with an expanded access to export/import markets; and (3) large long-term forward contracts also provide incentive to Manitoba Hydro to expedite the construction of new generating facilities, thus mitigating the price and volume risk.

- Manitoba is currently in the process of constructing the 200-MW Wuskwatim Generating Station and is contemplating the construction of two major hydro generation facilities. Over the long-term, once these facilities have been completed, Manitoba Hydro will be significantly long on power, this mitigating the long-term price and volume risk even further.

- Finally, Manitoba Hydro can file for a rate increase through a rate application to the PUB as it did in F2004.

(2) Manitoba Hydro's leverage remains one of the highest among government-owned integrated utilities in Canada, limiting financial flexibility.

(3) Manitoba Hydro's aging infrastructure and generating fleet and the development of new hydraulic generating stations will require significant capital investment over the next several years. DBRS expects the heightened future capital expenditures to pressure the already high debt levels.

(4) The income statement and balance sheet are sensitive to changes in the U.S. dollar/Canadian dollar exchange rate since approximately 39% of the Utility's outstanding debt and 31% of revenues (at March 31, 2007) are denominated in U.S. dollars. While U.S. dollar-denominated debt servicing costs are fully hedged by export revenues, the net U.S. dollar surplus is sensitive to changes in the exchange rate, especially in light of the fact that the Canadian dollar has increased considerably over the past few years. Therefore, the increased Canadian dollar restricts the rise in export revenue expressed in Canadian dollars.

(5) Four out of five First Nation claims related to the NFA have been settled, however, one NFA First Nation claim (Cross Lake) has not. The NFA provided for compensation and remedial measures necessary to ameliorate the impacts of the Churchill River diversion and Lake Winnipeg regulation projects. Manitoba Hydro continues to address the adverse effects of its northern hydroelectric developments on five First Nation communities. Expenditures to mitigate the Churchill River diversion and the Lake Winnipeg regulation projects amounted to $17 million in F2007, with $616 million having been spent since 1977. In recognition of future anticipated mitigation payments, the Corporation has recorded a liability of $132 million.

Rating Methodology Update

Manitoba Hydro is, for all intents and purposes, an agent of the provincial government and its powers may be exercised only as an agent of the government. When rating the financial obligations of agents of the federal or provincial governments, DBRS generally flows through the rating of the parent government if: (1) the status of the agent is explicitly provided to the organization through legislation or regulation; (2) the agent is empowered to borrow in its constituting Act; and (3) there is no provision in the constituting Act or the terms of the debt precluding the applicability of the agent status to borrowing activities. As these three criteria apply to Manitoba Hydro, the Province of Manitoba's ratings will flow through to the Utility.

In addition, provincial support for the Utility is reflected in the fact that it has advanced approximately 92% of the Utility's long-term debt ($6,640 million) and has provided unconditional guarantee for the rest of the long-term debt ($530 million), the exception being the $57 million Manitoba Hydro-Electric Board Bonds issued for mitigation projects (as part of the Northern Flood Agreement) that do not benefit from the provincial guarantee.

Regulation

Manitoba Hydro is governed by the *Manitoba Hydro Act* and its electricity and natural gas rates are regulated by the Manitoba PUB.

Electricity

- Each year, Manitoba Hydro reviews its financial targets with particular focus on achieving a target capital structure of 75%/25% by 2012. If it deems a need for a rate adjustment to meet its financial targets, it submits a rate application to the PUB.
- The PUB reviews the rate adjustment application with the objective of allowing Manitoba Hydro to recover its cost of service and achieve its long-term debt/equity target of 75%/25%.
- The PUB does not have the mandate to pre-approve capital expenditures. The capital expenditure planning responsibility resides with Manitoba Hydro and the government of Manitoba.
- Manitoba Hydro requested and was granted a 2.25% rate increase across all customer classes effective March 1, 2007. The rate increase was approved by the PUB on an interim basis and is subject to confirmation at a rate hearing to be conducted during 2007-2008. In its interim decision, the PUB noted that Manitoba Hydro has yet to reach the long established debt/equity target of 75%/25% and that it is prudent for the long-term public interest to provide further assurance that the target will be reached, and within a reasonable period of time.
- The PUB has historically been supportive of Manitoba Hydro's rate applications and its long-term debt/equity target of 75%/25%.
  - In 2005, the PUB granted the first of the two conditional rate increases of 2.25% (a 5% increase was granted and implemented in 2004 due to poor hydrological conditions). Manitoba Hydro declined to pursue the second conditional increase citing improved operating results related to increased net export revenue. Subsequently, Manitoba Hydro filed for a rate increase, but later withdrew the application in light of improved financial outlook for F2006.
- In August 2007, Manitoba Hydro applied to the PUB for an electricity rate increase of 2.9% effective April 1, 2008. Manitoba Hydro has stated that it needs additional revenues in order to meet its financial targets to improve the financial profile and to reduce the requirement to borrow funds to meet its capital needs.
- While Manitoba Hydro is the sole retail electricity supplier in Manitoba, under the *Manitoba Hydro Act* (amended in 1997), other utilities may access the transmission system to reach other customers in

neighbouring provinces and states. The amended Act also explicitly allows Manitoba Hydro to build new generating capacity for export sales, to offer new energy-related services, to enter into strategic alliances and joint ventures, and to create subsidiaries.

- There are presently no plans to move to full retail competition in the province. Manitoba retail customers currently enjoy rates that are among the lowest in North America because of Manitoba Hydro's predominantly hydroelectric generation, generally profitable exports and efficient resource management.
- Effective April 1, 2005, a new centrally operated electricity market for the U.S. Midwest region (from parts of North Dakota down through Minnesota, Wisconsin and Illinois through to Kentucky) began operating.
  - This centrally operated market, the Midwest Independent System Operator, operates much like a typical power pool, with utilities transacting directly with the exchange rather than with one another.
  - Currently, more than 80% of Manitoba Hydro's export sales are into this region.
  - In conjunction with the Utility's successful energy saving under Power Smart, more power will be available for these higher-margin export sales.

Natural Gas Distribution

- Manitoba Hydro distributes natural gas through its wholly owned subsidiary, Centra Gas.
- In accordance with the rate setting methodology for natural gas, commodity rates are changed every quarter based on 12-month forward natural gas market prices. Commodity cost of gas is a pass-through with no mark-up to customers.
- Non-commodity costs such as transportation, distribution and operating and general expenses related to the natural gas business are passed on as well. The PUB allows Centra Gas to make an annual profit of $3 million, which is a fairly modest amount compared to Manitoba Hydro's consolidated earnings.
- In addition, the PUB allows Manitoba Hydro to collect $12 million/year through rates to meet its debt servicing and acquisition costs related to its 1999 purchase of Centra Gas from Westcoast Energy.
- Licensed natural gas retailers offer consumers a fixed-price alternative to Centra Gas' quarterly cost-based commodity billings. The PUB licenses all retailers, but their prices are unregulated and market driven.

Earnings and Outlook

	For the year ended March 31				
($ millions)	2007	2006	2005	2004	2003
Net electricity revenues (1)	1,413	1,702	1,374	753	1,209
Net gas revenues	129	120	125	119	123
Total net revenues	1,558	1,839	1,514	890	1,348
EBITDA	921	1,205	907	320	841
EBIT	589	883	596	24	560
Gross interest expense	504	501	491	495	516
Net interest expense (2)	435	435	432	417	405
Net income	122	415	136	(436)	71
Return on average equity	9.1%	38.5%	17.0%	(45.8%)	5.7%

(1) Net electricity revenues are gross revenues less cost of purchased power. Net gas revenues are gross revenues less cost of gas.

(2) Adjusted for investment income and interest allocated to construction.

Summary

- Earnings as measured by EBIT have been robust since F2004 largely due to healthy hydrological conditions. The increases in domestic electricity rates and favourable export market conditions also contributed positively to the operating results during this period.
  - Growth in electric sales volumes, which is driven by general economic conditions, number of customers and weather, also modestly contributed to the strong EBIT.
  - Earnings volatility has been primarily due to varying levels of hydrology.
- F2004 was Manitoba Hydro's second-worst drought since the 1940s, and as a result, the Utility sustained a net loss of $436 million, the largest loss by far in the its history. Previously, the greatest loss experienced by Manitoba Hydro was in F1989 during another drought when it recorded a net loss of $26 million. Manitoba Hydro expects the drought conditions to typically occur every ten years or so and retains sufficient earnings to accommodate the financial impact.

The Manitoba Hydro-Electric Board

Report Date:
November 29, 2007

Outlook

- Manitoba Hydro is expected to record improved EBIT for F2008, primarily due to above-average hydrological conditions across the Utility's watersheds. The Company has projected the net income to be over $250 million for F2008.
- Manitoba Hydro's purchasing power cost profile is expected to increase with its increased appetite for procuring wind power. However, wind power is expected to comprise only a small fraction of Manitoba Hydro's generation mix.
- Factors that will continue to affect EBIT stability over the longer term include:
  - Hydrological levels at the Utility's watersheds
  - Demand for power in Manitoba Hydro's export markets and the prevailing exchange rates
  - Domestic rate increases
  - Domestic load growth

Financial Profile

	For the year ended March 31				
Statement of Cash Flow ($ Millions)	2007	2006	2005	2004	2003
Net Income (before extras.)	122	415	136	(436)	71
Depreciation & amortization	332	322	311	296	281
Other non-cash adjustments	-	-	-	-	-
Cash Flow From Operations	454	737	447	(140)	352
Capital expenditures (net of contrib.)	(645)	(496)	(505)	(498)	(484)
Dividends	-	-	-	(3)	(200)
Cash Flow Before W/C Changes	(191)	241	(58)	(641)	(332)
Changes in working capital	(11)	(27)	(14)	13	80
Net Free Cash Flow	(202)	214	(72)	(628)	(252)
Acq./divest./sinking fund pmt./other inv.	(143)	(181)	(161)	(152)	(145)
Cash flow before financing	(345)	33	(233)	(780)	(397)
Sinking fund withdrawals	-	84	236	269	644
Net change in long-term debt	240	11	-	487	(231)
Other financing	(13)	(18)	-	-	-
Net change in cash flows	(118)	110	3	(24)	16
Key Financial Ratios					
EBITDA interest coverage (times)	1.83	2.41	1.85	0.65	1.63
% debt in capital structure (1)	82.7%	83.7%	88.5%	90.2%	84.6%
Cash flow/total debt (times)	6.7%	11.1%	6.7%	-2.1%	5.5%
(1) Net of sinking fund assets					
Capital Structure					
Short-term debt	553	118	215	369	471
Long-term debt	6,822	7,051	7,048	7,114	6,925
LESS: sinking funds	630	555	562	715	948
Total Debt	6,745	6,614	6,701	6,768	6,448
Equity	1,407	1,285	870	734	1,170
Total Capital	8,152	7,899	7,571	7,502	7,618

Summary

- Cash flows from operations, though volatile, have been reasonable since F2004.
- Amid stronger cash flows from operations, Manitoba Hydro, for the most part, continues to generate free cash flow deficits largely as a result of substantial capital expenditures.
  - Manitoba Hydro's capital expenditures in recent years have largely focussed on: (1) generation system upgrades; (2) the development of new generation facilities, specifically Wuskwatim, Conawapa and Keeyask generating stations; (3) upgrades and additions to improve the reliability of Manitoba Hydro's aging transmission and distribution infrastructure; and (4) the construction of a new head office.
- Cash flow deficits have been funded with debt and sinking fund withdrawals.

- While the debt-to-capital ratio has improved slightly to 82.7% in F2007 from 84.6% in F2003 primarily due to increased retained earnings, Manitoba Hydro's leverage still remains one of the highest among government-owned integrated utilities in Canada.
  – Manitoba Hydro increased its equity from F2004 levels through retained earnings as no dividend has been declared since F2005. The Utility has no formal dividend policy; hence there are no mandatory dividend payment requirements. The F2003 dividend was a special dividend payment based upon the superior export revenues during that period.

Outlook

- Capital expenditures are expected to remain at significantly heightened levels over the medium term as Manitoba Hydro continues to upgrade and improve the reliability of its aging infrastructure and the generation fleet, and invest in the development of new hydraulic generating stations. Major current and future capital projects include the following:
  – The development of the 200-MW Wuskwatim Generating Station.
  – Refurbishment/rebuilding of the Pointe du Bois Station.
  – A new north-south HVDC transmission line from the northern Nelson River generating stations to the primary southern markets.
  – Construction of Manitoba Hydro's new head office.
  – The development of future generating projects, including the Conawapa and Keeyask hydraulic generating stations.
- The ongoing heightened capital expenditure program is expected to continue to produce free cash flow deficits which will be primarily funded by debt and sinking fund withdrawals in the medium term. Although debt outstanding will increase over the medium term, leverage could improve modestly from current levels due to increased retained earnings.

Long-Term Debt Maturities and Bank Lines

As at March 31, 2007 ($ millions)	2008	2009	2010	2011	2012	Thereafter	Total
Debt retirement	405	284	471	4	15	6,048	7,227

Summary

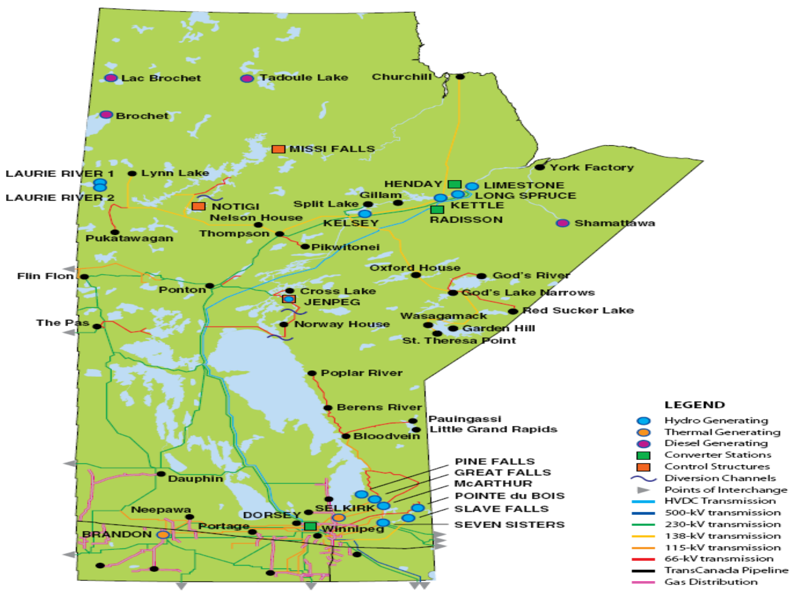
- The Province supports Manitoba Hydro by advancing funds and guaranteeing the Utility's long-term debt issues.
- Long-term debt, net of sinking funds, at March 31, 2007, consisted of the following:
  – $6,640 million in advances from the Province (all of which have annual sinking fund requirements).
  – $386 million Manitoba Hydro Bonds.
  – $201 million Manitoba Hydro-Electric Board Bonds.
  – $2,804 or 39% of all obligations are denominated in U.S. dollars.
- Maturities to 2010 are relatively substantial, but are expected to be refinanced.
- The Utility has bank credit facilities that provide for overdrafts and promissory notes up to $500 million denominated in Canadian and/or U.S. dollars.
- Manitoba Hydro is authorized to issue up to $500 million in short-term debt in its own name for all its short-term cash requirements and does not receive short-term funding from the Province. These short-term notes are guaranteed by the Province of Manitoba.

The Watershed Storage Capacity

Manitoba Hydro draws water from four distinct watersheds which provide the utility with some geographic diversification, especially during times of low hydrology.

- Nelson River
- Winnipeg River
- Saskatchewan River
- Laurie River

The main water source is the Nelson River, which accounted for approximately 77% of power generated in F2007.



Source: Manitoba Hydro.

SOURCE OF ELECTRICAL ENERGY GENERATED AND IMPORTED
For the year ended March 31, 2007

Nelson River	**77.27%**	**Saskatchewan River**	**6.53%**
Billion kWh generated	**26.3**	**Billion kWh generated**	**2.2**
Limestone	25.43%	Grand Rapids	6.53%
Kettle	24.04%		
Long Spruce	20.06%	**Laurie River**	**0.15%**
Kelsey	4.87%	Laurie River #1	0.06%
Jenpeg	2.88%	Laurie River #2	0.09%
Winnipeg River	**8.84%**	**Thermal & Imports**	**1.53%**
Billion kWh generated	**3.0**	*Thermal*	
Seven Sisters	2.33%	**Billion kWh generated**	**0.5**
Great Falls	2.01%	Brandon	1.45%
Pine Falls	1.37%	Selkirk	0.08%
Pointe du Bois	1.23%	*Imports (Scheduled)*	**5.68%**
Slave Falls	1.04%	**Billion kWh imported**	**1.9**
McArthur	0.86%	Imports	5.68%

Source: Manitoba Hydro.

Favourable characteristics inherent in Manitoba Hydro's watersheds include the following:

- Cold temperatures reduce overall evaporation rates, as much of the water is frozen for up to five months a year.
- A significant portion of the watersheds consist of rock, which has lower seepage rates and higher runoff than predominately soil-covered watersheds.
- Lake Winnipeg, Cedar Lake and South Indian Lake serve as large storage reservoirs. The Utility's water storage capacity is a competitive advantage in trading electricity (buying surplus U.S. power at low off-peak prices, and selling its electricity during peak demand periods at higher prices).

Manitoba Hydro's Generating Capacity

Manitoba Hydro owns and operates an aggregate generating capacity of 5,470 MW and is counterparty to an additional 99 MW of contracted wind capacity.

Station	Location	Number of units	Net capability (MW)
Hydroelectric			
Seven Sisters	Winnipeg River	6	165
Great Falls	Winnipeg River	6	132
Pine Falls	Winnipeg River	6	89
McArthur Falls	Winnipeg River	8	55
Pointe du Bois	Winnipeg River	16	74
Slave Falls	Winnipeg River	8	67
Grand Rapids	Saskatchewan River	4	479
Limestone	Nelson River	10	1,340
Kettle	Nelson River	12	1,220
Long Spruce	Nelson River	10	1,010
Kelsey	Nelson River	7	223
Jenpeg	Nelson River	6	128
Laurie River (2)	Laurie River	3	10
Total Hydroelectric Generation		102	4,992
Thermal			
Brandon (coal: 95 MW, gas: 252 MW)		3	343
Selkirk (gas)		2	126
Total Thermal Generation		5	469
Isolated Diesel Capabilities			
Brochet		4	3
Lac Brochet		5	2
Shamattawa		6	3
Tadoule Lake		4	1
Total Isolated Diesel Generation		19	9
Total Generation Capacity			5,470

Source: Manitoba Hydro.

The Province of Manitoba

(Excerpts from DBRS rating report dated October 12, 2007 and press release dated September 25, 2007)

On September 25, 2007, DBRS confirmed the long-term and short-term debt ratings of the Province of Manitoba at A (high) and R-1 (middle), respectively, with Stable trends. The credit profile of the Province of Manitoba (Manitoba or the Province) continues to slowly improve, aided by sound fiscal results, a declining tax burden and a steadily falling debt-to-GDP ratio.

Results in 2006-2007 were better than budgeted, resulting in a $185 million DBRS-adjusted surplus, largely due to own-source revenues that were modestly stronger than planned and lower-than-expected capital spending. Debt growth was modest at 2.8%, aided by the sound fiscal results and continued contributions to the Debt Retirement Fund. Solid economic growth reduced the debt-to-GDP ratio by more than one percentage point to 31.0%.

Manitoba's DBRS-adjusted balance is expected to return to a deficit position of $301 million in 2007-2008, on account of a solid increase in expenditures for capital and health care. While the Province continues to reduce the tax burden, with a number of personal and corporate tax measures announced in the 2007-2008 budget, revenue growth will be strong due to projections for sound economic growth and a solid increase in federal transfers. Capital spending will keep nominal debt growing, but the pace will be modest, aided by budget allocations to the debt retirement fund. The debt-to-GDP ratio is forecast to fall to 30.4%, the lowest level in at least 20 years.

Looking forward, the Province is expected to continue to face significant spending pressures for health care, infrastructure and education, like most other provinces. However, Manitoba's healthy economic fundamentals and solid fiscal management should, in DBRS's opinion, keep fiscal results on a sound path, while the plan to eliminate general purpose debt and unfunded pension liabilities in about 30 years will help to maintain the downward trend in the debt-to-GDP ratio. This could lead to a positive rating action at the next review, depending on the pace of the decline and the maintenance of sound fiscal results.

The Manitoba Hydro-Electric Board

Report Date:
November 29, 2007

The Manitoba Hydro-Electric Board

Balance Sheet ($ millions)	As at March 31				As at March 31		
Assets	2007	2006	2005	**Liabilities & Equity**	2007	2006	2005
Cash & equivalents	1	119	9	Short-term debt	148	0	59
Accounts receivable	426	421	409	L.t. debt due one yr.	405	118	156
Inv. + Accrued + prepaid	127	165	90	A/P & accrued	432	423	362
Current Assets	554	705	508	**Current Liabilities**	985	541	577
Net fixed assets	8,415	8,010	7,776	Long-term debt*	6,822	7,051	7,048
Deferred charges + Goodwill	565	493	491	Def'd & other liab.	752	702	593
Pension assets	800	719	615	Pension obligation	663	606	568
Sinking funds	630	555	562	Equity	1,742	1,582	1,166
Total	10,964	10,482	9,952	**Total**	10,964	10,482	9,952

* Long-term debt includes sinking fund asset.

Ratio Analysis	For the year ended March 31				
Liquidity Ratios	2007	2006	2005	2004	2003
Current ratio	0.56	1.30	0.88	0.64	0.60
Acc. dep./gross fixed assets	31.8%	31.3%	30.7%	30.1%	29.4%
Cash flow/total debt (1)	6.7%	11.1%	6.7%	(2.1%)	5.5%
Cash flow/capital expenditures (2)	0.70	1.49	0.89	(0.28)	0.73
% debt in the capital structure (1)	82.7%	83.7%	88.5%	90.2%	84.6%
Debt/EBITDA	7.3	5.5	7.4	21.2	7.7
Avg. coupon on long-term debt	7.2%	7.2%	7.7%	7.6%	7.6%
Coverage Ratios (3)					
EBIT interest coverage	1.17	1.76	1.21	0.05	1.09
EBITDA interest coverage	1.83	2.41	1.85	0.65	1.63
Fixed-charges coverage	1.17	1.76	1.21	0.05	1.09
Earnings Quality/Operating Efficiency					
Power purchases/revenues	11.5%	5.6%	7.3%	36.7%	8.7%
Fuel costs/revenues	1.3%	0.8%	1.0%	3.8%	1.5%
Operating margin	31.6%	43.6%	34.8%	(1.4%)	32.2%
Net margin (before extras.)	6.9%	21.3%	8.3%	(31.0%)	4.8%
Return on avg. equity (before extras.)	9.1%	38.5%	17.0%	(45.8%)	5.7%
Profit returned to government	68.1%	39.9%	65.3%	(97.7%)	141.1%
Customers/employee	93	92	92	93	93
Growth in customer base	1.4%	0.8%	0.8%	0.8%	22.7%
GWh sold/employee	5.4	6.1	5.3	4.4	5.3
Self Generation - Cost Structure (4)					
OM&A	1.23	1.03	1.18	1.80	1.14
Fuel	0.07	0.04	0.05	0.28	0.08
Variable costs	1.31	1.07	1.23	2.07	1.22
Government levies	0.83	0.76	0.83	1.11	0.85
Net interest expense	1.51	1.29	1.50	2.35	1.51
Total cash costs	3.64	3.12	3.56	5.53	3.59
Non-cash financial charges	(0.12)	(0.09)	(0.10)	(0.18)	(0.09)
Depreciation	1.06	0.88	1.01	1.54	0.98
Total costs	4.58	3.91	4.47	6.89	4.48

(1) Sinking fund assets netted from debt obligations.
(2) Capital expenditures are net of customer contributions.
(3) Before capitalized interest, AFUDC, and debt amortizations.
(4) Internally generated energy less energy used and lost - excludes power purchases.

The Manitoba Hydro-Electric Board

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Income Statement	For the year ended March 31				
($ millions)	2007	2006	2005	2004	2003
Residential	410	387	386	368	354
Commercial/industrial	614	597	553	550	501
Winnipeg Hydro	0	0	0	0	20
Subtotal domestic	1,024	984	939	918	875
Exports - U.S.	507	654	476	297	379
Exports - inter-provincial	85	173	78	54	84
Subtotal exports	592	827	554	351	463
Total electricity revenues	1,616	1,811	1,493	1,269	1,338
Other revenues	16	17	15	18	16
Net gas revenues	129	120	125	119	123
Total revenues	1,761	1,948	1,633	1,406	1,477
Expenses:					
Operating & administration	386	375	363	346	326
Power purchases	203	109	119	516	129
Fuel costs	23	16	16	53	22
Depreciation	332	322	311	296	281
Water rentals & assessments	112	131	111	71	103
Government guarantee fee	71	68	70	70	74
Capital and other taxes	77	77	75	73	66
Total operating costs	1,204	1,098	1,065	1,425	1,001
Operating income	557	850	568	(19)	476
Gross interest expense	504	501	491	495	516
Non-cash financial charges	(37)	(33)	(31)	(35)	(27)
Other (income)/expense	(32)	(33)	(28)	(43)	(84)
Net interest expenses	435	435	432	417	405
Pre-tax income	122	415	136	(436)	71

The Manitoba Hydro-Electric Board

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Operating Statistics		For the year ended March 31				
Electricity Sold (millions kWh)		2007	2006	2005	2004	2003
Residential		6,539	6,266	6,370	6,266	6,135
Commercial/industrial		13,972	13,669	13,365	13,014	12,143
Winnipeg Hydro (net transfer)		0	0	0	0	629
Direct customers		45	42	46	43	46
Total Manitoba		20,555	19,976	19,781	19,323	18,953
Export sales - domestic (scheduled)		547	1,519	1,484	1,129	1,892
Export sales - U.S. (scheduled)		9,099	12,320	8,022	3,266	7,571
Total exports		9,646	13,839	9,506	4,395	9,463
Total electricity sales for billing purposes		30,201	33,815	29,287	23,718	28,416
Energy sales growth		(10.7%)	15.5%	23.5%	(16.5%)	(2.2%)
Generation Capacity						
Winnipeg Hydro	0.0%	0	0	0	0	0
Hydroelectricity	91.2%	4,992	5,001	4,999	4,998	4,998
Gas/Coal	8.6%	469	468	471	473	466
Oil	0.2%	10	10	10	10	10
Other		0	0	0		
Total installed capacity (MW)		5,471	5,479	5,480	5,481	5,474
Energy Generated (millions kWh)						
Hydroelectric		31,610	37,218	31,128	18,484	28,567
Thermal (oil, gas, & coal)		522	401	414	853	601
Gross energy generated		32,132	37,619	31,542	19,337	29,168
Electricity imports		1,778	249	1,220	7,073	3,043
Energy generated & purchased		33,910	37,868	32,762	26,410	32,211
Less: transmission losses & internal use (1)		845	1,219	751	108	705
Total system demand		33,065	36,650	32,011	26,302	31,506
(Energy lost + used)/(energy gen. + purch.)		2.5%	3.2%	2.3%	0.4%	2.2%
Peak demand (MW)		4,173	4,054	4,146	3,959	3,916
Peak demand/installed capacity		76.3%	74.0%	75.7%	72.2%	71.5%
Export Interconnections						
Ontario		300	300	300	263	263
Saskatchewan		550	550	550	550	450
U.S. - MAPP		2,250	2,250	2,250	2,250	2,250
Total (MW)		3,100	3,100	3,100	3,063	2,963
Interconnections as a % of installed capacity		56.6%	56.6%	56.6%	55.9%	54.1%
Gas Deliveries (billions of cubic feet)						
Residential		21.9	20.4	24.0	23.1	25.2
Commercial/industrial		29.8	28.3	32.4	31.5	34.6
Transportation		20.9	21.1	19.7	20.4	22.6
Total		72.6	69.9	76.1	74.9	82.4
Gas Deliveries (millions of cubic metres)		620.0	579.0	681.0	653.0	714.0
Residential		844.0	803.0	917.0	893.0	980.0
Commercial/industrial		592.0	598.0	559.0	577.0	640.0
Transportation		2,056.0	1,980.0	2,157.0	2,123.0	2,334.0

The Manitoba Hydro-Electric Board

Report Date:
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Rating

Debt	Rating	Rating Action	Trend
Short-Term Obligations	Confirmed	R-1 (middle)	Stable
Long-Term Obligations	Confirmed	A (high)	Stable

Rating History

	Current	2006	2005	2004	2003	2002
Short-Term Obligations	R-1 (middle)	R-1 (middle)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)
Long-Term Obligations	A (high)	A (high)	A (high)	A (high)	A (high)	A

Related Research

- DBRS Confirms the Province of Manitoba at A (high) and R-1 (middle), September 25, 2007.

Note:
All figures are in Canadian dollars unless otherwise noted.

Rating Report

Report Date:
February 12, 2009

Previous Report:
November 29, 2007

Insight beyond the rating.

The Manitoba Hydro-Electric Board

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The Utility

The Manitoba Hydro-Electric Board (the Utility), a wholly owned Crown corporation of the Province of Manitoba, is a vertically integrated electric utility that provides generation, transmission and distribution of electricity to approximately 522,000 customers throughout Manitoba and natural gas service to approximately 261,000 customers via its subsidiary, Centra Gas Manitoba Inc. The Utility also exports electricity to more than 30 electric utilities through its participation in four wholesale markets in Canada and the mid-western United States.

Authorized Commercial Paper Limit

$500 million

Rating

Debt	Rating Action	Rating	Trend
Short-Term Obligations	Confirmed	R-1 (middle)	Stable
Long-Term Obligations	Confirmed	A (high)	Stable

Note: These Obligations are based on the implicit support of the Province of Manitoba and the unconditional guarantee provided by the Province on Manitoba Hydro's third-party debt, and thus reflect the Province's debt ratings.

Rating Update

The ratings of The Manitoba Hydro-Electric Board (Manitoba Hydro or the Utility) reflect the short- and long-term ratings of the Province of Manitoba (the Province; see the DBRS report published December 15, 2008). Manitoba Hydro's Long-Term Obligations and Short-Term Obligations ratings are a flow-through of the Province's ratings based on (1) the implicit support of the Province as Manitoba Hydro is for all purposes an agent of the Province (see Rating Sovereign Governments for further detail) and (2) the unconditional guarantee provided by the Province on the majority of the Utility's outstanding third-party obligations. The Province's Short-Term Debt and Long-Term Debt ratings were confirmed by DBRS on December 15, 2008, at R-1 (middle) and A (high), respectively. The trends on both ratings are Stable.

The Province supports Manitoba Hydro by both advancing funds and guaranteeing its new issues. As at March 31, 2008, the Province has provided approximately 94% of the Utility's long-term debt in the form of provincial advances, with the same terms and conditions as the Province's external debt. Manitoba Hydro has issued $456 million of long-term debt in its own name, with an unconditional guarantee provided by the Province, except $104 million of Manitoba Hydro-Electric Board Bonds, which do not benefit from an explicit provincial guarantee. (Continued on page 2.)

Rating Considerations

Strengths

(1) Agent of the Crown with debt securities held or guaranteed by the Province
(2) Low-cost hydro-based generation with substantial storage capacity
(3) Reasonable regulatory framework
(4) Interconnections with the United States, Saskatchewan and Ontario provide access to favourable export markets

Challenges

(1) Hydrology risk
(2) High debt levels
(3) Heightened capital expenditure profile
(4) Export revenues sensitive to fluctuations in exchange rates
(5) One Northern Flood Agreement (NFA) First Nations claim not yet settled

Financial Information

	For the year ended March 31				
Manitoba Hydro-Electric Board	2008	2007	2006	2005	2004
EBITDA interest coverage (times) (2)	2.47	1.83	2.41	1.85	0.65
% debt in capital structure (1)	79.0%	82.7%	83.7%	88.5%	90.2%
Cash flow/total debt	10.1%	6.7%	11.1%	6.7%	(2.1%)
Cash flow/capital expenditures (times)	0.84	0.70	1.48	0.89	(0.28)
Reported net income ($ millions)	346	122	415	136	(436)
Operating cash flow ($ millions)	695	454	737	447	(140)

(1) Net of sinking fund assets. (2) Before capitalized interest, AFUDC.

The Manitoba Hydro-Electric Board

Report Date:
February 12, 2009

Rating Update (Continued from page 1.)

The Utility's credit profile is further supported by the low-cost hydro-based generation, a constructive regulatory environment and its vast interconnections (56% of installed capacity), which provide access to favourable export markets. Hydrology continues to be the primary risk factor affecting credit metrics, but the risk is somewhat mitigated by the geographic diversification of the watersheds, reservoir storage capacity and import capabilities.

Manitoba Hydro benefited from robust hydrological conditions during the past year, resulting in a measurable improvement in its operating and financial performance indicators. Interim increases in domestic electricity rates and favourable export market conditions also contributed positively to operating results. While operating cash flow increased markedly, the Utility continued to incur cash flow deficits as a result of substantial capital expenditures. In recent years, cash flow deficits have been funded with debt and, in previous years, with sinking fund withdrawals or a combination of both debt and withdrawals. Despite improvement across key credit metrics, Manitoba Hydro's leverage remains one of the highest among government-owned integrated utilities in Canada.

Continued efforts to forge stronger connections within the U.S. market resulted in the signing of two 15-year term sheets with Minnesota Power (MP) and Wisconsin Public Service (WPS), totalling 750 megawatts (MW) in aggregate. The MP term sheet is for 250 MW starting in 2020, with the sale of surplus energy in 2008, while the WPS term sheet is for 500 MW in 2018. DBRS believes the growing demand for clean, renewable sources of energy, such as water power, will continue to economically benefit Manitoba Hydro over the longer term. These term sheets will require the development of both new major hydro generation and transmission facilities, which the Utility is currently undertaking.

Looking forward, DBRS believes that Manitoba Hydro will continue to generate reasonable levels of EBIT and operating cash flows, with the potential for significant volatility resulting from hydrological and export market conditions. The ongoing heightened capital expenditure program is expected to continue to pressure balance sheet and credit metrics. In addition, completing the large hydro generation and transmission projects on time and within budget is key to maintaining a stable financial profile.

Rating Considerations Details

Strengths

(1) Manitoba Hydro is an agent of the Crown and its debt securities are almost entirely held or guaranteed by the Province. Therefore, the ratings assigned to Manitoba Hydro's obligations are a flow-through of the ratings of the Province.

(2) Low-cost hydroelectric-based generating capacity accounts for approximately 91% of installed capacity and results in one of the lowest variable cost structures in North America. The low-cost power generation has enabled Manitoba Hydro to provide electricity to its domestic customers at one of the lowest rates on the continent. This gives the Utility the flexibility to increase rates in the future, especially in light of the substantially heightened future capital expenditure requirements to replace aging infrastructure and develop new generation facilities. Furthermore, given the water storage capacity of its hydroelectric-based generating facilities, Manitoba Hydro has the ability to trade power, buying low-cost power during off-peak hours and selling its own power during peak periods at higher rates. Some geographic diversification of drainage basins somewhat reduces fluctuations in water flows and water levels.

(3) The regulatory environment in Manitoba is constructive. Manitoba's Public Utilities Board (PUB) has been supportive of Manitoba Hydro's rate applications and its financial targets. While Manitoba Hydro does not benefit from an automatic pass-through of costs, this is mitigated by its low-cost hydroelectric-based generating capacity and the PUB's demonstrated track record of approving rate increases during drought conditions.

(4) Manitoba Hydro's interconnections (approximately 56% of installed capacity), with 2,250 MW to the United States, 525 MW to Saskatchewan and 300 MW to Ontario, provide the Utility with access to favourable export markets. The interconnections also provide a secure supply of electricity for its domestic customers during times of poor hydrology.

Challenges

(1) Given that approximately 91% of Manitoba Hydro's installed generating capacity is hydroelectricity-based, earnings and cash flows are highly sensitive to hydrological conditions. The hydrology risk is somewhat mitigated by the geographic diversification of the watersheds, reservoir storage and import capacity. The two thermal generating stations, with a total capacity of 462 MW (Brandon and Selkirk), and the new 99 MW St. Leon wind farm provide a small amount of diversity to the generation mix. Given that 40% of Manitoba Hydro's exports are under a long-term fixed price-to-volume basis, during times of poor hydrological conditions such as in F2004, Manitoba Hydro may find itself procuring power supply from import markets to honour its export commitments under the fixed price-to-volume contract. This exposes Manitoba Hydro to significant price and volume risk. However, Manitoba Hydro employs the following strategies to mitigate these impacts:

- Manitoba Hydro sells long-term forward contracts into the export markets based on its historically lowest water flow conditions. Any excess power, after accounting for the long-term forward contract sales, are sold into the spot market.
- The three primary advantages of long-term forward contracts are (1) forward prices tend to be higher than spot market prices; (2) long-term large volume power contracts with other utilities provide an incentive for these utilities to build and/or expand transmission infrastructure in their respective jurisdictions to be able to import export power, thus providing Manitoba Hydro with an expanded access to export and import markets; and (3) large long-term forward contracts also provide incentive to Manitoba Hydro to expedite the construction of new generating facilities, thus mitigating the price and volume risk.
- Growing its generation base both through upgrades at existing plants (estimated at 122 MW) and new greenfield developments (more than 2,200 MW), the Utility is currently constructing a 200 MW plant and is in the pre-project planning phase for two major hydro generation facilities. Over the longer term, once these projects are completed, Manitoba Hydro will be significantly long on power, thus mitigating long-term price and volume risk even further.
- Manitoba Hydro can file for a rate increase through a rate application to the PUB.

(2) Despite improvement across key credit metrics, Manitoba Hydro's leverage remains one of the highest among government-owned integrated utilities in Canada, limiting its financial flexibility.

(3) The need to refurbish its aging infrastructure, combined with the aggressive development of both new hydro generation and transmission facilities, will require Manitoba Hydro to deploy significant capital into its electricity infrastructure over the next several years. DBRS expects the heightened future capital expenditures to pressure the already high debt levels. The extent of this pressure is largely contingent on hydrology and export market conditions, which, if robust, would limit funding needs.

(4) The Utility's income statement and balance sheet are sensitive to changes in the U.S.-Canadian dollar exchange rate, since approximately 36% of its outstanding debt and 30% of electricity revenues (at March 31, 2008) are denominated in U.S. dollars. While U.S. dollar-denominated debt is fully hedged by export revenues, the net U.S. dollar surplus is sensitive to changes in the exchange rate. As such, a higher Canadian dollar restricts the rise in export revenue expressed in Canadian dollars.

(5) Four out of five First Nations claims related to the NFA have been settled; however, one NFA First Nations claim (Cross Lake) has not. The NFA provided for compensation and remedial measures necessary to ameliorate the impact of the Churchill River diversion and Lake Winnipeg regulation projects. Manitoba Hydro continues to address the adverse effects of its northern hydroelectric developments on five First Nations communities. Expenditures to mitigate the Churchill River diversion and the Lake Winnipeg regulation projects amounted to $37 million in F2008, with $653 million having been spent since 1977. In recognition of future anticipated mitigation payments, the Utility has recorded a liability of $127 million.

Rating Methodology Update

Manitoba Hydro is, for all purposes, an agent of the provincial government and its powers may be exercised only as an agent of the government. When rating the financial obligations of agents of the federal or provincial governments, DBRS generally flows through the rating of the parent government if (1) the status of the agent is explicitly provided to the organization through legislation or regulation; (2) the agent is empowered to borrow in its constituting act; and (3) there is no provision in the constituting act or the terms of the debt precluding the applicability of the agent status to borrowing activities. As these three criteria apply to Manitoba Hydro, the Province of Manitoba's ratings will flow through to the Utility.

In addition, provincial support for the Utility is reflected in the fact that it advanced approximately 94% of the Utility's long-term debt ($7,114 million) and has provided unconditional guarantee for the rest of the long-term debt ($352 million), the exception being the $104 million Manitoba Hydro-Electric Board Bonds issued for mitigation projects (as part of the NFA), which do not benefit from the provincial guarantee.

Regulation

Manitoba Hydro is governed by the *Manitoba Hydro Act* and its electricity and natural gas rates are regulated by the Manitoba PUB.

Electricity

Each year, Manitoba Hydro reviews its financial targets, with particular focus on achieving a debt-to-equity target capital structure of 75%-to-25% by 2012. If it deems a rate adjustment is needed to meet its financial targets, it submits a rate application to the PUB. The PUB reviews the rate adjustment application with the objective of allowing Manitoba Hydro to recover its cost of service and achieve its long-term debt-to-equity target of 75%-to-25%. The PUB does not have the mandate to pre-approve capital expenditures. The capital expenditure planning responsibility resides with Manitoba Hydro and the government of Manitoba.

In July 2008, Manitoba Hydro was granted a 5.0% rate increase across all customer classes. The additional rate relief was required to meet financial targets and to reduce external funding needs for capital projects. The PUB continues to demonstrate support of Manitoba Hydro's rate applications and its long-term debt-to-equity target of 75%-to-25%.

While Manitoba Hydro is the sole retail electricity supplier in Manitoba, under the *Manitoba Hydro Amendment Act of 1997* (the Act), other utilities may access the transmission system to reach customers in neighbouring provinces and states. The Act also explicitly allows Manitoba Hydro to build new generating capacity for export sales, to offer new energy-related services, to enter into strategic alliances and joint ventures and to create subsidiaries.

There are presently no plans to move to full retail competition in the province. Manitoba retail customers currently enjoy rates that are among the lowest in North America because of Manitoba Hydro's predominantly hydroelectric generation, generally profitable exports and efficient resource management. More than 80% of Manitoba Hydro's export sales are through the Midwest Independent Transmission System Operator (MISO), which is a centrally operated electricity market in the U.S. Midwest region (from parts of North Dakota down through Minnesota, Wisconsin and Illinois through to Kentucky). This market operates much like a typical power pool, with utilities transacting directly with the exchange rather than with one another. The energy saved under the Utility's Power Smart program is sold into these higher-margin markets.

Natural Gas Distribution

Manitoba Hydro distributes natural gas through its wholly owned subsidiary, Centra Gas Manitoba Inc. (Centra Gas). In accordance with the rate-setting methodology for natural gas, commodity rates are changed every quarter based on 12-month forward natural gas market prices. The commodity cost of gas is a pass-through with no markup to customers.

Non-commodity costs, such as transportation, distribution and operating and general expenses related to the natural gas business, are passed on as well. The PUB allows Centra Gas to target an annual profit of approximately $3 million, which is fairly modest compared with Manitoba Hydro's consolidated earnings. In addition, the PUB allows Manitoba Hydro to collect $12 million per year through rates to meet its debt servicing and acquisition costs related to its 1999 purchase of Centra Gas from Westcoast Energy Inc.

Licensed natural gas retailers offer consumers a fixed-price alternative to Centra Gas's quarterly cost-based commodity billings. The PUB licenses all retailers, but their prices are unregulated and market driven. In accordance with a recent decision of the PUB, Centra Gas plans to enter the fixed-rate market in February 2009.

Earnings and Outlook

	For the year ended March 31				
(CAD millions)	2008	2007	2006	2005	2004
Net electricity revenues (1)	1,565	1,413	1,702	1,374	753
Net gas revenues	142	129	120	125	119
Total revenues	1,730	1,558	1,839	1,514	890
EBITDA	1,095	921	1,205	907	320
EBIT	746	589	883	596	24
Gross interest expense (2)	444	504	501	491	495
Net interest expense (3)	367	435	435	432	417
Reported net income	346	122	415	136	(436)
Return on average equity	21.4%	9.1%	38.5%	17.0%	(45.8%)

(1) Net electricity revenues are gross revenues less cost of purchased power. Net gas revenues are gross revenues less cost of gas.

(2) Incudes $32 MM F/X gain on U.S. denominated debt. (3) Adjusted for investment income and interest allocated to construction.

Summary

Earnings as measured by EBIT improved measurably in 2008, largely due to stronger hydrological conditions. The increases in domestic electricity rates, lower fuel and power-purchased costs, as well as favourable export market conditions, also contributed positively to the operating results during this period. Despite a stronger Canadian dollar, U.S. extraprovincial revenues increased to $515 million from $507 million in F2007.

With the adoption of new accounting standards in 2007, net income increased by $32 million because financing charges decreased as result of the recognition of foreign exchange gains on U.S. dollar-denominated debt. Earnings volatility has primarily been due to varying levels of hydrology. While hydrology conditions have been reasonable since F2004, Manitoba Hydro expects drought conditions to typically occur every ten years or so and retains sufficient earnings to accommodate the financial impact.

Outlook

Earnings are expected to remain relatively strong over the next fiscal year, primarily due to above-average energy in reservoir storage, increases in domestic electricity rates and favourable prevailing exchange rates. Manitoba Hydro has projected net income to be greater than $314 million for F2009. Factors that will continue to affect EBIT stability over the longer term include the following:

- Hydrological levels at the Utility's watersheds.
- Demand for power in Manitoba Hydro's export markets and the prevailing exchange rates.
- Domestic rate increases.
- Domestic load growth.

The Manitoba Hydro-Electric Board

Report Date:
February 12, 2009

Financial Profile

Statement of Cash Flow (CAD millions)	2008	2007	2006	2005	2004
	For the year ended March 31				
Reported net income	346	122	415	136	(436)
Depreciation & amortization	349	332	322	311	296
Other non-cash adjustments	-	-	-	-	-
Cash Flow From Operations	**695**	**454**	**737**	**447**	**(140)**
Capital expenditures (net of contrib.)	(827)	(645)	(498)	(505)	(498)
Dividends	-	-	-	-	(3)
Cash Flow Before W/C Changes	**(132)**	**(191)**	**239**	**(58)**	**(641)**
Changes in working capital	(65)	(11)	(27)	(14)	13
Net Free Cash Flow	**(197)**	**(202)**	**212**	**(72)**	**(628)**
Acq./divest./sinking fund pmt./other inv.	(158)	(143)	(179)	(161)	(152)
Cash Flow bef. Financing	**(355)**	**(345)**	**33**	**(233)**	**(780)**
Sinking fund withdrawals	0	-	84	236	269
Net change in long-term debt	522	240	11	20	487
Other financing	(35)	(13)	(18)	(20)	-
Net Change in Cash Flow	**132**	**(118)**	**110**	**3**	**(24)**

Key Financial Ratios					
EBITDA interest coverage (times) (2)	2.47	1.83	2.41	1.85	0.65
% debt in capital structure (1)	79.0%	82.7%	83.7%	88.5%	90.2%
Cash flow/total debt	10.1%	6.7%	11.1%	6.7%	(2.1%)

(1) Net of sinking fund assets. (2) Before capitalized interest, AFUDC.

Capital Structure	2008	2007	2006	2005	2004
Short-term debt	353	553	118	215	369
Long-term debt	7,217	6,822	7,051	7,048	7,114
LESS: sinking funds	700	630	555	562	715
Total Debt	**6,870**	**6,745**	**6,614**	**6,701**	**6,768**
Equity	1,822	1,407	1,285	870	734
Total Capital	**8,692**	**8,152**	**7,899**	**7,571**	**7,502**

Summary

Despite stronger operating cash flow, Manitoba Hydro continued to generate free cash flow deficits, largely as a result of substantial capital expenditures. Cash flow deficits are typically funded with debt and sinking fund withdrawls. Increased capital expenditures have been driven primarily by (1) generation system upgrades; (2) the development of new generation facilities, specifically Wuskwatim (200 MW), Conawapa (1,485 MW) and Keeyask (695 MW) generating stations; (3) upgrades and additions to improve the reliability of Manitoba Hydro's aging transmission and distribution infrastructure; and (4) the construction of a new head office.

Growth in retained earnings has more than offset higher debt levels, resulting in continued improvement in the debt-to-capital ratio. However, Manitoba Hydro's leverage still remains one of the highest among government-owned integrated utilities in Canada. With no mandatory dividend payment requirements, the Utility has been able to shore up its balance sheet through retained earnings.

Outlook

Capital expenditures are expected to remain higher over the medium term as Manitoba Hydro continues to upgrade and improve the reliability of its aging electric infrastructure, as well as invest in the development of new hydro generation facilities. The ongoing heightened capital program is expected to result in continued cash flow deficits. The extent of the Utility's funding requirements will largely be dependent on hydrology and export market conditions.

Although debt balances will increase over the medium term, leverage could improve modestly from current levels due to increased retained earnings. In addition, completing large hydro generation and transmission projects on time and within budget is key to maintaining a stable financial profile.

Long-Term Debt Maturities and Bank Lines

Debt Profile (CAD millions)	%	For year ended March 31, 2008	2007
Advances from the Province	94%	7,114	6,640
Manitoba Hydro Bonds	3%	212	386
Manitoba Hydro-Electric Board Bonds*	3%	244	201
Total		7,570	7,227

* $104 million of unguaranteed bonds are part of the $244 million.

Debt Maturities Year	%	(CAD millions)
2009	5%	353
2010	6%	441
2011	4%	296
2012	0%	16
2013	1%	78
Thereafter	84%	6,386
Total		**7,570**

Summary

The Province supports Manitoba Hydro by advancing funds or guaranteeing the Utility's long-term debt issues. Long-term debt, net of sinking funds, at March 31, 2008, consisted of the following:

- $7,114 million in advances from the Province (all of which have annual sinking fund requirements).
- $212 million Manitoba Hydro Bonds.
- $244 Manitoba Hydro-Electric Board Bonds.
- $2,705 or 36% of all obligations are denominated in U.S. dollars.

Manitoba Hydro's maturity schedule is relatively modest and expected to be refinanced. The Utility has bank credit facilities that provide for overdrafts and notes payable up to $500 million denominated in Canadian and/or U.S. dollars. At March 31, 2008, there were no amounts outstanding. Manitoba Hydro issues short-term debt in its own name for all its short-term cash requirements and does not receive short-term funding from the Province. These short-term notes are guaranteed by the Province of Manitoba. The $104 million of Manitoba Hydro-Electric Board Bonds do not carry the provincial guarantee.

The Watershed Storage Capacity

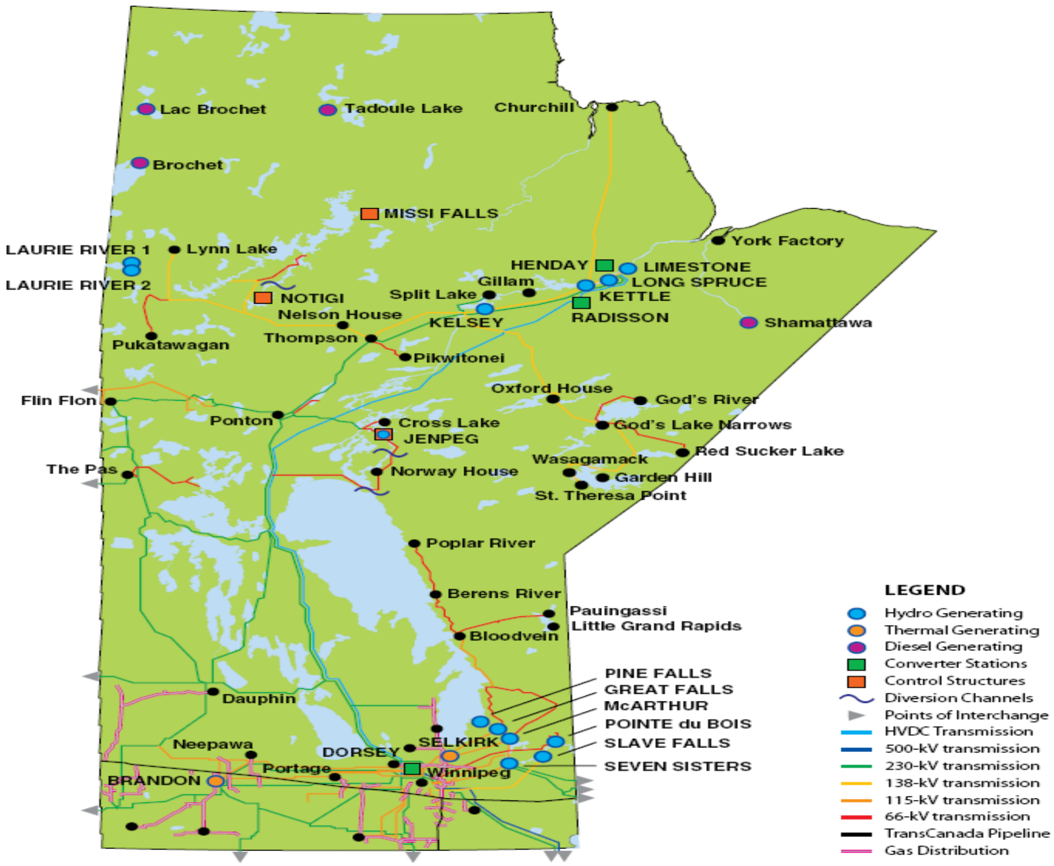
Manitoba Hydro draws water from four distinct watersheds: Nelson River, Winnipeg River, Saskatchewan River and Laurie River. This provides the Utility with some geographic diversification, especially during times of low hydrology. The main generation source is the Nelson River, which accounted for approximately 79% of power generated in F2008.

SOURCE OF ELECTRICAL ENERGY GENERATED AND IMPORTED

For the year ended March 31, 2008

Nelson River	**79%**	**Saskatchewan River**	**6.3%**
Billion kWh generated	**28.3**	**Billion kWh generated**	**2.3**
Limestone	26%	Grand Rapids	6.3%
Kettle	24%		
Long Spruce	20.7%	**Laurie River**	**0.02**
Kelsey	4.6%	**Billion kWh generated**	**0.1**
Jenpeg	3.0%	Laurie River #1	0.1%
		Laurie #2	0.1%
Winnipeg River	**11.8%**		
Billion kWh generated	**4.2**	**Thermal**	**1.3%**
Seven Sisters	3.3%	**Billion kWh Generated**	**0.5**
Great Falls	2.6%	Brandon	1.3%
Pine Falls	1.9%	Selkirk	0.0%
Pointe du Bois	1.5%		
Slave Falls	1.4%	**Imports**	**0.8%**
McArthur	1.2%	**Billion kWh imported**	**0.3**

Source: Manitoba Hydro.



Source: Manitoba Hydro.

Favourable characteristics inherent in Manitoba Hydro's watersheds include the following:

- Cold temperatures reduce overall evaporation rates as much of the water is frozen for up to five months of the year.
- A significant portion of the watersheds consists of rock, which has lower seepage rates and higher runoff than predominately soil-covered watersheds.
- Lake Winnipeg, Cedar Lake and South Indian Lake serve as large storage reservoirs. The Utility's water storage capacity is a competitive advantage in trading electricity (buying surplus U.S. power at low off-peak prices and selling its electricity during peak demand periods at higher prices).

The Manitoba Hydro-Electric Board

Report Date:
February 12, 2009

Manitoba Hydro's Generating Capacity

Manitoba Hydro owns and operates an aggregate generating capacity of 5,475 MW and is counterparty to an additional 99 MW of contracted wind capacity.

Manitoba Hydro's Generating Stations and Capabilities

Power Station	Location	# of units	Net Capacity (MW)
Hydroelectric			
Seven Sisters	Winnipeg River	6	165
Great Falls	Winnipeg River	6	132
Pine Falls	Winnipeg River	6	89
McArthur Falls	Winnipeg River	8	55
Pointe du Bois	Winnipeg River	16	74
Slave Falls	Winnipeg River	8	67
Grand Rapids	Saskatchewan River	4	479
Limestone	Nelson River	10	1,340
Kettle	Nelson River	12	1,220
Long Spruce	Nelson River	10	1,010
Kelsey	Nelson River	7	234
Jenpeg	Nelson River	6	128
Laurie River (2)	Laurie River	3	10
Total Hydroelectric Generation		**102**	**5,003**
Thermal			
Brandon (coal: 95 MW, gas: 241 MW)		3	336
Selkirk (gas)		**2**	**126**
Total Thermal Generation		**5**	**462**
Isolated Diesel Capabilities			
Brochet			3
Lac Brochet			2
Shamattawa			3
Tadoule Lake			2
Total Isolated Diesel Generation			**10**
Total Generation Capacity			**5,475**

Source: Manitoba Hydro.

The Manitoba Hydro-Electric Board

Report Date:
February 12, 2009

The Province of Manitoba

(*Excerpt from DBRS rating report dated December 15, 2008*)

The Province of Manitoba (Manitoba or the Province) has made steady progress over the past five years at reducing its debt burden, generating consistent economic growth and improving financial transparency, although the current economic turmoil introduces a significant amount of uncertainty. DBRS notes that Manitoba is one of the best-positioned provinces within its current rating to weather a significant downturn, with considerable financial flexibility and a track record of above-average economic resilience in recessionary periods. Provided the Province remains fiscally responsible and makes further progress towards containing debt growth, DBRS would likely review its position on the rating once economic conditions stabilize.

Fiscal results were stronger than expected in 2007-08 as the Province posted a DBRS-adjusted deficit of $174 million (including capital expenditures, as incurred, rather than as amortized by the Province). Strong income tax revenues, solid results at Manitoba Hydro and lower-than-expected capital expenditures more than offset small spending increases in other program areas. For 2008-09, the budget points to a DBRS-adjusted deficit of $354 million as health and education spending will continue to offset modest revenue growth.

Manitoba's debt burden continued to steadily improve, down from 31.0% in 2006-07 to 29.3% in 2007-08. While capital spending plans will lead to debt growth in nominal terms, the Province's debt-to-GDP ratio is expected to remain relatively flat in 2008-09, but could face modest upward pressure next year if GDP growth stalls.

In light of rapidly deteriorating economic conditions, the recent private-sector consensus calls for real GDP growth of 2.3% in 2008 followed by 1.4% in 2009. This outlook is noticeably weaker than the 2.7% growth assumed in both years by the Province at the time of the budget, but compares favourably with provincial peers. Furthermore, DBRS notes that the forecast for growth in Manitoba has not been cut as drastically as in other provinces, and that speaks to the resilient and diversified nature of its economy.

The Manitoba Hydro-Electric Board

Report Date:
February 12, 2009

The Manitoba Hydro-Electric Board

Balance Sheet (CAD millions)	As at March 31				As at March 31		
Assets	2008	2007	2006	**Liabilities & Equity**	2008	2007	2006
Cash & equivalents	133	1	119	Short-term debt	0	148	0
Accounts receivable + accrued rev.	465	426	421	L.t. debt due one yr.	353	405	118
Interest receivable & materials	111	127	165	A/P & accrued liab.	443	443	423
Current Assets	**709**	**554**	**705**	**Current Liabilities**	**796**	**996**	**541**
Net fixed assets	8,912	8,378	8,010	Long-term debt	7,217	6,822	7,051
Deferred charges + Goodwill	665	560	493	Def'd & other liab.	613	736	702
Pension assets	781	800	719	Pension obligation	714	663	606
Sinking fund investments	700	630	555	Equity & Other	2,427	1,705	1,582
Total Assets	**11,767**	**10,922**	**10,482**	**Total Equity & Liabilities**	**11,767**	**10,922**	**10,482**

Ratio Analysis	For the year ended March 31				
Liquidity Ratios	2008	2007	2006	2005	2004
Current ratio	0.89	0.56	1.30	0.88	0.64
Total debt in the capital structure (1)	79.0%	82.7%	83.7%	88.5%	90.2%
Cash flow/total debt (1)	10.1%	6.7%	11.1%	6.7%	(2.1%)
Cash flow/capital expenditures (2)	0.84	0.70	1.48	0.89	(0.28)
Debt/EBITDA	6.3	7.3	5.5	7.4	21.2
Coverage Ratios (3)					
EBIT interest coverage	1.68	1.17	1.76	1.21	0.05
EBITDA interest coverage	2.47	1.83	2.41	1.85	0.65
Cash flow interest coverage	2.57	1.90	2.47	1.91	0.72
Earnings Quality/Operating Efficiency					
Puchased power/revenues	7.9%	12.6%	6.0%	8.0%	40.7%
Operating margin	38.3%	31.6%	43.6%	34.8%	(1.4%)
Net margin (before extras.)	18.6%	6.9%	21.3%	8.3%	(31.0%)
Return on avg. equity (before extras.)	21.4%	9.1%	38.5%	17.0%	(45.8%)
Customers/employee	90	93	92	92	93
Growth in electricity customer base	0.9%	1.4%	0.8%	0.8%	0.8%
GWh sold/employee	5.5	5.4	6.1	5.3	4.4

(1) Debt net of sinking fund assets.

(2) Capital expenditures net of customer contributions.

(3) Before capitalized interest, AFUDC

The Manitoba Hydro-Electric Board

Report Date:
February 12, 2009

Rating

Debt	Rating	Rating Action	Trend
Short-Term Obligations	Confirmed	R-1 (middle)	Stable
Long-Term Obligations	Confirmed	A (high)	Stable

Note: These Obligations are based on the implicit support of the Province of Manitoba and the unconditional guarantee provided by the Province on Manitoba Hydro's third-party debt, and thus reflect the Province's debt ratings.

Rating History

	Current	2008	2007	2006	2005	2004
Short-Term Obligations	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (low)	R-1 (low)
Long-Term Obligations	A (high)	A (high)	A (high)	A (high)	A (high)	A (high)

Note: These Obligations are based on the implicit support of the Province of Manitoba and the unconditional guarantee provided by the Province on Manitoba Hydro's third-party debt, and thus reflect the Province's debt ratings.

Related Research

- DBRS Confirms the Province of Manitoba at A (high) and R-1 (middle), December 15, 2008.
- Province of Manitoba Rating Report, December 15, 2008.

Note:
All figures are in Canadian dollars unless otherwise noted.

Rating Report

Report Date:
November 10, 2010

Previous Report:
February 12, 2009

Insight beyond the rating.

The Manitoba Hydro-Electric Board

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The Utility

The Manitoba Hydro-Electric Board, a wholly owned Crown corporation of the Province of Manitoba, is a vertically integrated electric utility that provides generation, transmission and distribution of electricity to approximately 532,000 customers throughout Manitoba and natural gas service to approximately 264,000 customers via its subsidiary, Centra Gas Manitoba Inc. The Utility also exports electricity to more than 30 electric utilities through its participation in four wholesale markets in Canada and the mid-western United States.

Short-Term Promissory Notes Programme

$500 million

Ratings

Debt	Rating Action	Rating	Trend
Short-Term Obligations	Confirmed	R-1 (middle)	Stable
Long-Term Obligations	Confirmed	A (high)	Stable

Note: These Obligations are based on the implicit support of the Province of Manitoba and the unconditional guarantee provided by the Province on Manitoba Hydro's third-party debt, and thus reflect the Province's debt ratings.

Rating Update

DBRS has confirmed the Long-Term Obligations and Short-Term Obligations ratings of The Manitoba Hydro-Electric Board (Manitoba Hydro or the Utility) at A (high) and R-1 (middle), respectively. The trends are both Stable. Manitoba Hydro's ratings reflect the short- and long-term ratings of the Province of Manitoba (the Province; see the DBRS report). Manitoba Hydro's Long-Term Obligations and Short-Term Obligations ratings are a flow-through of the Province's ratings based on (1) the implicit support of the Province as Manitoba Hydro is for all purposes an agent of the Province (see methodology Rating Sovereign Governments for further detail) and (2) the unconditional guarantee provided by the Province on the majority of the Utility's outstanding third-party obligations. The Province's Short-Term Debt and Long-Term Debt ratings were confirmed by DBRS on October 8, 2010, at R-1 (middle) and A (high), respectively. The trends on both ratings are Stable.

The Province supports Manitoba Hydro by both advancing funds and guaranteeing its new issues. As at March 31, 2010, the Province has provided approximately 96% of the Utility's long-term debt in the form of provincial advances, with the same terms and conditions as the Province's external debt. Manitoba Hydro has issued $331 million of long-term debt in its own name, with an unconditional guarantee provided by the Province, except for $76 million of Manitoba Hydro-Electric Board Bonds, which do not benefit from an explicit provincial guarantee. (Continued on page 2.)

Rating Considerations

Strengths

(1) Agent of the Crown with debt securities held or guaranteed by the Province
(2) Low-cost hydro-based generation with substantial storage capacity
(3) Reasonable regulatory framework
(4) Interconnections with the United States, Saskatchewan and Ontario provide access to favourable export markets

Challenges

(1) Hydrology risk
(2) High leverage
(3) Heightened capital expenditure profile
(4) Net export revenues sensitive to fluctuations in exchange rates
(5) One Northern Flood Agreement (NFA) First Nations claim not yet settled

Financial Information

	For the year ended March 31				
Manitoba Hydro-Electric Board	2010	2009	2008	2007	2006
EBITDA interest coverage (times) (2)	2.02	2.18	2.47	1.83	2.41
% debt in capital structure (1)	77.5%	78.6%	79.0%	82.7%	83.7%
Cash flow/total debt	7.1%	8.3%	10.1%	6.7%	11.1%
Cash flow/capital expenditures (times)	0.51	0.69	0.84	0.70	1.48
Reported net income ($ millions)	163	266	346	122	415
Operating cash flow ($ millions)	547	634	695	454	737

(1) Net of sinking fund assets. (2) Before capitalized interest, AFUDC.

Rating Update (Continued from page 1.)

The Utility's credit profile is further supported by its low-cost hydro-based generation, a constructive regulatory environment and its vast interconnections (56% of installed capacity), which provide access to favourable export markets. Hydrology continues to be the primary risk factor affecting credit metrics, but this risk is somewhat mitigated by the geographic diversification of the watersheds, reservoir storage capacity and import capabilities. Over the medium term, the Utility has witnessed inflows that are well above average, resulting in above-average reservoir storage.

Manitoba Hydro's earnings and performance for the fiscal year ended March 31, 2010, was $103 million lower than in the previous fiscal year, due mainly to lower electricity prices in export markets. The lower export prices are directly tied to lower demand due to poor economic conditions and the current low natural gas prices.

Manitoba Hydro continues to seek new power purchase agreements. In April 2010, Manitoba Hydro and Xcel Energy (Xcel) entered into new power purchase and seasonal exchange agreements that will commence in 2015 and extend to 2025, following the expiry of existing power agreements between the utilities. Furthermore, these agreements will allow for access to purchase additional power during the summers and winter season. Additionally, Manitoba Hydro entered into an agreement to sell Xcel an additional 125 megawatts (MW) per year commencing in 2021. This agreement is subject to the construction of Conawapa Generating Station.

Looking forward, DBRS believes that Manitoba Hydro will continue to generate reasonable levels of EBIT and operating cash flows, with the potential for significant volatility resulting from hydrological and export market conditions. The ongoing heightened capital expenditure program is expected to continue to pressure balance sheet and credit metrics. In addition, completing the large hydro generation and transmission projects on time and within budget is key to maintaining a stable financial profile.

Rating Considerations Details

Strengths

(1) Manitoba Hydro is an agent of the Crown and its debt securities are almost entirely held or guaranteed by the Province. Therefore, the ratings assigned to Manitoba Hydro's obligations are a flow-through of the ratings of the Province.

(2) Low-cost hydroelectric-based generating capacity accounts for approximately 91% of installed capacity and results in one of the lowest variable cost structures in North America. The low-cost power generation has enabled Manitoba Hydro to provide electricity to its domestic customers at one of the lowest rates on the continent. This gives the Utility the flexibility to increase rates in the future, especially in light of the substantially heightened future capital expenditure requirements to replace aging infrastructure and develop new generation facilities. Furthermore, given the water storage capacity of its hydroelectric-based generating facilities, Manitoba Hydro has the ability to trade power, buying low-cost power during off-peak hours and selling its own power during peak periods at higher rates. Some geographic diversification of drainage basins somewhat reduces fluctuations in water flows and water levels.

(3) The regulatory environment in Manitoba is constructive. Manitoba's Public Utilities Board (PUB) has been supportive of Manitoba Hydro's rate applications and its financial targets. While Manitoba Hydro does not benefit from an automatic pass-through of costs, this is mitigated by its low-cost hydroelectric-based generating capacity and the PUB's demonstrated track record of approving rate increases during drought conditions.

(4) Manitoba Hydro's interconnections (approximately 56% of installed capacity), with 2,250 MW to the United States, 525 MW to Saskatchewan and 300 MW to Ontario, provide the Utility with access to favourable export markets. The interconnections also provide a secure supply of electricity for its domestic customers during times of poor hydrology.

Challenges

(1) Given that approximately 91% of Manitoba Hydro's installed generating capacity is hydroelectricity-based, earnings and cash flows are highly sensitive to hydrological conditions. The hydrology risk is somewhat mitigated by the geographic diversification of the watersheds, reservoir storage and import capacity. The two thermal generating stations, with a total capacity of 468 MW (Brandon and Selkirk), and the new 99 MW St. Leon wind farm provide a small amount of diversity to the generation mix. Given that 40% of Manitoba Hydro's exports are under a long-term fixed price-to-volume basis, during times of poor hydrological conditions such as in F2004, Manitoba Hydro may find itself procuring power supply from import markets to honour its export commitments under the fixed price-to-volume contract. This exposes Manitoba Hydro to significant price and volume risk. However, Manitoba Hydro employs the following strategies to mitigate these impacts:

- Manitoba Hydro sells long-term forward contracts into the export markets based on its historically lowest water flow conditions. Any excess power, after accounting for the long-term forward contract sales, is sold into the spot market.
- The three primary advantages of long-term forward contracts are (1) forward prices tend to be higher than spot market prices; (2) long-term large volume power contracts with other utilities provide an incentive for these utilities to build and/or expand transmission infrastructure in their respective jurisdictions to be able to import power, thus providing Manitoba Hydro with an expanded access to export and import markets; and (3) large long-term forward contracts also provide incentive to Manitoba Hydro to expedite the construction of new generating facilities, thus mitigating the price and volume risk.
- Growing its generation base both through upgrades at existing plants (estimated at 122 MW) and new greenfield developments (more than 2,200 MW), the Utility is currently constructing a 200 MW plant and is in the pre-project planning phase for two major hydro generation facilities. Over the longer term, once these projects are completed, Manitoba Hydro will be significantly long on power, thus mitigating long-term price and volume risk even further.
- Manitoba Hydro can file for a rate increase through a rate application to the PUB.

(2) Manitoba Hydro's leverage remains one of the highest among government-owned integrated utilities in Canada, limiting its financial flexibility.

(3) The need to refurbish its aging infrastructure, combined with the aggressive development of both new hydro generation and transmission facilities, will require Manitoba Hydro to deploy significant capital into its electricity infrastructure over the next several years. DBRS expects these heightened future capital expenditures to pressure the already high debt levels. The extent of this pressure is largely contingent on hydrology and export market conditions, which, if robust, would limit funding needs.

(4) The Utility's income statement and balance sheet are sensitive to changes in the U.S.-Canadian dollar exchange rate, since approximately 28% of its outstanding debt and 26% of electricity revenues (at March 31, 2010) are denominated in U.S. dollars. While U.S. dollar-denominated debt is fully hedged by export revenues, the net U.S. dollar surplus is sensitive to changes in the exchange rate; however, this amount is within the Company's risk tolerance levels.

(5) Four out of five First Nations claims related to the NFA have been settled; however, one NFA First Nations claim (Cross Lake) has not. The NFA provided for compensation and remedial measures necessary to ameliorate the impact of the Churchill River diversion and Lake Winnipeg regulation projects. Manitoba Hydro continues to address the adverse effects of its northern hydroelectric developments on five First Nations communities. Expenditures to mitigate the Churchill River diversion and the Lake Winnipeg regulation projects amounted to $37 million in F2008, with $653 million having been spent since 1977. In recognition of future anticipated mitigation payments, the Utility has recorded a liability of $127 million.

Rating Methodology Update

Manitoba Hydro is, for all purposes, an agent of the provincial government and its powers may be exercised only as an agent of the government. When rating the financial obligations of agents of the federal or provincial governments, DBRS generally flows through the rating of the parent government if (1) the status of the agent is explicitly provided to the organization through legislation or regulation; (2) the agent is empowered to borrow in its constituting act; and (3) there is no provision in the constituting act or the terms of the debt precluding the applicability of the agent status to borrowing activities. As these three criteria apply to Manitoba Hydro, the Province of Manitoba's ratings will flow through to the Utility.

In addition, provincial support for the Utility is reflected in the fact that it advanced approximately 96% of the Utility's long-term debt ($8,288 million) and has provided unconditional guarantee for the rest of the long-term debt ($331 million), the exception being the $76 million Manitoba Hydro-Electric Board Bonds issued for mitigation projects (as part of the NFA), which do not benefit from the provincial guarantee.

Regulation

Manitoba Hydro is governed by the *Manitoba Hydro Act* and its electricity and natural gas rates are regulated by the Manitoba PUB.

Electricity

Each year, Manitoba Hydro reviews its financial targets, with particular focus on its debt-to-equity target capital structure of 75%-to-25%. If it deems a rate adjustment is needed to meet its financial targets, it submits a rate application to the PUB. The PUB reviews the rate adjustment application with the objective of allowing Manitoba Hydro to recover its cost of service and achieve its long-term debt-to-equity target of 75%-to-25%. The PUB does not have the mandate to pre-approve capital expenditures. The capital expenditure planning responsibility resides with Manitoba Hydro and the government of Manitoba.

In February 2010, the PUB approved, on an interim basis, new electricity rates effective April 1, 2010, for all Manitoba Hydro customer classes, except area and roadway lighting, resulting in an average rate increase of 2.8%. This interim increase is subject to change pending the outcome of Manitoba Hydro's General Rate Application (GRA) which is currently under review by the PUB. A final order is not expected until 2011.

While Manitoba Hydro is the sole retail electricity supplier in Manitoba, under the *Manitoba Hydro Amendment Act of 1997* (the Act), other utilities may access the transmission system to reach customers in neighbouring provinces and states. The Act also explicitly allows Manitoba Hydro to build new generating capacity for export sales, to offer new energy-related services, to enter into strategic alliances and joint ventures and to create subsidiaries.

There are presently no plans to move to full retail competition in the province. Manitoba retail customers currently enjoy rates that are among the lowest in North America because of Manitoba Hydro's predominantly hydroelectric generation, generally profitable exports and efficient resource management. More than 80% of Manitoba Hydro's export sales are through the Midwest Independent Transmission System Operator (MISO), which is a centrally operated electricity market in the U.S. Midwest region (from parts of North Dakota down through Minnesota, Wisconsin and Illinois through to Kentucky). This market operates much like a typical power pool, with utilities transacting directly with the exchange rather than with one another. The energy saved under the Utility's Power Smart program is sold into these higher-margin markets.

Natural Gas Distribution

Manitoba Hydro distributes natural gas through its wholly owned subsidiary, Centra Gas Manitoba Inc. (Centra Gas). In accordance with the rate-setting methodology for natural gas, commodity rates are changed every quarter based on 12-month forward natural gas market prices. The commodity cost of gas is a pass-through with no markup to customers.

Non-commodity costs, such as transportation, distribution and operating and general expenses related to the natural gas business, are passed on as well. The PUB allows Centra Gas to target an annual profit of approximately $3 million, which is fairly modest compared with Manitoba Hydro's consolidated earnings. In addition, the PUB allows Manitoba Hydro to collect $12 million per year through rates to meet its debt servicing and acquisition costs related to its 1999 purchase of Centra Gas from Westcoast Energy Inc.

Earnings and Outlook

	For the year ended March 31				
(CAD millions)	2010	2009	2008	2007	2006
Net electricity revenues (1)	1,469	1,574	1,565	1,413	1,702
Net gas revenues	136	147	142	129	120
Total revenues	1,633	1,757	1,730	1,558	1,839
EBITDA	937	1,026	1,095	921	1,205
EBIT	553	658	746	589	883
Gross interest expense (2)	463	471	444	504	501
Net interest expense (3)	335	397	367	435	435
Reported net income	163	266	346	122	415
Return on average equity	7.6%	13.6%	21.4%	9.1%	38.5%

(1) Net electricity revenues are gross revenues less cost of purchased power. Net gas revenues are gross revenues less cost of gas.

(2) Incudes F/X gain/losses on U.S. denominated debt. (3) Adjusted for investment income and interest allocated to construction.

Summary

During the fiscal year ending 2010, Manitoba Hydro witnessed a decrease both in earnings as measured by EBIT and in reported net income. The decrease is directly attributable to lower export prices and lower electricity demand caused by poor economic conditions and lower natural gas prices. Extraprovincial revenues decreased by $196 million in 2010 to $427 million.

As a result of lower prices and a soft economic environment, expenses for electricity and natural gas operations decreased from $1.67 billion for fiscal 2009 to $1.57 billion in fiscal 2010. This is attributable to lower fuel and power purchased costs as well as lower finance expenses and partially offset by an increase in depreciation and amortization costs, operating and administrative costs and capital and other taxes.

Outlook

Earnings are expected to remain relatively stable over the next fiscal year, primarily due to above-average energy in reservoir storage, and increases in domestic electricity rates. Manitoba Hydro is projecting that its net income will exceed $100 million for 2010-11. Factors that will continue to affect EBIT stability over the longer term include the following:

- Hydrological levels at the Utility's watersheds.
- Demand for power in Manitoba Hydro's export markets and the prevailing exchange rates.
- Domestic rate increases.
- Domestic load growth.

The Manitoba Hydro-Electric Board

Report Date:
November 10, 2010

Financial Profile

Statement of Cash Flow (CAD millions)	2010	2009	2008	2007	2006
	For the year ended March 31				
Reported net income	163	266	346	122	415
Depreciation & amortization	384	368	349	332	322
Other non-cash adjustments	-	-	-	-	-
Cash Flow From Operations	**547**	**634**	**695**	**454**	**737**
Capital expenditures (net of contrib.)	(1063)	(915)	(827)	(645)	(498)
Dividends		-	-	-	-
Cash Flow Before W/C Changes	**(516)**	**(281)**	**(132)**	**(191)**	**239**
Changes in working capital	4	54	(65)	(11)	(27)
Net Free Cash Flow	**(512)**	**(227)**	**(197)**	**(202)**	**212**
Acq./divest./sinking fund pmt./other inv.	(624)	(171)	(158)	(143)	(179)
Cash Flow bef. Financing	**(1,136)**	**(398)**	**(355)**	**(345)**	**33**
Sinking fund withdrawals	263	261	0	-	84
Net change in long-term debt	873	157	522	240	11
Other financing	15	6	(35)	(13)	(18)
Net Change in Cash Flow	**15**	**26**	**132**	**(118)**	**110**

Key Financial Ratios	2010	2009	2008	2007	2006
EBITDA interest coverage (times) (2)	2.02	2.18	2.47	1.83	2.41
% debt in capital structure (1)	77.5%	78.6%	79.0%	82.7%	83.7%
Cash flow/total debt	7.1%	8.3%	10.1%	6.7%	11.1%

(1) Net of sinking fund assets. (2) Before capitalized interest, AFUDC.

Capital Structure	2010	2009	2008	2007	2006
Short-term debt	310	619	353	553	118
Long-term debt	8,228	7,668	7,217	6,822	7,051
LESS: sinking funds	822	666	700	630	555
Total Debt	**7,716**	**7,621**	**6,870**	**6,745**	**6,614**
Equity	2,239	2,076	1,822	1,407	1,285
Total Capital	**9,955**	**9,697**	**8,692**	**8,152**	**7,899**

Summary

Despite relatively strong operating cash flow, Manitoba Hydro continued to generate free cash flow deficits, largely as a result of substantial capital expenditures. Cash flow deficits are typically funded with debt and sinking fund withdrawals. Increased capital expenditures have been driven primarily by (1) generation system upgrades; (2) the development of new generation facilities, specifically Wuskwatim (200 MW), Conawapa (1,485 MW) and Keeyask (695 MW) generating stations; and (3) upgrades and additions to improve the reliability of Manitoba Hydro's aging transmission and distribution infrastructure.

Capital expenditures during the fiscal year ending March 31, 2010, amounted to just over $1 billion for the electricity segment, up from $888 million one year earlier. Capital expenditures for the electricity segment are for ongoing plant and equipment requirements, upgrades and new generation projects. For the gas segment, capital expenditures amounted to $25 million compared to $32 million in the previous fiscal year. Capital expenditures are related to new business, system improvement and other expenditures to meet the needs of natural gas customers.

Growth in retained earnings has more than offset higher debt levels, resulting in continued improvement in the debt-to-capital ratio. However, Manitoba Hydro's leverage still remains one of the highest among government-owned integrated utilities in Canada. With no mandatory dividend payment requirements, the Utility has been able to shore up its balance sheet through retained earnings.

The Manitoba Hydro-Electric Board

Report Date:
November 10, 2010

Outlook

Capital expenditures are expected to remain higher over the medium term as Manitoba Hydro continues to upgrade and improve the reliability of its aging electric infrastructure, as well as invest in the development of new hydro generation facilities. The ongoing heightened capital program is expected to result in continued cash flow deficits. The extent of the Utility's funding requirements will largely be dependent on hydrology and export market conditions.

Although debt balances will increase over the medium term, leverage could improve modestly from current levels due to increased retained earnings. In addition, completing large hydro generation and transmission projects on time and within budget is key to maintaining a stable financial profile.

Long-Term Debt Maturities and Bank Lines

Debt Profile (CAD millions)	%	For year ended March 31, 2010	2009
Advances from the Province	96%	8,288	7,836
Manitoba Hydro Bonds	2%	132	165
Manitoba Hydro-Electric Board Bonds*	2%	199	216
Total		8,619	8,217

* $76 million of unguaranteed bonds are part of the $199 million.

Debt Maturities Year	%	(CAD millions)
2011	4%	310
2012	0%	16
2013	2%	178
2014	12%	1,073
2015	1%	100
Thereafter	81%	6,942
Total		**8,619**

Summary

The Province supports Manitoba Hydro by advancing funds or guaranteeing the Utility's long-term debt issues. Long-term debt at March 31, 2010, consisted of the following:

- $8,288 million in advances from the Province (all of which have annual sinking fund requirements).
- $132 million Manitoba Hydro Bonds.
- $199 million Manitoba Hydro-Electric Board Bonds.
- $2,426 million or 28% of all obligations are denominated in U.S. dollars.

Manitoba Hydro maintains a relatively smooth maturity profile, no unhedged foreign currency debt and a moderate level of floating-rate debt, which adds stability to debt servicing costs and minimizes interest rate risk. The Utility has bank credit facilities that provide for overdrafts and notes payable up to $500 million denominated in Canadian and/or U.S. dollars. At March 31, 2010, there were no amounts outstanding. Manitoba Hydro issues short-term debt in its own name for all its short-term cash requirements and does not receive short-term funding from the Province. These short-term notes are guaranteed by the Province of Manitoba. Only $76 million of Manitoba Hydro-Electric Board Bonds do not carry the provincial guarantee.

The Watershed Storage Capacity

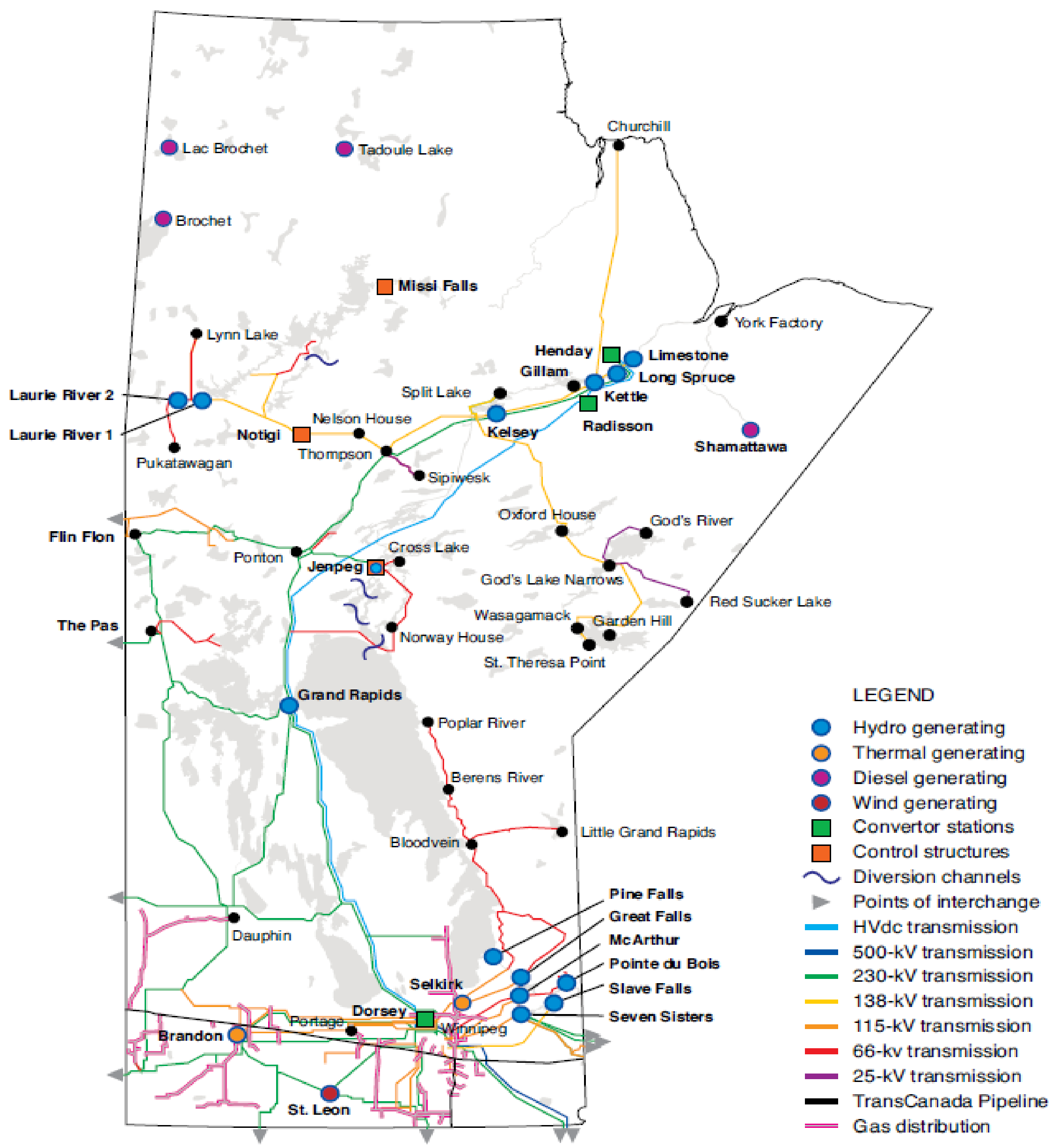
Manitoba Hydro draws water from four distinct watersheds: Nelson River, Winnipeg River, Saskatchewan River and Churchill River (including the Laurie River). This provides the Utility with some geographic diversification, especially during times of low hydrology. The main generation source is the Nelson River, which accounted for approximately 81% of power generated in F2010.

SOURCE OF ELECTRICAL ENERGY GENERATED AND IMPORTED

For the year ended March 31, 2010

Nelson River	**81.44%**	**Saskatchewan River**	**3.4%**
Billion kWh generated	**28.2**	**Billion kWh generated**	**1.2**
Limestone	27.06%	Grand Rapids	3.37%
Kettle	25.66%		
Long Spruce	21.20%	**Churchill River (including the Laurie River)**	**0.18%**
Kelsey	4.93%	**Billion kWh generated**	**0.1**
Jenpeg	2.59%	Laurie River #1	0.10%
		Laurie #2	0.08%
Winnipeg River	**12.62%**		
Billion kWh generated	**4.4**	**Thermal**	**0.41%**
Seven Sisters	3.60%	**Billion kWh generated**	**0.1**
Great Falls	2.93%	Brandon	0.32%
Pine Falls	2.04%	Selkirk	0.09%
Pointe du Bois	1.75%		
Slave Falls	1.00%	**Imports**	**1.02%**
McArthur	1.30%	**Billion kWh imported**	**0.4**
		Wind	**0.96%**
		Billion kWh imported	**0.3**

Source: Manitoba Hydro.



Source: Manitoba Hydro.

Favourable characteristics inherent in Manitoba Hydro's watersheds include the following:

- Cold temperatures reduce overall evaporation rates as much of the water is frozen for up to five months of the year.
- A significant portion of the watersheds consist of rock, which has lower seepage rates and higher runoff than predominantly soil-covered watersheds.
- Lake Winnipeg, Cedar Lake and South Indian Lake serve as large storage reservoirs. The Utility's water storage capacity is a competitive advantage in trading electricity (buying surplus U.S. power at low off-peak prices and selling its electricity during peak demand periods at higher prices).

Manitoba Hydro's Generating Capacity

Manitoba Hydro owns and operates an aggregate generating capacity of 5,511 MW and is counterparty to an additional 99 MW of contracted wind capacity.

Manitoba Hydro's Generating Stations and Capabilities

Power Station	Location	of uni	Net Capacity (MW)
Hydroelectric			
Seven Sisters	Winnipeg River	6	165
Great Falls	Winnipeg River	6	136
Pine Falls	Winnipeg River	6	89
McArthur Falls	Winnipeg River	8	55
Pointe du Bois	Winnipeg River	16	77
Slave Falls	Winnipeg River	8	67
Grand Rapids	Saskatchewan R	4	479
Limestone	Nelson River	10	1,340
Kettle	Nelson River	12	1,220
Long Spruce	Nelson River	10	1,010
Kelsey	Nelson River	7	250
Jenpeg	Nelson River	6	135
Laurie River (2)	Laurie River	3	10
Total Hydroelectric Generation		**102**	**102**
Thermal			
Brandon (coal: 98 MW, gas: 241 MW)		3	339
Selkirk (gas)		**2**	**129**
Total Thermal Generation		**5**	**468**
Isolated Diesel Capabilities			
Brochet			3
Lac Brochet			2
Shamattawa			3
Tadoule Lake			2
Total Isolated Diesel Generation			**10**
Total Generation Capacity			**580**

Source: Manitoba Hydro.

The Province of Manitoba

(*Excerpt from DBRS rating report dated October 8, 2010*)

The Province of Manitoba (Manitoba or the Province) has a relatively resilient and diversified economy, which has resulted in only a modest deterioration in fiscal performance. While Manitoba's debt burden continues to grow, unwinding some of the positive momentum of recent years, the Province maintains considerable flexibility within its ratings and is well positioned to withstand a potentially prolonged period of slow economic growth.

In 2009-10, the Province recorded a deficit of $201 million, weaker than the small surplus originally budgeted. This translates into a DBRS-adjusted deficit of $685 million, or 1.4% of GDP – still a favourable result in relation to provincial peers. For the current fiscal year, the budget points to a deficit of $545 million, or $1.2 billion on a DBRS-adjusted basis. Despite improving economic conditions, total revenues are only budgeted to grow by a modest 0.6% in the current fiscal year, slower than the 4.4% increase in spending. Health care will account for the bulk of new spending as the Province aims to tightly manage growth in program costs and pursue labour agreements with no increases, which DBRS views as an ambitious target. The Province anticipates a return to balance by 2014-15, which equates to DBRS-adjusted deficits ranging from 2.0% to less than 1.0% of GDP.

DBRS-adjusted debt grew by $1.4 billion in 2009-10, which pushed the debt-to-GDP ratio up to 31.6% from 28.9% a year earlier. Debt is expected to grow by a further $1.4 billion in 2010-11, or 9.0%, taking the debt-to-GDP ratio to slightly above 33.0% and eroding some of the progress of recent years.

An improving fiscal picture and gradual decline in capital needs is expected to result in debt-to-GDP peaking at around 34% in 2012-13. This represents a somewhat higher peak than what was assumed at the time of last year's review but is nonetheless very manageable within the rating.

After experiencing only a minor contraction in 2009, the Province is anticipating a modest recovery with real growth of 2.5% in 2010. Lower non-residential investment in the Province and reduced agricultural output due to a wet summer are likely to dampen growth prospects. However, improving demand for non-renewable resources and sound domestic demand, supported by a growing population, should provide an offset. For 2011, the Province has assumed growth of 3.0%, consistent with the current private sector average, which DBRS believes carries some downside risks related to the uncertain pace of global economic recovery, and the impact of a strong Canadian dollar on exports. Overall, soft fiscal results and recent debt accumulation have lessened some of the positive momentum of recent years, but DBRS believes that Manitoba's above-average economic and fiscal performance through the recent downturn leaves it well positioned to withstand a potentially uneven economic recovery.

The Manitoba Hydro-Electric Board

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The Manitoba Hydro-Electric Board

Balance Sheet (CAD millions)	As at March 31					As at March 31			
Assets	2010	2009	2008	2007	**Liabilities & Equity**	2010	2009	2008	2007
Cash & equivalents	174	159	133	1	Short-term debt	0	100	0	148
Accounts receivable + accrued rev.	365	434	465	426	L.t. debt due one yr.	310	519	353	405
Interest receivable & materials	104	88	111	127	A/P & accrued liab.	417	430	443	443
Current Assets	**643**	**681**	**709**	**554**	**Current Liabilities**	**727**	**1,049**	**796**	**996**
Net fixed assets	10,128	9,382	8,912	8,378	Long-term debt	8,228	7,668	7,217	6,822
Deferred charges + Goodwill	545	531	665	560	Def'd & other liab.	215	218	613	736
Pension assets	299	287	781	800	Pension obligation	448	409	714	663
Sinking fund investments	822	666	700	630	Equity & Other	2,819	2,203	2,427	1,705
Total Assets	**12,437**	**11,547**	**11,767**	**10,922**	**Total Equity & Liabilities**	**12,437**	**11,547**	**11,767**	**10,922**

Ratio Analysis	For the year ended March 31						
Liquidity Ratios	2010	2009	2008	2007	2006	2005	2004
Current ratio	0.88	0.65	0.89	0.56	1.30	0.88	0.64
Total debt in the capital structure (1)	77.5%	78.6%	79.0%	82.7%	83.7%	88.5%	90.2%
Cash flow/total debt (1)	7.1%	8.3%	10.1%	6.7%	11.1%	6.7%	(2.1%)
Cash flow/capital expenditures (2)	0.51	0.69	0.84	0.70	1.48	0.89	(0.28)
Debt/EBITDA	8.2	7.4	6.3	7.3	5.5	7.4	21.2
Coverage Ratios (3)							
EBIT interest coverage	1.19	1.40	1.68	1.17	1.76	1.21	0.05
EBITDA interest coverage	2.02	2.18	2.47	1.83	2.41	1.85	0.65
Cash flow interest coverage	2.18	2.35	2.57	1.90	2.47	1.91	0.72
Earnings Quality/Operating Efficiency							
Puchased power/revenues	6.6%	10.1%	7.9%	12.6%	6.0%	8.0%	40.7%
Operating margin	28.7%	34.3%	38.3%	31.6%	43.6%	34.8%	(1.4%)
Net margin (before extras.)	9.4%	13.8%	18.6%	6.9%	21.3%	8.3%	(31.0%)
Return on avg. equity (before extras.)	7.6%	13.6%	21.4%	9.1%	38.5%	17.0%	(45.8%)
Customers/employee	86	88	90	93	92	92	93
Growth in electricity customer base	0.9%	1.1%	0.9%	1.4%	0.8%	0.8%	0.8%
GWh sold/employee	5.1	5.2	5.5	5.4	6.1	5.3	4.4

(1) Debt net of sinking fund assets.

(2) Capital expenditures net of customer contributions.

(3) Before capitalized interest, AFUDC

The Manitoba Hydro-Electric Board

Report Date:
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Ratings

Debt	Rating Action	Trend
Short-Term Obligations	R-1 (middle)	Stable
Long-Term Obligations	A (high)	Stable

Note: These Obligations are based on the implicit support of the Province of Manitoba and the unconditional guarantee provided by the Province on Manitoba Hydro's third-party debt, and thus reflect the Province's debt ratings.

Rating History

	Current	2009	2008	2007	2006	2005
Short-Term Obligations	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (low)
Long-Term Obligations	A (high)	A (high)	A (high)	A (high)	A (high)	A (high)

Note: These Obligations are based on the implicit support of the Province of Manitoba and the unconditional guarantee provided by the Province on Manitoba Hydro's third-party debt, and thus reflect the Province's debt ratings.

Related Research

- DBRS Confirms the Province of Manitoba at A (high) and R-1 (middle), October 8, 2010.
- Province of Manitoba Rating Report, October 8, 2010.

Note:
All figures are in Canadian dollars unless otherwise noted.

Rating Report

Report Date:
November 28, 2011

Previous Report:
November 10, 2010

The Manitoba Hydro-Electric Board

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The Utility

The Manitoba Hydro-Electric Board, a wholly owned Crown corporation of the Province of Manitoba, is a vertically integrated electric utility that provides generation, transmission and distribution of electricity to approximately 537,000 customers throughout Manitoba and natural gas service to approximately 266,000 customers via its subsidiary, Centra Gas Manitoba Inc. The Utility also exports electricity to more than 30 electric utilities through its participation in four wholesale markets in Canada and the mid-western United States.

Short-Term Promissory Notes Programme

$500 million

Ratings

Debt	Rating Action	Rating	Trend
Short-Term Obligations	Confirmed	R-1 (middle)	Stable
Long-Term Obligations	Confirmed	A (high)	Stable

Note: These Obligations are based on the implicit support of the Province of Manitoba and the unconditional guarantee provided by the Province on Manitoba Hydro's third-party debt, and thus reflect the Province's debt ratings.

Rating Update

DBRS has confirmed the Long-Term Obligations and Short-Term Obligations ratings of The Manitoba Hydro-Electric Board (Manitoba Hydro or the Utility) at A (high) and R-1 (middle), respectively. The trends are both Stable. Manitoba Hydro's ratings reflect the short- and long-term ratings of the Province of Manitoba (the Province; see the DBRS report). Manitoba Hydro's ratings are a flow-through of the Province's ratings based on (1) the implicit support of the Province as Manitoba Hydro is for all purposes an agent of the Province (see methodology Rating Canadian Provincial Governments for further detail) and (2) the unconditional guarantee provided by the Province on the majority of the Utility's outstanding third-party obligations. The Province's Short-Term Debt and Long-Term Debt ratings were confirmed by DBRS on August 22, 2011, at R-1 (middle) and A (high), respectively. The trends on both ratings are Stable.

The Province supports Manitoba Hydro by both advancing funds and guaranteeing its outstanding debt. As at March 31, 2011, the Province has provided approximately 97% of the Utility's long-term debt in the form of provincial advances, with the same terms and conditions as the Province's external debt. Manitoba Hydro has $241 million of long-term debt in its own name, with an unconditional guarantee provided by the Province, except for $75 million of Manitoba Hydro-Electric Board bonds issued for mitigation projects, which do not benefit from an explicit provincial guarantee. (Continued on page 2.)

Rating Considerations

Strengths

(1) Agent of the Crown, with debt securities held or guaranteed by the Province
(2) Low-cost hydro-based generation with substantial storage capacity
(3) Reasonable regulatory framework
(4) Interconnections with the United States, Saskatchewan and Ontario provide access to favourable export markets

Challenges

(1) Hydrology risk
(2) High leverage
(3) Heightened capital expenditure profile
(4) Net export revenues sensitive to fluctuations in exchange rates
(5) One Northern Flood Agreement (NFA) First Nations claim not yet settled

Financial Information

	For the year ended March 31				
Manitoba Hydro-Electric Board	2011	2010	2009	2008	2007
EBITDA interest coverage (times) (2)	1.83	1.90	2.18	2.13	1.83
% debt in capital structure (1)	75.2%	75.4%	80.0%	76.3%	82.7%
Cash flow/total debt	6.5%	7.1%	8.3%	10.1%	6.7%
Cash flow/capital expenditures (times)	0.47	0.51	0.69	0.84	0.70
Reported net income ($ millions)	150	163	266	346	122
Operating cash flow ($ millions)	543	547	634	695	454

(1) Net of sinking fund assets. (2) Before capitalized interest, AFUDC.

The Manitoba Hydro-Electric Board

Report Date:
November 28, 2011

Rating Update (Continued from page 1.)

The Utility's credit profile is further supported by its low-cost hydro-based generation, a constructive regulatory environment and its vast interconnections (46% of installed capacity), which provide access to favourable export markets. Hydrology continues to be a risk factor affecting credit metrics, but this risk is somewhat mitigated by the geographic diversification of the Utility's watersheds, reservoir storage capacity and import capabilities.

The Utility has stated that it has witnessed record-high water storage levels as of March 31, 2011. While the increased storage levels and anticipated hydraulic generation are expected to be above normal averages, credit metrics are at risk of constraint due largely to economic conditions. Export market prices are largely affected by economic conditions and other competitive sources of energy putting downward pressure on market prices. As a result of lower export revenues and reduced sales volumes for the fiscal year ending March 31, 2011, Manitoba Hydro reported net income of $150 million, a decrease of $13 million from the same period in 2010. While earnings are modestly lower from 2010, the Utility is anticipating relatively flat earnings for 2012.

The future of the Utility's earnings growth will be contingent upon the forecast capital investment of approximately $18 billion over the next ten years. Approximately $13 billion of the total capital expenditures relates to a number of major projects such as the Keeyask and Conawapa generating stations and the Bipole III transmission line. The remaining $5 billion will be expended to replace and renew existing infrastructure. Manitoba Hydro has confirmed that construction of new generation projects will only proceed once firm export sales contracts are secured, extensive consultations with stakeholders and First Nations groups are concluded, and environmental and regulatory approvals are received.

Looking forward, DBRS believes that Manitoba Hydro will continue to generate reasonable levels of EBIT and operating cash flows, with the potential for significant volatility over the near to medium term resulting from hydrological and export market conditions. The ongoing heightened capital expenditure program is expected to continue to pressure the Utility's balance sheet and credit metrics. In addition, completing the large hydro-generation and transmission projects on time and on budget is key to maintaining a stable financial profile.

Rating Considerations Details

Strengths

(1) Manitoba Hydro is an agent of the Crown and its debt securities are almost entirely held or guaranteed by the Province. Therefore, the ratings assigned to Manitoba Hydro's obligations are a flow-through of the ratings of the Province.

(2) Low-cost hydroelectric-based generating capacity accounts for approximately 92% of installed capacity and results in one of the lowest variable cost structures in North America. The low-cost power generation has enabled Manitoba Hydro to provide electricity to its domestic customers at one of the lowest rates on the continent. This gives the Utility the flexibility to increase rates in the future, especially in light of the substantially heightened future capital expenditure requirements to replace aging infrastructure and develop new generation facilities. Furthermore, given the water storage capacity of its hydroelectric-based generating facilities, Manitoba Hydro has the ability to trade power, buying low-cost power during off-peak hours and selling its own power during peak periods at higher rates. Some geographic diversification of drainage basins somewhat reduces fluctuations in water flows and water levels.

(3) Manitoba's Public Utilities Board (PUB) has been supportive of Manitoba Hydro's rate applications and its financial targets. While Manitoba Hydro does not benefit from an automatic pass-through of costs, this is mitigated by its low-cost hydroelectric-based generating capacity and the PUB's demonstrated track record of approving rate increases during drought conditions.

(4) Manitoba Hydro's interconnections (approximately 46% of installed capacity), with firm export transfer capability of 2,175 megawatts (MW) to the United States, 150 MW to Saskatchewan, and 200 MW to Ontario, along with additional non-firm transfer capability, provide the Company with access to favourable export markets. The interconnections also provide a secure supply of electricity for domestic customers during times of poor hydrology.

Challenges

(1) Given that approximately 92% of Manitoba Hydro's installed generating capacity is hydroelectricity-based, earnings and cash flows are highly sensitive to hydrological conditions. The hydrology risk is somewhat mitigated by the geographic diversification of the watersheds, reservoir storage and import capacity. The two thermal generating stations, with a total capacity of 458 MW (Brandon and Selkirk), the 99 MW St. Leon and 138 MW St. Joseph wind farms provide a small amount of diversity to the generation mix. Given that 40% of Manitoba Hydro's exports are under a long-term fixed price-to-volume basis, during times of poor hydrological conditions such as in F2004, Manitoba Hydro may find itself procuring power supply from import markets to honour its export commitments under the fixed price-to-volume contract. This exposes the Utility to significant price and volume risk. However, Manitoba Hydro employs the following strategies to mitigate these impacts:

- Selling long-term forward contracts into the export markets based on its historically lowest water flow conditions. Any excess power, after accounting for the long-term forward contract sales, is sold into the spot market.
- The three primary advantages of long-term forward contracts are (1) forward prices tend to be higher than spot market prices; (2) long-term large volume power contracts with other utilities provide an incentive for these utilities to build and/or expand transmission infrastructure in their respective jurisdictions to be able to import power, thus providing Manitoba Hydro with expanded access to export and import markets; and (3) large long-term forward contracts also provide an incentive to Manitoba Hydro to expedite the construction of new generating facilities, thus mitigating price and volume risk.
- Growing its generation base through upgrades at existing plants (estimated at 122 MW) and new greenfield developments (more than 2,200 MW), the Utility is currently constructing a 200 MW plant and is in the pre-project planning phase for two major hydroelectric generation facilities. Over the longer term, once these projects are completed, Manitoba Hydro will be significantly long on power, thus mitigating long-term price and volume risk even further.
- Manitoba Hydro can file for a rate increase through a rate application to the PUB.

(2) Manitoba Hydro's leverage remains one of the highest among government-owned integrated utilities in Canada, limiting its financial flexibility.

(3) The need to refurbish its aging infrastructure, combined with the aggressive development of new hydro generation and transmission facilities, will require Manitoba Hydro to deploy significant capital into its electricity infrastructure over the next several years. DBRS expects these heightened future capital expenditures to pressure the already-high debt levels. The extent of this pressure is largely contingent on hydrology and export market conditions, which, if robust, would limit funding needs.

(4) The Utility's income statement and balance sheet are sensitive to changes in the U.S.-Canadian dollar exchange rate, since approximately 22% of its outstanding debt and 21% of electricity revenues (at March 31, 2011) are denominated in U.S. dollars. While U.S. dollar-denominated debt is fully hedged by export revenues, the net U.S. dollar surplus is sensitive to changes in the exchange rate; however, this amount is within the Utility's risk tolerance levels.

(5) Manitoba Hydro continues to work with parties affected by past generation and transmission activities to resolve all outstanding claims involving loss, damage or dislocation. As of March 31, 2011, Manitoba Hydro has committed nearly $788 million for remedial works, compensation and/or mitigation initiatives. Manitoba Hydro has negotiated settlement agreements with four of the five communities covered by the 1977 Northern Flood Agreement (NFA) and reached compensation/ mitigation agreements with numerous communities outside the NFA. To date, approximately $153 million of the funds committed for compensation and mitigation initiatives has been spent at Cross Lake First Nation, the fifth NFA community. Manitoba Hydro and Manitoba continue to work with the Cross Lake First Nation to fulfill the obligations under the NFA.

The Manitoba Hydro-Electric Board

Report Date:
November 28, 2011

Rating Methodology Update

- Manitoba Hydro is, for all purposes, an agent of the provincial government and its powers may be exercised only as an agent of the government.
- When rating the financial obligations of agents of the federal or provincial governments, DBRS generally flows through the rating of the parent government if (1) the status of the agent is explicitly provided to the organization through legislation or regulation; (2) the agent is empowered to borrow in its constituting act; and (3) there is no provision in the constituting act or the terms of the debt precluding the applicability of the agent status to borrowing activities. As these three criteria apply to Manitoba Hydro, the Province of Manitoba's ratings will flow through to the Utility.
- In addition, provincial support for the Utility is reflected in the fact that the Province advanced approximately 97% of the Utility's long-term debt ($8,708 million) and has provided an unconditional guarantee on the rest of the long-term debt, the exception being the $75 million Manitoba Hydro-Electric Board bonds issued for mitigation projects (as part of the NFA), which do not benefit from the provincial guarantee.

Regulation

Manitoba Hydro is governed by the *Manitoba Hydro Act* and its electricity and natural gas rates are regulated by the Manitoba PUB.

Electricity

- Each year, Manitoba Hydro reviews its financial targets, with particular focus on its debt-to-equity target capital structure of 75%-to-25%. If it deems a rate adjustment is needed to meet its financial targets, it submits a rate application to the PUB.
- The PUB reviews the rate adjustment application with the objective of allowing Manitoba Hydro to recover its cost of service and achieve its long-term debt-to-equity target of 75%-to-25%. The PUB does not have the mandate to pre-approve capital expenditures. The capital expenditure planning responsibility resides with Manitoba Hydro and the government of Manitoba.
- A 2.8% increase was implemented, on an interim basis, effective April 1, 2010, for all customer classes except Area and Roadway Lighting. A further 2.0% increase to all customer classes, except Area and Roadway lighting, was implemented effective April 1, 2011. These interim increases are subject to change pending the outcome of Manitoba Hydro's rate case under review by the PUB, which concluded in July 2011. The PUB issued Order 134/11 on Manitoba Hydro's 2010/11 and 2011/12 General Rate Application (GRA) in July 2011. A final order on the GRA is expected later in 2011. Manitoba Hydro anticipates filing an application for both electric and gas rate increases (to be effective April 1, 2012).
- While Manitoba Hydro is the sole retail electricity supplier in Manitoba, under the *Manitoba Hydro Amendment Act of 1997* (the Act), other utilities may access the transmission system to reach customers in neighbouring provinces and states.
- The Act also explicitly allows Manitoba Hydro to build new generating capacity for export sales, to offer new energy-related services, to enter into strategic alliances and joint ventures, and to create subsidiaries.
- There are presently no plans to move to full retail competition in the province.
- Manitoba retail customers currently enjoy rates that are among the lowest in North America because of Manitoba Hydro's predominantly hydroelectric generation, generally profitable exports and efficient resource management.
- The majority of Manitoba Hydro's export sales are through the Midwest Independent Transmission System Operator (MISO), which is a centrally operated electricity market in the U.S. Midwest region (from parts of North Dakota down through Minnesota, Wisconsin and Illinois through to Kentucky). This market operates much like a typical power pool, with utilities transacting directly with the exchange rather than with one another. The energy saved under the Utility's Power Smart program is sold into these higher-margin markets.

Natural Gas Distribution

- Manitoba Hydro distributes natural gas through its wholly owned subsidiary, Centra Gas Manitoba Inc. (Centra Gas). In accordance with the rate-setting methodology for natural gas, commodity rates are changed every quarter based on 12-month forward natural gas market prices.
- The commodity cost of gas is a pass-through with no markup to customers.
- Non-commodity costs, such as transportation, distribution and operating and general expenses related to the natural gas business, are passed on as well.

The PUB allows Centra Gas to target an annual profit of approximately $3 million, which is fairly modest compared with Manitoba Hydro's consolidated earnings.

Earnings and Outlook

	For the year ended March 31				
(CAD millions)	2011	2010	2009	2008	2007
Net electricity revenues (1)	1,492	1,468	1,574	1,565	1,390
Net gas revenues	142	136	147	140	127
Total revenues	1,652	1,617	1,744	1,720	1,530
EBITDA	902	937	1,026	1,095	921
EBIT	509	553	658	746	589
Gross interest expense (2)	493	494	471	514	504
Net interest expense (3)	345	335	397	367	435
Reported net income	150	163	266	346	122
Return on average equity	6.5%	7.6%	13.6%	21.4%	9.1%

(1) Net electricity revenues are gross revenues less cost of purchased power. Net gas revenues are gross revenues less cost of gas.

(2) Incudes F/X gain/losses on U.S. denominated debt. (3) Adjusted for investment income and interest allocated to construction.

Summary

- Manitoba Hydro's earnings for the 2011 fiscal year were modestly lower than in 2010.
- The $13 million decrease in net income is due largely to lower export revenues, as a result of lower electricity power prices and volumes directly affected by U.S. economic conditions and by competition from other energy sources.
- Total electricity revenues totalled $1,615 million, representing an increase of 2.0%, or $32 million, over 2010.
- Electricity revenues increased as a result of a $61 million rise in domestic revenues partially offset by a $29 million decrease in export revenues. The decrease in export markets was primarily due to lower volumes and prices from the U.S. markets.
- The majority of export revenues derived from the U.S. market (84%) and the remainder (16%) came from sales to Canadian markets.
- Expenses for electricity and natural gas operations increased to $1.61 billion for fiscal 2011, largely due to higher operating and administrative expenses, a rise in finance expenses, and increased depreciation and amortization.

Outlook

- Based on current conditions, as it pertains to economic conditions and water levels, Manitoba Hydro is projecting that its net income for 2011-12 will be similar to the net income achieved in 2010-11. Factors that will continue to affect EBIT stability over the longer term include the following:
  - Hydrological levels at the Utility's watersheds.
  - Demand for power in Manitoba Hydro's export markets and the prevailing exchange rates.
  - Domestic rate increases.
  - Domestic load growth.

The Manitoba Hydro-Electric Board

Report Date:
November 28, 2011

Financial Profile

Statement of Cash Flow (CAD millions)	2011	2010	2009	2008	2007
	For the year ended March 31				
Reported net income	150	163	266	346	122
Depreciation & amortization	393	384	368	349	332
Other non-cash adjustments	-	-	-	-	-
Cash Flow From Operations	**543**	**547**	**634**	**695**	**454**
Capital expenditures (net of contrib.)	(1166)	(1068)	(915)	(830)	(645)
Dividends			-	-	-
Cash Flow Before W/C Changes	**(623)**	**(521)**	**(281)**	**(135)**	**(191)**
Changes in working capital	29	42	54	(62)	(11)
Net Free Cash Flow	**(594)**	**(479)**	**(227)**	**(197)**	**(202)**
Acq./divest./sinking fund pmt./other inv.	(191)	(630)	(171)	(158)	(143)
Cash Flow bef. Financing	**(785)**	**(1,109)**	**(398)**	**(355)**	**(345)**
Sinking fund withdrawals	646	263	261	0	-
Net change in long-term debt	192	873	157	522	240
Other financing	(157)	(12)	6	(35)	(13)
Net Change in Cash Flow	**(104)**	**15**	**26**	**132**	**(118)**

Key Financial Ratios					
EBITDA interest coverage (times) (2)	1.83	1.90	2.18	2.13	1.83
% debt in capital structure (1)	75.2%	75.4%	80.0%	76.3%	82.7%
Cash flow/total debt	6.5%	7.1%	8.3%	10.1%	6.7%

(1) Net of sinking fund assets. (2) Before capitalized interest, AFUDC.

Capital Structure	**2011**	**2010**	**2009**	**2008**	**2007**
Short-term and current long-term debt	30	310	619	353	553
Long-term debt	8,617	8,228	7,668	7,218	6,822
LESS: sinking funds	282	822	666	718	630
Total Net Debt	**8,365**	**7,716**	**7,621**	**6,853**	**6,745**
Equity	2,756	2,524	1,907	2,127	1,407
Total Capital	**11,121**	**10,240**	**9,528**	**8,980**	**8,152**

Summary

- Despite relatively strong operating cash flow, Manitoba Hydro continued to generate free cash flow deficits, largely as a result of substantial capital expenditures.
- Cash flow deficits are typically funded with debt and sinking fund withdrawals. Increased capital expenditures have been driven primarily by (1) generation system upgrades; (2) the development of new generation facilities, specifically the Wuskwatim (200 MW), Conawapa (1,485 MW) and Keeyask (695 MW) generating stations; and (3) upgrades and additions to improve the reliability of Manitoba Hydro's aging transmission and distribution infrastructure.
- Total capital expenditures for the fiscal year ending March 31, 2011, amounted to approximately $1.1 billion for the electricity segment, up from just over $1.0 billion during 2010.
- Capital expenditures for the electricity segment are for ongoing plant and equipment requirements, upgrades and new generation projects, substation upgrades, and a new high-voltage test facility.
- For the gas segment, capital expenditures amounted to $27 million, compared with $25 million in the previous fiscal year. Capital expenditures are related to new business, system improvement and other expenditures to meet the needs of natural gas customers.
- Growth in retained earnings has more than offset higher debt levels, resulting in continued improvement in the debt-to-capital ratio. However, Manitoba Hydro's leverage remains one of the highest among government-owned integrated utilities in Canada.
- With no mandatory dividend payment requirements, the Utility has been able to shore up its balance sheet through retained earnings.

Outlook

- Capital expenditures are expected to remain higher over the medium term as Manitoba Hydro continues to upgrade and improve the reliability of its aging electric infrastructure, as well as invest in the development of new hydro generation facilities.
- This capital program is expected to result in continued cash flow deficits. The extent of the Utility's funding requirements will largely be dependent on hydrology and export market conditions.
- Although debt balances will increase over the medium term, leverage could improve modestly from current levels due to increased retained earnings.
- In addition, completing large hydro generation and transmission projects on time and on budget is key to maintaining a stable financial profile.

Long-Term Debt Maturities and Bank Lines

Debt Profile (CAD millions)	%	For year ended March 31, 2011	2010
Advances from the Province	97%	8,467	8,288
Manitoba Hydro Bonds	1%	44	132
Manitoba Hydro-Electric Board Bonds*	2%	197	199
Total		8,708	8,619

* $75 million of unguaranteed bonds are part of the $197 million.

Debt Maturities Year	%	(CAD millions)
2012	0%	30
2013	2%	177
2014	9%	804
2015	1%	100
2016	4%	314
Thereafter	84%	7,283
Total		**8,708**

Summary

- The Province supports Manitoba Hydro by advancing funds or guaranteeing the Utility's long-term debt issues. Long-term debt at March 31, 2011, consisted of the following:
  - $8,467 million in advances from the Province (all of which have annual sinking fund requirements).
  - $44 million Manitoba Hydro Bonds.
  - $197 million Manitoba Hydro-Electric Board Bonds.
  - $1,884 million, or approximately 21.6%, of all obligations are denominated in U.S. dollars.
- Manitoba Hydro maintains a relatively smooth maturity profile, no unhedged foreign currency debt and a moderate level of floating-rate debt, which adds stability to debt servicing costs and minimizes interest rate risk.
- The Utility has bank credit facilities that provide for overdrafts and notes payable up to $500 million denominated in Canadian and/or U.S. dollars. At March 31, 2011, there were no amounts outstanding.
- Manitoba Hydro issues short-term debt in its own name for all its short-term cash requirements and does not receive short-term funding from the Province. These short-term notes are guaranteed by the Province of Manitoba.
- Only $75 million of Manitoba Hydro-Electric Board Bonds do not carry the provincial guarantee.

Watershed Storage Capacity

Manitoba Hydro draws water from four distinct watersheds: Nelson River, Winnipeg River, Saskatchewan River and Churchill River (including the Laurie River). This provides the Utility with some geographic diversification, especially during times of low hydrology. The main generation source is the Nelson River, which accounted for approximately 80% of power generated in F2011.

SOURCE OF ELECTRICAL ENERGY GENERATED AND IMPORTED

For the year ended March 31, 2011

Nelson River	**80.12%**	**Saskatchewan River**	**5.52%**
Billion kWh generated	**27.8**	**Billion kWh generated**	**1.9**
Limestone	27.28%	Grand Rapids	5.52%
Kettle	25.62%		
Long Spruce	21.05%	**Laurie River**	**0.16%**
Kelsey	4.93%	**Billion kWh generated**	**0.1**
Jenpeg	1.24%	Laurie River #1	0.08%
		Laurie #2	0.08%
Winnipeg River	**12.19%**		
Billion kWh generated	**4.2**	**Thermal**	**0.19%**
Seven Sisters	3.48%	**Billion kWh generated**	**0.1**
Great Falls	2.99%	Brandon	0.14%
Pine Falls	2.00%	Selkirk	0.05%
Pointe du Bois	0.93%		
Slave Falls	1.48%	**Purchases (excl. wind)**	**0.65%**
McArthur	1.31%	**Billion kWh imported**	**0.2**
		Wind	**1.17%**
		Billion kWh imported	**0.4**

Source: Manitoba Hydro.

Favourable characteristics inherent in Manitoba Hydro's watersheds include the following:

- Cold temperatures reduce overall evaporation rates, as much of the water is frozen for up to five months of the year.
- A significant portion of the watersheds consist of rock, which has lower seepage rates and higher runoff than predominantly soil-covered watersheds.
- Lake Winnipeg, Cedar Lake and South Indian Lake serve as large storage reservoirs. The Utility's water storage capacity is a competitive advantage in trading electricity (buying surplus U.S. power at low off-peak prices and selling its electricity during peak demand periods at higher prices).

The Manitoba Hydro-Electric Board

Report Date:
November 28, 2011

Manitoba Hydro's Generating Capacity

Manitoba Hydro owns and operates an aggregate generating capacity of 5,499 MW and is counterparty to an additional 237 MW of contracted wind capacity.

Manitoba Hydro's Generating Stations and Capabilities

For the year ended March 31, 2011			Net Capacity
Power Station	**Location**	**# of units**	**(MW)**
Hydroelectric			
Seven Sisters	Winnipeg River	6	165
Great Falls	Winnipeg River	6	136
Pine Falls	Winnipeg River	6	89
McArthur Falls	Winnipeg River	8	55
Pointe du Bois	Winnipeg River	16	77
Slave Falls	Winnipeg River	8	67
Grand Rapids	Saskatchewan River	4	479
Limestone	Nelson River	10	1,340
Kettle	Nelson River	12	1,220
Long Spruce	Nelson River	10	1,010
Kelsey	Nelson River	7	250
Jenpeg	Nelson River	6	133
Laurie River (2)	Laurie River	3	10
Total Hydroelectric Generation		**102**	**5,031**
Thermal			
Brandon (coal: 98 MW, gas: 241 MW)		3	333
Selkirk (gas)		**2**	**125**
Total Thermal Generation		**5**	**458**
Isolated Diesel Capabilities			
Brochet			3
Lac Brochet			2
Shamattawa			3
Tadoule Lake			2
Total Isolated Diesel Generation			**10**
Total Generation Capacity			**5,499**

Source: Manitoba Hydro.

The Province of Manitoba

(Excerpt from DBRS rating report dated August 22, 2011)

DBRS has confirmed the long- and short-term debt ratings of the Province of Manitoba (Manitoba or the Province) at A (high) and R-1 (middle), respectively. The trend on both ratings remains Stable. Supported by a resilient and well-diversified economy, the Province has exhibited only a modest deterioration in fiscal performance in relation to peers through the most recent downturn which has helped to limit the increase in debt.

The Province continues to adhere to its plan to restore fiscal balance by 2014-15 with almost no change in the outlook from the 2010 budget. After ending the 2010-11 fiscal year with a somewhat better-than-expected deficit (based on preliminary results), Manitoba is budgeting for a shortfall of $438 million in 2011-12, or $1.1 billion on a DBRS-adjusted basis. This equates to 1.9% of GDP, leaving Manitoba near the middle of pack among provinces in terms of fiscal outlook. Total revenues are projected to grow by a modest 2.2% as declining federal transfers and the implementation of certain tax cuts are more than offset by growth in the provincial tax base. Similarly, total expenditures are forecast to rise by 2.0% as the Province focuses on containing growth in wages and salaries while allowing for continued increases in health and education programs. The projected return to balance by 2014-15 seems achievable; however, it is likely to entail DBRS-adjusted deficits ranging from 2.0% to less than 1.0% of GDP over the period. Initiatives to restore balance are primarily focused on spending restraint as any major tax increases would require a referendum. Of note, additional costs related to spring flooding will likely cause the Province to miss this year's deficit target but this is not expected to materially affect the fiscal recovery plan. Preliminary estimates point to a net cost to the Province, after federal recoveries, of $154 million.

At March 31, 2011, DBRS-adjusted debt was estimated to have grown by $1.3 billion, or 7.9% over the prior year. This has pushed the debt-to-GDP ratio up to 32.4%. A large capital program will continue to drive an increase in debt which is projected to grow by $1.6 billion, or 9.4% in 2011-12. As a result, the debt-to-GDP ratio is expected to reach 33.6% – the fifth lowest debt burden among Canadian provinces. A gradually declining deficit and smaller capital program will help to curb debt growth over the medium term as the debt-to-GDP ratio is expected to peak at about 34% in 2012-13, which remains very manageable for the rating.

Following real GDP growth of 2.5% in 2010, the Province has assumed real growth of 2.7% for 2011 and 2012 which is somewhat below the private sector consensus. Solid population growth and a strong labour market should remain supportive of the domestic economy, although another year of significant flooding is likely to have dampened growth prospects. In addition, the economic outlook remains clouded by fiscal consolidation efforts in the United States and Europe along with ongoing sovereign debt challenges that could potentially disrupt the global economic recovery. Nonetheless, DBRS believes Manitoba is well-positioned to ride out the current storm provided fiscal discipline remains sound and debt growth contained.

The Manitoba Hydro-Electric Board

Report Date:
November 28, 2011

The Manitoba Hydro-Electric Board

Balance Sheet (CAD millions)	As at March 31					As at March 31			
Assets	2011	2010	2009	2008	**Liabilities & Equity**	2011	2010	2009	2008
Cash & equivalents	70	174	159	133	Short-term debt	0	0	100	0
Accounts receivable + accrued rev.	403	365	434	464	L.t. debt due one yr.	30	310	519	353
Interest receivable & materials	89	104	88	88	A/P & accrued liab.	431	418	430	445
Current Assets	**562**	**643**	**681**	**685**	**Current Liabilities**	**461**	**728**	**1,049**	**798**
Net fixed assets	10,954	10,128	9,382	8,935	Long-term debt	8,617	8,228	7,668	7,218
Deferred charges + Goodwill	775	545	531	1,156	Asset purchase obligation	207	207	218	222
Regulated assets	309	299	287	272	Other deferred liabilities	546	455	409	387
Sinking fund investments	282	822	666	718	Equity & Other	3,051	2,819	2,203	3,141
Total Assets	**12,882**	**12,437**	**11,547**	**11,766**	**Total Equity & Liabilities**	**12,882**	**12,437**	**11,547**	**11,766**

Ratio Analysis	For the year ended March 31				
Liquidity Ratios	2011	2010	2009	2008	2007
Current ratio	1.22	0.88	0.65	0.86	0.56
Total debt in the capital structure (1)	75.2%	75.4%	80.0%	76.3%	82.7%
Cash flow/total debt (1)	6.5%	7.1%	8.3%	10.1%	6.7%
Cash flow/capital expenditures (2)	0.47	0.51	0.69	0.84	0.70
Debt/EBITDA	9.3	8.2	7.4	6.3	7.3
Coverage Ratios (3)					
EBIT interest coverage	1.03	1.12	1.40	1.45	1.17
EBITDA interest coverage	1.83	1.90	2.18	2.13	1.83
Cash flow interest coverage	2.10	2.11	2.35	2.35	1.90
Earnings Quality/Operating Efficiency					
Puchased power/revenues	6.6%	6.6%	10.1%	7.9%	14.0%
Operating margin	28.2%	28.9%	34.5%	38.5%	31.7%
Net margin (before extras.)	8.5%	9.5%	13.9%	18.7%	6.9%
Return on avg. equity (before extras.)	6.5%	7.6%	13.6%	21.4%	9.1%
Customers/employee	85	86	88	90	93
Growth in electricity customer base	0.9%	0.9%	1.1%	0.9%	1.4%
GWh sold/employee	4.9	5.1	5.2	5.5	5.5

(1) Debt net of sinking fund assets.

(2) Capital expenditures net of customer contributions.

(3) Before capitalized interest, AFUDC

The Manitoba Hydro-Electric Board

Report Date:
November 28, 2011

Ratings

Debt	Rating Action	Rating	Trend
Short-Term Obligations	Confirmed	R-1 (middle)	Stable
Long-Term Obligations	Confirmed	A (high)	Stable

Note: These Obligations are based on the implicit support of the Province of Manitoba and the unconditional guarantee provided by the Province on Manitoba Hydro's third-party debt, and thus reflect the Province's debt ratings.

Rating History

	Current	2010	2009	2008	2007	2006
Short-Term Obligations	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (low)
Long-Term Obligations	A (high)	A (high)	A (high)	A (high)	A (high)	A (high)

Note: These Obligations are based on the implicit support of the Province of Manitoba and the unconditional guarantee provided by the Province on Manitoba Hydro's third-party debt, and thus reflect the Province's debt ratings.

Related Research

- DBRS Confirms the Province of Manitoba at A (high) and R-1 (middle), August 22, 2011.
- Province of Manitoba, Rating Report, August 22, 2011.

Note:
All figures are in Canadian dollars unless otherwise noted.

Rating Report

Report Date:
December 15, 2008

Previous Report:
October 12, 2007

Insight beyond the rating.

Province of Manitoba

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The Province

Manitoba is located in central Canada and ranks fifth among Canadian provinces with a population of 1.2 million residents and ranks sixth with GDP of $48.5 billion in 2007. The Province is home to significant renewable energy resources with almost all power generated from water.

Recent Actions

September 25, 2007
Confirmed

Rating

Debt	Rating	Rating Action	Trend
Short-Term Debt*	R-1 (middle)	Confirmed	Stable
Long-Term Debt*	A (high)	Confirmed	Stable

*Issued/guaranteed by the Province, including Manitoba Hydro-Electric Board

Rating Update

DBRS has confirmed both the Short-Term and Long-Term Debt ratings of the Province of Manitoba (Manitoba or the Province) at R-1 (middle) and A (high), respectively. The trends on both ratings are Stable. The Province has made steady progress over the past five years at reducing its debt burden, generating consistent economic growth and improving financial transparency, although the current economic turmoil introduces a significant amount of uncertainty. DBRS notes that Manitoba is one of the best-positioned provinces within its current rating to weather a significant downturn, with considerable financial flexibility and a track record of above-average economic resilience in recessionary periods. Provided the Province remains fiscally responsible and makes further progress towards containing debt growth, DBRS would likely review its position on the rating once economic conditions stabilize.

Fiscal results were stronger than expected in 2007-08 as the Province posted a DBRS-adjusted deficit of $174 million (including capital expenditures, as incurred, rather than as amortized by the Province). Strong income tax revenues, solid results at Manitoba Hydro and lower-than-expected capital expenditures more than offset small spending increases in other program areas. For 2008-09, the budget points to a DBRS-adjusted deficit of $354 million as health and education spending will continue to offset modest revenue growth. (Continued on page 2.)

Rating Considerations

Strengths

(1) Resilient and well diversified economy
(2) Slowly improving debt burden
(3) Prudent fiscal management practices
(4) Abundant low-cost hydro electricity

Challenges

(1) Growth in health-care spending remains challenging
(2) Highly reliant on federal transfers
(3) Revenue volatility introduced by Manitoba Hydro results

Financial Information

	For the year ended March 31				
(all financial figures DBRS adjusted)	2008-09B	2007-08	2006-07	2005-06	2004-05
Debt* ($ millions)	14,690	14,246	13,907	13,518	13,438
Debt*/GDP	29.0%	29.3%	31.0%	32.6%	33.8%
Surplus (deficit) ($ millions)	-354	-174	240	308	526
Surplus (deficit)/GDP	(0.7%)	(0.4%)	0.5%	0.7%	1.3%
Interest costs/total revenue	2.9%	2.9%	3.1%	3.1%	3.2%
Federal transfers/total revenue	29.4%	28.1%	27.5%	27.2%	28.8%
Nominal GDP ($ millions)	50,734	48,549	44,911	41,517	39,748
Real GDP growth rate	2.7%	3.3%	4.0%	2.4%	2.2%
Unemployment rate	4.2%	4.4%	4.3%	4.8%	5.3%

* DBRS-defined: tax-supported debt + unfunded pension liabilities. B = Budget.
Source: Province of Manitoba, Statistics Canada, and DBRS calculations.

Province of Manitoba

Report Date:
December 15, 2008

Rating Update (Continued from page 1.)

Manitoba's debt burden continued to steadily improve, down from 31.0% in 2006-07 to 29.3% in 2007-08. While capital spending plans will lead to debt growth in nominal terms, the Province's debt-to-GDP ratio is expected to remain relatively flat in 2008-09, but could face modest upward pressure next year if GDP growth stalls.

In light of rapidly deteriorating economic conditions, the recent private-sector consensus calls for real GDP growth of 2.3% in 2008 followed by 1.4% in 2009. This outlook is noticeably weaker than the 2.7% growth assumed in both years by the Province at the time of the budget, but compares favourably with provincial peers. Furthermore, DBRS notes that the forecast for growth in Manitoba has not been cut as drastically as in other provinces, and that speaks to the resilient and diversified nature of its economy.

Rating Considerations

Strengths

(1) Manitoba's economy has proven very resilient over the past ten years and has generated steady growth. With a fairly diversified manufacturing base and meaningful finance, insurance, health care, government and transportation sectors, the provincial economy shows less volatility than its manufacturing and resource-reliant neighbours. The Province has one of the lowest unemployment rates in the country and a below-average reliance on international exports.

(2) The Province's debt burden has been on a steadily declining trend for 13 consecutive years as debt-to-GDP has declined from 47.8% in 1994-95 to 29.3% in 2007-08. Manitoba also maintains sound debt management practices, with no foreign currency exposure, a moderate level of floating rate debt (19.0% in 2007-08) and a smooth maturity profile.

(3) Supported by multi-year fiscal plans, improved financial reporting and renewed balanced budget legislation that requires a consolidated balance over a rolling four-year period, the Province continues to exhibit prudent fiscal management practices. As of 2007-08, the budget and public accounts documents are now prepared on a consistent basis and cover all government operations including the recently consolidated public school divisions.

(4) As a result of significant hydro-electric resources, Manitoba Hydro generates the lowest-cost electricity in Canada and has some of the lowest rates in North America, which provides a significant competitive advantage to the Province. Approximately 98% of electricity is generated from renewable resources and further development projects are underway for both hydro and wind generation facilities.

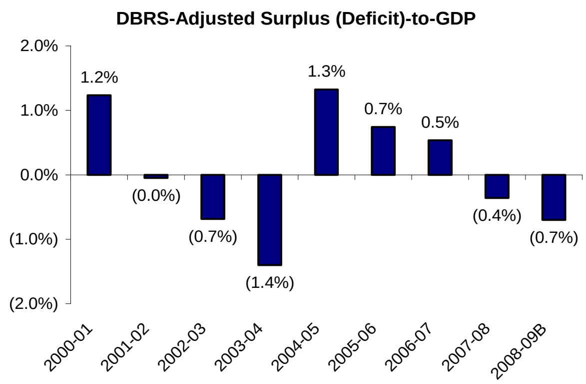
Challenges

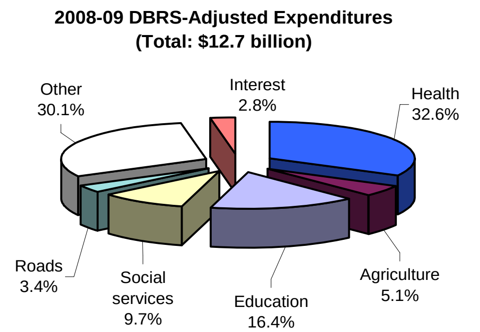
(1) Health-care labour costs continue to pose challenges as Manitoba must compete with resource-rich Western provinces to attract and retain skilled labour in the sector without the benefit of comparable financial resources. As a result, health-care expenditures have risen by an average of 6.6% annually over the past five years.

(2) The Province continues to be reliant on federal transfers for a sizeable portion of its revenues (over 28% in 2007-08). As such, Manitoba is susceptible to revisions to federal transfer programs at a time when all levels of government are experiencing a slowdown in revenue growth. The impact of other provinces falling in and out of equalization could also have an impact on Manitoba's share of the program and is beyond the Province's control.

(3) Manitoba Hydro's financial results exhibit considerable volatility due to the significant dependence on water flows. While this renewable, low-cost energy source is a boon to the Province, it adds an element of volatility to Manitoba's fiscal results and is difficult to forecast.

2008-09 Budget





For 2008-09, the Province budgeted for a surplus of $96 million, which translates into a DBRS-adjusted deficit of $354 million as DBRS makes adjustments to recognize capital expenditures as incurred rather than as amortized. Total revenues will increase by $270 million or 2.2%. Tax revenues are expected to remain relatively flat, dampened by new personal and business tax reductions that are expected to cost $182 million when fully implemented. A return to near-average income levels for Manitoba Hydro, after the large gains recorded in 2007-08, will also contribute to the modest decline in own-source revenues. Federal transfers are expected to increase by 6.8%, supported by solid growth in equalization payments.

Total expenditures are expected to grow by $450 million or 3.7%. Like most other provinces, health and education will absorb the bulk of new spending, primarily for increased labour costs, while most other program areas will see only modest increases. Gross operating fund capital spending of $579 million is focused on highway and bridge infrastructure and represents an increase of 16.3% over 2007-08. However, DBRS notes that the Province may under-spend its operating fund capital budget, which provides some flexibility should other spending needs arise or revenues deteriorate.

Outlook

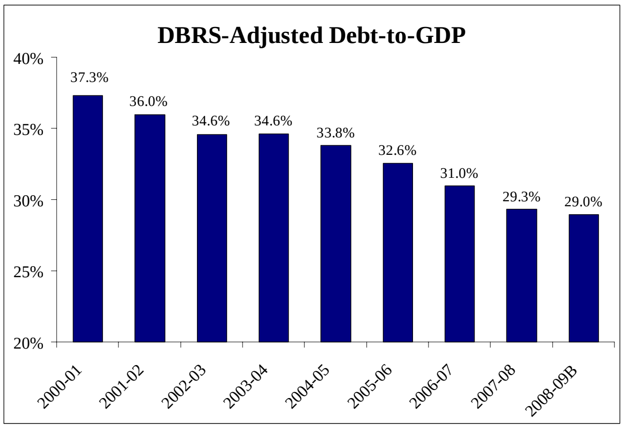
The latest quarterly update (at June 30, 2008), which only addresses core government results on an unconsolidated basis, reported an improvement in net income of $31 million on the back of higher revenues and lower expenditures. This improvement may be largely due to timing differences and could reverse later in the fiscal year, especially in light of the recent deterioration in economic conditions. However, Manitoba Hydro's recent second quarter report indicated the utility could provide some revenue upside as strong water flows are expected to boost its net income to $250 million by year-end.

At the time of the budget, the medium-term fiscal plan pointed to modest surpluses from 2009-10 to 2011-12 in the range of $90 million to $150 million. On a DBRS-adjusted basis, these are likely to result in moderate deficits after accounting for the Province's recently announced four-year, $4.7 billion capital plan. Manitoba's reliance on federal transfers as a source of revenue growth in recent years could be a constraint going forward in light of the federal government's recent decision to limit the growth in equalization payments. Nevertheless, the Province has demonstrated its ability to manage prudently, as evidenced by only three deficits recorded, on the Province's basis, since the mid-1990s.

2007-08 Results

In 2007-08, the Province recorded a better-than-expected DBRS-adjusted deficit of $174 million. Total revenues represented an improvement of 2.1% over the budget forecast, largely as a result of stronger-than-expected corporate and personal income tax receipts and solid results from Manitoba Hydro (excluding the one-time impact of an accounting change of $374 million). Compared to the initial budget estimates, total spending was up by 1.0%, with increases spread broadly across several program areas. Capital spending provided a partial offset, as the gross operating fund capital budget was under spent by $100 million.

Debt Profile



Manitoba's debt profile continued to improve at a slow and steady pace in 2007-08. DBRS-adjusted debt, defined as tax-supported debt plus unfunded pension liabilities, grew by 2.4% to $14.2 billion, mainly due to increased borrowing to fund capital expenditures. The Province also made a decision in-year to fund pension liabilities with $1.5 billion of debt although this has no impact on DBRS-adjusted debt. As of March 31, 2008 the Province's debt-to-GDP ratio stood at 29.3%, down from 31.0% the prior year due to sustained economic growth.

In 2008-09, the Province's DBRS-adjusted debt will continue to grow, in nominal terms, by $444 million, as increased borrowing will be required for capital investments. However, the Province's debt-to-GDP ratio should be little changed at 29.0%, helped by continued, though slower economic growth.

At the time of the budget, consolidated borrowing requirements for the Province were forecast to be $2.8 billion, more than half of which was needed for refinancing ($1.5 billion). The remainder is being used for capital investments, pension contributions and Manitoba Hydro. The Province maintains a fairly smooth maturity profile and minimizes exchange-rate and interest-rate risk with no foreign currency exposure and floating rate exposure of 19%, as of March 31, 2008. Manitoba had access to cash and short-term investments of almost $2.0 billion, as of March 31, 2008. Although a portion of this has likely been used to meet recent maturities, it is expected that Manitoba's liquidity position is still healthy. In addition, the Province recently increased the size of its Treasury bill program from $650 million to $975 million.

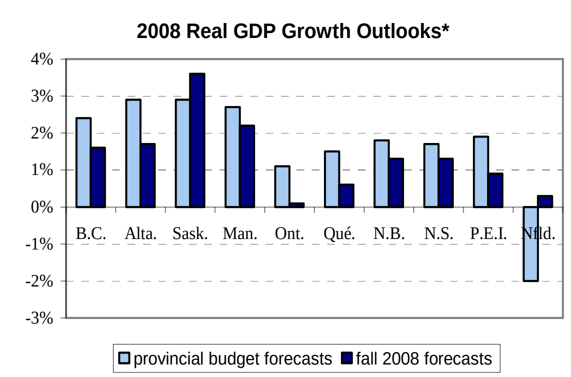
Outlook

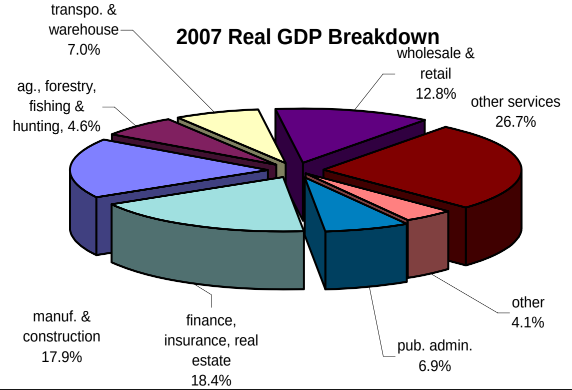
Manitoba's resilient and well-diversified economy and conservative fiscal stance leaves the Province well-positioned to weather an economic slowdown. While capital spending intentions will add to nominal debt, projected continued economic growth and Manitoba's $110 million annual contribution to its Debt Retirement Fund should allow the Province to maintain a fairly stable debt-to-GDP ratio. In the event that economic conditions continue to worsen, debt-to-GDP could start to rise, although DBRS would expect any growth in the ratio to be notably below average.

Province of Manitoba

Report Date:
December 15, 2008

Economy





* Based on provincial spring budget forecasts and the major banks' forecasts at the time of this report.

Manitoba's economy expanded by a sound 3.3% in 2007, one of the best performances in the country, although down slightly from the prior year, driven by strong growth in construction and trade and a resilient manufacturing sector. Housing starts reached a 20-year high, reflecting solid gains in personal income and steady population growth while non-residential investment grew by 18.5% in 2007. Retail trade grew by 8.8%, strongly above the national average of 5.8%. Manufacturing remains Manitoba's largest industry at 12% of GDP and continued to grow in 2007 despite headwinds from the strong Canadian dollar and deteriorating economic conditions in the United States. This strength helped boost the labour market with robust employment growth of 1.6%, keeping unemployment at 4.4%.

For 2008, private-sector forecasts now point to real growth of 2.3% in 2008 compared to the 2.7% that was assumed in the budget. This modest decline compares favourably with the current growth forecasts for other manufacturing intensive provinces and highlights the resilient and diversified nature of Manitoba's economy. Manitoba remains less reliant on foreign exports than many of its provincial peers, with only 50% of exports destined for international markets, of which only 72% is destined for the United States. Thus far, signs point to a small increase in foreign merchandise exports through the first eight months of the year.

Outlook

The resilience of Manitoba's economy will be further tested in 2009 as economic conditions continue to deteriorate globally. The Province has recently revised downwards its real growth forecast to 1.9% from 2.7% in the budget, which is above the private-sector consensus of 1.4%. These projections remain robust in light of a much-weaker outlook nationally, and DBRS expects Manitoba to continue to outperform the national average, mainly due to its consistent track record of steady growth and below-average dependence on international exports.

Economic Statistics	For the year ended December 31						
	2009P	2008P	2007	2006	2005	2004	2003
Nominal GDP ($ millions)	52,712	50,734	48,549	44,911	41,517	39,748	37,451
Nominal GDP growth	3.9%	4.5%	8.1%	8.2%	4.5%	6.1%	2.4%
Real GDP growth	2.7%	2.7%	3.3%	4.0%	2.4%	2.2%	1.4%
Population (thousands)	1,216	1,208	1,194	1,184	1,178	1,174	1,164
Population growth	0.7%	1.2%	0.8%	0.5%	0.4%	0.8%	0.6%
Employment (thousands)	613	606	597	587	580	577	570
Unemployment rate	4.3%	4.2%	4.4%	4.3%	4.8%	5.3%	5.0%
Housing starts (units)	5,200	5,450	5,738	5,028	4,731	4,440	4,206
Retail sales ($ millions)	n/a	n/a	14,008	12,870	12,381	11,692	10,953
Inflation rate (CPI)	2.1%	1.7%	2.0%	2.0%	2.7%	2.0%	1.8%
Personal income per capita ($)	n/a	n/a	32,106	30,179	28,722	27,834	26,656

Sources: Statistics Canada (actuals), Manitoba Finance, CMHC, and DBRS estimates. P= Projected. n.a. = not available.

Province of Manitoba

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December 15, 2008

Province of Manitoba

Budget Summary* (CAD millions)	Budget 2008-09	2007-08	Budget 2007-08	2006-07	2005-06	2004-05
Revenue	12,304	12,034	11,789	11,363	10,711	10,135
Program expenditure	12,305	11,862	11,730	10,774	10,067	9,287
Program surplus (deficit)	-1	172	59	589	644	848
Interest expense	-353	-346	-360	-349	-336	-322
DBRS-Adjusted Surplus (Deficit)	-354	-174	-301	240	308	526
DBRS adjustments:						
Capital expenditures less amortization	451	376	476	245	85	35
Other non-recurring items, incl. assets sales	0	374	0	0	0	0
Surplus (deficit), as reported	96	576	175	485	394	562
Tax-supported debt + unfunded pension liabilities	14,690	14,246	14,183	13,907	13,518	13,438
Gross borrowing requirements (all entities)	2,783	3,104	2,946	2,708	2,868	2,657
Gross capital expenditure	865	1,022	940	771	575	473

Note: Historical DBRS-adjusted results have been revised to improve comparability with other provinces.
* DBRS adjusts reported figures to exclude certain non-recurring items (e.g. asset sales). DBRS also recognizes capital expenditures as incurred, rather than as amortized, to improve inter-provincial comparability.

Selected Financial Indicators (DBRS-Adjusted)						
Debt*/GDP	29.0%	29.3%	29.2%	31.0%	32.6%	33.8%
Surplus (deficit)/GDP	(0.7%)	(0.4%)	(0.6%)	0.5%	0.7%	1.3%
Surplus (deficit)/total revenue	(2.9%)	(1.4%)	(2.6%)	2.1%	2.9%	5.2%
Interest costs/total revenue	2.9%	2.9%	3.1%	3.1%	3.1%	3.2%
Total tax revenues/total revenue	42.9%	44.0%	42.3%	43.4%	43.0%	44.1%
Federal transfers/total revenue	29.4%	28.1%	28.9%	27.5%	27.2%	28.8%
Health expenditures/total expenditures	32.6%	32.0%	32.1%	32.9%	33.1%	33.7%
Program expenditure growth	3.7%	10.1%	8.9%	7.0%	8.4%	7.0%
Total expenditure growth	3.7%	9.8%	8.7%	6.9%	8.3%	6.7%
Total revenue growth	2.2%	5.9%	3.7%	6.1%	5.7%	19.5%

* DBRS-defined: tax-supported debt + unfunded pension liabilities.

Background Political Information

Party in power:	New Democratic Party	Legislature seats:	36 of 57
Premier:	Gary Doer	Election to be held by:	June 2012

Province of Manitoba

Report Date:
December 15, 2008

Province of Manitoba

Revenue (CAD millions)	Budget 2008-09	2007-08	Budget 2007-08	2006-07	2005-06	2004-05
Personal income tax	2,312	2,285	2,159	2,130	1,949	1,845
Retail sales tax	1,469	1,391	1,327	1,277	1,197	1,125
Corporate taxes	830	939	822	846	870	913
Gasoline & motive fuel tax	227	248	232	241	236	235
Tobacco taxes	170	191	204	202	192	203
Energy, mining, and other taxes	269	240	246	231	163	145
Total tax revenue	5,278	5,294	4,990	4,927	4,607	4,467
Lottery income	301	297	275	283	277	273
Liquor control commission	227	219	213	208	196	185
Manitoba Hydro (4)	160	346	178	122	415	136
Natural resource levies	148	150	151	139	154	133
Fees, permits, licences, & other	285	289	271	270	277	245
Total Own-Source Revenue	6,400	6,594	6,078	5,948	5,927	5,439
Equalization payments	2,063	1,826	1,826	1,709	1,601	1,699
Canada health & social transfer	1,224	1,164	1,148	1,109	1,058	992
Other federal transfers	325	393	427	305	255	227
Total Federal Transfers	3,612	3,383	3,402	3,122	2,914	2,919
Consolidation adjustments (1)	2,292	2,057	2,309	2,292	1,870	1,777
DBRS-Adjusted Revenue	12,304	12,034	11,789	11,363	10,711	10,135
Expenditures (CAD millions)						
Health	4,132	3,912	3,880	3,658	3,441	3,237
Education and training	2,075	1,960	1,925	1,847	1,728	1,690
Social services	1,224	1,160	1,153	1,077	1,018	959
Justice	347	334	322	309	292	272
Transportation & government services	428	418	403	390	368	311
Agriculture, economic, & resource dev.	641	570	605	517	572	433
Manitoba property & other tax credits	45	48	48	50	50	51
Intergovernmental affairs	261	251	247	225	200	197
Other general government	337	363	328	283	265	243
Capital expenditures less amortization (2)	451	376	476	245	85	35
Consolidation adjustment (1)	2,428	2,469	2,408	2,172	2,047	1,860
Other	(65)	-	(65)	-	-	-
DBRS-Adjusted Program Expenditures	12,305	11,862	11,730	10,774	10,067	9,287
DBRS-Adjusted Program Surplus (Deficit)	(1)	172	59	589	644	848
Net interest expense (3)	(353)	(346)	(360)	(349)	(336)	(322)
DBRS-adjusted Expenditures	12,658	12,208	12,090	11,123	10,403	9,609
DBRS-Adjusted Surplus (Deficit)	(354)	(174)	(301)	240	308	526
DBRS adjustments:						
Capital expenditures less amortization (2)	451	376	476	245	85	35
Non-recurring revenue (expenditure) (4)	-	374	-	-	-	-
Surplus (deficit), as reported	96	576	175	485	394	562

Note: Expenditure categories may not be strictly comparable from year to year due to departmental reorganizations.

(1) 2006-07 and later years include school divisions which were previously excluded from public accounts.

(2) This adjustment converts capital expenditures to a pay-as-you-go basis.

(3) Interest expense is net of interest income generated by the Fiscal Stabilization and Debt Retirement Funds.

(4) Hydro net income excludes one-time impact of accounting change for recognition of FX gains and losses in prior years.

FX gains and losses are not included in budget figures but will impact actual results going forward.

Province of Manitoba

Report Date:
December 15, 2008

Province of Manitoba

Balance Sheet (Consolidated Statement)

(CAD millions)	As at March 31 2008	2007	2006		As at March 31 2008	2007	2006
Financial Assets				**Liabilities**			
Cash and cash equivalents	2,472	2,704	1,587	A/P and accrued charges	2,783	2,733	2,347
Amounts receivable	1,170	1,103	878	Debt (1)	20,826	19,288	18,586
Loans & advances (1)	7,887	7,411	7,447	Unamortized for. exch. fluc.	(67)	(73)	(79)
Equity in gov't enterprises	2,698	1,933	1,740	Unfunded pension liability	4,451	4,190	3,967
Net tangible capital assets	5,923	5,299	4,170	Other liabilities	-	-	-
Other assets	3,650	2,584	2,671	**Total Liabilities**	27,993	26,138	24,821
Total Financial Assets	23,800	21,034	18,493	**Accumulated Deficit**	(4,193)	(5,104)	(6,328)
				Total Liabilities	23,800	21,034	18,493

Net Public Sector Debt*

(CAD millions)	As at March 31 2009B	2008	2007	2006	2005	2004	2003	2002
Net general purpose debt	9,845	9,055	7,463	7,210	7,130	7,049	6,650	6,651
Crown corporation & gov't agencies	1,333	1,261	1,279	1,272	1,340	1,187	1,116	1,099
Schools and universities	387	387	360	306	300	272	441	416
Hospitals	963	857	790	767	739	615	640	615
Municipalities (2)	476	476	524	502	550	544	539	758
Net Tax-Supported Debt	13,004	12,037	10,416	10,057	10,059	9,667	9,386	9,539
Self-supporting debt:								
Manitoba Hydro	7,333	6,796	6,636	6,524	6,615	6,649	6,344	6,263
Total net public sector debt	20,337	18,833	17,052	16,581	16,674	16,316	15,729	15,802
Unfunded Pension Liabilities (3)	1,686	2,209	3,491	3,461	3,379	3,304	3,260	3,110
Per Capita (CAD) (3)								
Tax-supp. debt + unf. pension liabilities	12,161	11,936	11,746	11,473	11,451	11,145	10,933	10,985
Total public sector debt	16,836	15,779	14,402	14,072	14,208	14,019	13,599	13,724
As a % of GDP (3)								
Tax-supp. debt + unf. pension liabilities	29.0%	29.3%	31.0%	32.6%	33.8%	34.6%	34.6%	36.0%
Total public sector debt	40.1%	38.8%	38.0%	39.9%	41.9%	43.6%	43.0%	44.9%
Debt Breakdown by Currency (4)								
Cdn$ pay	n/a	100%	100%	100%	100%	100%	97%	94%
Non-CAD pay	n/a	0%	0%	0%	0%	0%	3%	6%
Fixed/Floating Rate Debt Breakdown (4)								
Fixed rate	n/a	81%	82%	81%	80%	73%	74%	74%
Floating rate	n/a	19%	18%	19%	20%	27%	26%	26%

Unfunded Pension Liabilities (Tax-Supported)

(CAD millions)	Valuation Date	Mar. 31, 2008
Civil service (5)	Dec. 31, 2004	1,899
Teachers (5)	Jan. 1, 2006	2,490
Other plans (includes MLAs, judges, other)	Mar. 31, 2007	62
	Total liabilities:	4,451
	Less pension assets:	2,242
	Total Unfunded Pension Liabilities:	2,209

Gross Debt Maturity Profile

	Public Sector Debt ($ millions)	%
2008-09	2,269	10.1%
2009-10	1,519	6.7%
2010-11	1,757	7.8%
2011-12	1,389	6.2%
2012-13	487	2.2%
2013-14 to 2017-18	6,045	26.8%
2018-19+	9,061	40.2%
Total	22,527	100%

* Net of sinking fund and Debt Retirement Fund assets. B = Budget.
n/a = not applicable.
(1) Includes asset and liability items related to debt of The Manitoba Hydro-Electric Board and Manitoba Lotteries Corporation.
(2) Not guaranteed by the Province. DBRS estimate for 2009B.
(3) Excludes pension liabilities of self-supporting Crown corporations.
(4) Net of hedges (if any).
(5) Civil Service includes amounts for indexation and unamortized pension adjustment; Teachers includes amount for indexation.

Province of Manitoba

Report Date:
December 15, 2008

Rating

Debt	Rating	Rating Action	Trend
Short-Term Debt*	R-1 (middle)	Confirmed	Stable
Long-Term Debt*	A (high)	Confirmed	Stable

*Issued/guaranteed by the Province, including Manitoba Hydro-Electric Board

Rating History

	Current	2007	2006	2005	2004	2003
Short-Term Debt*	R-1 (middle)	R-1 (middle)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)
Long-Term Debt*	A (high)	A (high)	A (high)	A (high)	A (high)	A (high)

*Issued/guaranteed by the Province, including Manitoba Hydro-Electric Board

Related Research

- Canadian Provincial Government Fact Sheet, December 3, 2008.

Note:
All figures are in Canadian dollars unless otherwise noted.

Rating Report

Report Date:
September 25, 2009

Previous Report:
December 15, 2008

Province of Manitoba

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The Province

Manitoba is located in Central Canada and ranks fifth among Canadian provinces by population and ranks sixth in terms of GDP. The Province is home to significant renewable energy resources with almost all power generated from water.

Recent Actions

December 15, 2008

Confirmed

Rating

Debt	Rating	Rating Action	Trend
Short-Term Debt*	R-1 (middle)	Confirmed	Stable
Long-Term Debt*	A (high)	Confirmed	Stable

* Issued / guaranteed by the Province, including Manitoba Hydro-Electric Board

Rating Update

DBRS has confirmed the Long- and Short-Term Debt ratings of the Province of Manitoba (Manitoba or the Province) at A (high) and R-1 (middle), respectively. The trend on both ratings remains Stable, although DBRS notes that the Province is weathering the recession better than most of its peers. Manitoba's continued spending discipline and its resilient economy has helped to limit fiscal erosion and debt growth, leaving the Province well positioned to further improve its already sound credit profile when the economic recovery gains momentum.

Manitoba is one of only two provinces that have planned for a fiscal surplus in 2009-10, budgeted at $48 million. While this translates into a DBRS-adjusted deficit of $573 million, or 1.1% of GDP, it nonetheless represents a sound outlook in relation to the challenging global economic environment and the difficulties experienced by provincial peers. Only a modest decline in revenues is expected, while expenditure growth will be limited at 4.2%, driven by health, education and capital spending initiatives. This follows a better-than-expected result in 2008-09, when a DBRS-adjusted surplus of $129 million was posted, demonstrating the Province's commitment to prudent fiscal management. The current plan points to another DBRS-adjusted deficit of around $600 million for 2010-11, after which DBRS expects the Province to return to balance, provided the economic recovery takes hold as suggested by private sector forecasts. (Continued on page 2.)

Rating Considerations

Strengths

(1) Resilient and well-diversified economy
(2) Manageable debt burden
(3) Prudent fiscal management practices
(4) Abundant low-cost hydro electricity

Challenges

(1) Containing growth in health care costs
(2) High reliance on federal transfers
(3) Revenue volatility introduced by Manitoba Hydro

Financial Information

	For the year ended March 31				
(all financial figures DBRS adjusted)	2009-10B	2008-09	2007-08	2006-07	2005-06
Debt* ($ millions)	15,558	14,503	14,234	13,907	13,518
Debt*/GDP	31.2%	28.5%	29.3%	31.0%	32.6%
Surplus (deficit) ($ millions)	(573)	129	(192)	240	308
Surplus (deficit)/GDP	(1.1%)	0.3%	(0.4%)	0.5%	0.7%
Interest costs/total revenue	2.9%	2.5%	2.9%	3.1%	3.1%
Federal transfers/total revenue	29.7%	28.1%	28.0%	27.5%	27.2%
Nominal GDP ($ millions)	49,919	50,886	48,549	44,911	41,517
Real GDP growth rate	(0.2%)	2.4%	3.3%	4.0%	2.4%
Unemployment rate	5.4%	4.2%	4.4%	4.3%	4.8%

* DBRS-defined: tax-supported debt + unfunded pension liabilities. B = Budget; P = Projected.

Source: Province of Manitoba, Statistics Canada, and DBRS calculations.

Rating Update (Continued from page 1.)

After falling to 28.5% of GDP in 2008-09, the fourteenth straight year of decline, Manitoba's debt-to-GDP ratio is expected to rise to 31.2% in 2009-10. This is a relatively modest deterioration when compared with the pace of debt accumulation in most other provinces and is consistent with DBRS's expectation that the Province could weather the downturn without considerable erosion to its debt profile. Debt will continue growing in 2010-11 but, assuming a modest economic recovery, the debt-to-GDP ratio should peak at 32% before fiscal balance is restored. This is a significant improvement from the last recession in 1991, when the Province experienced deficits approaching 3.0% of GDP and added 10% to its debt-to-GDP ratio.

Following solid real GDP growth of 2.4% in 2008, the second best performance of all provinces, Manitoba is again expected to outperform most provinces in 2009, as the private sector consensus points to only a 0.4% contraction in real GDP, demonstrating the resilience of the provincial economy. A growing service sector and a fairly diverse manufacturing base will support economic activity, aided by the Province's four-year, $4.7 billion capital plan. For 2010, the private sector consensus points to real GDP growth of 2.0%, although DBRS believes there is still considerable uncertainty with respect to the timing and pace of the recovery. DBRS also notes that after ten years in power, Premier Gary Doer recently announced his intention to resign this fall. Policy continuity appears likely, however, especially since no election is due before 2011, although the upcoming change in leadership adds an element of uncertainty to the outlook. DBRS remains of the view that stabilizing economic conditions, continued fiscal prudence and an improving debt outlook could have positive implications for the Long-Term Debt rating at the next review.

Rating Considerations Details

Strengths

(1) Manitoba's economy has proven very resilient over the years and has generated steady growth. With a fairly diversified manufacturing base and meaningful finance, insurance, health care, government and transportation sectors, the provincial economy shows less volatility than its manufacturing and resource-reliant neighbours. The Province has one of the lowest unemployment rates in the country and a below-average reliance on international exports.

(2) The Province's debt burden has been on a steady declining trend for the past 14 years and stood at 28.5% of GDP at March 31, 2009, the fourth lowest among all provinces. While this trend is expected to reverse temporarily in the current year, the erosion should be relatively limited, keeping Manitoba's debt burden manageable. A relatively smooth maturity profile and predominantly Canadian dollar denominated fixed rate debt help to mitigate interest and foreign exchange rate risk.

(3) Through transparent financial reporting practices and enhanced quarterly updates, Manitoba exhibits prudent stewardship of its fiscal resources which has resulted in DBRS-adjusted surpluses in four of the last five years, a performance matched by few other provinces.

(4) Manitoba benefits from an abundance of low-cost hydro electricity resulting in some of the lowest electricity rates in North America. This gives the Province a distinct advantage when competing for new business investment.

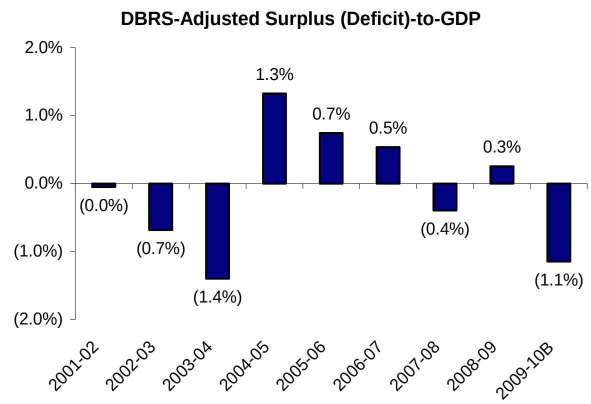
Challenges

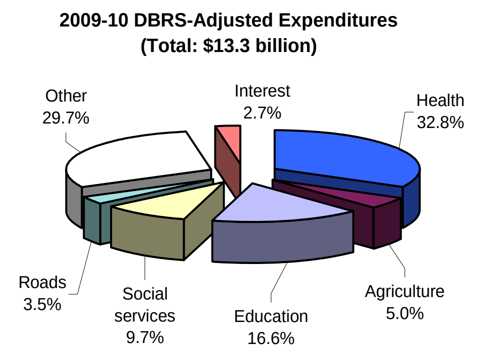
(1) Limiting the rate of growth in health care costs remains a challenge for all provinces, including Manitoba. Over the past five years, health care expenditures have risen by an average of 6.8% and the Province aims to keep spending growth contained to 2.6% in 2009-10, which could prove challenging in light of salary and wage increases historically needed to retain and attract health care professionals.

(2) Federal transfers comprised over 28% of total revenues in 2008-09, highlighting Manitoba's vulnerability to changes in transfer programs. In particular, changes announced last fall to limit growth in the equalization program will result in no increase in equalization entitlement for 2009-10.

(3) Manitoba Hydro's financial results exhibit considerable volatility due to the significant dependence on water flows. While this renewable, low-cost energy source is a boon to the Province, it adds an element of volatility to Manitoba's fiscal results and is difficult to forecast.

2009-10 Budget





Manitoba's resilience and prudent fiscal management is evident in its 2009 budget, which calls for a surplus of $48 million. This translates into a deficit of $573 million or 1.1% of GDP on a DBRS-adjusted basis (recognizing capital expenditures on a pay-as-you-go basis rather than as amortized), but is, nonetheless, a sound performance given the significant fiscal challenges affecting all provinces. Total revenues are forecast to fall by a modest 1.3%. Own-source revenues are expected to fall by 3.5% owing to lower personal and corporate income tax collections as well as reduced mining taxes. Providing an offset to lower tax receipts, federal transfers are budgeted to rise by 4.4%, supported by statutory increases in health and social transfers and additional funds for infrastructure renewal. As a result of the federal government's decision to limit growth in the size of the equalization program, Manitoba's equalization payments will remain flat, at $2.1 billion, in 2009-10.

DBRS-adjusted total expenditures are budgeted to grow by 4.2% as the Province provides targeted increases for education and infrastructure programs. Additional funds will be allocated for health care to address demand pressures and cost inflation. Upcoming labour negotiations with nurses could add to salary pressures while spending reductions in other program areas will provide a partial offset. Following through on a capital plan announced in November 2008, the Province plans to invest $4.7 billion over four years in capital renewal projects. This includes $1.1 billion in capital projects for the current year, up 16.6% from $978 million in 2008-09.

Outlook

The first quarter update (at June 30, 2009) points to a better-than expected performance thus far, with weaker revenues (down by $77 million) more than offset by lower spending (down by $132 million). However, this is largely attributed to timing differences rather than an improving forecast. The Province plans to provide an updated year-end projection in its second quarter report later this fall and DBRS expects that costs associated with the Red River flood earlier this spring and H1N1 preparedness could cause a deterioration in fiscal results.

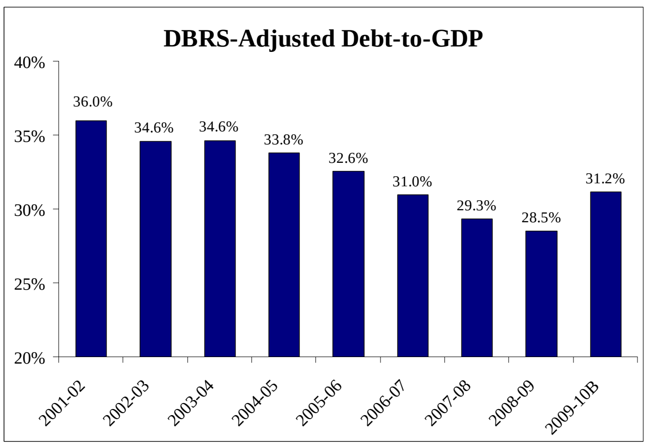
According to the medium-term outlook, as presented in the budget, the Province plans for another small surplus in 2010-11 of $34 million. This is likely to result in a DBRS-adjusted deficit of around $600 million based on another strong year of capital spending. The 2009-10 budget only presents a two-year fiscal outlook, unlike the four-year outlook presented in past budgets. Nevertheless, DBRS expects Manitoba to continue to exhibit disciplined fiscal management. Combined with the somewhat favourable economic outlook of the Province, this should reduce the risk of a prolonged period of weak fiscal results typical of recessionary times.

2008-09 Results

Year-end results indicate the Province posted a small DBRS-adjusted surplus of $129 million, or 0.3% of GDP, in 2008-09. This was notably better than the $365 million deficit originally expected and was a result of healthy Manitoba Hydro earnings and personal and corporate taxation, which helped drive total revenues up 6.6% over the prior year. Federal transfers also provided a boost to revenue as equalization payments rose 13.0% year-over-year.

Total expenditures grew by 3.9% over the prior year. Health, education and social services accounted for the bulk of the increase, although most other program areas also experienced growth. Capital spending fell by 4.3% compared to 2007-08 as some planned projects experienced weather-related delays.

Debt Profile



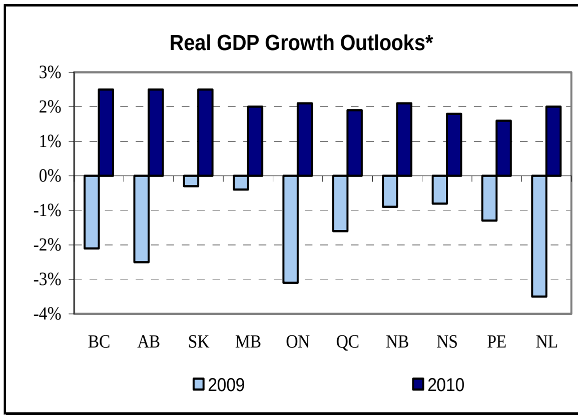
Manitoba's financial profile continued on its gradually improving trend in 2008-09. DBRS-adjusted debt, defined as tax-supported debt plus unfunded pension liabilities, grew by $269 million, or 2%, in 2008-09. Capital funding needs accounted for the bulk of new debt. Growth in nominal GDP more than offset growth in debt, resulting in the fourteenth straight decline in Manitoba's debt-to-GDP to 28.5% from a high of 47.8% in 1994-95.

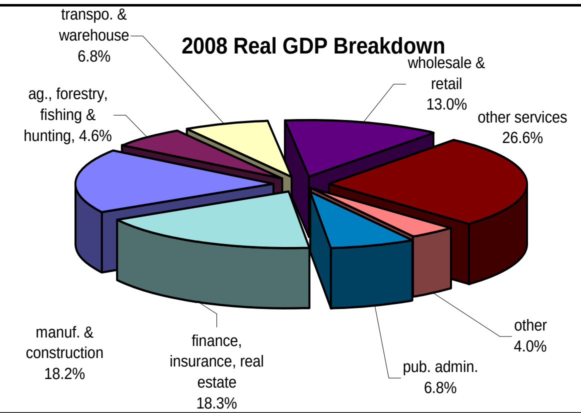
For 2009-10, the pace of debt growth is expected to accelerate to 7.3%, representing an increase of $1.1 billion from the previous year. Weaker fiscal conditions and borrowing needs for hospitals and crown corporations will account for the increase. Additional debt, along with a contraction in nominal GDP, will result in a debt-to-GDP ratio of 31.2%, marking the first increase in fifteen years. Consolidated borrowing requirements are estimated at $3.3 billion for the year, of which $1.6 billion had already been fulfilled at the time of this report. Roughly $1.5 billion will be required for refinancing needs with the remainder being used to finance capital spending, pension contributions and the debt needs of Manitoba Hydro. The Province maintains a relatively smooth maturing profile, modest floating rate debt and no foreign currency debt; all of which help to provide stability to debt servicing obligations.

Outlook

DBRS notes that while the increase in debt interrupts a trend of gradually improving debt metrics, it nonetheless is a relatively solid performance in relation to other provinces where debt is growing at faster rates. This is in part due to a more resilient economy and sound fiscal management, and positions the Province well to return to an improving debt trend following a recovery in economic conditions. Although a further deficit of roughly $600 million in 2010-11 will drive debt growth, assuming a modest economic recovery, debt-to-GDP should peak at 32% before fiscal balance is restored and a downward trend is resumed.

Economy





* Based on the Conference Board's and major Canadian banks' forecasts at the time of this report.

In 2008, Manitoba experienced real growth of 2.4%, a solid performance in light of deteriorating economic conditions across the country. Manitoba's resilience has been evident over the last ten years, having achieved the lowest standard deviation in real GDP growth of all provinces. Thanks in part to a relatively diversified manufacturing base that produces a wide range of products, including transit buses, aerospace components, farm and rail equipment, the economic downturn has not been as severe as in other manufacturing-intensive provinces. Finance, agriculture and mining sectors also play an important role in the provincial economy, though results were mixed in 2008. A growing population and steady employment growth led to relatively solid housing starts, only down 3.5% in 2008 compared to a decline of 7.6% nationally, and strong growth in retail sales of 7.2%, the third-highest among all provinces.

Outlook

For 2009, the private sector consensus calls for a contraction in real GDP of 0.4%, which is slightly weaker than the budget planning assumption of -0.2%. This is the second best growth outlook among provinces and implies only a mild recession in Manitoba. On a seasonally-adjusted basis, Manitoba boasted the second lowest provincial unemployment rate in August 2009, at 5.7%, while retail trade had seen a relatively small decline of 0.2% as of July 2009, compared with a 4.9% decline nationally. As a result of the Province's four-year $4.7 billion capital plan, investment will remain strong in the current year. Based on the July 28, 2009 Capital Expenditures Survey, non-residential construction and machinery and equipment spending intentions are expected to fall 2.4%, which compares favourably with a 10.4% decline nationally. DBRS notes, however, that there could be some downside risks to the current outlook as the financial impact of the Red River flood earlier this year and the H1N1 virus outbreak have yet to be quantified.

The 2010 private sector consensus points to real growth of 2.0%, although DBRS notes that considerable uncertainty remains with respect to the timing and pace of the global economic recovery. Manitoba is expected to continue building on its strengths with a growing service sector, including a regional distribution hub, and supportive manufacturing and agricultural industries. The Province has proven its resilience through this downturn, which provides considerable support to the credit profile.

Province of Manitoba

Report Date:
September 25, 2009

Economic Statistics

For the year ended December 31

	2010P	2009P	2008	2007	2006	2005	2004
Nominal GDP ($ millions)	51,716	49,919	50,886	48,549	44,911	41,517	39,748
Nominal GDP growth	3.6%	-1.9%	4.8%	8.1%	8.2%	4.5%	6.1%
Real GDP growth	2.0%	-0.2%	2.4%	3.3%	4.0%	2.4%	2.2%
Population (thousands)	1,226	1,217	1,208	1,194	1,184	1,178	1,174
Population growth	0.7%	0.8%	1.2%	0.8%	0.5%	0.4%	0.8%
Employment (thousands)	607	604	607	597	587	580	577
Unemployment rate	6.0%	5.4%	4.2%	4.4%	4.3%	4.8%	5.3%
Housing starts (units)	4,250	3,950	5,537	5,738	5,028	4,731	4,440
Retail sales ($ millions)	n/a	n/a	15,017	14,008	12,870	12,381	11,692
Inflation rate (CPI)	2.0%	0.6%	2.3%	2.0%	2.0%	2.7%	2.0%
Personal income per capita ($)	n/a	n/a	33,330	32,106	30,179	28,722	27,834

Sources: Statistics Canada (actuals), Manitoba Finance, CMHC, and DBRS estimates. P= Projected. n.a. = not available.

Province of Manitoba

Budget Summary* ($ millions)	Budget 2009-10	2008-09	Budget 2008-09	2007-08	2006-07	2005-06
Revenue	12,728	12,891	12,303	12,093	11,363	10,711
Program expenditure	12,938	12,445	12,300	11,939	10,774	10,067
Program surplus (deficit)	(210)	446	3	154	589	644
Interest expense	(363)	(317)	(368)	(346)	(349)	(336)
DBRS-Adjusted Surplus (Deficit)	(573)	129	(365)	(192)	240	308
DBRS adjustments:						
Capital expenditures less amortization	621	341	461	376	245	85
Other non-recurring items, incl. assets sales	0	0	0	374	0	0
Surplus (deficit), as reported	48	470	96	558	485	394
Tax-supported debt + unfunded pension liabilities	15,558	14,503	14,690	14,234	13,907	13,518
Gross borrowing requirements (all entities)	3,253	3,322	2,783	3,104	2,708	2,868
Gross capital expenditure	1,140	978	865	1,022	771	575

Note: Historical DBRS-adjusted results have been revised to improve comparability with other provinces.
* DBRS adjusts reported figures to exclude certain non-recurring items (e.g. asset sales). DBRS also recognizes capital expenditures as incurred, rather than as amortized, to improve inter-provincial comparability.

Selected Financial Indicators (DBRS-Adjusted)						
Debt*/GDP	31.2%	28.5%	28.9%	29.3%	31.0%	32.6%
Surplus (deficit)/GDP	(1.1%)	0.3%	(0.7%)	(0.4%)	0.5%	0.7%
Surplus (deficit)/total revenue	(4.5%)	1.0%	(3.0%)	(1.6%)	2.1%	2.9%
Interest costs/total revenue	2.9%	2.5%	3.0%	2.9%	3.1%	3.1%
Total tax revenues/total revenue	41.9%	42.9%	42.9%	43.8%	43.4%	43.0%
Federal transfers/total revenue	29.7%	28.1%	29.4%	28.0%	27.5%	27.2%
Program expenditures/total revenue	101.6%	96.5%	100.0%	98.7%	94.8%	94.0%
Health expenditures/total expenditures	32.8%	33.3%	33.7%	31.8%	32.9%	33.1%
Program expenditure growth	4.0%	4.2%	3.0%	10.8%	7.0%	8.4%
Total expenditure growth	4.2%	3.9%	3.1%	10.4%	6.9%	8.3%
Total revenue growth	(1.3%)	6.6%	1.7%	6.4%	6.1%	5.7%

* DBRS-defined: tax-supported debt + unfunded pension liabilities.

Background Political Information

Party in power:	New Democratic Party	Legislature seats:	36 of 57
Premier:	Gary Doer*	Election to be held by:	October 2011

*Announced plans to resign as of fall 2009.

Province of Manitoba

Report Date:
September 25, 2009

Province of Manitoba

Revenue ($ millions)	Budget 2009-10	2008-09	Budget 2008-09	2007-08	2006-07	2005-06
Personal income tax	2,343	2,455	2,312	2,285	2,130	1,949
Retail sales tax	1,595	1,569	1,549	1,473	1,357	1,280
Corporate taxes	910	979	830	939	846	870
Gasoline & motive fuel tax	221	229	227	248	241	236
Tobacco taxes	194	190	170	191	202	192
Energy, mining, and other taxes	65	110	189	158	152	81
Total tax revenue	5,327	5,532	5,278	5,294	4,927	4,607
Lottery income	312	305	301	297	283	277
Liquor control commission	236	229	227	219	208	196
Manitoba Hydro (4)	265	314	160	346	122	415
Natural resource levies	162	146	139	150	139	154
Fees, permits, licences, & other	315	335	294	289	270	277
Total Own-Source Revenue	6,617	6,860	6,400	6,594	5,948	5,927
Equalization payments	2,063	2,063	2,063	1,826	1,709	1,601
Canada health & social transfer	1,296	1,263	1,224	1,206	1,109	1,058
Other federal transfers	423	298	325	351	305	255
Total Federal Transfers	3,782	3,624	3,612	3,383	3,122	2,914
Consolidation adjustments (1)	2,329	2,407	2,291	2,116	2,292	1,870
DBRS-Adjusted Revenue	12,728	12,891	12,303	12,093	11,363	10,711
Expenditures ($ millions)						
Health	4,362	4,253	4,268	3,912	3,658	3,441
Education and training	2,207	2,067	2,092	1,960	1,847	1,728
Social services	1,285	1,259	1,279	1,160	1,077	1,018
Justice	386	368	374	334	309	292
Transportation & government services	464	442	456	418	390	368
Agriculture, economic, & resource dev.	668	577	629	570	517	572
Manitoba property & other tax credits	44	45	45	48	50	50
Intergovernmental affairs	232	333	336	251	225	200
Other general government	275	329	287	363	283	265
Capital expenditures less amortization (2)	621	341	461	376	245	85
Consolidation adjustment (1)	2,460	2,431	2,136	2,546	2,172	2,047
Other	(65)	-	(65)	-	-	-
DBRS-Adjusted Program Expenditures	12,938	12,445	12,300	11,939	10,774	10,067
DBRS-Adjusted Program Surplus (Deficit)	(210)	446	3	154	589	644
Net interest expense (3)	(363)	(317)	(368)	(346)	(349)	(336)
DBRS-adjusted Expenditures	13,301	12,762	12,668	12,285	11,123	10,403
DBRS-Adjusted Surplus (Deficit)	(573)	129	(365)	(192)	240	308
DBRS adjustments:						
Capital expenditures less amortization (2)	621	341	461	376	245	85
Non-recurring revenue (expenditure) (4)	-	-	-	374	-	-
Surplus (deficit), as reported	48	470	96	558	485	394

Note: Expenditure categories may not be strictly comparable from year to year due to departmental reorganizations.
(1) 2006-07 and later years include school divisions which were previously excluded from public accounts.
(2) This adjustment converts capital expenditures to a pay-as-you-go basis.
(3) Interest expense is net of interest income generated by the Fiscal Stabilization and Debt Retirement Funds.
(4) Hydro net income excludes one-time impact of accounting change for recognition of FX gains and losses in prior years.
FX gains and losses are not included in budget figures but will impact actual results going forward.

Province of Manitoba

Report Date:
September 25, 2009

Province of Manitoba

Balance Sheet (Consolidated Statement)

($ millions)	As at March 31				As at March 31		
Financial Assets	2009	2008	2007	**Liabilities**	2009	2008	2007
Cash and cash equivalents	2,657	2,694	2,704	A/P and accrued charges	3,576	3,308	2,733
Amounts receivable	1,110	1,177	1,103	Debt (1)	22,733	21,944	19,288
Loans & advances (1)	8,603	7,887	7,411	Unamortized for. exch. fluc.	(61)	(67)	(73)
Equity in gov't enterprises	2,189	2,697	1,933	Unfunded pension liability	2,003	4,470	4,190
Net tangible capital assets	6,520	5,934	5,299	Other liabilities	-	-	-
Other assets	2,268	4,673	2,584	**Total Liabilities**	28,251	29,655	26,138
Total Financial Assets	23,347	25,062	21,034	**Accumulated Deficit**	(4,904)	(4,593)	(5,104)
				Total Liabilities	23,347	25,062	21,034

Net Public Sector Debt* ($ millions)	As at March 31 2010B	2009	2008	2007	2006	2005	2004	2003
Net general purpose debt	10,415	9,660	9,059	7,463	7,210	7,130	7,049	6,650
Crown corporation & gov't agencies	1,451	1,164	1,269	1,279	1,272	1,340	1,187	1,116
Schools and universities	384	384	387	360	306	300	272	441
Hospitals	1,054	831	833	790	767	739	615	640
Municipalities (2)	476	476	476	524	502	550	544	539
Net Tax-Supported Debt	13,780	12,516	12,025	10,416	10,057	10,059	9,667	9,386
Self-supporting debt:								
Manitoba Hydro	8,247	7,575	6,796	6,636	6,524	6,615	6,649	6,344
Total net public sector debt	22,027	20,091	18,821	17,052	16,581	16,674	16,316	15,729
Unfunded Pension Liabilities (3)	1,778	1,987	2,209	3,491	3,461	3,379	3,304	3,260
Per Capita (CAD) (3)								
Tax-supp. debt + unf. pension liabilities	12,783	12,006	11,926	11,746	11,473	11,451	11,145	10,933
Total public sector debt	18,097	16,632	15,769	14,402	14,072	14,208	14,019	13,599
As a % of GDP (3)								
Tax-supp. debt + unf. pension liabilities	31.2%	28.5%	29.3%	31.0%	32.6%	33.8%	34.6%	34.6%
Total public sector debt	44.1%	39.5%	38.8%	38.0%	39.9%	41.9%	43.6%	43.0%
Debt Breakdown by Currency (4)								
Cdn$ pay	n/a	100%	100%	100%	100%	100%	100%	97%
Non-CAD pay	n/a	0%	0%	0%	0%	0%	0%	3%
Fixed/Floating Rate Debt Breakdown (4)								
Fixed rate	n/a	80%	81%	82%	81%	80%	73%	74%
Floating rate	n/a	20%	19%	18%	19%	20%	27%	26%

Unfunded Pension Liabilities (Tax-Supported) (CAD millions)	Valuation Date	Mar. 31, 2009
Civil service (5)	Dec. 31, 2007	1,197
Teachers (5)	Jan. 1, 2006	725
Other plans (includes MLAs, judges, other)	Various	65
	Total liabilities:	1,987
	Less pension assets:	(incl. above)
	Total Unfunded Pension Liabilities:	1,987

Gross Debt Maturity Profile

Public Sector Debt	($ millions)	%
2009-10	2,194	9.4%
2010-11	2,046	8.7%
2011-12	2,004	8.6%
2012-13	1,615	6.9%
2013-14	1,476	6.3%
2014-15 to 2018-19	5,633	24.0%
2019-20+	8,461	36.1%
Total	23,429	100%

* Net of sinking fund and Debt Retirement Fund assets. P = Projected; B = Budget; n/a = not applicable.

(1) Includes asset and liability items related to debt of The Manitoba Hydro-Electric Board and Manitoba Lotteries Corporation.
(2) Not guaranteed by the Province. DBRS estimate for 2009P; 2010B.
(3) Excludes pension liabilities of self-supporting Crown corporations.
(4) Net of hedges (if any).
(5) Civil Service includes amounts for indexation and unamortized pension adjustment; Teachers includes amount for indexation.

Province of Manitoba

Report Date:
September 25, 2009

Rating

Debt	Rating	Rating Action	Trend
Short-Term Debt*	R-1 (middle)	Confirmed	Stable
Long-Term Debt*	A (high)	Confirmed	Stable

* Issued/guaranteed by the Province, including Manitoba Hydro-Electric Board

Rating History

	Current	2008	2007	2006	2005	2004
Short-Term Debt	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (low)	R-1 (low)
Long-Term Debt	A (high)	A (high)	A (high)	A (high)	A (high)	A (high)

Related Research

- Canadian Provincial Government Fact Sheet, July 31, 2009.

Note:
All figures are in Canadian dollars unless otherwise noted.

Rating Report

Report Date:
October 8, 2010

Previous Report:
September 25, 2009

Province of Manitoba

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The Province

Manitoba is located in Central Canada and ranks fifth among Canadian provinces by population and sixth in terms of GDP. The Province is home to significant renewable energy resources, with almost all power generated from water.

Recent Actions

September 25, 2009

Confirmed

Rating

Debt	**Rating**	**Rating Action**	**Trend**
Short-Term Debt*	R-1 (middle)	Confirmed	Stable
Long-Term Debt*	A (high)	Confirmed	Stable

* Issued/guaranteed by the Province, including The Manitoba Hydro-Electric Board.

Rating Update

DBRS has confirmed the long- and short-term debt ratings of the Province of Manitoba (Manitoba or the Province) at A (high) and R-1 (middle), respectively. The trend on both ratings remains Stable. A relatively resilient and diversified economy has resulted in only a modest deterioration in fiscal performance. While Manitoba's debt burden continues to grow, unwinding some of the positive momentum of recent years, the Province maintains considerable flexibility within its ratings and is well positioned to withstand a potentially prolonged period of slow economic growth.

In 2009-10, the Province recorded a deficit of $201 million, weaker than the small surplus originally budgeted. This translates into a DBRS-adjusted deficit of $685 million, or 1.4% of GDP – still a favourable result in relation to provincial peers. For the current fiscal year, the budget points to a deficit of $545 million, or $1.2 billion on a DBRS-adjusted basis. Despite improving economic conditions, total revenues are only budgeted to grow by a modest 0.6% in the current fiscal year, slower than the 4.4% increase in spending. Health care will account for the bulk of new spending as the Province aims to tightly manage growth in program costs and pursue labour agreements with no increases, which DBRS views as an ambitious target. The Province anticipates a return to balance by 2014-15, which equates to DBRS-adjusted deficits ranging from 2.0% to less than 1.0% of GDP.

DBRS-adjusted debt grew by $1.4 billion in 2009-10, which pushed the debt-to-GDP ratio up to 31.6% from 28.9% a year earlier. Debt is expected to grow by a further $1.4 billion in 2010-11, or 9.0%, taking the debt-to-GDP ratio to slightly above 33.0% and eroding some of the progress of recent years. (Continued on page 2.)

Rating Considerations

Strengths
(1) Resilient and well-diversified economy
(2) Manageable debt burden
(3) Prudent fiscal management practices
(4) Abundant low-cost hydro electricity

Challenges
(1) Containing growth in health-care costs
(2) High reliance on federal transfers
(3) Revenue volatility introduced by Manitoba Hydro

Financial Information

	For the year ended March 31				
(all financial figures DBRS adjusted)	2010-11B	2009-10	2008-09	2007-08	2006-07
Debt* ($ millions)	17,486	16,046	14,684	14,234	13,907
Debt*/GDP	33.1%	31.6%	28.9%	29.2%	30.9%
Surplus (deficit) ($ millions)	(1,194)	(685)	110	(192)	240
Surplus (deficit)/GDP	(2.3%)	(1.4%)	0.2%	(0.4%)	0.5%
Interest costs/total revenue	3.1%	2.7%	2.6%	2.9%	3.1%
Federal transfers/total revenue	29.5%	29.1%	28.4%	28.0%	27.5%
Nominal GDP ($ millions)	52,762	50,732	50,834	48,718	45,029
Real GDP growth rate	2.5%	(0.2%)	2.0%	3.6%	3.3%
Unemployment rate	5.7%	5.2%	4.2%	4.4%	4.3%

* DBRS-defined: tax-supported debt + unfunded pension liabilities. B = Budget.
Source: Province of Manitoba, Statistics Canada, and DBRS calculations.

Rating Update (Continued from page 1.)

An improving fiscal picture and gradual decline in capital needs is expected to result in debt-to-GDP peaking at around 34% in 2012-13. This represents a somewhat higher peak than what was assumed at the time of last year's review but is nonetheless very manageable within the rating.

After experiencing only a minor contraction in 2009, the Province is anticipating a modest recovery with real growth of 2.5% in 2010. Lower non-residential investment in the Province and reduced agricultural output due to a wet summer are likely to dampen growth prospects. However, improving demand for non-renewable resources and sound domestic demand, supported by a growing population, should provide an offset. For 2011, the Province has assumed growth of 3.0%, consistent with the current private sector average, which DBRS believes carries some downside risks related to the uncertain pace of global economic recovery, and the impact of a strong Canadian dollar on exports. Overall, soft fiscal results and recent debt accumulation have lessened some of the positive momentum of recent years, but DBRS believes that Manitoba's above-average economic and fiscal performance through the recent downturn leaves it well positioned to withstand a potentially uneven economic recovery.

Rating Considerations Details

Strengths

(1) Manitoba's economy has proven very resilient over the last decade and this was evident again in 2009 as real GDP fell by a mild 0.2% compared with a 2.6% decline nationally. With a fairly diversified manufacturing base and meaningful finance, health care, government and transportation sectors, the provincial economy shows less volatility than its manufacturing and resource-dependent neighbours. The Province has one of the lowest unemployment rates in the country and a below-average reliance on international exports.

(2) Manitoba's debt burden ended the 2009-10 fiscal year at 31.6% of GDP. This positions Manitoba with the fifth lowest debt burden among Canadian provinces and is a level that is very manageable within the rating. The Province maintains a relatively smooth maturity profile, no unhedged foreign currency debt and a moderate level of floating-rate debt, which adds stability to debt servicing costs.

(3) Through transparent financial reporting practices and regular quarterly updates, Manitoba exhibits prudent stewardship of its fiscal resources. This is evident in the Province's fiscal results, which exhibited a fairly stable and consistent performance for several years prior to the downturn and only mild erosion since.

(4) Manitoba benefits from an abundance of low-cost hydro electricity, resulting in some of the lowest electricity rates in North America. This gives the Province a distinct advantage when competing for new business investment. Work on the $1.6 billion Wuskwatim dam project is currently underway and will further add to Manitoba's supply of hydro electricity.

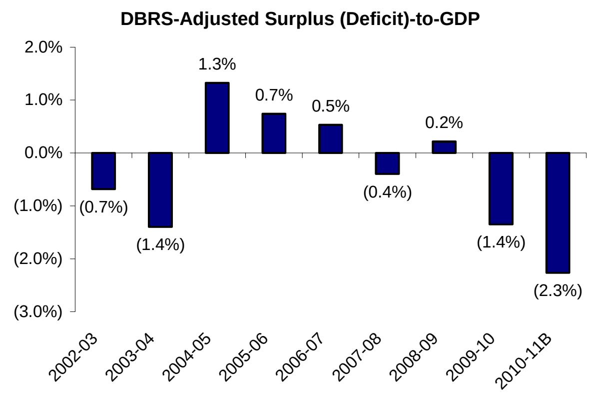
Challenges

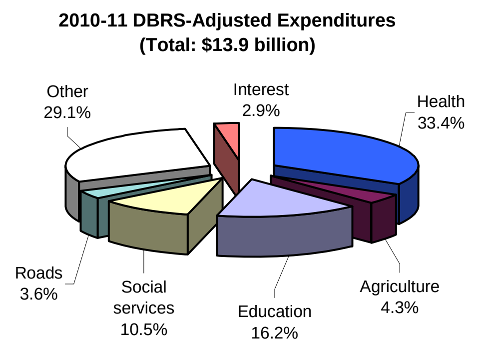
(1) Growth in health-care spending remains one of the primary challenges for all provinces, including Manitoba. Over the last five years, spending on health has grown by 6.7% on average, including an estimated 5.8% in 2009-10. Going forward, health-care spending will continue to crowd out demands in other program areas as it accounts for the bulk of expenditure growth in the Province's medium-term plan.

(2) Federal transfers accounted for 29.1% of total revenues in 2009-10, highlighting Manitoba's vulnerability to changes in transfer programs. For the 2010-11 year, the federal government provided protection to ensure that major federal transfers to provinces did not decline year-over-year. However, Manitoba could experience a decline in equalization entitlements in the coming years, due to program growth limits introduced in 2008 and because of above-average fiscal performance through the recent downturn,.

(3) Manitoba Hydro's financial results exhibit considerable volatility due to the significant dependence on water flows. While this renewable, low-cost energy source is a boon to the Province, it adds an element of volatility to Manitoba's fiscal results and is difficult to forecast.

2010-11 Budget





For 2010-11, the Province is forecasting a deficit of $545 million, which translates into a DBRS-adjusted deficit of $1.2 billion, or 2.3% of GDP. If achieved, this is likely to be one of the smallest fiscal shortfalls among Canadian provinces. Total revenues are only projected to grow by 0.6%, supported by a recovery in tax revenues. Retail sales tax proceeds are expected to grow by 6.3%, owing to improving economic conditions along with 4.4% growth in tobacco taxes due to a two-cent increase per cigarette. This is expected to be partially offset by a decline in corporate tax receipts as prior-year losses are carried forward. Federal transfers, which are expected to account for almost 30% of total revenues in the current fiscal year, will see slower growth. Manitoba benefited from the federal government's decision to protect provinces and ensure that no province experienced a decline in overall major federal transfers (equalization, health and social transfers), but could be at risk of lower federal transfers in the coming years.

Total expenditures are forecast to grow by 4.4% in 2010-11 as the Province embarks on a plan to manage growth in program costs through reductions in discretionary spending, delaying new initiatives and controlling wage and salary growth. Health care will consume the bulk of new funds and is forecast to grow by 4.0%, which is below the five-year average growth rate of 6.7%. Aside from a modest increase for education (3.2%), most other program areas will see little to no growth. An important component of Manitoba's expenditure management plan is a goal to limit the increase in wages and salaries by pursuing labour agreements with no increases. DBRS views this as an ambitious target but notes that a recent agreement with Manitoba nurses involved two years of zero increases, which indicates that there is support for the government's plan. In addition, DBRS notes that the size of the civil service could be reduced through attrition, potentially providing some relief to overall wage and salary costs.

Outlook

The first quarter update, released on September 27, 2010, points to a somewhat stronger-than-expected performance through the early part of the year, with revenues tracking $65 million ahead of plan while spending is $80 million under budget. The Province attributes this variance largely to timing differences rather than to a significant deviation from plan and notes that unanticipated costs related to flooding and forest fire fighting earlier in the year will add some pressure. An updated year-end fiscal forecast will be provided in the Province's second quarter update later this fall.

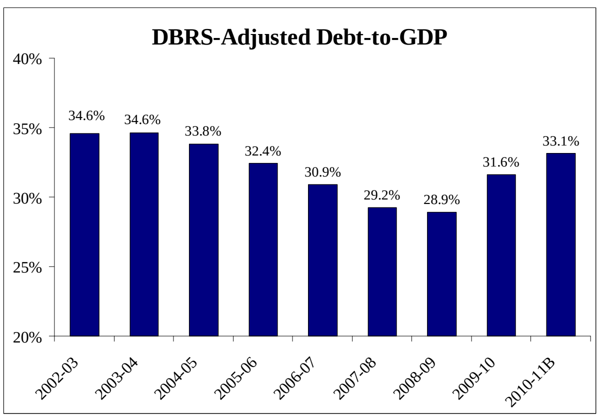
The Province has returned to a five-year fiscal planning cycle, after opting for a shorter outlook in last year's budget due to heightened economic uncertainty. This year's plan forecasts gradually declining deficits with a return to a small surplus forecasted in 2014-15. On a DBRS-adjusted basis, this would imply deficits ranging from 2.0% to less than 1.0% of GDP over the period. DBRS believes this is a realistic and achievable plan and notes that it may be possible for the Province to return to balance earlier than forecast if the economic recovery gains traction. Alternatively, a weaker-than-expected recovery would likely require enhanced spending restraint as the Province is unable to increase major taxes without a referendum.

2009-10 Results

Based on the recently released Public Accounts, Manitoba recorded a deficit of $201 million in 2009-10 (compared with a $48 million surplus originally budgeted), reflecting revenues that were somewhat below budget expectations and increased spending on disaster assistance and H1N1 preparations. On a DBRS-adjusted basis, this translates into a deficit of $685 million, or 1.4% of GDP – still a favourable result in relation to most other provinces. Year-over-year, total revenues shrank by close to 1.0%, largely due to lower corporate and personal income tax receipts and weaker results at Manitoba Hydro. Higher federal transfers helped to provide a partial offset.

Total spending grew by 5.5% over the prior year and faster than budgeted. Social services were a key driver of year-over-year spending growth while health and education also witnessed meaningful increases. Gross capital spending increased by 25% and emergency costs for H1N1 preparedness and spring flooding also contributed to spending growth.

Debt Profile



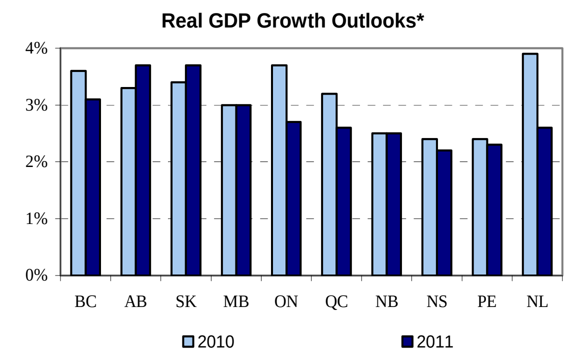
DBRS-adjusted debt, defined as tax-supported debt plus unfunded pension liabilities, grew by $1.4 billion, or 9.3%, in 2009-10. This increase was somewhat larger than expected and was largely driven by weak fiscal results and capital spending needs. After falling for fourteen straight years to 28.9% in 2008-09, Manitoba's debt-to-GDP ratio climbed to 31.6% as of March 31, 2010.

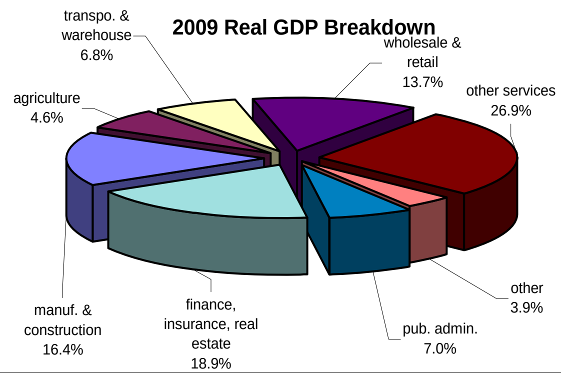
Outlook

Another deficit and sizeable capital program will contribute to debt growth of $1.4 billion, or 9.0%, in 2010-11. Crown corporations and hospitals will account for $324 million of debt needs. As a result, the debt-to-GDP ratio is forecast to rise to 33.1%, which would be the fourth lowest among all provinces. Gross borrowing requirements are estimated at $3.4 billion for the year, of which almost $900 million is needed for refinancing needs, with the remainder being used to fund the fiscal shortfall, capital needs, pension contributions and the needs of Manitoba Hydro. At the time of writing, $2.1 billion in borrowing requirements had been fulfilled. The Province aims for a smooth maturity profile; as of March 31, 2010, it had only modest floating rate debt and, excluding Manitoba Hydro, no foreign currency debt, which helps provide stability to debt servicing obligations.

Based on the Province's medium-term outlook, and DBRS's expectation that capital needs will be gradually reduced as stimulus initiatives expire, the debt-to-GDP ratio is projected to peak around 34% in 2012-13 and start declining thereafter. This represents a somewhat higher peak than what was assumed at the time of last year's review but is nonetheless very manageable within the rating.

Economy





* Based on major Canadian banks' forecasts at the time of this report.

In 2009, Manitoba experienced its first contraction in real GDP since 1991, although the decline of 0.2% was mild in relation to the 2.6% drop that occurred nationally. The Province's resilience is, in part, due to a relatively diversified manufacturing base that provides a wide range of products, including transit buses, aerospace components, and farm and rail equipment. Nonetheless, the value of manufacturing sales fell by 11.1%, compared with a significant 17.4% for Canada as a whole. Manitoba was one of only three provinces to register a gain in employment in 2009, although labour force growth boosted the unemployment rate to 5.2%, up from 4.2% the prior year. Population growth was also sound and exceeded the national average for the first time since 1985. However, this was insufficient to support the housing market and retail sales. Housing starts contracted by 25% and Manitoba experienced its first decline in retail trade since the early nineties.

Outlook

A modest recovery is assumed by the Province for 2010, including real growth of 2.5%, which is somewhat below the private sector consensus. Due to excessive moisture in parts of the Province early in the growing season, agricultural output is likely to dampen growth prospects although favourable demand in the mining sector does provide an offset. Based on Statistics Canada's survey of investment intentions, Manitoba is the only province expected to see a decline in non-residential investment. This is evident in the value of building permits, which, as of July 2010, were down by 8.3% (seasonally adjusted) year-over-year compared with a Canada-wide increase of 33.0%. Slowing, but still-solid population growth of 1.0% should help support domestic demand. Mainly through its provincial nominee program, the Province is targeting 20,000 new immigrants annually by 2016, up from 13,500 in 2009.

For 2011, the budget assumes real growth of 3.0%, consistent with the private sector average. DBRS notes that provincial growth forecasts have been revised downward of late, highlighting the uncertain pace of economic recovery, particularly in the United States, and also the impact of a strong Canadian dollar on exports, both of which continue to pose downside risks.

Economic Statistics	For the year ended December 31						
	2011P	2010P	2009	2008	2007	2006	2005
Nominal GDP ($ millions)	55,189	52,762	50,732	50,834	48,718	45,029	41,681
Nominal GDP growth	4.6%	4.0%	(0.2%)	4.3%	8.2%	8.0%	4.9%
Real GDP growth (1)	3.0%	2.5%	(0.2%)	2.0%	3.6%	3.3%	2.6%
Population (thousands)	1,247	1,235	1,220	1,206	1,194	1,184	1,178
Population growth	0.9%	1.3%	1.2%	1.0%	0.8%	0.5%	0.4%
Employment (thousands)	622	612	607	607	597	587	580
Unemployment rate	5.3%	5.7%	5.2%	4.2%	4.4%	4.3%	4.8%
Housing starts (units)	4,950	5,125	4,174	5,537	5,738	5,028	4,731
Retail sales ($ millions)	n.a.	n.a.	14,915	14,980	14,016	12,874	12,372
Inflation rate (CPI)	1.9%	1.5%	0.6%	2.3%	2.0%	2.0%	2.7%
Personal income per capita ($)	n.a.	n.a.	33,233	33,330	32,106	30,179	28,722

Sources: Statistics Canada (actuals), Manitoba Finance, CMHC, and DBRS estimates. P= Projected. n.a. = not available.

(1) Real GDP at basic prices for 2009; real GDP at market prices for all other years.

Province of Manitoba

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October 8, 2010

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Budget Summary* ($ millions)	Budget 2010-11	2009-10	Budget 2009-10	2008-09	2007-08	2006-07
Revenue	12,720	12,646	12,728	12,745	12,093	11,363
Program expenditure	13,516	12,988	12,937	12,304	11,939	10,774
Program surplus (deficit)	(797)	(342)	(209)	441	154	589
Interest expense	(397)	(343)	(363)	(330)	(346)	(349)
DBRS-Adjusted Surplus (Deficit)	(1,194)	(685)	(572)	110	(192)	240
DBRS adjustments:						
Capital expenditures less amortization	649	484	620	341	376	245
Other non-recurring items, incl. assets sales	-	-	-	-	374	-
Surplus (deficit), as reported	(545)	(201)	48	451	558	485
Tax-supported debt + unfunded pension liabilities	17,486	16,046	15,558	14,684	14,234	13,907
Gross borrowing requirements (all entities)	3,406	4,684	3,253	3,322	3,104	2,708
Gross capital expenditure	1,600	1,227	1,140	978	1,022	771

* DBRS adjusts reported figures to exclude certain non-recurring items (e.g. asset sales). DBRS also recognizes capital expenditures as incurred, rather than as amortized, to improve inter-provincial comparability.

Selected Financial Indicators (DBRS-Adjusted)	Budget 2010-11	2009-10	Budget 2009-10	2008-09	2007-08	2006-07
Debt*/GDP	33.1%	31.6%	30.7%	28.9%	29.2%	30.9%
Surplus (deficit)/GDP	(2.3%)	(1.4%)	(1.1%)	0.2%	(0.4%)	0.5%
Surplus (deficit)/total revenue	(9.4%)	(5.4%)	(4.5%)	0.9%	(1.6%)	2.1%
Interest costs/total revenue	3.1%	2.7%	2.9%	2.6%	2.9%	3.1%
Total tax revenues/total revenue	42.7%	42.3%	41.9%	43.4%	43.8%	43.4%
Federal transfers/total revenue	29.5%	29.1%	29.7%	28.4%	28.0%	27.5%
Program expenditures/total revenue	106.3%	102.7%	101.6%	96.5%	98.7%	94.8%
Health expenditures/total expenditures	33.4%	33.5%	32.5%	33.4%	31.8%	32.9%
Program expenditure growth	4.1%	5.6%	5.1%	3.1%	10.8%	7.0%
Total expenditure growth	4.4%	5.5%	5.3%	2.8%	10.4%	6.9%
Total revenue growth	0.6%	(0.8%)	(0.1%)	5.4%	6.4%	6.1%

* DBRS-defined: tax-supported debt + unfunded pension liabilities.

Background Political Information

Party in power:	New Democratic Party	Legislature seats:	36 of 57
Premier:	Greg Selinger	Election to be held by:	October 2011

Province of Manitoba

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October 8, 2010

Province of Manitoba

Revenue ($ millions)	Budget 2010-11	2009-10	Budget 2009-10	2008-09	2007-08	2006-07
Personal income tax	2,421	2,401	2,343	2,455	2,285	2,130
Retail sales tax	1,669	1,570	1,595	1,569	1,473	1,357
Corporate taxes	821	855	910	979	939	846
Gasoline & motive fuel tax	230	230	221	229	248	241
Tobacco taxes	225	216	194	190	191	202
Energy, mining, and other taxes	68	75	65	110	158	152
Total tax revenue	5,433	5,347	5,327	5,532	5,294	4,927
Lottery income	313	307	312	305	297	283
Liquor control commission	247	234	236	229	219	208
Manitoba Hydro (4)	113	129	265	314	346	122
Natural resource levies	152	149	162	146	150	139
Fees, permits, licences, & other	322	354	315	335	289	270
Total Own-Source Revenue	6,580	6,520	6,617	6,860	6,594	5,948
Equalization payments	2,002	2,063	2,063	2,063	1,826	1,709
Canada health & social transfer	1,358	1,290	1,296	1,263	1,206	1,109
Other federal transfers	391	323	423	298	351	305
Total Federal Transfers	3,751	3,676	3,782	3,624	3,383	3,122
Consolidation adjustments (1)	2,389	2,450	2,329	2,261	2,116	2,292
DBRS-Adjusted Revenue	12,720	12,646	12,728	12,745	12,093	11,363
Expenditures ($ millions)						
Health	4,650	4,471	4,328	4,225	3,912	3,658
Education and training	2,253	2,184	2,198	2,069	1,960	1,847
Social services	1,465	1,444	1,365	1,344	1,160	1,077
Justice	401	410	385	377	334	309
Transportation & government services	497	491	478	451	418	390
Agriculture, economic, & resource dev.	595	702	645	582	570	517
Manitoba property & other tax credits	44	42	44	41	48	50
Intergovernmental affairs	256	248	222	327	251	225
Other general government	261	232	257	249	363	283
Capital expenditures less amortization (2)	649	484	620	341	376	245
Consolidation adjustment (1)	2,510	2,280	2,460	2,299	2,546	2,172
Other	(65)	-	(65)	-	-	-
DBRS-Adjusted Program Expenditures	13,516	12,988	12,937	12,304	11,939	10,774
DBRS-Adjusted Program Surplus (Deficit)	(797)	(342)	(209)	441	154	589
Net interest expense (3)	(397)	(343)	(363)	(330)	(346)	(349)
DBRS-adjusted Expenditures	13,914	13,331	13,301	12,635	12,285	11,123
DBRS-Adjusted Surplus (Deficit)	(1,194)	(685)	(572)	110	(192)	240
DBRS adjustments:						
Capital expenditures less amortization (2)	649	484	620	341	376	245
Non-recurring revenue (expenditure) (4)	-	-	-	-	374	-
Surplus (deficit), as reported	(545)	(201)	48	451	558	485

Note: Expenditure categories may not be strictly comparable from year to year due to departmental reorganizations.

(1) 2006-07 and later years include school divisions which were previously excluded from public accounts.

(2) This adjustment converts capital expenditures to a pay-as-you-go basis.

(3) Interest expense is net of interest income generated by the Fiscal Stabilization and Debt Retirement Funds.

(4) In 2007-08, hydro net income excludes one-time impact of accounting change for recognition of FX gains and losses in prior years. FX gains and losses are not included in budget figures but will impact actual results going forward.

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Province of Manitoba

Balance Sheet (Consolidated Statement)

($ millions)	As at March 31 2010	2009	2008	Liabilities	As at March 31 2010	2009	2008
Financial Assets							
Cash and cash equivalents	1,939	2,106	2,694	A/P and accrued charges	3,513	3,528	3,308
Amounts receivable	1,263	1,143	1,177	Debt (1)	24,456	22,788	21,944
Loans & advances (1)	9,075	8,603	7,887	Unamortized for. exch. fluc.	(56)	(61)	(67)
Equity in gov't enterprises	3,068	2,127	2,697	Unfunded pension liability	1,800	1,991	4,470
Net tangible capital assets	7,315	6,518	5,934	Other liabilities	-	-	-
Other assets	2,685	2,873	4,673	**Total Liabilities**	29,713	28,246	29,655
Total Financial Assets	25,345	23,370	25,062	**Accumulated Deficit**	(4,368)	(4,876)	(4,593)
				Total Liabilities	25,345	23,370	25,062

Net Public Sector Debt*

($ millions)	As at March 31 2011B	2010	2009	2008	2007	2006	2005	2004
Net general purpose debt	12,077	10,911	9,660	9,059	7,463	7,210	7,130	7,049
Crown corporation & gov't agencies	1,587	1,478	1,341	1,269	1,279	1,272	1,340	1,187
Schools and universities	466	432	384	387	360	306	300	272
Hospitals	1,092	949	831	833	790	767	739	615
Municipalities (2)	476	476	476	476	524	502	550	544
Net Tax-Supported Debt	15,698	14,246	12,693	12,025	10,416	10,057	10,059	9,667
Self-supporting debt:								
Manitoba Hydro	8,574	7,730	7,575	6,796	6,636	6,524	6,615	6,649
Total net public sector debt	24,272	21,976	20,268	18,821	17,052	16,581	16,674	16,316
Unfunded Pension Liabilities (3)	1,788	1,800	1,991	2,209	3,491	3,461	3,379	3,304
Per Capita (CAD) (3)								
Tax-supp. debt + unf. pension liabilities	14,154	13,158	12,181	11,926	11,746	11,473	11,451	11,145
Total public sector debt	19,647	18,020	16,813	15,769	14,402	14,072	14,208	14,019
As a % of GDP (3)								
Tax-supp. debt + unf. pension liabilities	33.1%	31.6%	28.9%	29.2%	30.9%	32.4%	33.8%	34.6%
Total public sector debt	46.0%	43.3%	39.9%	38.6%	37.9%	39.8%	41.9%	43.6%
Debt Breakdown by Currency (4)								
Cdn$ pay	n/a	100%	100%	100%	100%	100%	100%	100%
Non-CAD pay	n/a	0%	0%	0%	0%	0%	0%	0%
Fixed/Floating Rate Debt Breakdown (4)								
Fixed rate	n/a	82%	80%	81%	82%	81%	80%	73%
Floating rate	n/a	18%	20%	19%	18%	19%	20%	27%

Unfunded Pension Liabilities (Tax-Supported)

(CAD millions)	Valuation Date	Mar. 31, 2010
Civil service (5)	Dec. 2007	2,119
Teachers (5)	Jan. 2009	2,612
Other plans (includes MLAs, judges, other)	Various	1,661
	Total liabilities:	6,392
	Less pension assets:	4,592
	Total Unfunded Pension Liabilities:	1,800

Gross Debt Maturity Profile

	Public Sector Debt ($ millions)	%
2010-11	2,035	8.3%
2011-12	1,992	8.1%
2012-13	2,113	8.6%
2013-14	2,690	10.9%
2014-15	1,641	6.7%
2015-16 to 2019-20	5,290	21.5%
2020-21+	8,882	36.0%
Total	24,643	100%

* Net of sinking fund and Debt Retirement Fund assets. P = Projected; B = Budget; n/a = not applicable.

(1) Includes asset and liability items related to debt of The Manitoba Hydro-Electric Board and Manitoba Lotteries Corporation.
(2) Not guaranteed by the Province. DBRS estimate for 2010P; 2011B.
(3) Excludes pension liabilities of self-supporting Crown corporations.
(4) Net of hedges (if any).
(5) Civil Service includes amounts for indexation and unamortized pension adjustment; Teachers includes amount for indexation.

Province of Manitoba

Report Date:
October 8, 2010

Rating

Debt	Rating	Rating Action	Trend
Short-Term Debt*	R-1 (middle)	Confirmed	Stable
Long-Term Debt*	A (high)	Confirmed	Stable

* Issued/guaranteed by the Province, including The Manitoba Hydro-Electric Board.

Rating History

	Current	2009	2008	2007	2006	2005
Short-Term Debt	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (low)
Long-Term Debt	A (high)	A (high)	A (high)	A (high)	A (high)	A (high)

Related Research

- Restoring Fiscal Balance – Easier Said Than Done: 2009 Canadian Federal and Provincial Governments Overview, December 21, 2009.
- Canadian Provincial Government Fact Sheet, October 8, 2010.

Note:
All figures are in Canadian dollars unless otherwise noted.

Rating Report

Report Date:
August 22, 2011

Previous Report:
October 8, 2010

Insight beyond the rating.

Province of Manitoba

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The Province

Manitoba is located in Central Canada and ranks fifth among Canadian provinces by population and sixth in terms of GDP. The Province is home to significant renewable energy resources, with almost all power generated from water.

Rating

Debt	Rating	Rating Action	Trend
Short-Term Debt*	R-1 (middle)	Confirmed	Stable
Long-Term Debt*	A (high)	Confirmed	Stable

* Issued/guaranteed by the Province, including The Manitoba Hydro-Electric Board.

Rating Update

DBRS has confirmed the long- and short-term debt ratings of the Province of Manitoba (Manitoba or the Province) at A (high) and R-1 (middle), respectively. The trend on both ratings remains Stable. Supported by a resilient and well-diversified economy, the Province has exhibited only a modest deterioration in fiscal performance in relation to peers through the most recent downturn which has helped to limit the increase in debt. An upcoming provincial election on October 4, 2011, adds some uncertainty to the fiscal outlook as recent polls point to a close race between the governing New Democratic Party and opposition Progressive Conservative Party. DBRS notes however, that details on the opposition's fiscal plan are not yet available although an emphasis on spending discipline is a key pillar of their platform.

The Province continues to adhere to its plan to restore fiscal balance by 2014-15 with almost no change in the outlook from the 2010 budget. After ending the 2010-11 fiscal year with a somewhat better-than-expected deficit (based on preliminary results), Manitoba is budgeting for a shortfall of $438 million in 2011-12, or $1.1 billion on a DBRS-adjusted basis. This equates to 1.9% of GDP, leaving Manitoba near the middle of pack among provinces in terms of fiscal outlook. Total revenues are projected to grow by a modest 2.2% as declining federal transfers and the implementation of certain tax cuts are more than offset by growth in the provincial tax base. Similarly, total expenditures are forecast to rise by 2.0% as the Province focuses on containing growth in wages and salaries while allowing for continued increases in health and education programs. The projected return to balance by 2014-15 seems achievable however, it is likely to entail DBRS-adjusted deficits ranging from 2.0% to less than 1.0% of GDP over the period. Initiatives to restore balance are primarily focused on spending restraint as any major tax increases would require a referendum. Of note, additional costs related to spring flooding will likely cause the Province to miss this year's deficit target but this is not expected to materially affect the fiscal recovery plan. Preliminary estimates point to a net cost to the Province, after federal recoveries, of $154 million. (Continued on page 2.)

Rating Considerations

Strengths

(1) Resilient and well-diversified economy
(2) Manageable debt burden
(3) Prudent fiscal management practices
(4) Abundant low-cost hydro electricity

Challenges

(1) Containing growth in health-care costs
(2) High reliance on federal transfers
(3) Below average income and GDP per capita

Financial Information

	For the year ended March 31				
(all financial figures DBRS adjusted)	2011-12B	2010-11P	2009-10	2008-09	2007-08
Debt* ($ millions)	18,948	17,324	16,054	14,763	14,383
Debt*/GDP	33.6%	32.4%	31.5%	28.9%	29.4%
Surplus (deficit) ($ millions)	(1,081)	(1,084)	(685)	110	(192)
Surplus (deficit)/GDP	(1.9%)	(2.0%)	(1.3%)	0.2%	(0.4%)
Interest costs/total revenue	3.0%	2.8%	2.7%	2.6%	2.9%
Federal transfers/total revenue	27.4%	28.5%	29.1%	28.4%	28.0%
Nominal GDP ($ millions)	56,465	53,522	50,973	51,048	48,920
Real GDP growth rate	2.7%	2.5%	0.0%	1.9%	2.7%
Unemployment rate	5.1%	5.4%	5.2%	4.2%	4.4%

* DBRS-defined: tax-supported debt + unfunded pension liabilities. B = Budget.
Source: Province of Manitoba, Statistics Canada, and DBRS calculations.

Rating Update (Continued from page 1.)

At March 31, 2011, DBRS-adjusted debt was estimated to have grown by $1.3 billion, or 7.9% over the prior year. This has pushed the debt-to-GDP ratio up to 32.4%. A large capital program will continue to drive an increase in debt which is projected to grow by $1.6 billion, or 9.4% in 2011-12. As a result, the debt-to-GDP ratio is expected to reach 33.6% – the fifth lowest debt burden among Canadian provinces. A gradually declining deficit and smaller capital program will help to curb debt growth over the medium term as the debt-to-GDP ratio is expected to peak at about 34% in 2012-13, which remains very manageable for the rating.

Following real GDP growth of 2.5% in 2010, the Province has assumed real growth of 2.7% for 2011 and 2012 which is somewhat below the private sector consensus. Solid population growth and a strong labour market should remain supportive of the domestic economy, although another year of significant flooding is likely to have dampened growth prospects. In addition, the economic outlook remains clouded by fiscal consolidation efforts in the United States and Europe along with ongoing sovereign debt challenges that could potentially disrupt the global economic recovery. Nonetheless, DBRS believes Manitoba is well-positioned to ride out the current storm provided fiscal discipline remains sound and debt growth contained.

Rating Considerations Details

Strengths

(1) Manitoba's economy has proven to be very resilient over the last decade as evidenced by the very mild recession experienced in the Province in 2009. With a fairly diversified manufacturing base and meaningful finance, health care, government and transportation sectors, the provincial economy shows less volatility than its manufacturing- and resource-dependent neighbours. The Province has one of the lowest unemployment rates in the country and a below-average reliance on international exports.

(2) Manitoba's debt burden ended the 2010-11 fiscal year at 32.4% of GDP – fifth lowest among Canadian provinces – and a level that is very manageable within the rating. The Province maintains a relatively smooth maturity profile, no unhedged foreign currency debt and a moderate level of floating-rate debt, which adds stability to debt-servicing costs.

(3) Through transparent financial reporting practices and regular quarterly updates, Manitoba exhibits prudent stewardship of its financial resources. This is evident in the Province's fiscal results, which exhibited a fairly stable and consistent performance for several years prior to the downturn and only mild erosion since.

(4) Manitoba benefits from an abundance of low-cost hydro electricity, resulting in some of the lowest electricity rates in North America. This gives the Province a distinct advantage when competing for new business investment. Work on the $1.6 billion Wuskwatim dam project is currently underway and is expected to reach completion in 2012, further adding to Manitoba's supply of hydro electricity.

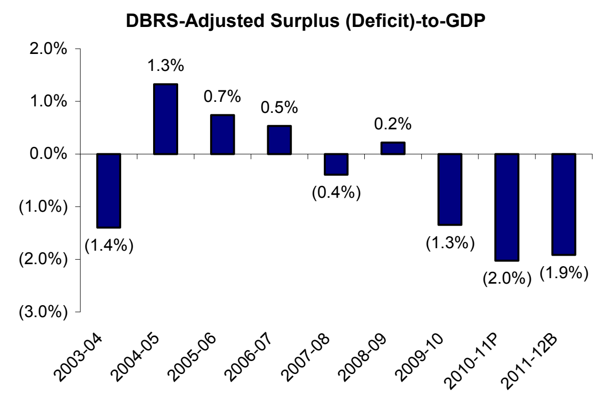
Challenges

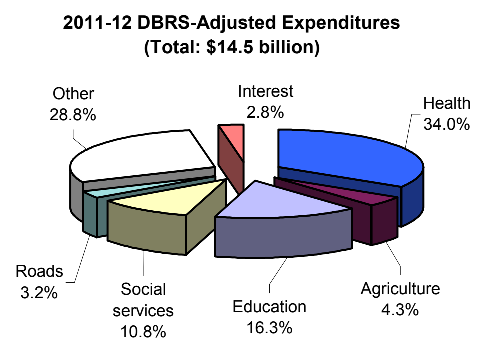
(1) Growth in health-care spending remains one of the primary challenges for all provinces, including Manitoba. Over the last five years, spending on health has grown by an average of 6.4% in Manitoba, including an estimated 4.9% in 2010-11. Going forward, health-care spending will continue to crowd out spending in other program areas as it accounts for the bulk of expenditure growth in the Province's medium-term plan.

(2) Federal transfers accounted for 28.5% of total revenues in 2010-11, highlighting Manitoba's vulnerability to changes in federal transfer programs which are due to expire at the end of 2013-14. For the 2010-11 and 2011-12 fiscal years, the federal government provided protection to ensure that the combined value of major federal transfers to provinces did not decline year-over-year. However, Manitoba could experience a decline in equalization entitlements in the coming years, due to program growth limits introduced in 2008 and because of above-average fiscal performance through the recent downturn.

(3) Despite a well-diversified economy and healthy labour market, Manitoba continues to exhibit below-average wealth. The Province registered income per capita of roughly $33,600 in 2009 and has been surpassed by Saskatchewan and Newfoundland in recent years. Manitoba also generates below-average GDP per capita.

2011-12 Budget





The 2011 budget continues with Manitoba's plan to return to balance by 2014-15 with almost no change from the 2010 budget. For 2011-12, the Province is projecting a deficit of $438 million. On a DBRS-adjusted basis (including capital expenditures as incurred rather than as amortized), this translates into a shortfall of $1.1 billion, or 1.9% of GDP, leaving Manitoba near the middle of the pack among provinces in terms of fiscal outlook. Total revenues are forecast to grow by a modest 2.2%, as growing tax receipts are expected to be partially offset by a decline in federal transfers as stimulus funding comes to an end. Total tax collections are forecast to rise by 5.8% dampened by the implementation of some new and previously announced tax cuts. Beginning in 2011, the Province will increase the basic personal amount by $1,000 per year for four years. This is expected to result in $78 million in forgone annual revenues when fully implemented. In addition, 2011-12 revenue projections reflect the full-year impact of the elimination of the small business income tax (eliminated December 1, 2010) and the capital tax (eliminated December 31, 2010). An increase in tobacco tax rates by 2 cents per cigarette is expected to generate an additional $18 million a year. Reflective of the completion of various stimulus programs, federal transfers are projected to decline by 1.9% year-over-year but will still account for a sizeable 27.4% of total revenues.

Total expenditures are budgeted to grow by 2.0% in 2011-12 which, if achieved, would represent the lowest rate of expenditure growth for the Province in more than ten years. The bulk of new spending will go towards health and education as these programs are slated to grow by 4.9% and 5.5%, respectively. As wages and salaries make up the largest portion of program spending, the government is targeting two years of zero per cent increases for certain labour groups. Agreements have already been reached with nurses and civil servants while negotiations with doctors are currently underway. Gross capital spending is forecast to remain relatively flat at $1.6 billion but is likely to decline to more historical levels thereafter. Interest expense is also forecast to rise, reflective of a larger debt burden, although DBRS anticipates that if the low-rate environment persists, the Province may realize some savings in this area.

Outlook

The first quarter update, released on August 18, 2011, points to a $20 million improvement in revenues and an $80 million reduction in spending, although the Province cautions that these variances are primarily due to timing. While not factored into the above variances, costs related to spring flooding are preliminarily estimated at roughly $630 million. DBRS notes that a significant portion of these costs are expected to be recoverable through federal disaster assistance programs, with the net impact on year-end results currently estimated at $154 million.

Province of Manitoba

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August 22, 2011

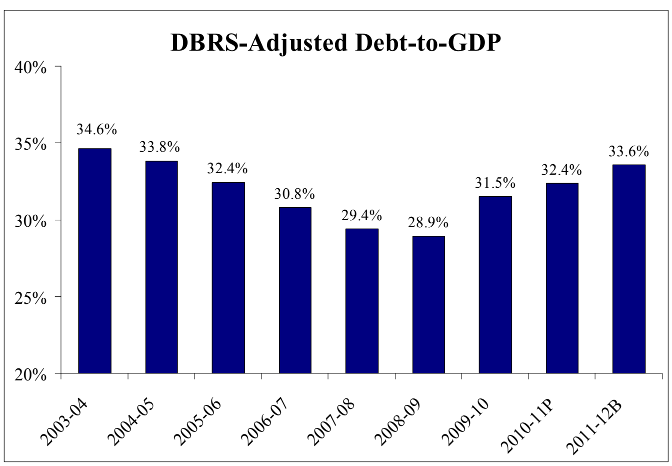
The Province continues to plan for a return to balance on its reporting basis by 2014-15 which is likely to entail DBRS-adjusted deficits ranging from 2.0% to less than 1.0% of GDP in the meantime. Key initiatives to restore balance are primarily focused on spending restraint as any major tax increases would require a referendum. Of note, the additional costs related to spring flooding are not expected to materially affect the fiscal recovery plan. More important will be the evolution of the economic recovery both in Canada and globally and how effectively Manitoba can manage the impact of any economic disruptions on its fiscal plan.

2010-11 Preliminary Results

Based on preliminary results, Manitoba recorded a shortfall of $467 million in 2010-11, or $1.1 billion (2.0% of GDP) on a DBRS-adjusted basis, somewhat smaller than what was initially expected. Total revenues exceeded budget projections and grew by 3.8% year-over-year. Accounting for the bulk of improvement were higher-than-expected personal and corporate income tax receipts which grew by 7.7% and 8.7%, respectively, owing to favourable prior year adjustments. Retail sales taxes came in below budget but were nonetheless up 2.2% year-over-year. Most other revenue sources tracked budget expectations and were up modestly over the prior year.

Total expenditures in 2010-11 also exceeded budget and were up by 6.6% over the prior year. Spending on social service programs exceeded budget by 4.5% due to increased caseloads while most other programs tracked budget projections closely. On a year-over-year basis, rising social service costs along with outlays for health care and education were the primary growth drivers due to a combination of inflationary cost pressures and increasing utilization.

Debt Profile



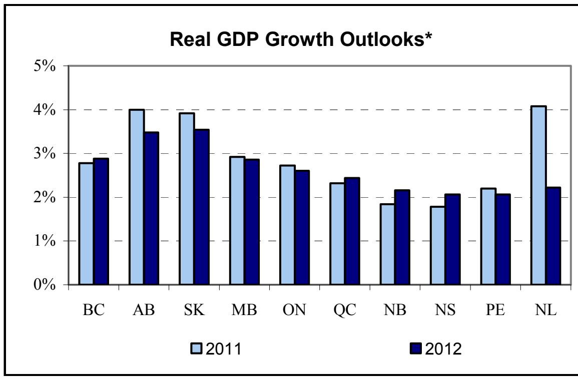
DBRS-adjusted debt, defined as tax-supported debt plus unfunded pension liabilities, grew by $1.3 billion, or 7.9%, in 2010-11. This increase was somewhat less than projected owing to the better-than-expected fiscal results. Offset by a modest rise in nominal GDP, Manitoba's debt-to-GDP ratio reached 32.4% as of March 31, 2011, up from 31.5% the prior year.

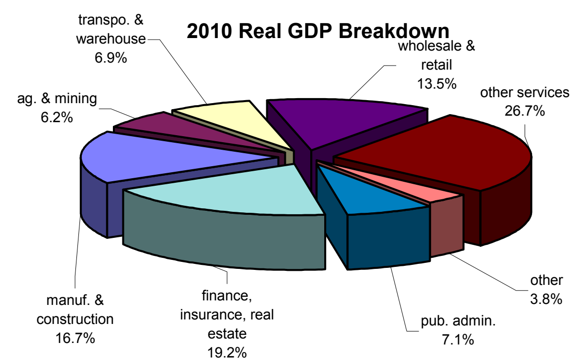
Outlook

Another large capital program is projected to drive debt up by $1.6 billion, or 9.4%, in 2011-12. The debt-to-GDP ratio is expected to rise to 33.6%, leaving Manitoba with the fifth lowest debt-to-GDP ratio among Canadian provinces. Gross borrowing requirements are estimated at $3.8 billion for the current fiscal year, with $1.5 billion required for refinancing needs and the remainder being used to fund the fiscal shortfall, capital needs, pension contributions and the needs of Manitoba Hydro. At the time of writing, $2.8 billion in borrowing needs had been fulfilled. The Province continues to aim for a smooth maturity profile, has modest floating rate debt and, excluding Manitoba Hydro, has no unhedged foreign currency debt which helps provide stability to debt servicing obligations.

A gradually declining deficit and smaller capital program will help to curb debt growth over the medium term. This is expected to result in a debt-to-GDP ratio peaking at about 34% in 2012-13, consistent with last year's outlook and remains very manageable for the rating.

Economy





* Based on major Canadian banks' forecasts at the time of this report.

In 2010, Manitoba's economy rebounded by 2.5%, somewhat slower than the national average although not unexpected given the relatively mild downturn experienced in the Province. Despite a wet spring which negatively affected crop production in 2010, many other sectors began to show signs of improvement. Mining production was up notably due to strong commodity prices while manufacturing also gained momentum late in the year. Population growth remained strong at 1.3%, supported by robust international immigration which added support to the domestic economy. Housing starts grew by more than 40% to reach their highest level in more than two decades. Above average employment growth helped support retail sales (up by 5.6% year-over-year) although faster growth in the labour force saw the unemployment rate increase to 5.4%, up from 5.2% in 2009. Nonetheless, this was still the second lowest unemployment rate among all provinces and reflective of Manitoba's well-diversified and resilient economy.

Outlook

For 2011, the Province has assumed real growth of 2.7%. This is somewhat below the private sector consensus, although another year of significant flooding is likely to have reduced planted acreage and may negatively weigh on GDP growth through lower crop production. However, the Province notes that significant flood mitigation activity and subsequent recovery efforts provide a partial offset.

Based on Statistics Canada's survey of investment intentions, non-residential investment intentions are expected to remain relatively flat, following stronger-than-expected growth in 2010. As of May 2011, retail sales experienced solid growth of 5.1% year-over-year (seasonally adjusted), above the national average. The labour market also continues to perform well, as the unemployment rate stood at 5.7% in July 2011 (seasonally-adjusted), unchanged from the same period a year ago despite continued strong labour force growth.

The budget assumes 2.7% real GDP growth in 2012 as well, again somewhat below the private sector consensus however, that cushion may disappear as DBRS believes provincial economic growth forecasts are likely to be revised downwards. The economic outlook remains clouded by fiscal consolidation efforts in the United States and Europe along with ongoing sovereign debt challenges that could potentially disrupt the global economic recovery efforts.

Province of Manitoba

Report Date:
August 22, 2011

Economic Statistics	For the year ended December 31						
	2012P	2011P	2010	2009	2008	2007	2006
Nominal GDP ($ millions)	59,006	56,465	53,522	50,973	51,048	48,920	45,173
Nominal GDP growth	4.5%	5.5%	5.0%	(0.1%)	4.3%	8.3%	8.4%
Real GDP growth	2.7%	2.7%	2.5%	0.0%	1.9%	2.7%	3.4%
Population (thousands)	1,266	1,251	1,235	1,220	1,206	1,194	1,184
Population growth	1.2%	1.3%	1.3%	1.2%	1.0%	0.8%	0.5%
Employment (thousands)	638	629	620	608	609	599	589
Unemployment rate	4.9%	5.1%	5.4%	5.2%	4.2%	4.4%	4.3%
Housing starts (units)	5,400	5,225	5,888	4,174	5,537	5,738	5,028
Retail sales ($ millions)	n.a.	n.a.	15,752	14,915	14,980	14,016	12,874
Inflation rate (CPI)	2.0%	2.0%	0.8%	0.6%	2.3%	2.0%	2.0%
Personal income per capita ($)	n.a.	n.a.	n.a.	33,559	33,479	31,926	30,128

Sources: Statistics Canada (actuals), Manitoba Finance, CMHC, and DBRS estimates. P= Projected. n.a. = not available.

Province of Manitoba

Budget Summary* ($ millions)	Budget 2011-12	Projected 2010-11	Budget 2010-11	2009-10	2008-09	2007-08
Revenue	13,421	13,130	12,720	12,646	12,745	12,093
Program expenditure	14,093	13,844	13,516	12,988	12,304	11,939
Program surplus (deficit)	(672)	(714)	(796)	(342)	441	154
Interest expense	(409)	(370)	(397)	(343)	(330)	(346)
DBRS-Adjusted Surplus (Deficit)	(1,081)	(1,084)	(1,194)	(685)	110	(192)
DBRS adjustments:						
Capital expenditures less amortization	643	618	649	484	341	376
Other non-recurring items, incl. assets sales	-	-	-	-	-	374
Surplus (deficit), as reported	(438)	(467)	(545)	(201)	451	558
Tax-supported debt + unfunded pension liabilities	18,948	17,324	17,486	16,054	14,763	14,383
Gross borrowing requirements (all entities)	3,768	3,550	3,406	4,684	3,322	3,104
Gross capital expenditure	1,561	1,361	1,600	1,232	978	1,022

* DBRS adjusts reported figures to exclude certain non-recurring items (e.g. asset sales). DBRS also recognizes capital expenditures as incurred, rather than as amortized, to improve inter-provincial comparability.

Selected Financial Indicators (DBRS-Adjusted)						
Debt*/GDP	33.6%	32.4%	32.7%	31.5%	28.9%	29.4%
Surplus (deficit)/GDP	(1.9%)	(2.0%)	(2.2%)	(1.3%)	0.2%	(0.4%)
Surplus (deficit)/total revenue	(8.1%)	(8.3%)	(9.4%)	(5.4%)	0.9%	(1.6%)
Interest costs/total revenue	3.0%	2.8%	3.1%	2.7%	2.6%	2.9%
Total tax revenues/total revenue	44.8%	43.3%	42.7%	42.3%	43.4%	43.8%
Federal transfers/total revenue	27.4%	28.5%	29.5%	29.1%	28.4%	28.0%
Program expenditures/total revenue	105.0%	105.4%	106.3%	102.7%	96.5%	98.7%
Health expenditures/total expenditures	34.0%	33.0%	33.4%	33.5%	33.4%	31.8%
Program expenditure growth	1.8%	6.6%	4.1%	5.6%	3.1%	10.8%
Total expenditure growth	2.0%	6.6%	4.4%	5.5%	2.8%	10.4%
Total revenue growth	2.2%	3.8%	0.6%	(0.8%)	5.4%	6.4%

* DBRS-defined: tax-supported debt + unfunded pension liabilities.

Background Political Information			
Party in power:	New Democratic Party	Legislature seats:	36 of 57
Premier:	Greg Selinger	Election to be held by:	October 2011

Province of Manitoba

Report Date:
August 22, 2011

Province of Manitoba

Revenue ($ millions)	Budget 2011-12	Projected 2010-11	Budget 2010-11	2009-10	2008-09	2007-08
Personal income tax	2,725	2,586	2,421	2,401	2,455	2,285
Retail sales tax	1,671	1,604	1,669	1,570	1,569	1,473
Corporate taxes	1,007	930	821	855	979	939
Gasoline & motive fuel tax	247	242	230	230	229	248
Tobacco taxes	253	233	225	216	190	191
Energy, mining, and other taxes	109	91	68	75	110	158
Total tax revenue	6,012	5,685	5,433	5,347	5,532	5,294
Lottery income	348	317	313	307	305	297
Liquor control commission	255	247	247	234	229	219
Manitoba Hydro (1)	134	143	113	129	314	346
Natural resource levies	167	164	152	149	146	150
Fees, permits, licences, & other	343	336	322	354	335	289
Total Own-Source Revenue	7,259	6,892	6,580	6,520	6,860	6,594
Equalization payments	1,942	2,002	2,002	2,063	2,063	1,826
Canada health & social transfer	1,418	1,354	1,358	1,290	1,263	1,206
Other federal transfers	315	391	391	323	298	351
Total Federal Transfers	3,675	3,747	3,751	3,676	3,624	3,383
Consolidation adjustments	2,488	2,491	2,389	2,450	2,261	2,116
DBRS-Adjusted Revenue	13,421	13,130	12,720	12,646	12,745	12,093
Expenditures ($ millions)						
Health	4,924	4,692	4,650	4,471	4,225	3,912
Education and training	2,357	2,235	2,231	2,184	2,069	1,960
Social services	1,560	1,530	1,465	1,444	1,344	1,160
Justice	427	423	399	410	377	334
Transportation & government services	458	442	439	491	451	418
Agriculture, economic, & resource dev.	617	722	636	702	582	570
Manitoba property & other tax credits	43	44	44	42	41	48
Intergovernmental affairs	308	322	297	248	327	251
Other general government	278	250	260	232	249	363
Capital expenditures less amortization (2)	643	618	649	484	341	376
Consolidation adjustment	2,626	2,637	2,510	2,280	2,299	2,546
Other	(145)	(70)	(65)	-	-	-
DBRS-Adjusted Program Expenditures	14,093	13,844	13,516	12,988	12,304	11,939
DBRS-Adjusted Program Surplus (Deficit)	(672)	(714)	(796)	(342)	441	154
Net interest expense (3)	(409)	(370)	(397)	(343)	(330)	(346)
DBRS-adjusted Expenditures	14,502	14,214	13,913	13,331	12,635	12,285
DBRS-Adjusted Surplus (Deficit)	(1,081)	(1,084)	(1,194)	(685)	110	(192)
DBRS adjustments:						
Capital expenditures less amortization (2)	643	618	649	484	341	376
Non-recurring revenue (expenditure) (1)	-	-	-	-	-	374
Surplus (deficit), as reported	(438)	(467)	(545)	(201)	451	558

Note: Expenditure categories may not be strictly comparable from year to year due to departmental reorganizations.

(1) In 2007-08, hydro net income excludes one-time impact of accounting change for recognition of FX gains and losses in prior years. FX gains and losses are not included in budget figures but will impact actual results going forward.

(2) This adjustment converts capital expenditures to a pay-as-you-go basis.

(3) Interest expense is net of interest income generated by the Fiscal Stabilization and Debt Retirement Funds.

Province of Manitoba

Report Date:
August 22, 2011

Province of Manitoba

Balance Sheet (Consolidated Statement)

($ millions)	As at March 31				As at March 31		
Financial Assets	2010	2009	2008	**Liabilities**	2010	2009	2008
Cash and cash equivalents	1,939	2,106	2,694	A/P and accrued charges	3,513	3,528	3,308
Amounts receivable	1,263	1,143	1,177	Debt (1)	24,456	22,788	21,944
Loans & advances (1)	9,075	8,603	7,887	Unamortized for. exch. fluc.	(56)	(61)	(67)
Equity in gov't enterprises	3,068	2,127	2,697	Unfunded pension liability	1,800	1,991	4,470
Net tangible capital assets	7,315	6,518	5,934	Other liabilities	-	-	-
Other assets	2,685	2,873	4,673	**Total Liabilities**	29,713	28,246	29,655
Total Financial Assets	25,345	23,370	25,062	**Accumulated Deficit**	(4,368)	(4,876)	(4,593)
				Total Liabilities	25,345	23,370	25,062

Net Public Sector Debt*

($ millions)	As at March 31 2012B	2011P	2010	2009	2008	2007	2006	2005
Net general purpose debt	13,128	11,907	10,919	9,739	9,208	7,465	7,210	7,130
Crown corporation & gov't agencies	1,868	1,643	1,478	1,341	1,269	1,279	1,272	1,340
Schools and universities	496	461	432	384	387	360	306	300
Hospitals	1,264	1,065	949	831	833	790	767	739
Municipalities (2)	476	476	476	476	476	524	502	550
Net Tax-Supported Debt	17,232	15,552	14,254	12,772	12,174	10,418	10,057	10,059
Self-supporting debt:								
Manitoba Hydro	8,901	8,361	7,730	7,499	6,794	6,636	6,524	6,615
Total net public sector debt	26,133	23,913	21,984	20,271	18,968	17,054	16,581	16,674
Unfunded Pension Liabilities (3)	1,716	1,772	1,800	1,991	2,209	3,491	3,461	3,379
Per Capita (CAD) (3)								
Tax-supp. debt + unf. pension liabilities	15,141	14,023	13,164	12,246	12,050	11,747	11,473	11,451
Total public sector debt	20,882	19,357	18,027	16,815	15,892	14,403	14,072	14,208
As a % of GDP (3)								
Tax-supp. debt + unf. pension liabilities	33.6%	32.4%	31.5%	28.9%	29.4%	30.8%	32.4%	33.8%
Total public sector debt	46.3%	44.7%	43.1%	39.7%	38.8%	37.8%	39.8%	41.9%
Debt Breakdown by Currency (4)								
Cdn$ pay	n/a	100%	100%	100%	100%	100%	100%	100%
Non-CAD pay	n/a	0%	0%	0%	0%	0%	0%	0%
Fixed/Floating Rate Debt Breakdown (4)								
Fixed rate	n/a	76%	82%	80%	81%	82%	81%	80%
Floating rate	n/a	24%	18%	20%	19%	18%	19%	20%

Unfunded Pension Liabilities (Tax-Supported)

(CAD millions)	Valuation Date	Mar. 31, 2011
Civil service (5)	Dec. 2009	2,372
Teachers (5)	Jan. 2009	2,982
Other plans (includes MLAs, judges, other)	Various	1,764
Total liabilities:		7,118
Less pension assets:		5,346
Total Unfunded Pension Liabilities:		1,772

Gross Debt Maturity Profile

	Public Sector Debt ($ millions)	%
2011-12	2,090	8.1%
2012-13	2,111	8.2%
2013-14	2,424	9.4%
2014-15	1,838	7.2%
2015-16	2,151	8.4%
2016-17 to 2020-21	5,731	22.3%
2021-22+	9,347	36.4%
Total	25,692	100%

* Net of sinking fund and Debt Retirement Fund assets. P = Projected; B = Budget; n/a = not applicable.

(1) Includes asset and liability items related to debt of The Manitoba Hydro-Electric Board and Manitoba Lotteries Corporation.
(2) Not guaranteed by the Province. DBRS estimate for 2011P; 2012B.
(3) Excludes pension liabilities of self-supporting Crown corporations.
(4) Net of hedges (if any).
(5) Civil Service includes amounts for indexation and unamortized pension adjustment; Teachers includes amount for indexation.

Province of Manitoba

Report Date:
August 22, 2011

Rating

Debt	Rating	Rating Action	Trend
Short-Term Debt*	R-1 (middle)	Confirmed	Stable
Long-Term Debt*	A (high)	Confirmed	Stable

* Issued/guaranteed by the Province, including The Manitoba Hydro-Electric Board.

Rating History

	Current	2010	2009	2008	2007	2006
Short-Term Debt	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (middle)
Long-Term Debt	A (high)	A (high)	A (high)	A (high)	A (high)	A (high)

Related Research

- Canadian Provincial Government Fact Sheet, July 28, 2011.

Note:
All figures are in Canadian dollars unless otherwise noted.

Rating Report

Report Date:
September 4, 2012

Previous Report:
August 22, 2011

Province of Manitoba

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The Province
Manitoba is located in Central Canada and ranks fifth among Canadian provinces by population and sixth in terms of GDP. The Province is home to significant renewable energy resources, with almost all electricity generated from water.

Rating

Debt	Rating	Rating Action	Trend
Short-Term Debt*	R-1 (middle)	Confirmed	Stable
Long-Term Debt*	A (high)	Confirmed	Stable

* Issued/guaranteed by the Province, including The Manitoba Hydro-Electric Board.

Rating Update

DBRS has confirmed the long- and short-term debt ratings of the Province of Manitoba (Manitoba or the Province) at A (high) and R-1 (middle), respectively. The trend on both ratings remains Stable. The confirmation is supported by Manitoba's resilient and diversified economy and a debt burden that, while rising, remains within an acceptable range for the current ratings.

Based on preliminary results, Manitoba recorded a deficit of $1.1 billion in 2011–12. On a DBRS-adjusted basis, after including capital expenditures as incurred rather than as amortized, this translates into a shortfall of $2.7 billion, or 4.8% of GDP. This was considerably weaker than budget and more than twice as large as the 2010–11 shortfall. Significant flood-related expenditures that were only partially shared with the federal government accounted for most of the erosion in fiscal performance. For 2012–13, the Province has budgeted for a DBRS-adjusted deficit of $2.0 billion, or 3.3% of GDP. Revenues are expected to remain relatively unchanged as increased receipts from a broader sales tax base and higher tobacco tax rate are offset by a reduction in federal transfers. To help contain spending, Manitoba is implementing departmental budget freezes, reducing the number of regional health authorities and aiming to curb labour costs through attrition. The Province has maintained its plan to return to balance by 2014–15with DBRS-adjusted deficits of around 2.0% to 3.0% of GDP anticipated in the final two years of the plan. DBRS notes that this is among the weakest outlooks of all provinces and, while considered achievable, may entail greater spending restraint or additional tax measures if federal transfers are further reduced or if major labour agreements, up for renewal in 2013 and 2014, prove more costly. (Continued on page 2.)

Rating Considerations

Strengths
(1) Diversified and resilient economy
(2) Manageable debt burden and sound debt-management practices
(3) Abundant low-cost hydro electricity

Challenges
(1) Fiscal outlook remains weak
(2) High reliance on federal transfers
(3) Below-average income and GDP per capita

Financial Information

	For the year ended March 31				
(all financial figures DBRS adjusted)	2012-13B	2011-12P	2010-11	2009-10	2008-09
Debt* ($ millions)	20,681	19,552	17,242	16,054	14,763
Debt*/GDP	35.0%	34.4%	31.8%	31.2%	28.6%
Surplus (deficit) ($ millions)	(1,979)	(2,749)	(1,221)	(1,029)	(151)
Surplus (deficit)/GDP	(3.3%)	(4.8%)	(2.3%)	(2.0%)	(0.3%)
Interest costs/total revenue	5.6%	5.3%	5.4%	5.4%	5.6%
Federal transfers/total revenue	28.2%	31.7%	30.8%	31.2%	30.6%
Nominal GDP ($ millions)	59,135	56,916	54,257	51,518	51,575
Real GDP growth rate	2.3%	2.2%	2.4%	(0.3%)	3.8%
Unemployment rate	5.4%	5.4%	5.4%	5.2%	4.2%

* DBRS-defined: tax-supported debt + unfunded pension liabilities. B = Budget.
Source: Province of Manitoba, Statistics Canada, and DBRS calculations.

Province of Manitoba

Report Date:
September 4, 2012

Rating Update (Continued from page 1.)

Manitoba's economy is estimated by the Province to have grown by 2.2% in 2011. However, DBRS cautions that Statistics Canada's preliminary estimates reported real growth of 1.1% (at basic prices). For the second consecutive year, heavy rainfall and widespread flooding led to notable declines in wheat, canola, oats and barley output. The Province has assumed real growth of 2.3% in 2012, consistent with current private sector consensus despite recent downward revisions to most forecasts. The outlook now appears to be weakening for 2013 with the latest private sector average of 2.2%, likely be tempered by weak global demand as a result of ongoing sovereign debt challenges in Europe and potential fiscal consolidation in the United States.

As of March 31, 2012, debt-to-GDP stood at 34.4%, up from 31.8% one year earlier, as debt outstanding grew materially by $2.3 billion, or 13.4%. The weaker-than-expected fiscal performance resulted in greater-than-planned debt issuance. DBRS estimates that debt-to-GDP will rise to 35.0% by March 31, 2013, leaving Manitoba the fourth-most indebted province in the country. Over the medium term, debt is expected to grow between 7% and 9% annually. This is likely to result in a debt-to-GDP ratio of roughly 38% in 2014-15, a higher peak than had been anticipated at the time of last year's review, but still considered manageable within the current ratings.

Rating Considerations Details

Strengths

(1) Manitoba has one of the most resilient and well-diversified economies in the country. This strength was evident during the 2009 downturn when the Province experienced only a very mild recession. The economy boasts a well-balanced mix of manufacturing, financial services and transportation sectors and one of the lowest unemployment rates in Canada. In addition, the composition of Manitoba's exports also tends to be more diverse than that of other provinces. As a result of these factors, the provincial economy shows less volatility than its manufacturing- and resource-dependent neighbours.

(2) Although creeping up since 2009, Manitoba's debt burden, at approximately 35% of GDP, remains manageable for the rating. The Province maintains a relatively smooth maturity profile, with no unhedged foreign currency debt and a moderate level of floating-rate debt, which adds stability to debt servicing costs.

(3) Manitoba benefits from an abundance of low-cost hydroelectricity, resulting in some of the lowest electricity rates in North America. This gives the Province a distinct advantage when competing for new business investment. The 200MW Wuskwatim dam project will be completed in 2012, further adding to Manitoba's supply of hydroelectricity. In addition, other projects being considered include Keeyask (695MW for $5.6 billion) and Conawapa (1,485MW for $7.8 billion), which are dependent on growth in domestic demand and Manitoba Hydro's ability to secure export contracts.

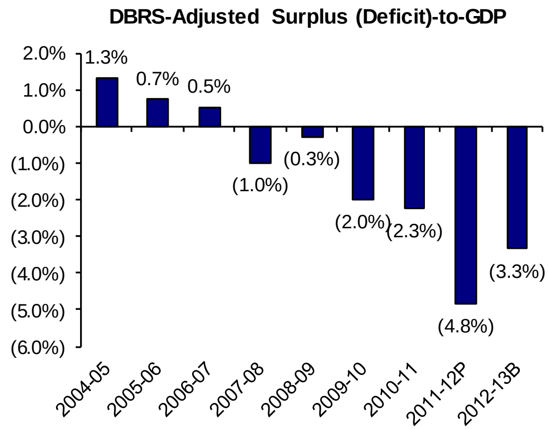
Challenges

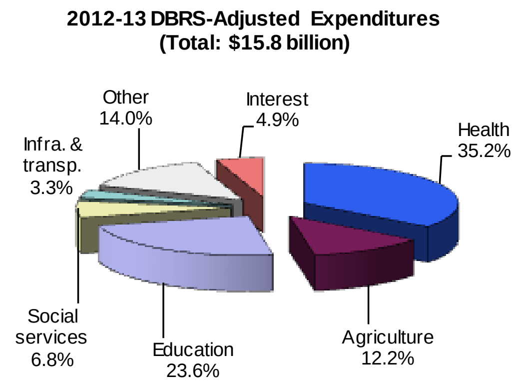
(1) Manitoba's medium-term fiscal plan is one of the weakest among Canadian provinces, even though the depth of the recession was relatively mild. The potential for declining federal transfers, should the temporary transfer protection program lapse, and rising salary and benefits costs as several agreements come up for renewal in the coming years, add to the already challenging task of restoring fiscal balance.

(2) Despite its relatively resilient economy, Manitoba receives approximately 30% of its revenues by way of federal transfers, including 14% from equalization, leaving it exposed to changes in federal transfer programs. For three years, the Province has benefited from the federal government's temporary total transfer protection program to ensure the combined amounts for equalization, health and social transfers do not decline. In the absence of this program, major federal transfers would be decreasing.

(3) Despite a well-diversified economy and healthy labour market, Manitoba continues to exhibit below-average wealth. The tightness of the labour market implied by a consistently low unemployment rate does not seem to have translated into income gains, as the Province registered income per capita of $34,425 in 2010, below the national average of $37,506. Manitoba also generates below-average GDP per capita suggesting that productivity and high-value added sectors may be lagging.

2012–13 Budget





For 2012–13, the Province has budgeted for a deficit of $460 million, a notable improvement from large shortfall experienced the prior year. On a DBRS-adjusted basis (after including capital expenditures as incurred rather than as amortized), this translates into a shortfall of $2.0 billion, or 3.3% of GDP. Total revenues are expected to remain relatively unchanged as higher own-source revenues will be offset by a reduction in federal transfers as a result of significant disaster assistance funding received in 2011–12. The retail sales tax base is being expanded to include some personal services and insurance premiums helping to boost this revenue source by more than 11%. In addition, tobacco tax receipts are forecast to grow by 4.5% as the rate was increased by 2.5 cents per cigarette. Proceeds from natural resources and government business enterprises are expected to remain relatively unchanged. For the third consecutive year, the Province benefited from the federal government's total transfer protection program ensuring that total equalization, health and social transfer funds do not decline. Total transfer protection is projected to amount to $201 million in 2012–13. However, total federal transfers are still expected to decline by more than 10%, which reflects the significant disaster assistance funding provided in 2011–12.

Total DBRS-adjusted spending is projected to fall by 4.4% in 2012–13 although this largely reflects the significant disaster assistance costs incurred in 2011–12. Absent prior year flood-related costs, spending is estimated to rise by 1.1% in the current year. To help contain spending, Manitoba is aiming to achieve $128 million in annual program savings, which includes implementing departmental budget freezes across ten departments, reducing the number of government-appointed agencies, boards and commissions and managing labour costs through attrition. Health spending is forecast to rise by 4.9%, although efforts are underway to limit future growth to 3%, and include a legislated cap on administrative costs in healthcare and reduce the number of regional health authorities to five from 11. Modest increases have also been earmarked for education to open new schools and reduce class sizes for early year students.

Outlook

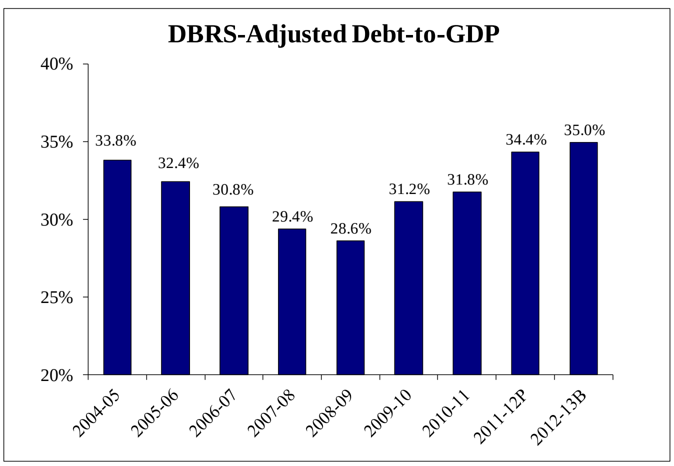
Despite a material deviation from budget in 2011–12, the Province has maintained its plan to return to balance by 2014-15. For 2013-14, a deficit of $176 million is planned followed by a small surplus in 2014-15. On a DBRS-adjusted basis, assuming capital spending remains relatively stable, this is likely to translate into deficits of around 2.0% to 3.0% of GDP – one of the weaker outlooks among provinces. DBRS believes the plan is achievable but may entail greater spending restraint or additional tax measures if federal revenues are impacted by the discontinuation of total transfer protection, an issue that should be clarified in late 2012. In addition, most major labour agreements come up for renewal in 2013 and 2014, which will continue to test the Province's fiscal resolve.

2011–12 Preliminary Results

Based on preliminary results, Manitoba recorded a deficit of $1.1 billion. On a DBRS-adjusted basis, the shortfall amounted to $2.7 billion, or 4.8% of GDP, in 2011–12. This was the largest deficit among Canadian provinces, considerably weaker than budget and more than twice as large as the 2010–11 shortfall. Significant flood-related expenditures that were only partially shared with the federal government accounted for most of the erosion in fiscal performance. In total, spending was up by 14.8% over the prior year. Flood-related expenditures were estimated at $936 million, of which $445 million is expected to be recovered from the federal government. Notably, growth in healthcare spending was contained to 3.2% and came in below budget, while education expenditures rose by 7.0%. Volume pressures boosted spending on justice and social service programs, although DBRS notes that due to a departmental reorganization in January 2012, expenditure categories may not be directly comparable year-over-year.

Revenues grew by 4.5% in 2011–12, although this largely reflected additional federal disaster assistance funding mentioned above. Own-source revenues were largely in-line with budget and up by 3.1% over the prior year as a result of higher PIT and CIT receipts. Excluding disaster-assistance-related funding, federal transfers would have declined by 3.5%. In addition, Manitoba once again benefited from the federal government's total transfer protection program ensuring that the combined amounts received for equalization, health and social transfers did not decline. This temporary funding accounted for $276 million in 2011–12.

Debt Profile



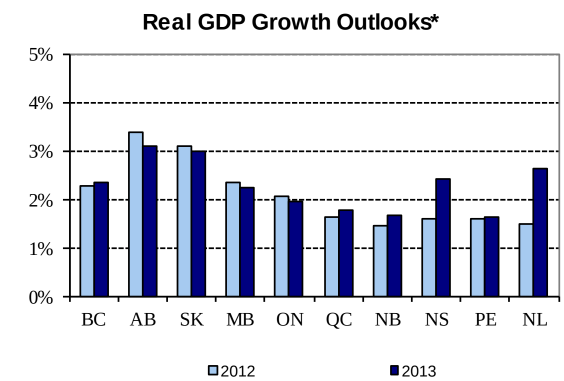
Weak fiscal results in 2011–12 contributed to faster-than-anticipated debt growth for Manitoba. DBRS-adjusted debt, defined as tax-supported debt plus unfunded pension liabilities, grew soundly, by $2.3 billion, or 13.4%. Borrowing for health facilities was somewhat lower than anticipated, providing a partial offset. As a result, the debt-to-GDP ratio reached 34.4%, up from 31.8% in 2010–11.

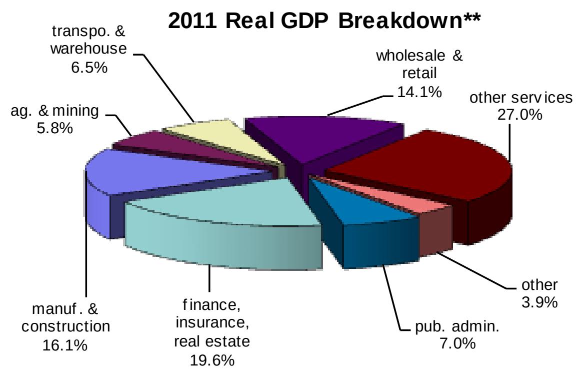
Outlook

Based on the budget and absent any further fiscal setbacks, debt growth is expected to slow notably in 2012–13, with debt projected to rise by $1.1 billion, or 5.8%. This points to an increase in the debt-to-GDP ratio to 35.0%, positioning Manitoba with the fourth-highest debt burden among Canadian provinces. Gross borrowing requirements of $3.7 billion are anticipated for 2012–13, with approximately 53% completed at the time of writing. Approximately $1.9 billion is required for refinancing with the remainder to be used to fund the fiscal deficit, including capital needs and the needs of Manitoba Hydro. A relatively smooth maturity profile, modest floating-rate debt (9% as of March 31, 2012) and, excluding Manitoba Hydro, no unhedged foreign currency debt provides stability to debt servicing obligations.

Over the medium term, as the Province continues with efforts to reduce the deficit, debt is expected to grow between 7% and 9% annually. This is likely to result in a debt-to-GDP ratio of roughly 38% in 2014-15, a higher peak than had been anticipated at the time of last year's review, but still considered manageable within the current ratings.

Economy





*Based on major Canadian banks' forecasts at the time of this report. **Statistics Canada.

Based on the budget, Manitoba's economy is estimated to have grown by 2.2% in 2011. DBRS cautions however, that Statistics Canada's preliminary estimates reported real growth of 1.1% (at basic prices) suggesting only subpar growth. For the second consecutive year, crop production was significantly affected by heavy rainfall and widespread flooding, with notable declines experienced in wheat, canola, oats and barley output. However, the mining sector continued to show signs of strength, in part due to a 20.7% increase in oil production. After two years of decline, manufacturing bounced back in 2011 with the value of shipments advancing by 6.2% in 2011. These mixed results were evident in the labour market, which exhibited only modest improvement as employment grew by less than 1.0%, just enough to hold the unemployment rate constant at 5.4%. Demographic trends remained positive throughout the year with Manitoba witnessing its largest population increase in the last 40 years and international immigration reaching a new high of almost 16,000 persons.

Outlook

The Province has assumed real growth of 2.3% in 2012, which remains consistent with the current private sector consensus despite recent downward revisions to most forecasts. Crop conditions appear favourable thus far, suggesting that a return to normal crop production will once again be a meaningful contributor to growth. According to Statistics Canada's survey of investment intentions, non-residential construction and machinery and equipment investment is expected to trail the national average, rising by 4.6%. Year-to-date indicators appear to be mixed, with retail sales growth trailing the national average, while wholesale trade has advanced by almost double the national rate (11.7% seasonally adjusted as of May 2012). The labour market remains steady with the unemployment rate at 5.7% (seasonally adjusted) as of July 2012, unchanged from a year ago. Population growth is expected to remain strong and support solid demand for housing, with housing starts forecast to rise by almost 12% based on the latest estimates from CMHC.

The outlook now appears to be weakening for 2013 as the Province has assumed real growth of 2.4% compared with the latest private sector average of 2.2%. While Manitoba's economy continues to demonstrate resilience, growth is nevertheless likely to be tempered by weak global demand as a result of ongoing sovereign debt challenges in Europe and potential fiscal consolidation in the United States.

Province of Manitoba

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Economic Statistics

	For the year ended December 31						
	2013P	2012P	2011	2010	2009	2008	2007
Nominal GDP ($ millions)	61,737	59,135	56,916	54,257	51,518	51,575	48,920
Nominal GDP growth	4.4%	3.9%	4.9%	5.3%	(0.1%)	5.4%	8.3%
Real GDP growth	2.4%	2.3%	2.2%	2.4%	(0.3%)	3.8%	2.7%
Population (thousands)	1,285	1,268	1,251	1,235	1,219	1,205	1,194
Population growth	1.3%	1.4%	1.3%	1.3%	1.1%	1.0%	0.8%
Employment (thousands)	639	630	625	620	608	609	599
Unemployment rate	5.3%	5.4%	5.4%	5.4%	5.2%	4.2%	4.4%
Housing starts (units)	6,900	6,800	6,083	5,888	4,174	5,537	5,738
Retail sales ($ millions)	n.a.	n.a.	16,448	15,766	14,915	14,980	14,016
Inflation rate (CPI)	2.0%	1.9%	3.0%	0.8%	0.6%	2.3%	2.0%
Personal income per capita ($)	n.a.	n.a.	n.a.	34,425	33,748	33,516	31,926

Sources: Statistics Canada (actuals), Manitoba Finance, CMHC, and DBRS estimates. P= Projected. n.a. = not available.

Province of Manitoba

Budget Summary* ($ millions)	Budget 2012-13	Projected 2011-12	Budget 2011-12	2010-11	2009-10	2008-09
Revenue	13,771	13,729	13,323	13,138	12,568	12,647
Program expenditure	14,973	15,745	14,664	13,654	12,921	12,085
Program surplus (deficit)	(1,202)	(2,016)	(1,340)	(515)	(353)	562
Interest expense	778	733	726	706	676	713
DBRS-Adjusted Surplus (Deficit)	(1,979)	(2,749)	(2,066)	(1,221)	(1,029)	(151)
DBRS adjustments:						
Capital expenditures less amortization	1,519	1,629	1,629	923	828	603
Other non-recurring items, incl. assets sales	-	-	-	-	-	-
Surplus (deficit), as reported	(460)	(1,120)	(438)	(298)	(201)	452
Tax-supported debt + unfunded pension liabilities	20,681	19,552	18,948	17,242	16,054	14,763
Gross borrowing requirements (all entities)	3,671	5,424	3,768	3,550	4,684	3,322
Gross capital expenditure	1,520	1,441	1,561	1,361	1,232	978

* DBRS adjusts reported figures to exclude certain non-recurring items (e.g. asset sales). DBRS also recognizes capital expenditures as incurred, rather than as amortized, to improve inter-provincial comparability.

Selected Financial Indicators (DBRS-Adjusted)

Debt*/GDP	35.0%	34.4%	33.3%	31.8%	31.2%	28.6%
Surplus (deficit)/GDP	(3.3%)	(4.8%)	(3.6%)	(2.3%)	(2.0%)	(0.3%)
Surplus (deficit)/total revenue	(14.4%)	(20.0%)	(15.5%)	(9.3%)	(8.2%)	(1.2%)
Interest costs/total revenue	5.6%	5.3%	5.5%	5.4%	5.4%	5.6%
Total tax revenues/total revenue	50.8%	48.2%	49.8%	48.2%	47.3%	48.4%
Federal transfers/total revenue	28.2%	31.7%	29.8%	30.8%	31.2%	30.6%
Program expenditures/total revenue	108.7%	114.7%	110.1%	103.9%	102.8%	95.6%
Health expenditures/total expenditures	35.2%	32.1%	35.0%	35.7%	35.5%	35.8%
Program expenditure growth	(4.9%)	15.3%	7.4%	5.7%	6.9%	2.9%
Total expenditure growth	(4.4%)	14.8%	7.2%	5.6%	6.2%	2.6%
Total revenue growth	0.3%	4.5%	1.4%	4.5%	(0.6%)	5.5%

* DBRS-defined: tax-supported debt + unfunded pension liabilities.

Background Political Information

Party in power:	New Democratic Party	Legislature seats:	37 of 57
Premier:	Greg Selinger	Election to be held by:	October 2015

Province of Manitoba

Report Date:
September 4, 2012

Province of Manitoba

Revenue ($ millions)	Budget 2012-13	Projected 2011-12	Budget 2011-12	2010-11	2009-10	2008-09
Personal income tax	2,796	2,702	2,731	2,592	2,402	2,455
Retail sales tax	1,834	1,651	1,631	1,618	1,570	1,569
Corporate taxes	927	917	921	824	754	883
Gasoline & motive fuel tax	316	267	267	256	255	253
Tobacco taxes	256	245	253	234	216	190
Education property tax	744	718	728	690	668	657
Energy, mining, and other taxes	116	114	109	114	75	111
Total tax revenue	6,990	6,614	6,640	6,328	5,940	6,118
Lottery income	346	344	348	332	307	305
Liquor control commission	260	250	255	251	234	229
Manitoba Hydro	65	100	134	150	163	266
Natural resource levies	180	174	167	169	149	146
Fees, permits, licences, & other	2,042	1,895	1,808	1,861	1,852	1,717
Total Own-Source Revenue	9,882	9,378	9,352	9,091	8,644	8,781
Equalization payments	1,872	1,942	1,942	2,001	2,063	2,063
Canada health & social transfer	1,492	1,417	1,418	1,365	1,302	1,263
Other federal transfers	525	992	612	681	559	540
Total Federal Transfers	3,889	4,351	3,972	4,047	3,924	3,866
DBRS-Adjusted Revenue	13,771	13,729	13,323	13,138	12,568	12,647
Expenditures ($ millions)						
Health	5,547	5,286	5,387	5,120	4,831	4,588
Education and training	3,710	3,576	3,562	3,341	3,227	3,091
Social services (1)	1,064	1,047	990	1,363	1,295	1,192
Justice	475	472	443	435	410	377
Infrastructure and transportation	527	520	506	540	491	451
Agriculture, economic, & resource dev. (1)	1,918	2,094	1,834	1,433	1,323	1,278
Other general government	453	1,194	458	500	516	505
Capital expenditures less amortization (2)	1,519	1,629	1,629	923	828	603
Other	(241)	(73)	(145)	-	-	-
DBRS-Adjusted Program Expenditures	14,973	15,745	14,664	13,654	12,921	12,085
DBRS-Adjusted Program Surplus (Deficit)	(1,202)	(2,016)	(1,340)	(515)	(353)	562
Net interest expense (3)	778	733	726	706	676	713
DBRS-adjusted Expenditures	15,751	16,478	15,390	14,360	13,597	12,798
DBRS-Adjusted Surplus (Deficit)	(1,979)	(2,749)	(2,066)	(1,221)	(1,029)	(151)
DBRS adjustments:						
Capital expenditures less amortization (2)	1,519	1,629	1,629	923	828	603
Non-recurring revenue (expenditure) (1)	-	-	-	-	-	-
Surplus (deficit), as reported	(460)	(1,120)	(438)	(298)	(201)	452

(1) Due to government reorganization, budget and projected results in social services and agriculture, economic & resource development are not directly comparable with reported results for 2010-11 and prior years.

(2) This adjustment converts capital expenditures to a pay-as-you-go basis.

(3) Interest expense is net of interest income generated by the Fiscal Stabilization and Debt Retirement Funds.

Province of Manitoba

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Province of Manitoba

Balance Sheet (Consolidated Statement)

($ millions)	As at March 31				As at March 31		
Financial Assets	2011	2010	2009	**Liabilities**	2011	2010	2009
Cash and cash equivalents	1,391	2,010	2,106	A/P and accrued charges	3,657	3,541	3,528
Amounts receivable	1,346	1,259	1,143	Debt (1)	25,637	24,456	22,788
Loans & advances (1)	9,267	9,075	8,603	Unamortized for. exch. fluc.	(50)	(56)	(61)
Equity in gov't enterprises	3,429	3,068	2,127	Unfunded pension liability	1,772	1,800	1,991
Net tangible capital assets	8,233	7,325	6,518	Other liabilities	-	-	-
Other assets	2,847	2,630	2,873	**Total Liabilities**	31,016	29,741	28,246
Total Financial Assets	26,513	25,367	23,370	**Accumulated Deficit**	(4,503)	(4,374)	(4,876)
				Total Liabilities	26,513	25,367	23,370

Net Public Sector Debt*

($ millions)	As at March 31 2013B	2012P	2011	2010	2009	2008	2007	2006
Net general purpose debt	14,413	13,934	11,877	10,919	9,739	9,208	7,465	7,210
Crown corporation & gov't agencies	2,128	1,868	1,641	1,478	1,341	1,269	1,279	1,272
Schools and universities	496	496	461	432	384	387	360	306
Hospitals	1,283	1,074	1,015	949	831	833	790	767
Municipalities (2)	476	476	476	476	476	476	524	502
Net Tax-Supported Debt	18,796	17,848	15,470	14,254	12,772	12,174	10,418	10,057
Self-supporting debt:								
Manitoba Hydro	9,832	9,101	8,362	7,730	7,499	6,794	6,636	6,524
Total net public sector debt	28,628	26,949	23,832	21,984	20,271	18,968	17,054	16,581
Unfunded Pension Liabilities (3)	1,885	1,704	1,772	1,800	1,991	2,209	3,491	3,461
Per Capita (CAD) (3)								
Tax-supp. debt + unf. pension liabilities	16,309	15,635	13,967	13,168	12,246	12,050	11,747	11,473
Total public sector debt	22,576	21,550	19,305	18,032	16,816	15,892	14,403	14,072
As a % of GDP (3)								
Tax-supp. debt + unf. pension liabilities	35.0%	34.4%	31.8%	31.2%	28.6%	29.4%	30.8%	32.4%
Total public sector debt	48.4%	47.3%	43.9%	42.7%	39.3%	38.8%	37.8%	39.8%
Debt Breakdown by Currency (4)								
Cdn$ pay	n/a	100%	100%	100%	100%	100%	100%	100%
Non-CAD pay	n/a	0%	0%	0%	0%	0%	0%	0%
Fixed/Floating Rate Debt Breakdown (4)								
Fixed rate	n/a	91%	76%	82%	80%	81%	82%	81%
Floating rate	n/a	9%	24%	18%	20%	19%	18%	19%

Unfunded Pension Liabilities (Tax-Supported) (CAD millions)	Valuation Date	Mar. 31, 2012
Civil service (5)	Dec. 2009	2,287
Teachers (5)	Jan. 2009	2,799
Other plans (includes MLAs, judges, other)	Various	1,618
	Total liabilities:	6,704
	Less pension assets:	5,076
	Total Unfunded Pension Liabilities:	1,628

Gross Debt Maturity Profile

Public Sector Debt	($ millions)	%
2012-13	3,712	12.9%
2013-14	2,474	8.6%
2014-15	2,520	8.8%
2015-16	2,066	7.2%
2016-17	2,640	9.2%
2017-18 to 2021-22	6,274	21.8%
2022-23+	9,108	31.6%
Total	28,793	100%

* Net of sinking fund and Debt Retirement Fund assets. P = Projected; B = Budget; n/a = not applicable.

(1) Includes asset and liability items related to debt of The Manitoba Hydro-Electric Board and Manitoba Lotteries Corporation.
(2) Not guaranteed by the Province. DBRS estimate for 2011P; 2012B.
(3) Excludes pension liabilities of self-supporting Crown corporations.
(4) Net of hedges (if any).
(5) Civil Service includes amounts for indexation and unamortized pension adjustment; Teachers includes amount for indexation.

Province of Manitoba

Report Date:
September 4, 2012

Rating

Debt	Rating	Rating Action	Trend
Short-Term Debt*	R-1 (middle)	Confirmed	Stable
Long-Term Debt*	A (high)	Confirmed	Stable

* Issued/guaranteed by the Province, including the Manitoba-Hydro Electric Board.

Rating History

	Current	2011	2010	2009	2008	2007
Short-Term Debt	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (middle)
Long-Term Debt	A (high)	A (high)	A (high)	A (high)	A (high)	A (high)

Related Research

- DBRS Publishes Updated Methodologies for Canadian Provinces and Municipalities, August 3, 2012.

Note:
All figures are in Canadian dollars unless otherwise noted.

Moody's Investors Service

Credit Opinion: Manitoba Hydro Electric Board

Manitoba Hydro Electric Board

Manitoba, Canada

Ratings

Category	Moody's Rating
Outlook	Stable
Bkd Commercial Paper	P-1

Contacts

Analyst	Phone
Allan McLean/Toronto	416.214.3852
William L. Hess/New York	212.553.3837

Opinion

Corporate Profile

Manitoba Hydro-Electric Board (MHEB) is a vertically integrated regulated electric and gas utility which is wholly owned by the Province of Manitoba (the Province). A provincial Crown Corporation, MHEB generates approximately 98% of electricity for the Province of Manitoba primarily through 14 hydroelectric generation stations with the balance produced by thermal and diesel generating stations. MHEB's natural gas segment delivers over 2.1 billion cubic meters of natural gas to approximately 100 communities in the Province.

MHEB meets its customers' needs largely with power from its low-cost hydroelectric plants. These assets are valuable in that they provide the company with the opportunity to sell excess supply into neighbouring states and provinces during peak periods and import energy during off-peak periods. Approximately one-third of MHEB's electric revenues come from export sales during normal water years. MHEB's results for fiscal year 2008 (ended March 31, 2008) were reflective of better than average hydrology, similar to those seen in fiscal year 2006, and changes in accounting standards that led to a reduction in finance charges pertaining to the recognition of foreign exchange gains on U.S. denominated long-term debt. The favourable hydrology conditions gave rise to robust revenues and cash flows from electricity exports. In fiscal year 2008, MHEB produced total generation of 35.4 million MWh and net income from electricity and natural gas operations of $346 million. Total generation in 2008 was up from 32.6 MWh in 2007 although lower than the 37.6 million MWh generated in 2006. Net income in 2008 was up from $122 million in the previous year although lower than the $415 million recorded in 2006. Export energy sales, primarily to the United States, increased to $625 million in 2008 from $592 million in 2007, resulting in the second highest export sales in MHEB's history. During fiscal 2008, MHEB generated approximately 36.3% of its electricity revenue from export sales to neighbouring provinces and states, unchanged from the previous year and down from 47% in 2006. For the fiscal year ending March 31, 2008, the electricity segment comprised approximately 76.6% of the company's total revenues and 98.3% of its net income, with 1.7% of net income attributable to MHEB's natural gas business.

With an as-reported debt/equity ratio of 77:23 at March 31, 2008, MHEB continued to make progress towards management's primary financial targets, including reducing its debt/equity ratio to 75:25 by 2012 and reducing its reliance on debt to finance its capital expenditure needs. According to MHEB`s management, the target 75:25 debt/equity ratio is likely to be achieved in the fiscal year ending March 31, 2009 largely due to favourable hydrology. Management believes that the 75:25 debt/equity target should be sustainable going forward assuming annual rate increases approximate the rate of inflation and barring one or more poor hydrology years. However, Moody's notes that major debt-financed capital projects such as Wuskwatim, Conawapa, Keeyask and Bipole III could result in a weakening of MHEB's debt/equity going forward.

In addition to owning 100% of MHEB, the Province directly provides over 90% of MHEB's debt and unconditionally guarantees virtually all of MHEB's third party debt, including the promissory notes issued under MHEB's promissory note program (commercial paper or CP program). Only $104 million or less than 1% of MHEB's total debt is neither held nor guaranteed by the Province Manitoba. This $104 million is comprised of Manitoba Hydro-Electric Bonds related to "mitigation projects".

Recent Developments

Subsequent to MHEB's March 31, 2008 year end, MHEB received approval for two increases in its electricity rates. The first increase of 5% became effective on July 1, 2008. The second increase of 4% is to become effective on April 1, 2009 although that increase is conditional upon the Public Utilities Board of Manitoba's (PUB) satisfactory review of certain information to be submitted to the PUB by MHEB. These rate increases are expected to be helpful in maintaining MHEB's primary financial ratios within its target ranges during the upcoming years of significant capital expansion.

MHEB continues to have a number of major capital projects in various stages of development. Hydro projects include the 200 MW run of river Wuskwatim project currently under construction. Wuskwatim, with an estimated capital cost of $1.3 billion, is expected to be on budget and in service on schedule in 2012. Two other major run of river projects, Keeyask and Conawapa, are in early stage development. Keeyask is currently envisioned as a 620 MW project with an estimated budget of $3.7 billion and a potential in service date of 2018 while Conawapa is currently expected to be a 1,300 MW project with an estimated budget of $5.0 billion and a potential in service date of 2022. MHEB's major transmission project, known as Bipole III, is a new high voltage direct current (HVDC) transmission line on the west side of the Province. Bipole III will act as a back-up to the current system as well as carry power from new generation to the south and to export markets. The targeted in-service date is 2017 with an estimated cost of $2.2 billion. Since management's projections indicate that internally generated funds are anticipated to be roughly equal to maintenance capital expenditures, Moody's expects that MHEB will finance the construction of its major development projects primarily with additional long-term borrowings from the Province.

Rating Rationale

PROVINCIAL GUARANTEE

MHEB's Prime-1 (P-1) rating reflects the Province's unconditional guarantee of all of MHEB's short-term debt, together with Moody's belief that the Province manages its own liquidity in a professional manner and will have easy access to capital markets over the next year at a minimum. MHEB and a similar entity, British Columbia Hydro & Power Authority (BC Hydro), are unique among Moody's-rated companies and are not readily comparable to other regulated electric utilities. Both are 100% owned by their respective provincial shareholder and the provincial shareholder owns virtually all of the companies' debts. Moody's observes that MHEB continues to independently support all of its outstanding debt, make water royalty payments in excess of $100 million annually to the Province, and earn positive net income thereby maintaining or achieving modest improvements in its financial profile.

LIQUIDITY

MHEB's CP borrowings are guaranteed by the Province of Manitoba. While the Province does not maintain committed bank credit facilities in support of its short-term borrowing programs, Moody's believes that the probability that the Aa1-rated Province would be unable to obtain funding on a timely basis either from the capital markets or its bankers is highly remote. Accordingly, Moody's is comfortable with the Prime -1 rating assigned to MHEB's provincially guaranteed CP program despite the absence of committed back-up facilities at either MHEB or the Province. While MHEB maintains $500 million uncommitted credit facilities in support of its $500 million CP program, Moody's generally views uncommitted facilities as providing little in the way of support for CP borrowings. Accordingly, our Prime -1 rating of MHEB's CP program relies principally on the guarantee of the Province.

Rating Outlook

The Stable Outlook reflects the outlook of the guarantor, the Province of Manitoba.

What Could Change the Rating - Up

A change in the rating of the guarantor.

What Could Change the Rating - Down

A change in the rating of the guarantor.

Moody's Investors Service

Credit Opinion: Manitoba Hydro Electric Board

Global Credit Research - 15 Oct 2009

Manitoba, Canada

Ratings

Category	Moody's Rating
Outlook	Stable
Bkd Commercial Paper	P-1

Contacts

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Allan McLean/Toronto	416.214.3852
William L. Hess/New York	212.553.3837

Opinion

Rating Drivers

Manitoba Hydro-Electric Board's (MHEB)'s Prime-1 rating reflects the explicit guarantee of the Province of Manitoba (Province)

The Province is rated Aa1 with a stable outlook

The Province owns 100% of Manitoba Hydro-Electric Board's (MHEB) equity and holds over 90% of MHEB's debt

Extensive ownership, financial and public policy linkages to the Province

Regulated utility with predominantly low cost hydro-electric generation

Corporate Profile

MHEB is a vertically integrated regulated electric and gas utility which is 100% owned by the Province. MHEB's 14 hydroelectric generating stations contribute 92% of total electricity generation, with the balance produced by thermal and diesel generating stations. MHEB's natural gas segment delivers over 2.1 billion cubic meters of natural gas to approximately 100 communities in the Province.

MHEB is a provincial Crown Corporation, and in addition to owning 100% of MHEB, the Province directly provides over 90% of MHEB's debt. The Province also unconditionally guarantees virtually all of MHEB's third party debt, including the promissory notes issued under MHEB's promissory note program (commercial paper or CP program). Only $77 million or less than 1% of MHEB's total debt is neither held nor guaranteed by the Province Manitoba. This $77 million is comprised of Manitoba Hydro-Electric Bonds related to "mitigation projects".

SUMMARY RATING RATIONALE

MHEB's Prime-1 (P-1) rating reflects the Province's guarantee of MHEB's promissory note program, together with Moody's belief that the Province manages its own liquidity in a professional manner and will have easy access to capital markets over the next year at a minimum.

Recent Developments

Subsequent to MHEB's March 31, 2009 year end, the Public Utilities Board of Manitoba (PUB) confirmed its approval for a 2.9% increase in electricity rates. The rate increase became effective on April 1st, 2009. Previously, in June 2008 the PUB had approved a conditional increase of 4% for fiscal 2010, subject to satisfactory review of certain information to be submitted to the PUB by MHEB. The downward revision of the increase from 4% to 2.9% reflected MHEB's better than projected financial results for fiscal 2009 as well as the PUB's concern about the impact of rate increases on consumers during the economic downturn. MHEB expects to file its rate application in November 2009 for rates effective from April 1, 2010 and April 1, 2011.

On October 2, 2009, the International Brotherhood of Electrical Workers (IBEW), Local 2034 representing 2,913 line and technical trade workers (approximately 60% of MHEB's workforce excluding construction workers), commenced strike action over wage and contract demands. This is the first strike in MHEB's history. On October 8, 2009, MHEB announced that a tentative agreement had been reached with the IBEW and that its unionized staff had returned to work pending ratification of the proposed collective agreement. Moody's understands that essential services were maintained during the period that the unionized employees were off the job.

DETAILED RATING CONSIDERATIONS

PROVINCIAL GUARANTEE

MHEB's Prime-1 (P-1) rating reflects the Province's guarantee of MHEB's promissory note program, together with Moody's belief that the Province manages its own liquidity in a professional manner and will have ready access to capital markets over the next year at a minimum. MHEB and a similar entity, British Columbia Hydro & Power Authority (BC Hydro), are unique among Moody's-rated companies and are not readily comparable to other regulated electric utilities. Both are 100% owned by their respective provincial shareholder and the provincial shareholder owns virtually all of the companies' debts. The ratings of both MHEB and BC Hydro reflect the guarantee of the utility's rated debt by the respective provincial shareholder. Moody's observes that MHEB continues to independently support all of its outstanding debt, make water royalty payments in excess of $100 million annually to the Province, and earn positive net income thereby maintaining or achieving modest improvements in its financial profile.

Other Considerations

NEW GENERATING CAPACITY WILL BOOST EXPORTS AND ANTICIPATE DOMESTIC DEMAND GROWTH

MHEB meets its customers' needs largely with low-cost power from its hydroelectric plants. These assets are valuable in that they provide the company with the opportunity to sell excess supply into neighbouring states and provinces during peak periods and import energy during off-peak periods. Approximately 35% of MHEB's electric revenues come from export sales during normal water years. MHEB continues to have a number of major capital projects in various stages of development. These projects will meet anticipated growth in domestic demand for the next 25-30 years and also allow MHEB to exploit additional export opportunities. MHEB has negotiated long-term export sales contracts with several US utilities that will partially underpin new generation developments. These contracts are subject to regulatory approvals, and represent in total around 1,125 MW of capacity. The agreements are conditional upon the construction of new generation and interconnection facilities. MHEB's policy is to only enter into long-term contracts to the extent of firm energy that could be generated by `dependable flow', which assumes a repetition of the worst 18-month drought on record (1939-41). Moody's notes that this prudent policy does not entirely eliminate the risk that MHEB could be required to import power to meet its contractual commitments in extreme drought conditions.

MHEB's development projects include the 200 MW run of river Wuskwatim project currently under construction. Wuskwatim, together with associated transmission investment, has an estimated capital cost of $1.6 billion and the in-service date has advanced to 2011 from 2012. Two other major run of river projects, Keeyask and Conawapa, are in early stage development. Keeyask is currently envisioned as a 695 MW project with an estimated budget of $4.5 billion and an earliest in service date of 2018 while Conawapa is currently expected to be a 1,485 MW project with an estimated budget of $6.3 billion and a potential in service date of 2022. MHEB's major transmission project, known as Bipole III, is a new high voltage direct current (HVDC) transmission line on the west side of the Province. Bipole III will act as a back-up to the current system as well as carry power from new generation to the south and to export markets. The targeted in-service date is 2017, with costs estimated in 2008 at $2.2 billion.

Moody's expects that MHEB will finance the construction of its major development projects with a combination of additional long-term borrowings from the Province and internally generated funds. Management projections indicate that MHEB can fund its maintenance capital expenditures and approximately 25% of its new capital projects over the next decade from internally generated cash flow.

MHEB EXPECTS TO CONTINUE TO MEET ITS FINANCIAL TARGETS

MHEB achieved its target minimum 25% equity with an as reported debt/total capitalization of 75% at March 31, 2009. Favourable hydrology conditions enabled MHEB to achieve this level earlier than the original 2012 target. MHEB is cognizant that its hydro-generation results in unavoidable exposure to drought risk, and management therefore attaches a high priority to this equity target. MHEB believes that the 75:25 debt/capital target should be sustainable going forward assuming annual rate increases that approximate the rate of inflation and barring one or more poor hydrology years. The attainment of financial targets also assumes that there will be an economic recovery in major export markets and prices of electricity exports will recover from current depressed levels. Management's other targets are a minimum interest coverage ratio of 1.2x (based on net income plus gross interest / gross interest) and a minimum capital coverage ratio of 1.2x (based on cash flow from operations / maintenance capital expenditures). For the year ended March 31, 2009, MHEB's interest coverage ratio of 1.58x and capital coverage ratio of 1.81x exceeded the company's minimum targets. Despite the high level of planned capital expenditures during the next decade, much of which is expected to be debt financed, MHEB expects to be able to continue to satisfy each of its financial targets. However, Moody's notes that the occurrence of poor hydrology years during the period of elevated capital expenditures could result in a material deterioration in these metrics.

Liquidity Profile

MHEB's CP borrowings are guaranteed by the Province of Manitoba. While the Province does not maintain committed bank credit facilities in support of its short-term borrowing programs, Moody's believes that the probability that the Aa1-rated Province would be unable to obtain funding on a timely basis either from the capital markets or its bankers is highly remote. Accordingly, Moody's is comfortable with the Prime -1 rating assigned to MHEB's provincially guaranteed CP program despite the absence of committed back-up facilities at either MHEB or the Province. While MHEB maintains $500 million uncommitted credit facilities in support of its $500 million CP program, Moody's generally views uncommitted facilities as providing little in the way of support for CP borrowings. Accordingly, our Prime -1 rating of MHEB's CP program relies principally on the guarantee of the Province.

Rating Outlook

The Stable Outlook reflects the outlook of the guarantor, the Province of Manitoba.

What Could Change the Rating - Up

A change in the rating of the guarantor

What Could Change the Rating - Down

A change in the rating of the guarantor

Moody's Investors Service

CREDIT RATINGS ARE MIS'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MIS DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS DO NOT CONSTITUTE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS ARE NOT RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. CREDIT RATINGS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MIS ISSUES ITS CREDIT RATINGS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

Moody's Investors Service

Credit Opinion: Manitoba Hydro Electric Board

Global Credit Research - 08 Feb 2010

Manitoba, Canada

Ratings

Category	Moody's Rating
Outlook	Stable
Bkd Commercial Paper	P-1

Contacts

Analyst	Phone
Allan McLean/Toronto	416.214.3852
William L. Hess/New York	212.553.3837

Opinion

Rating Drivers

Manitoba Hydro-Electric Board's (MHEB)'s Prime-1 rating reflects the explicit guarantee of the Province of Manitoba (Province)

The Province is rated Aa1 with a stable outlook

The Province owns 100% of Manitoba Hydro-Electric Board's (MHEB) equity and holds over 90% of MHEB's debt

Extensive ownership, financial and public policy linkages to the Province

Regulated utility with predominantly low cost hydro-electric generation

Corporate Profile

MHEB is a vertically integrated regulated electric and gas utility which is 100% owned by the Province. MHEB's 14 hydroelectric generating stations typically generate the vast majority (>90%) of the energy the company delivers. The balance of energy delivered comes from thermal and wind assets and imports. MHEB's natural gas segment delivers over 2.1 billion cubic meters of natural gas to approximately 100 communities in the Province.

MHEB is a provincial Crown Corporation, and in addition to owning 100% of MHEB, the Province directly provides over 90% of MHEB's debt. The Province also unconditionally guarantees virtually all of MHEB's third party debt, including the promissory notes issued under MHEB's promissory note program (commercial paper or CP program). Only $77 million or less than 1% of MHEB's total debt is neither held nor guaranteed by the Province

Manitoba. This $77 million is comprised of Manitoba Hydro-Electric Bonds related to "mitigation projects".

SUMMARY RATING RATIONALE

MHEB's Prime-1 (P-1) rating reflects the Province's guarantee of MHEB's promissory note program, together with Moody's belief that the Province manages its own liquidity in a professional manner and will have easy access to capital markets over the next year at a minimum.

Recent Developments

In November 2009, MHEB's board of directors approved the corporation's Integrated Financial Forecast (IFF09-1) for the period 2009/10 - 2019/20 inclusive. IFF09-1 reflects the various impacts of the recession as well as the weak spot export power prices that prevailed during 2009. MHEB's base case expectation that weak spot export power prices will persist for some time, combined with large borrowing requirements related to MHEB's heavy capital spending program, is expected to result in a weakening of the company's financial profile. Consequently, MHEB expects to undershoot one or more of its key financial targets (Debt/Equity ratio of 75:25 or less; Interest Coverage ratio of 1.2:1.0 or more; and Capital Coverage ratio (excluding major new projects) of 1.2:1.0 or more) in the medium term.

MHEB filed a general rate application (electrical) on November 30, 2009. The GRA seeks average rate increases of 2.9% effective April 1, 2010 and April 1, 2011. Since MHEB does not expect a final decision from the Manitoba Public Utilities Board (PUB) on the GRA until late summer of 2010, MHEB has requested that the PUB approve the April 1, 2010 rate increase of 2.9% on an interim refundable basis. MHEB hopes to receive a decision on its request for an interim refundable rate increase in February 2010.

The Province's Ombudsman is investigating a complaint made in December 2008 under the Province's whistleblower protection laws claiming that MHEB has seriously miscalculated hydrology risk. The details of the whistleblower's allegations have not been made public, and Moody's notes that MHEB has defended its risk management policies vigorously. A report by independent consultants in September 2009 concluded that MHEB's management of drought risk was reasonable and adequate. The Audit Committee of MHEB's Board of Directors has also engaged KPMG to provide an independent assessment of its drought risk management, long term-contracts, hydrologic modeling and power trading governance. KPMG is expected to present its final report in March 2010. The PUB is expected to consider the report later in the year, and it may be several months before the Ombudsman concludes the formal review of the whistleblower's complaint. Moody's will monitor these developments to determine what, if any, impact they might have on MHEB's credit profile

DETAILED RATING CONSIDERATIONS

PROVINCIAL GUARANTEE

MHEB's Prime-1 (P-1) rating reflects the Province's guarantee of MHEB's promissory note program, together with Moody's belief that the Province manages its own liquidity in a professional manner and will have ready access to capital markets over the next year at a minimum. MHEB and a similar entity, British Columbia Hydro & Power Authority (BC Hydro), are unique among Moody's-rated companies and are not readily comparable to other regulated electric utilities. Both are 100% owned by their respective provincial shareholder and the provincial shareholder owns virtually all of the companies' debts. The ratings of both MHEB and BC Hydro reflect the guarantee of the utility's rated debt by the respective provincial shareholder. Moody's observes that MHEB continues to independently support all of its outstanding debt, make water royalty payments in excess of $100 million annually to the Province, and earn positive net income thereby maintaining or achieving modest improvements in its financial profile.

Other Considerations

PLANNED GENERATION DEVELOPMENTS WILL BOOST EXPORTS AND ANTICIPATE DOMESTIC DEMAND GROWTH

MHEB meets its customers' needs largely with low-cost power from its hydroelectric plants. These assets are valuable in that they provide the company with the opportunity to sell excess supply into neighbouring states and provinces during peak periods and import energy during off-peak periods. Approximately 35% of MHEB's electric revenues come from export sales during normal water years. MHEB continues to have a number of major capital projects in various stages of development. These projects will meet anticipated growth in domestic demand for the next 25-30 years and also allow MHEB to tap increasing demand for renewable energy in export markets. MHEB has signed binding term sheets for long-term export sales contracts with several US utilities that will partially underpin new generation developments. These contracts continue to be subject to regulatory approvals, and represent in total around 1,250 MW of capacity. The agreements are conditional upon the construction of new generation and interconnection facilities. MHEB's policy is to only enter into long-term contracts to the extent of firm energy that could be generated by `dependable flow', which assumes a repetition of the worst river flows on record (1939-41). Moody's notes that this prudent policy does not entirely eliminate the risk that MHEB could be required to purchase power to meet its contractual commitments in extreme drought conditions.

MHEB's major development projects include the 200 MW run of river Wuskwatim project currently under construction. Wuskwatim, together with associated transmission investment, has an estimated capital cost of $1.6 billion and a current expected in-service date of 2011. Two other major run of river projects, Keeyask and Conawapa, are in early stage development. Keeyask is currently envisioned as a 695 MW project with an estimated budget of $4.6 billion and an earliest in service date of 2018 while Conawapa is currently expected to be a 1,485 MW project with an estimated budget of $6.3 billion and a potential in service date of 2022. MHEB's major transmission project, known as Bipole III, is a new high voltage direct current (HVDC) transmission line on the west side of the Province. Bipole III will act as a back-up to the current system as well as carry power from new generation to the south and to export markets. The current targeted in-service date is fiscal 2017/18, at an estimated cost of $2.2 billion.

Moody's expects that MHEB will finance the construction of its major development projects with a combination of additional long-term borrowings from the Province and internally generated funds. Management's 2009 financial forecast, which incorporates an expectation of weaker near to medium-term export revenues, indicates that MHEB will be more reliant on debt financing than had been expected in earlier forecasts.

BORROWING REQUIREMENTS AND WEAK SPOT EXPORT POWER PRICES COULD RESULT IN FAILURE TO MEET FINANCIAL TARGETS IN MEDIUM TERM

MHEB achieved its minimum 25% equity target with an as reported debt/total capitalization of 75% at March 31, 2009. Favourable hydrology conditions enabled MHEB to achieve this level earlier than the original 2012 target. However, according to management's 2009 financial forecast, the company will be challenged to maintain its 75:25 debt/equity target after fiscal 2011 and may not achieve the target again until some time during the next decade. Although management's forecast assumes 2.9% annual average electric rate increases in each of fiscal 2010 and 2011 and 3.5% average electric rate increases annually thereafter, borrowings required to finance MHEB's significant capital program and weak spot export power prices are expected to drive the company's debt/equity ratio to approximately 80:20 later this decade. This ratio is projected to strengthen rapidly after Conawapa enters service, and Moody's also notes that some combination of larger rate increases, an earlier and more dramatic recovery of export power prices or a reduction in debt-financed capital spending could assist MHEB in achieving its financial targets earlier than is indicated by its 2009 financial forecast.

As noted above, MHEB's rating primarily reflects the Province's guarantee and liquidity support. However, MHEB's financial ratios, including interest coverage, are an indication of the extent to which it is capable of supporting its debt independently, which is a consideration in the rating of the Province. MHEB's financial forecasts indicate that management expects to generate sufficient cash flow to service the interest on its debt. However, the anticipated weakening of MHEB's financial profile means that the company has less cushion against unexpected events such as poor hydrology, capital cost overruns or construction delays. In the event of such unexpected events, MHEB might need to seek larger rate increases, curtail its capital spending or take other actions to ensure that the company continues to be able to independently service its debt.

Liquidity Profile

MHEB's CP borrowings are guaranteed by the Province of Manitoba. While the Province does not maintain committed bank credit facilities in support of its short-term borrowing programs, Moody's believes that the probability that the Aa1-rated Province would be unable to obtain funding on a timely basis either from the capital markets or its bankers is highly remote. Accordingly, Moody's is comfortable with the Prime -1 rating assigned to MHEB's provincially guaranteed CP program despite the absence of committed back-up facilities at either MHEB or the Province. While MHEB maintains $500 million uncommitted credit facilities in support of its $500 million CP program, Moody's generally views uncommitted facilities as providing little in the way of support for CP borrowings. Accordingly, our Prime -1 rating of MHEB's CP program relies principally on the guarantee of the Province.

Rating Outlook

The Stable Outlook reflects the outlook of the guarantor, the Province of Manitoba.

What Could Change the Rating - Up

A change in the rating of the guarantor

What Could Change the Rating - Down

A change in the rating of the guarantor

Moody's Investors Service

of, and each provider of credit support for, each security that it may consider purchasing, holding or selling.

MOODY'S hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MOODY'S have, prior to assignment of any rating, agreed to pay to MOODY'S for appraisal and rating services rendered by it fees ranging from $1,500 to approximately $2,400,000. Moody's Corporation (MCO) and its wholly-owned credit rating agency subsidiary, Moody's Investors Service (MIS), also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually on Moody's website at www.moodys.com under the heading "Shareholder Relations - Corporate Governance - Director and Shareholder Affiliation Policy."

MOODY'S
INVESTORS SERVICE

Credit Opinion: Manitoba Hydro Electric Board

Global Credit Research - 07 Feb 2011

Manitoba, Canada

Ratings

Category	Moody's Rating
Outlook	Stable
Bkd Commercial Paper	P-1

Contacts

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William L. Hess/New York	212.553.3837

Opinion

Rating Drivers

Manitoba Hydro-Electric Board's (MHEB)'s Prime-1 rating reflects the explicit guarantee of the Province of Manitoba (Province)

The Province is rated Aa1 with a stable outlook

The Province owns 100% of Manitoba Hydro-Electric Board's (MHEB) equity and holds over 90% of MHEB's debt

Extensive ownership, financial and public policy linkages to the Province

Regulated utility with predominantly low cost hydro-electric generation

Corporate Profile

MHEB is a vertically integrated regulated electric and gas utility which is 100% owned by the Province. MHEB's 14 hydroelectric generating stations typically generate the vast majority (>90%) of the energy the company delivers. The balance of energy delivered comes from thermal and wind assets and imports. MHEB's natural gas segment delivers over 2 billion cubic meters of natural gas to approximately 100 communities in the Province.

MHEB is a provincial Crown Corporation, and in addition to owning 100% of MHEB, the Province directly provides over 90% of MHEB's debt. The Province also unconditionally guarantees virtually all of MHEB's third party debt, including the promissory notes issued under MHEB's promissory note program (commercial paper or CP program). Only $76 million or less than 1% of MHEB's total debt is neither held nor guaranteed by the Province Manitoba. This $76 million is comprised of Manitoba Hydro-Electric Bonds related to "mitigation projects".

SUMMARY RATING RATIONALE

MHEB's Prime-1 (P-1) rating reflects the Province's guarantee of MHEB's promissory note program, together with our belief that the Province manages its own liquidity in a professional manner and will have ready access to capital markets over the next year at a minimum.

Recent Developments

In November 2009, MHEB filed a general rate application (electrical), seeking average rate increases of 2.9% effective April 1, 2010 and April 1, 2011. In February 2010 the Manitoba Public Utilities Board's (PUB) approved a 2.8% interim rate increase, effective April 1, 2010.

However, final resolution of the rate application has been delayed, largely because of the PUB's extensive review of MHEB's risk management practices. This review was prompted by a complaint made by a former consultant to the company in December 2008 under the Province's whistleblower protection laws claiming that MHEB had seriously miscalculated hydrology risk. The Audit Committee of MHEB's Board of Directors and the PUB each engaged independent consultants to assess the validity of these claims. While these reports recommend a number of improvements to risk processes and modelling capabilities, they conclude that MHEB is managing its risk profile appropriately within established risk tolerances. We will continue to monitor the progress of the PUB's risk review, but do not expect this to have any material impact on MHEB's credit profile.

DETAILED RATING CONSIDERATIONS

PROVINCIAL GUARANTEE

MHEB's Prime-1 (P-1) rating reflects the Province's guarantee of MHEB's promissory note program, together with our belief that the Province manages its own liquidity in a professional manner and will have ready access to capital markets over the next year at a minimum. MHEB and a similar entity, British Columbia Hydro & Power Authority (BC Hydro), are unique among Moody's-rated companies and are not readily comparable to other regulated electric utilities. Both are 100% owned by their respective provincial shareholder and the provincial shareholder owns virtually all of the companies' debts. The ratings of both MHEB and BC Hydro reflect the guarantee of the utility's rated debt by the respective provincial shareholder. We observe that MHEB continues to independently support all of its outstanding debt, make water rental payments in excess of $100 million annually to the Province, and earn positive net income thereby maintaining or achieving modest improvements in its financial profile.

Other Considerations

PLANNED GENERATION DEVELOPMENTS WILL BOOST EXPORTS AND ANTICIPATE DOMESTIC DEMAND GROWTH

MHEB meets its customers' needs largely with low-cost power from its hydroelectric plants. Approximately 35% of MHEB's electric revenues come from export sales during normal water years, although low power prices meant that exports represented only 27% of electric revenues for the fiscal year ending March 31, 2010. MHEB continues to have a number of major capital projects in various stages of development. These projects will meet anticipated growth in domestic demand for the next 25-30 years and also allow MHEB to tap increasing demand for renewable energy in export markets. The new generation developments will be partially underpinned by long-term export sales contracts with several US utilities. In April 2010, MHEB entered into power purchase agreements with Xcel Energy for the sale of at least 325 MW of capacity (375MW in summer) between 2015-2025, which will increase by 125 MW from 2021 if MHEB's proposed Conawapa hydroelectric plant has entered service. The agreements remain subject to regulatory approval. MHEB continues to negotiate definitive contracts for a further 750 MW of capacity sales to other US utilities pursuant to binding term sheets signed in 2007 and 2008. These agreements would be conditional upon the construction of the proposed plants at Keeyask and Conawapa as well major new transmission investments. MHEB's policy is to only enter into long-term contracts to the extent of firm energy that could be generated by `dependable flow', which assumes a repetition of the worst river flows on record (1939-41). We understand MHEB's export contracts all contain curtailment provisions which apply if hydrology conditions are more severe than previously experienced, and these help mitigate the low probability, high impact risk associated with extreme drought. We regard this strategy as prudent, but believe that the risk that MHEB could be required to purchase power to meet export commitments has not been entirely eliminated, partly because we believe any attempt to exercise this type of force majeure protection could be subject to dispute.

MHEB's major development projects include the 200 MW run of river Wuskwatim project currently under construction. Wuskwatim, together with associated transmission investment, has an estimated capital cost of $1.6 billion and a current expected in-service date of 2011. Two other major run of river projects, Keeyask and Conawapa, are in early stage development. Keeyask is currently envisioned as a 695 MW project with an estimated budget of $5.6 billion and an earliest in service date of 2019 while Conawapa is currently expected to be a 1,485 MW project with an estimated budget of $7.8 billion and a potential in service date of 2023. MHEB's major transmission project, known as Bipole III, is a new high voltage direct current (HVDC) transmission line on the west side of the Province. The Bipole III line is required to improve the reliability of MHEB's high voltage direct current transmission system and to provide additional capability to deliver power from new generation to southern markets. The current targeted in-service date is 2017, at an estimated cost of $2.2 billion. We note that MHEB's latest estimates resulted in an approximate one-year deferral for the entry into service of both Keeyask and Conawapa projects, and an increase in their combined cost of approximately $2.5 billion. Similarly, revisions to timetable and budget may be made in respect of Bipole III when a review of that project is completed later this year.

BORROWING REQUIREMENTS AND WEAK SPOT EXPORT POWER PRICES LIKELY TO RESULT IN FAILURE TO MEET FINANCIAL TARGETS IN MEDIUM TERM

MHEB achieved its minimum 25% equity target with an as reported equity/total capitalization of 27% at March 31, 2010. Favourable hydrology conditions enabled MHEB to achieve this level earlier than the original 2012 target. However, according to management's 2010 financial forecast, the company will be challenged to maintain its minimum 25% equity ratio after fiscal 2012 and may not achieve the target again until sometime during the middle of the next decade. Although management's forecast assumes a 2.9% annual average electric rate increase in 2011 and 3.5% average electric rate increases annually thereafter, borrowings required to finance MHEB's significant capital program and weak spot export power prices are expected to drive the company's equity ratio below 20% later this decade. This ratio is projected to strengthen rapidly after Conawapa enters service, and we also note that some combination of larger rate increases, an earlier and more dramatic recovery of export power prices or a reduction in debt-financed capital spending could assist MHEB in achieving its financial targets earlier than is indicated by its 2010 financial forecast.

As noted above, MHEB's rating primarily reflects the Province's guarantee and liquidity support. However, MHEB's financial ratios, including interest coverage, are an indication of the extent to which it is capable of supporting its debt independently, which is a consideration in the rating of the Province. MHEB's financial forecasts indicate that management expects to generate sufficient cash flow to service the interest on its debt. However, the anticipated weakening of MHEB's financial profile means that the company has less cushion against unexpected events such as poor hydrology, capital cost overruns or construction delays. Should such unexpected events arise, MHEB might need to seek larger rate increases, curtail its capital spending or take other actions to ensure that the company continues to be able to independently service its debt.

Liquidity Profile

MHEB's CP borrowings are guaranteed by the Province of Manitoba. While the Province does not maintain committed bank credit facilities in support of its short-term borrowing programs, Moody's believes that the probability that the Aa1-rated Province would be unable to obtain funding on a timely basis either from the capital markets or its bankers is highly remote. Accordingly, Moody's is comfortable with the Prime -1 rating assigned to MHEB's provincially guaranteed CP program despite the absence of committed back-up facilities at either MHEB or the Province. While MHEB maintains $500 million uncommitted credit facilities in support of its $500 million CP program, Moody's generally views uncommitted facilities as providing little in the way of support for CP borrowings. Accordingly, our Prime -1 rating of MHEB's CP program relies principally on the guarantee of the Province.

Rating Outlook

The Stable Outlook reflects the outlook of the guarantor, the Province of Manitoba.

What Could Change the Rating - Up

A change in the rating of the guarantor

What Could Change the Rating - Down

A change in the rating of the guarantor

Notwithstanding the foregoing, credit ratings assigned on and after October 1, 2010 by Moody's Japan K.K. (“MJKK”) are MJKK's current opinions of the relative future credit risk of entities, credit commitments, or debt or debt-like securities. In such a case, “MIS” in the foregoing statements shall be deemed to be replaced with “MJKK”. MJKK is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly owned by Moody’s Overseas Holdings Inc., a wholly-owned subsidiary of MCO.

This credit rating is an opinion as to the creditworthiness or a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be dangerous for retail investors to make any investment decision based on this credit rating. If in doubt you should contact your financial or other professional adviser.

MOODY'S
INVESTORS SERVICE

Credit Opinion: Manitoba Hydro Electric Board

Global Credit Research - 15 Aug 2012

Manitoba, Canada

Ratings

Category	**Moody's Rating**
Outlook	Stable
Bkd Commercial Paper	P-1

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Opinion

Rating Drivers

Manitoba Hydro-Electric Board's (MHEB)'s Prime-1 rating reflects the explicit guarantee of the Province of Manitoba (Province)

The Province is rated Aa1 with a stable outlook

Regulated utility with predominantly low cost hydroelectric generation

Corporate Profile

MHEB is a wholly owned Manitoba Crown Corporation operating under The Manitoba Hydro Act.

It is a vertically integrated, regulated electric and gas utility providing the province with the lowest average electricity rates in North America. In the 2011 fiscal year, hydraulic generation produced approximately 34 TWh across its 14 hydroelectric stations, which is the vast majority (approximately 90%) of electricity the company delivers across approximately 11,700 km of transmission and 75,000 km of distribution lines to residential , commercial and export customers. The balance comes from two thermal and four small, remote, diesel generating stations plus electricity purchased from two independent wind farms. In addition, MHEB delivers approximately 70 BCF/year of natural gas sourced in Alberta to approximately 100 communities primarily in the southern part of the province.

SUMMARY RATING RATIONALE

MHEB's Prime-1 (P-1) rating reflects the Province's guarantee of MHEB's promissory note program. The Province's senior unsecured debt rating is Aa1, with a stable outlook, reflecting its sound financial position and a diversified, stable economic base.

DETAILED RATING CONSIDERATIONS

GUARANTEE OF THE PROVINCE OF MANITOBA

The Province directly provides over 90% of MHEB's debt financing and unconditionally guarantees MHEB's short term promissory note program (commercial paper or CP), as well as virtually all of MHEB's long term third party debt. Less than 1% (approx. $75 million/ Manitoba Hydro-Electric Bonds issued for mitigation projects) of MHEB's total debt is neither held nor guaranteed by the Province of Manitoba. In turn, MHEB is legislated to make annual sinking fund payments to the Province ($119 million in 2011).

MHEB's rating reflects the Province's guarantee of MHEB's promissory note program. MHEB and a similar entity, British Columbia Hydro & Power Authority (BC Hydro), are unique among Moody's-rated companies and are not readily comparable to other regulated electric utilities. Both are 100% owned by their respective provincial shareholder and the provincial shareholder owns virtually all of the companies' debts. We observe that MHEB continues to independently support all of its outstanding debt, and earn positive net income thereby maintaining or achieving modest improvements in its financial profile.

REGULATED UTILITY WITH PREDOMINANTLY LOW COST HYDROELECTRIC GENERATION

MHEB presently has applied to the Public Utilities Board (PUB) for a 2.5% rate increase effective 1 September 2012, with a further 3.5 % increase effective 1 April 2013. This application follows approval received from the PUB earlier this year for a 2% increase on an interim basis, that was effective 1 April 2012. MHEB had sought 3.5%. The proposed rate increases would still leave Manitoba with the lowest electricity rates in North America but, according to MHEB, are necessary to avoid net losses over the next couple of years.

MHEB is forecasting a provincial need for increased generation in the 2022 timeframe and has undertaken a long term investment program that would see MHEB add the 695 MW Keeyask and the 1,485 MW Conawapa generating stations in northern Manitoba and build the Bipole III transmission line. The Bipole III line is a high voltage direct current line required to improve the reliability of MHEB's high voltage direct current transmission system and to provide additional capability to deliver power from new generation to southern markets. Total cost of the capital program is expected to be in the range of $18 billion with most of it to be incurred over the last half of the decade.

Approximately 25% of MHEB's electric revenues came from export sales during the 2011 fiscal year. The expansion projects will meet anticipated growth in domestic demand for the next 25-30 years and also allow MHEB to tap increasing demand for renewable energy in export markets. The new generation will be partially underpinned by long-term export sales contracts with several US utilities. MHEB has recently entered into 10-15 year agreements aggregating 1,125-1,250 MW with Northern States Power, Minnesota Power and Wisconsin Public Service. The agreements remain subject to regulatory approval and conditional upon the construction of the proposed plants at Keeyask and Conawapa. MHEB's policy is to only enter into long-term contracts to the extent of firm energy that could be generated by `dependable flow', which assumes a repetition of the worst river flows on record (1939-41). We understand MHEB's export contracts all contain curtailment provisions which apply if hydrology conditions are more severe than previously experienced, and these help mitigate the low probability, high impact risk associated with extreme drought. We regard this strategy as prudent, but continue to believe that the risk that MHEB could be required to purchase power to meet export commitments has not been entirely eliminated, partly because we would expect that any attempt to exercise this force majeure protection would most likely be subject to dispute.

MHEB has a minimum 25% equity target that it may be challenged to maintain after fiscal 2012. It may not achieve the target again until sometime during the middle of the next decade. Borrowings required to finance MHEB's significant capital program and weak spot export power prices are expected to drive the company's equity ratio below 20% later this decade, as monies are spent on the new projects but before they start producing cash flow. This ratio is projected to strengthen rapidly after Conawapa enters service, and we also note that some combination of larger rate increases, an earlier and more dramatic recovery of export power prices or a reduction in debt-financed capital spending could assist MHEB in achieving its financial targets earlier than is indicated by its current forecast.

As noted above, MHEB's rating reflects the Province's guarantee and liquidity support. However, MHEB's financial ratios, including interest coverage, are an indication of the extent to which it is capable of supporting its debt independently, which is a consideration in the rating of the Province. MHEB's financial forecasts indicate that management expects to generate sufficient cash flow to service the interest on its debt. However, the anticipated weakening of MHEB's financial profile during its upcoming expansion program means that the company has less cushion against unexpected events such as poor hydrology, capital cost overruns or construction delays. Should such unexpected events arise, MHEB might need to seek larger rate increases, curtail its capital spending or take other actions to ensure that the company continues to be able to service its debt without relying on the Province.

Liquidity Profile

MHEB's commercial paper is guaranteed by the Province of Manitoba. While the Province does not maintain committed bank credit facilities in support of its short-term borrowing programs, Moody's believes that the probability that the Aa1-rated Province would be unable to obtain funding on a timely basis either from the capital markets or its bankers is highly remote. Accordingly, Moody's is comfortable with the Prime -1 rating. MHEB does maintain $500 million in uncommitted credit facilities in support of its $500 million CP program; however, Moody's generally views uncommitted facilities as providing little in the way of support for CP borrowings.

Rating Outlook

The Stable Outlook reflects the outlook of the guarantor, the Province of Manitoba.

What Could Change the Rating - Up

A change in the rating of the guarantor

What Could Change the Rating - Down

A change in the rating of the guarantor

Moody's
International Public Finance
Regional and Local Governments

Credit Analysis

November 2008

Manitoba, Province of

Canada

Table of Contents:

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Summary Rating Rationale

The Province of Manitoba's Aa1 debt rating reflects a well-structured fiscal plan that has helped the province generate positive consolidated outcomes and realize modest improvements in its debt ratios in recent years. The Aa1 rating is also supported by Manitoba's highly diverse economy, which helps smooth the volatility associated with business cycles and with specific local industries such as agriculture and mining.

As a reflection of the application of Moody's joint-default analysis methodology for regional and local governments, Manitoba's Aa1 rating is composed of two principal inputs: a baseline credit assessment (BCA) of 3 on a scale of 1-21 (in which 1 represents the lowest credit risk); and a very high likelihood that the federal government (Aaa, stable) would act to prevent a default by the province. The very high likelihood of support reflects Moody's assessment of the incentive provided by the risk to the federal government's reputation if Manitoba, or any province, were to default, as well as indications of a moderately positive federal government policy stance as illustrated by the flexibility inherent in the system of federal-provincial/territorial transfers.

Rating Outlook

The rating outlook for Manitoba's Aa1 rating is stable.

This analysis provides an in-depth discussion of credit ratings for the Province of Manitoba and should be read in conjunction with Moody's most recent Credit Opinion and rating information available on Moody's website. Click here to link.

Moody's Investors Service

Key Rating Considerations

Financial Position and Performance

Well-Structured Fiscal Plan Generating Consolidated Surpluses

In recent years, the province's sound fiscal policy has been successful in aligning revenues with expenses, thereby limiting debt accumulation. On a consolidated basis, Manitoba recorded positive fiscal outcomes in each of the last three years, measuring 3.5%, 3.9% and 4.6% of revenues in 2005-06, 2006-07 and 2007-08 respectively. Since 2002-03, revenues have grown at a compound annual growth rate (CAGR) of 8.2%, surpassing the equivalent growth rate for expenses of 6.7%[1]. The province recorded deficits on a cash basis in two of the last three years, however, as capital expenditures exceeded amortization expense, and due to other accounting adjustments.

As in other Canadian provinces, the growth rate of health care expenses has exceeded that of overall spending. From 2002-03 to 2007-08, health care costs expanded at a CAGR of 7.4%, but slower growth in other areas and an absolute decline in debt servicing costs helped to offset this pressure. While Manitoba has been successful, to date, at managing pressures, the province will have to remain vigilant to ensure that spending pressures in key areas do not threaten the overall balanced position.

2008-09 Budget Anticipates Slower Revenue Growth

The 2008-09 budget re-affirmed the government's commitment to balanced consolidated, or "summary", outcomes while meeting spending needs in areas of priority, including health, education and infrastructure. Manitoba's 2008-09 budget also continued a trend of making adjustments to the province's tax structure, with a view to lowering the tax burden and encouraging investment.

For 2008-09, Manitoba's budget anticipated a decline of 0.9% in consolidated revenue, reflecting a reduction in the net income of government business enterprises and in corporate income tax receipts, partially offset by moderate growth in personal income tax receipts and stronger growth in federal transfers. To accommodate the reduction in overall revenue, the province's budget projected consolidated expense growth of 3.1%, including year-over-year growth of 3.5% for health care and 1.0% for education. While these targets appear ambitious in light of recent trends— between 2002-03 and 2007-08, the CAGRs of expenses for health and education measured, respectively 7.4% and 9.3%—spending on these priority items could be higher-than-budgeted, should revenue surprise to the upside, a likely scenario.

Debt Profile

Moderate Declines in Debt Ratios

Relative to GDP, Manitoba's net direct and indirect debt declined moderately in the last several years. Net direct and indirect debt measured 22.8% of GDP at March 31, 2007, down from 24.5% at March 31, 2002; however, when compared to revenue, which has grown more rapidly than GDP, this measure of debt fell to 93.7% at March 31, 2007 from 104.8% at March 31, 2002. This ratio increased slightly to 97.1% at March 31, 2008, reflecting a government decision (discussed below) to debt-finance pension liabilities; excluding debt issuance to fund pension liabilities, net direct and indirect debt would have declined to roughly 85% of revenues and below 22% of provincial GDP.

Manitoba follows a prudent approach in structuring its debt. Foreign exchange exposure has been eliminated for all but the debt associated to Manitoba Hydro, which by the nature of its electricity exports to the US, has a natural hedge to currency fluctuations.

Manitoba also maintains a strong cash position, which enhances liquidity and gives the province flexibility in planning its debt issues. Excluding assets held in sinking and pension funds, the province's cash and short-

[1] School boards were consolidated in 2007-08, making comparisons with prior years difficult.

term investments increased to C$2.0 billion at March 31, 2008, or 16.5% of net direct and indirect debt, from C$940.0 million at March 31, 2003, or 10.8% of net direct and indirect debt.

Government Addresses Pension Liabilities

In 2007-08, debt ratios increased, reflecting the province's decision to debt-finance C$1.5 billion of the unfunded liability respecting the Teachers' Retirement Allowance Fund, which totaled C$2.3 billion at March 31, 2008, down from C$3.5 billion at March 31, 2007. While this policy decision effectively increased Manitoba's debt ratios at March 31, 2008, Moody's considers unfunded pension liabilities debt-like and takes them into account when establishing a government's credit profile. Moody's therefore views the debt-funding of unfunded pension liabilities as credit-neutral, despite a temporary reversal in the easing of Manitoba's debt burden.

Manitoba Hydro Debt Self-Supporting

Roughly one third of the province's total direct and indirect debt is attributed to Manitoba Hydro and is considered by Moody's to be self-supporting. This Crown Corporation's ability to meet its own financial requirements is a positive credit attribute for the province. Manitoba Hydro is building a substantial new generation facility, the Wuskwatim Generation Project, which would increase output and exports to the lucrative US market. The project, scheduled for completion in 2012, has an estimated capital cost of C$1.6 billion and requires debt financing. Manitoba-Hydro is considering other large capital projects that would increase capacity; however, developments are currently in the planning stages and no new production capacity is expected before the Wuskwatim project becomes operational.

Governance and Management Factors

Manitoba, over the past several years, has relied on multi-year fiscal planning, prudent economic and revenue assumptions and ongoing expense restraint to maintain a strong financial profile. The province also maintains a strong liquidity position, which can be used to address unanticipated revenue shocks. Overall, Manitoba displays strong governance and management factors.

Fiscal management measures are supported by comprehensive and transparent financial reporting that is typical of governments in advanced industrial economies.

Economic Fundamentals

Diverse Economy Dampens Volatility…

The Manitoba economy is highly diversified, which helps to reduce economic volatility associated with business cycles and certain specific local industries. The service sector—including finance and insurance, real estate, public administration and transportation—accounts for an estimated 72.4% of real economic output, contributing to the province's overall economic diversity.

Manufacturing accounts for the largest share of the goods-producing sector, representing 12.4% of real GDP. While the appreciation of the Canadian dollar over the past few years and the US slowdown have proved a considerable challenge for the Canadian manufacturing industry, Manitoba's manufacturing sector has been surprisingly resilient, adding 4,000 jobs (6.0%) in 2007. The nature of Manitoba's manufacturing sector, which includes niche areas such as aerospace and transit buses, and its high level of diversification have helped it face difficult external conditions. For 2008, however, July figures indicated that real manufacturing output had declined by 0.9% over the previous year, reflecting a slowdown in both Canada and the United States.

Agricultural output, representing an estimated 4.3% of real GDP, is divided evenly between crop production and livestock, reducing the volatility inherent in the sector. The recent strong worldwide demand for agricultural products and high crop prices helped to support crop receipts in Manitoba; for the first half of 2008, crop receipts were up 34% over the previous year.

… But Long-Term Growth Still Lags National Average

While Manitoba's 2007 real GDP growth of 3.3% exceeded the national average of 2.7%, the longer-term picture shows the Manitoba economy underperforming Canada as a whole. From 2000 to 2007, the provincial real GDP expanded at a CAGR of 2.2%, slightly behind Canada's equivalent growth rate of 2.6%. The lack of a dominant sector that could act as a catalyst could be a factor impeding faster growth in Manitoba.

Continued Growth Expected for 2008

The 2008-09 budget anticipated real economic growth of 2.7% in 2008, as strong mining activity and a resilient manufacturing sector were expected to help Manitoba weather external shocks; however, halfway through 2008, real provincial GDP growth was forecast to exceed budget expectations, expanding at an annualized rate of 3.6%. Manitoba's labor market remains tight as the 2007 unemployment rate of 4.4% was one of the lowest in the country and well below the national average of 6.0%. As of August 2008, the provincial unemployment rate was estimated to have declined to 4.0%.

Operating Environment

The national operating environment in which Manitoba operates is typical of advanced industrial economies, characterized by high GDP per capita, low GDP volatility and high ranking on the World Bank's Government Effectiveness Index, all of which suggest a minimal level of systemic economic, financial and political risk. As evidenced by Canada's record of continued economic expansion and political stability, the macroeconomic environment is robust and federal government institutions are responsive. Accordingly, the conditions that have historically preceded national crises associated with wide-spread defaults of regional and local governments are not present in Canada.

Institutional Framework

The Province of Manitoba, like all Canadian provinces, enjoys significant flexibility in its financial management. Compared to their counterparts in other countries, such as the German Länder and the Australian states, Canadian provinces enjoy far greater autonomy in terms of both the spending and revenue sides of their budgets. Unfettered access to a broad range of tax bases and the ability to alter expenditure programs provide Canadian provinces with substantial flexibility to meet fiscal challenges.

In conjunction with the high degree of fiscal flexibility, a system of fiscal transfers from the federal government, which seeks to reduce the fiscal disparities across the country, also provides support to Canadian provinces' creditworthiness. While in most cases debt ratios for Canadian provinces have been declining over the past several years, the debt loads of certain provinces continue to increase modestly, owing to government-specific fiscal policy choices and varying rates of economic expansion.

Rating History

Manitoba, Province of

Date	Rating
November 2006	Aa1
January 2003	Aa2
September 1998	Aa3
May 1985	A1
September 1975	Aa
October 1968	A

Manitoba, Province of

Annual Statistics

Debt Statement (C$ millions, As at 3/31)	2002	2003	2004	2005	2006	2007	2008
Treasury Bills and Promissory Notes	325	500	440	325	325	325	850
Canada Pension Plan	1,260	1,128	1,002	883	756	606	597
Direct Debentures	18,740	17,885	17,668	18,108	18,237	18,923	20,252
Other	423	302	752	954	1,021	1,047	756
Total Direct Debt	**20,748**	**19,815**	**19,862**	**20,270**	**20,339**	**20,901**	**22,455**
Guaranteed Debt							
Manitoba HydroBonds and Promissory Notes	587	971	914	654	485	670	347
Other Guarantees	61	75	86	83	83	87	94
Total Direct and Indirect Debt	**21,396**	**20,861**	**20,863**	**21,007**	**20,907**	**21,658**	**22,896**
Less:							
Manitoba Hydro	7,221	6,375	6,493	6,548	6,625	6,640	7,142
Manitoba HydroBonds and Promissory Notes	587	971	914	654	485	670	347
Direct Debt Sinking Fund [1]	4,965	4,829	4,016	4,010	3,918	4,118	3,334
Net Direct and Indirect Debt	**8,623**	**8,686**	**9,439**	**9,795**	**9,879**	**10,230**	**12,073**

[1] Excludes sinking funds of utility systems.

Debt Trends (As at 3/31)	2002	2003	2004	2005	2006	2007	2008
Net Direct and Indirect Debt (C$ millions)	8,623	8,686	9,439	9,795	9,879	10,230	12,073
As % GDP	24.5	23.8	25.2	24.6	23.7	22.8	24.8
As % Personal Income	29.5	28.9	30.5	30.1	29.4	29.0	32.0
Per Capita (C$)	7,490	7,517	8,124	8,368	8,414	8,681	10,174
As % Total Revenues	104.8	103.5	112.0	97.6	92.1	93.7	97.1
Total Direct and Indirect Debt	21,396	20,861	20,863	21,007	20,907	21,658	22,896
% Hydro Debt	33.7	30.6	31.1	31.2	31.7	30.7	31.2
Total Foreign Currency Debt (Before Hedges)	8,511	7,593	6,397	5,887	5,672	6,286	5,890
As % Total Direct and Indirect Debt	39.8	36.4	30.7	28.0	27.1	29.0	25.7
Foreign Currency Debt Net of Hedges (C$ Millions)	5,289	4,244	3,186	2,940	2,838	2,804	2,706
As % Total Direct and Indirect Debt	24.7	20.3	15.3	14.0	13.6	12.9	11.8
Short-Term Debt	3,471	2,881	1,799	2,172	2,247	1,941	3,118
As % of Total Direct and Indirect Debt	16.2	13.8	8.6	10.3	10.7	9.0	13.6
Actuarial Pension Liability (Surplus) (C$ millions)	3,110	3,260	3,304	3,379	3,430	3,460	2,300
As % of GDP	8.8	8.9	8.8	8.5	8.2	7.7	4.7
Total Employer Cash Contributions [1]	244	230	275	291	319	426	1,976
As % of Revenue	2.9	2.7	2.7	2.7	2.9	3.4	16.0

[1] In 2008, includes a special contribution of C$1.5 billion, which was borrowed on capital markets by the province to fund pension plans.

Manitoba, Province of

Consolidated Operations (C$ Millions, Year Ending 3/31)	2003	2004	2005	2006	2007	2008 [1]	2009B
Revenues							
Personal Income Tax	1,636	1,720	1,787	1,949	2,130	2,285	2,312
Corporate Income Tax	160	289	374	373	311	367	299
Payroll Tax (Health and Education)	257	268	287	303	318	341	344
Retail Sales Tax	1,007	1,064	1,125	1,198	1,277	1,391	1,469
Net Income of Government Business Enterprises	476	(11)	716	958	627	946	668
Federal Transfers	2,456	2,716	3,151	3,103	3,317	3,597	3,905
Other	2,404	2,379	2,600	2,841	2,940	3,510	3,325
Total Revenues	**8,395**	**8,425**	**10,040**	**10,725**	**10,920**	**12,437**	**12,324**
Expenses							
Health	2,955	3,301	3,559	3,849	4,005	4,224	4,371
Family Services and Housing	930	965	1,020	1,075	1,142	1,224	1,331
Education	2,059	2,169	2,254	2,366	2,397	3,218	3,250
Community, Economic and Resource Development	960	1,042	1,087	1,448	1,280	1,406	1,478
Debt Service	951	799	767	790	835	815	806
Other	724	753	754	822	831	974	992
Total Expenses	**8,579**	**9,029**	**9,441**	**10,350**	**10,490**	**11,861**	**12,228**
Consolidated Surplus/(Deficit)	**(184)**	**(604)**	**599**	**375**	**430**	**576**	**96**
Cash Financing Surplus/(Requirement)	**(313)**	**(675)**	**153**	**(184)**	**365**	**(560)**	**--**

[1] School boards are consolidated starting in 2007-08.

Financial Trends (Year Ending 3/31)	2003	2004	2005	2006	2007	2008	2009B
% Change in Revenue	**2.0**	**0.4**	**19.2**	**6.8**	**1.8**	**13.9**	**(0.9)**
% Change in Expenses	**4.2**	**5.2**	**4.6**	**9.6**	**1.4**	**13.1**	**3.1**
As a % of Revenue							
Consolidated Surplus (Deficit)	(2.2)	(7.2)	6.0	3.5	3.9	4.6	0.8
Cash Financing Surplus (Requirement)	(3.7)	(8.0)	1.5	(1.7)	3.3	(4.5)	--
Interest Expense	11.3	9.5	7.6	7.4	7.6	6.6	6.5
Intergovernmental Transfers	29.2	32.2	31.4	28.9	30.4	28.9	31.7
Expenses Per Capita (C$)	7,424	7,771	8,065	8,815	8,901	9,995	10,250
Expenses as % of GDP	23.5	24.1	23.7	24.8	23.4	24.4	24.1

Economic Trends (Year Ending 12/31) [1]	2001	2002	2003	2004	2005	2006	2007
Population in 1000s	1,151	1,156	1,162	1,171	1,174	1,178	1,187
Real GDP (2002 C$ millions)	35,996	36,559	37,059	38,033	39,061	40,323	41,644
% Growth	0.8	1.6	1.4	2.6	2.7	3.2	3.3
Nominal GDP (C$ millions)	35,157	36,559	37,451	39,859	41,682	44,851	48,586
% Growth	3.2	4.0	2.4	6.4	4.6	7.6	8.3
Personal Income (C$ millions)	29,233	30,042	30,972	32,503	33,656	35,305	37,751
Per Capita (C$)	25,392	25,997	26,656	27,767	28,664	29,958	31,812
As % Canadian Average	89.9	90.7	90.6	90.5	89.7	89.3	90.3
Personal Disposable Income (C$)	22,974	23,678	24,436	25,670	26,326	27,713	29,500
As % Personal Income	78.6	78.8	78.9	79.0	78.2	78.5	78.1
Employment Growth	0.4	2.3	0.5	1.1	0.6	1.2	1.6
Participation Rate	67.8	69	68.7	69.1	68.6	68.8	69.4
Unemployment Rate	5.1	5.1	5.0	5.3	4.8	4.3	4.4
Manufacturing Shipments (C$ millions)	11,344	11,820	12,682	13,362	13,702	14,854	16,111
Housing Starts (units)	2,963	3,617	4,206	4,440	4,731	5,028	5,738
Retail Sales (C$ millions	9,937	10,649	10,953	11,692	12,381	12,870	14,008
Per Capita (C$)	8,631	9,215	9,427	9,988	10,545	10,921	11,804
CPI, All Items	98.5	100.0	101.8	103.8	106.6	108.7	110.9
Inflation Based on CPI % Change	2.7	1.5	1.8	2.0	2.7	2.0	2.0

[1] Source: Statistics Canada.

Moody's Related Research

Credit Opinions

- Canada, July 2008
- Manitoba, Province of, April 2008

Special Comment

- Canadian Provinces Well Positioned to Meet Fiscal Challenges, February 2008 (107144)

Statistical Handbook

- Non-US Regional and Local Governments, June 2008 (109113)

Rating Methodologies

- Regional and Local Governments Outside the US, May 2008 (107844)
- The Application of Joint-Default Analysis to Regional and Local Governments, October 2006 (99025)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Manitoba, Province of

Report Number: 112359

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Moody's Investors Service

Moody's
International Public Finance
Regional and Local Governments

Credit Analysis

December 2009

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This Credit Analysis provides an in-depth discussion of credit ratings for the Province of Manitoba and should be read in conjunction with Moody's most recent Credit Opinion and rating information available on Moody's website. Click here to link.

Manitoba, Province of

Canada

Summary Rating Rationale

The Province of Manitoba's Aa1 rating reflects the province's sound fiscal plan, which has produced generally balanced fiscal outcomes in recent years. While modest cash requirements have increased the province's stock of debt, additions to debt have been roughly in line with economic and revenue growth, keeping the province's debt burden relatively stable. The province's fiscal flexibility is high and the proportion of revenue consumed by interest payments remains low at an estimated 6.0% in 2009-10. The Aa1 rating is also supported by the province's diversified economy, which tends to underperform the Canadian average in boom years, but outperform in years of weak economic conditions, providing a measure of stability.

National and International Peer Comparisons

The Province of Manitoba is rated in the mid-range of Canadian provinces, whose ratings remain in a narrow range of Aaa-Aa2. Manitoba's debt burden, while higher than that of some of its Western Canadian peers, remains below the Canadian median. Moreover, the province's diversified economy positions the province well relative to Canadian peers. On an international basis of comparison, Manitoba benefits from a higher degree of fiscal flexibility than many of its international sub-sovereign peers—including the highly-rated Australian states and German Länder—owing to the high degree of fiscal flexibility inherent in the way Canadian provinces operate, supporting the high investment-grade rating.

Rating Outlook

The outlook is stable.

Moody's Investors Service

Key Rating Considerations

Financial Position and Performance

Strong and Stable Fiscal Results in Recent Years

Manitoba recorded a series of positive consolidated fiscal outcomes in recent years, owing to the province's containment of expense growth below revenue growth in most years. Between 2004-05 and 2007-08, consolidated surpluses averaged 4.5% of revenue, or 1.1% of GDP. As such, Manitoba's record of strong fiscal performance positioned the province well as the Canadian economy entered recession in 2008.

Manitoba's economic outperformance in 2008 relative to Canada (discussed below) was reflected in the province's 2008-09 fiscal results. Year-on-year revenue growth slowed to 3.8%, as strong growth in personal and corporate income tax receipts (7.4% and 5.2% growth respectively) was partially offset by lower net income from government business enterprises. The combination of modest revenue growth and year-on-year expense growth of 4.9%—driven essentially by health care expenses (growth of 8.6%) and partially offset by a lower rate of increase (1.8%) for debt service as well as an absolute decline in education expenses[1]—generated a consolidated surplus of C$470 million, equivalent to 3.6% of revenue, or 0.9% of GDP. This financial performance is in stark contrast with that of other Canadian provincial governments whose finances were hit harder by the impacts of the global economic downturn. On a cash basis of accounting, the consolidated surplus translated to a financing requirement of C$440 million, or 3.4% of revenue (0.9% of GDP). This reflects primarily the accrual accounting presentation and the difference between amortization and cash outlays required for capital expenditures.

Some Deterioration Expected in 2009-10 Amid Economic Weakness

Manitoba's 2009-10 budget reiterated the government's intention to balance its fiscal outcomes on a consolidated basis while maintaining funding for priority programs such as health care. The budget called for a 1.4% year-on-year contraction in consolidated revenues, reflecting the impacts of the economic slowdown on personal and corporate income tax receipts (projected declines of 4.6% and 10.2% respectively), balanced by growth in transfers from the federal government.

In late December 2009, the province released its second quarter (unaudited) financial report, which included updated projections for 2009-10, incorporating results for the first six months of the financial year. Updated projections for 2009-10 as a whole point to an expected deterioration in the operating balance with both lower revenues (partly due to lower than expected federal transfers) and higher expenditures expected compared to budget. A consolidated deficit of $592 million (roughly 5% of revenues) is now projected, compared to a roughly balanced consolidated outcome previously budgeted. Borrowing requirements, including refinancing, have increased slightly from $3.3 billion to $3.5 billion in 2009-10, though debt servicing costs will nevertheless be aided by the current low interest rate environment.

Manitoba, like other Canadian provinces, has experienced fiscal pressures with the economic downturn; however, the magnitude of the fiscal deterioration in Manitoba is low relative to most other provinces. The Province of Manitoba has a strong track record of fiscal prudence and is expected to continue with these fiscal management practices. This fiscal prudence, combined with the strong provincial economic performance relative to the rest of the country, ensures strong debt servicing ability, supporting the province's high investment-grade rating.

Debt Profile

Debt Ratios Stable

While the province's net direct and indirect debt increased from roughly C$10 billion at March 31, 2005 to approximately C$13 billion at March 31, 2009, absolute increases in the stock of debt were roughly matched, proportionally, by growth in nominal GDP and provincial revenues. As a percentage of GDP, net direct and

[1] These figures, however, reflect the consolidation of school boards in 2007-08.

indirect debt remained stable at roughly 25% between 2004-05 and 2009-10, while this measure of debt as a percentage of revenue remained in the 100% range over this period. These debt ratios are considered manageable for Manitoba given the high degree of fiscal flexibility inherent in the institutional framework governing the way Canadian provinces operate.

Foreign currency exposure has been eliminated on the province's debt portfolio for all but debt associated with Manitoba Hydro (discussed below). Manitoba Hydro, by virtue of its exports of hydroelectric power to the United States, has a natural hedge against USD-CAD currency fluctuations. Floating rate exposure, excluding short-term instruments and current maturities, accounts for approximately 10% of the province's debt portfolio; including short-term instruments and current maturities, this proportion rises to roughly 25%.

Province Addressing Pension Liabilities

In 2007-08, the province debt-financed C$1.5 billion of the Teachers' Retirement Allowance Fund (TRAF) unfunded liability. Investments held for the TRAF and the Civil Service Superannuation Fund (CSSF), which totaled C$2.2 billion in 2007-08, were reclassified and irrevocably restricted for pension purposes in 2008-09. As a result of the debt-funding of pension liabilities, the province's unfunded pension obligations declined to C$2.0 billion at the end of 2008-09 (15.7% of revenue), from C$3.3 billion at March 31, 2004 (32.9% of revenue). The government expects to continue this policy of debt-funding pension liabilities. Moody's considers unfunded pension liabilities as debt-like and takes them into account when establishing a government's credit profile. As such, Moody's views Manitoba's debt-funding of unfunded pension liabilities as credit-neutral.

High Degree of Fiscal Flexibility, Adjustment Capacity

The province's degree of fiscal flexibility, or adjustment capacity, also remains high, as evidenced by the declining proportion of revenues consumed by interest costs. This measure of debt affordability declined to 6.0% in 2008-09 from 7.6% in 2004-05, largely as a result of lower interest rates. In the early years of the current decade, this ratio measured over 12%. This improvement in fiscal flexibility illustrates the province's heightened shock-absorption capacity.

Manitoba Hydro Debt Self-Supporting

Roughly one third of the province's total direct and indirect debt is attributed to Manitoba Hydro and is considered by Moody's to be self-supporting. This Crown Corporation's ability to meet its own financial obligations without recourse to provincial subsidies is a positive credit attribute for the province. In Moody's view, the likelihood that the contingent liability represented by Manitoba Hydro's debt would materialize remains relatively remote.

Manitoba Hydro is currently planning for significant future capital expenditures with a view to increasing its generation and transmission capacity to meet domestic demand as well as to exploit export opportunities over the next 25-30 years. These projects include a new generation facility, the 200 MW Wuskwatim generation project, which has an estimated total capital cost of C$1.6 billion (including the generation and transmission components) and is scheduled to come into service in 2011. Other projects, including the larger Keeyask (695 MW) and Conawapa (1,300 MW) generating stations, remain in the early stages of planning. Manitoba Hydro intends to cover base capital expenditures with internally-generated funds from operations and to use external debt financing to fund expansion projects. Moody's will continue to monitor developments with Manitoba Hydro's capital plan to ensure that our conclusions with respect to the self-supporting nature of the utility's debt remain appropriate.

Governance and Management Factors

Manitoba, over the past several years, has relied on multi-year fiscal planning, prudent economic and revenue assumptions and ongoing expense restraint to maintain a strong financial profile. Overall, Manitoba displays strong governance and management factors. Fiscal management measures are supported by comprehensive and transparent financial reporting that is typical of governments in advanced industrial economies.

Economic Fundamentals

Economic Diversity Strengthens Credit Profile

The Manitoba economy is highly diversified, which helps to reduce economic volatility associated with business cycles and certain specific local industries. The service sector—including finance and insurance, real estate, public administration and transportation—accounts for an estimated 72% of real economic output, contributing to the province's overall economic diversity.

Manufacturing accounts for the largest share of the goods-producing sector, representing 13% of real GDP. The impacts of the US recession proved a considerable challenge for the Canadian manufacturing industry, which lost 74,600 jobs in 2008 (3.6% of manufacturing employment). Manitoba's manufacturing sector, however, fared better than the national average, losing 1,900 jobs (2.7% decline), after gaining 4,000 jobs (6.0%) in 2007. The nature of Manitoba's manufacturing sector, which includes niche areas such as aerospace and transit buses, and its high level of diversification have helped it face difficult external conditions.

After underperforming the national average through the first part of the current decade (which saw relatively strong economic growth in Canada), real GDP growth measured 2.4% in 2008, outperforming the national average (real growth of 0.4%). Manitoba is less exposed to the US economy than most Canadian provinces; the province's exports to the United States account for approximately 68% of its foreign exports, compared to approximately 75% for the Canadian economy as a whole. As a result, the province was less affected by the US recession than Ontario or Quebec, which are more exposed to the health of the US economy.

The Manitoba economy tends to underperform the Canadian economy in times of rapid economic growth and to outperform in economic slowdowns. The province's high degree of economic diversity—which implies the absence of a dominant sector that could act as a catalyst for growth in boom years and represent a drag on the provincial economy in recessions—is one factor that could explain these trends. The province's economic diversity represents a major source of credit strength, ensuring a broad and productive tax base for the government.

The province's real GDP is expected to contract slightly in 2009 (-0.2% compared to -2.4% for the country as a whole), again outperforming the national average. Manitoba's labour market remains tight as the 2008 unemployment rate of 4.2% was one of the lowest in the country and well below the national average of 6.1%. As of late 2009, the provincial unemployment rate was estimated to have climbed moderately to 5.2%, remaining among the lowest in the country.

Operating Environment

The national operating environment in which Manitoba operates is typical of advanced industrial economies, characterized by high GDP per capita, low GDP volatility and a high ranking on the World Bank's Government Effectiveness Index, all of which suggest a minimal level of systemic economic, financial and political risk. As evidenced by Canada's record of continued economic expansion and political stability, the macroeconomic environment is robust and federal government institutions are responsive. Accordingly, the conditions that have historically preceded national crises associated with widespread defaults of regional and local governments are not present in Canada.

Institutional Framework

The Province of Manitoba, like all Canadian provinces, enjoys significant flexibility in its financial management. Compared to their counterparts in other countries, such as the German Länder and the Australian states, Canadian provinces enjoy far greater autonomy in terms of both the spending and revenue sides of their budgets. Unfettered access to a broad range of tax bases and the ability to alter expenditure programs provide Canadian provinces with substantial flexibility to meet fiscal challenges. As such, Canadian provinces benefit from a high degree of fiscal policy flexibility that is more akin to that of sovereign governments than to many of their international sub-sovereign peers. These positive institutional factors increase Canadian provinces' ability to manage through economic downturns and handle relatively high debt burdens In conjunction with the high degree of fiscal flexibility, a system of fiscal transfers from the federal government, which seeks to reduce the fiscal disparities across the country, also provides support to Canadian provinces' creditworthiness.

Application of Joint-Default Analysis

The Aa1 rating assigned to Manitoba reflects the application of Moody's joint-default analysis methodology for regional and local governments. The province's rating is composed of two principal inputs: a baseline credit assessment of 3 (on a scale of 1-21, in which 1 represents the lowest level of credit risk) and a very high likelihood of extraordinary support from the federal government (rated Aaa, stable) to prevent a default by Manitoba, or any province. The very high likelihood of support reflects Moody's assessment of the incentive provided by the risk to the federal government's reputation if Manitoba, or any province, were to default, as well as indications of a moderately positive national government policy stance, as illustrated by the flexibility inherent in the system of federal provincial transfers.

Moody's also assigns a very high default dependence level, reflecting a medium level of federal transfers and the significant overlap of the economies and revenue bases of the provincial and federal governments.

Rating History

Manitoba, Province of

Date	Rating
November 2006	Aa1
January 2003	Aa2
September 1998	Aa3
May 1985	A1
September 1975	Aa
October 1968	A

Annual Statistics

Debt Statement (C$ millions, as at 3/31)	2004	2005	2006	2007	2008	2009
Treasury Bills and Promissory Notes	440	325	325	325	850	1,185
Canada Pension Plan	1,002	883	756	606	597	492
Direct Debentures	17,668	18,108	18,237	18,923	20,252	20,907
Other	752	954	1,021	1,047	756	742
Total Direct Debt	**19,862**	**20,270**	**20,339**	**20,901**	**22,455**	**23,326**
Guaranteed Debt						
Manitoba HydroBonds and Promissory Notes	914	654	485	670	347	398
Other Guarantees	86	83	83	87	94	92
Total Direct and Indirect Debt	**20,863**	**21,007**	**20,907**	**21,658**	**22,896**	**23,816**
Less:						
Manitoba Hydro	6,493	6,548	6,625	6,640	7,142	7,836
Manitoba HydroBonds and Promissory Notes	914	654	485	670	347	398
Direct Debt Sinking Fund	4,016	4,010	3,918	4,118	3,334	2,741
Net Direct and Indirect Debt	**9,439**	**9,795**	**9,879**	**10,230**	**12,073**	**12,841**

Debt Trends (as at 3/31)	2004	2005	2006	2007	2008	2009
Net Direct and Indirect Debt (C$ millions)	9,439	9,795	9,879	10,230	12,073	12,841
As % GDP	25.2	24.6	23.8	22.8	24.9	25.2
As % Personal Income	30.5	30.1	29.3	28.8	31.7	31.9
Per Capita (C$)	8,110	8,346	8,384	8,640	10,116	10,630
As % Total Revenues	112.0	97.6	92.1	93.7	97.1	99.4
Total Direct and Indirect Debt	20,863	21,007	20,907	21,658	22,896	23,816
% Hydro Debt	31.1	31.2	31.7	30.7	31.2	32.9
Total Foreign Currency Debt (Before Hedges)	6,397	5,887	5,672	6,286	5,890	6,178
As % Total Direct and Indirect Debt	30.7	28.0	27.1	29.0	25.7	25.9
Foreign Currency Debt Net of Hedges (C$ Millions)	3,186	2,940	2,838	2,804	2,706	3,005
As % Total Direct and Indirect Debt	15.3	14.0	13.6	12.9	11.8	12.6
Short-Term Debt	1799.0	2172.0	2247.0	1941.0	3118.0	3364.0
As % of Total Direct and Indirect Debt	8.6	10.3	10.7	9.0	13.6	14.1
Actuarial Pension Liability (Surplus) (C$ millions)	3,304	3,379	3,430	3,460	2,300	2,003
As % of GDP	8.8	8.5	8.3	7.7	4.7	3.9
As % of Revenue	32.9	31.5	31.4	27.8	17.8	15.7
Total Employer Cash Contributions [1]	275	291	319	426	1,976	194
As % of Revenue	2.7	2.7	2.9	3.4	15.3	1.5

[1] In 2008, includes a special contribution of C$1.5 billion, which was borrowed in the capital markets by the province to fund pension plans.

Manitoba, Province of

Economic Trends (Year Ending 12/31)	2003	2004	2005	2006	2007	2008
Population in 1000s	1,164	1,174	1,178	1,184	1,194	1,206
Real GDP (2002 C$ millions)	37,059	37,861	38,860	40,158	41,593	42,407
% Growth	1.4	2.2	2.6	3.3	3.6	2.0
Nominal GDP (C$ millions)	37,451	39,748	41,681	45,029	48,718	50,834
% Growth	2.4	6.1	4.9	8.0	8.2	4.3
Personal Income (C$ millions)	30,972	32,581	33,762	35,669	37,986	40,080
Per Capita (C$)	26,613	27,762	28,653	30,126	31,817	33,231
As % Canadian Average	90.4	90.1	89.2	88.7	89.5	90.3
Personal Disposable Income (C$)	24,436	25,733	26,433	28,097	29,803	31,793
As % Personal Income	78.9	79.0	78.3	78.8	78.5	79.3
Employment Growth	0.5	1.1	0.6	1.2	1.6	1.7
Participation Rate	68.7	69.1	68.6	68.8	69.4	69.6
Unemployment Rate	5.0	5.3	4.8	4.3	4.4	4.2
Manufacturing Shipments (C$ millions)	12,682	13,262	13,688	14,862	16,168	16,378
Housing Starts (units)	4,206	4,440	4,731	5,028	5,738	5,537
Retail Sales (C$ millions	10,953	11,692	12,381	12,870	14,008	15,017
Per Capita (C$)	9,411	9,963	10,508	10,870	11,733	12,451
CPI, All Items	101.8	103.8	106.6	108.7	110.9	113.4
Inflation Based on CPI % Change	1.8	2.0	2.7	2.0	2.0	2.3

Manitoba, Province of

Consolidated Revenues and Expenses (C$ millions, Year Ending 3/31)	2005	2006	2007	2008	2009	2010B
Revenues						
Personal Income Tax	1,787	1,949	2,130	2,285	2,455	2,343
Corporate Income Tax	374	373	311	367	386	347
Payroll Tax (Health and Education)	287	303	318	341	357	359
Retail Sales Tax	1,125	1,198	1,277	1,391	1,486	1,595
Net Income of Government Business Enterprises	716	958	627	946	807	815
Federal Transfers	3,151	3,103	3,317	3,597	3,866	4,103
Other	2,600	2,841	2,940	3,510	3,558	3,168
Total Revenues	**10,040**	**10,725**	**10,920**	**12,437**	**12,915**	**12,729**
Expenses						
Health	3,559	3,849	4,005	4,224	4,586	4,723
Family Services and Housing	1,020	1,075	1,142	1,224	1,321	1,390
Education	2,254	2,366	2,397	3,218	3,154	3,270
Community, Economic and Resource Development	1,087	1,448	1,280	1,406	1,582	1,529
Debt Service	767	790	835	815	830	766
Other	754	822	831	974	972	1,003
Total Expenses	**9,441**	**10,350**	**10,490**	**11,861**	**12,445**	**12,682**
Consolidated Surplus/(Deficit)	**599**	**375**	**430**	**576**	**470**	**48**
Cash Financing Surplus/(Requirement)	**153**	**(184)**	**365**	**(560)**	**(440)**	**--**

Financial Trends (Year Ending 3/31)	2005	2006	2007	2008	2009	2010B
% Change in Revenue	19.2	6.8	1.8	13.9	3.8	(1.4)
As a % of Revenue						
Consolidated Surplus (Deficit)	6.0	3.5	3.9	4.6	3.6	0.4
Cash Financing Surplus (Requirement)	1.5	(1.7)	3.3	(4.5)	(3.4)	--
Interest Expense	7.6	7.4	7.6	6.6	6.4	6.0
Intergovernmental Transfers	31.4	28.9	30.4	28.9	29.9	32.2
% Change in Expenses	4.6	9.6	1.4	13.1	4.9	1.9
As a % of Expenses						
Health	37.7	37.2	38.2	35.6	36.9	37.2
Education	23.9	22.9	22.9	27.1	25.3	25.8
Interest Expense	8.1	7.6	8.0	6.9	6.7	6.0
As a % of GDP						
Revenues	25.3	25.8	24.3	25.6	25.4	25.5
Expenses	23.8	24.9	23.4	24.4	24.5	25.4
Consolidated Surplus (Deficit)	1.5	0.9	1.0	1.2	0.9	0.1
Cash Financing Surplus (Requirement)	0.4	(0.4)	0.8	(1.2)	(0.9)	--
Health Expenses	9.0	9.3	8.9	8.7	9.0	9.5
Expenses Per Capita (C$)	8,045	8,784	8,860	9,938	10,303	10,421

Moody's Related Research

Credit Opinion:

- Canada, August 2009

Special Comment:

- Canadian Provinces Face Challenging Conditions, February 2009 (114544)

Statistical Handbook:

- Non-US Regional and Local Governments, June 2009 (117472)

Rating Methodologies:

- Regional and Local Governments Outside the US, May 2008 (107844)
- The Application of Joint-Default Analysis to Regional and Local Governments, December 2008 (99025)

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Manitoba, Province of

Report Number: 121801

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MOODY'S INVESTORS SERVICE

CREDIT ANALYSIS

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This Credit Analysis provides an in-depth discussion of credit rating(s) for the Province of Manitoba and should be read in conjunction with Moody's most recent Credit Opinion and rating information available on [Moody's website.]

Summary Rating Rationale

The Province of Manitoba's Aa1 rating reflects the province's sound fiscal plan, which has produced generally balanced fiscal outcomes in recent years. While moderate cash requirements have increased the province's stock of debt, additions to debt have been broadly in line with economic and revenue growth, keeping the province's debt burden relatively stable. The province's fiscal flexibility is high and the proportion of revenue consumed by interest payments remains low at an estimated 5.9% in 2009-10. The Aa1 rating is also supported by the province's diversified economy, which tends to underperform the Canadian average in boom years, but outperform in years of weak economic conditions, providing a measure of stability.

National and International Peer Comparisons

The Province of Manitoba is rated in the mid-range of Canadian provinces, whose ratings remain in a narrow range of Aaa-Aa2. Manitoba's debt burden, while higher than that of some of its Western Canadian peers, remains below the Canadian median. Moreover, the province's diversified economy and resulting stability positions the province well relative to Canadian peers. On an international basis of comparison, Manitoba benefits from a higher degree of fiscal flexibility than many of its international sub-sovereign peers—including the highly-rated Australian states and German Länder—owing to the institutional framework within which Canadian provinces operate, supporting the high investment-grade rating.

Rating Outlook

The outlook is stable.

Key Rating Considerations

Financial Position and Performance

Strong and Stable Fiscal Results in Recent Years

Manitoba recorded a series of positive consolidated fiscal outcomes in recent years, owing to the province's containment of expense growth below revenue growth in most years. Between 2004-05 and 2008-09, consolidated surpluses averaged 4.3% of revenue, or 1.1% of GDP. As such, Manitoba's record of strong fiscal performance positioned the province well as the Canadian economy entered the recent downturn.

Manitoba's economic outperformance in 2008 relative to Canada was reflected in the province's 2008-09 fiscal results. While both revenue and expense growth slowed to 3.8% and 4.9% respectively, the province recorded a consolidated surplus of C$470 million, equivalent to 3.6% of revenue or 0.9% of GDP. This is in contrast to other provinces, whose finances were hit harder by the impacts of the downturn. On a cash basis of accounting, the consolidated surplus in 2008-09 translated into a financing requirement of C$440 million, or 3.4% of revenue (0.9% of GDP). This reflects primarily the accrual accounting presentation and the difference between amortization and cash outlays required for capital expenditures.

Some Deterioration but Expected to Return to Balance by 2014-15

The Manitoba economy recorded a small contraction in 2009 and in the fiscal year 2009-10, revenues were estimated to have contracted by 3.2% over the previous year, owing primarily to declines in tax receipts. Total expenses were estimated to have risen by 4.9%, resulting in a projected consolidated deficit of C$555 million in 2009-10, equivalent to about 4.4% of revenues or 1.1% of GDP.

The 2010-11 Budget projected a slight narrowing of the deficit to C$545 million in 2010-11 as revenues start to recover along with the economy. The Budget also outlined the province's plan to return to balance by 2014-15. Concomitantly, the provincial government has made amendments to its balanced budget legislation in order to extend the period required to get back to balance to five years.[1] Revenue growth over the projection period is forecast to average 2.9%, while expenses are projected to grow by 1.8% over the same period. Expense growth restraint appears ambitious in light of recent experience as expenses grew at an estimated average annual growth rate of 6.2% from 2007-08 to 2009-10[2]. While the province has stated that expense restraint measures will include managing salary costs, reducing discretionary spending and prioritization of expenditures, specific measures have not yet been clearly outlined, and we will continue to monitor the province's progress in its consolidation plans. Nonetheless, Manitoba has a strong track record of fiscal prudence and is expected to continue with these fiscal management practices.

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[1] The amendments to the *Balanced Budget, Fiscal Management and Taxpayer Accountability Act* specify an "economic recovery period" from April 1, 2010 to March 31, 2014 at the latest, after which the legal requirement to have balanced budgets is retained.

[2] This figure adjusts for the consolidation of school boards in 2007-08.

Debt Profile

Debt Ratios Rising Moderately but Still Manageable

While the province's net direct and indirect debt is estimated to have risen to approximately C$14 billion at March 31, 2010 from roughly C$10 billion at March 31, 2005, this has roughly matched the growth in nominal GDP and provincial revenues. As a percentage of GDP, net direct and indirect debt remained relatively stable, hovering around 25% between 2004-05 to 2009-10, while this measure of debt as a percentage of revenue grew marginally over this period. Though debt has increased somewhat recently and is expected to increase over the near term, these debt ratios are considered manageable for Manitoba given the high degree of fiscal policy flexibility inherent in the institutional framework governing the way Canadian provinces operate.

The province's debt affordability remains high, as evidenced by the declining proportion of revenues consumed by interest costs, which declined to 5.9% in 2009-10 from 7.6% in 2004-05, largely as a result of lower interest rates. In the early years of the current decade, this ratio measured over 12%. This improvement in debt affordability illustrates the province's heightened shock-absorption capacity.

Foreign currency exposure has been eliminated on the province's debt portfolio for all but debt associated with Manitoba Hydro (discussed below). Manitoba Hydro, by virtue of its exports of hydroelectric power to the United States, has a natural hedge against USD-CAD currency fluctuations. Floating rate exposure, excluding short-term instruments and current maturities, was roughly 10% at March 31, 2010.

Significant Borrowing for Manitoba Hydro, but Self-Supported

Roughly one third of the province's total direct and indirect debt is attributed to Manitoba Hydro and is considered to be self-supporting. This Crown Corporation's ability to meet its own financial obligations without recourse to provincial subsidies is a positive credit attribute for the province. In our view, the likelihood that the contingent liability represented by Manitoba Hydro's debt would materialize remains relatively remote.

Manitoba Hydro is currently planning for significant future capital expenditures with a view to increasing its generation and transmission capacity to meet domestic demand as well as to exploit export opportunities over the next 25-30 years. These projects include the 200MW Wuskwatim Generating Station, which has an estimated total capital cost of C$1.6 billion (including the generation and transmission components) and is scheduled to come into service in December 2011. Other projects include the larger Keeyask (695MW) and Conawapa (1,485 MW) generating stations, with in-service dates estimated at 2018 (earliest) and 2022 respectively, as well as the construction of a third high voltage direct current line (Bipole III), targeted to be in service in 2017/18. The Bipole III line would allow power to be carried from new generation stations to southern parts of the province and to export markets. Manitoba Hydro intends to cover base capital expenditures with internally-generated funds from operations and to use external debt financing to fund expansion projects, requiring significant new debt financing over the next decade. We will continue to monitor developments with Manitoba Hydro's capital plan to ensure that our conclusion regarding the self-supporting status of the utility's debt remains appropriate.

Province Addressing Pension Liabilities

In 2007-08, the province debt-financed C$1.5 billion of the Teachers' Retirement Allowance Fund (TRAF) unfunded liability. Investments held for the TRAF and the Civil Service Superannuation Fund (CSSF), which totaled C$2.2 billion in 2007-08, were reclassified and irrevocably restricted for pension purposes in 2008-09. As a result of the debt-funding of pension liabilities, the province's unfunded pension obligations declined to an estimated C$1.8 billion at the end of 2009-10 (14.5% of revenue), from C$3.3 billion at March 31, 2004 (32.9% of revenue). The government expects to continue this policy of debt-funding pension liabilities. We consider unfunded pension liabilities as debt-like and take them into account when establishing a government's credit profile. As such, we view Manitoba's debt-funding of unfunded pension liabilities as credit-neutral.

Governance and Management Factors

Manitoba, over the past several years, has relied on multi-year fiscal planning, prudent economic and revenue assumptions and ongoing expense restraint to maintain a strong financial profile. Overall, Manitoba displays strong governance and management factors. Fiscal management measures are supported by comprehensive and transparent financial reporting that is typical of governments in advanced industrial economies.

Economic Fundamentals

Diverse Economy and Stable Growth Strengthen Credit Profile

The Manitoba economy is highly diversified, which helps to reduce economic volatility associated with business cycles and certain specific local industries. The service sector—including finance and insurance, real estate, public administration and transportation—accounts for over 70% of real economic output, contributing to the province's overall economic diversity.

Manufacturing accounts for the largest share of the goods-producing sector, representing 11% of real GDP. The recent economic slowdown proved a considerable challenge for the Canadian manufacturing industry, with manufacturing output declining by about 12% in 2009. Manitoba's manufacturing sector, however, fared slightly better than the national average, recording a contraction of around 9%. The nature of Manitoba's manufacturing sector, which includes niche areas such as aerospace and transit buses, and its high level of diversification have helped it face difficult external conditions.

After underperforming the national average through the first part of the last decade (which saw relatively strong economic growth in Canada), real GDP declined 0.9% in 2009, outperforming the national average (contraction of 2.5%). Manitoba is less exposed to the US economy than most Canadian provinces; the province's exports to the United States account for approximately 67% of its foreign exports, compared to approximately 75% for the Canadian economy as a whole. As a result, the province was less affected by the recent US slowdown than Ontario or Quebec, which are more exposed to the health of the US economy. In further contrast to other provinces, Manitoba was one of only three provinces to record gains in employment, albeit modest, in 2009.

The Manitoba economy tends to underperform the Canadian economy in times of rapid economic growth and to outperform in economic slowdowns. The province's high degree of economic diversity—which implies the absence of a dominant sector that could act as a catalyst for growth in boom years and represent a drag on the provincial economy in recessions—is one factor that could explain these trends. The province's economic diversity represents a major source of credit strength, ensuring a broad and productive tax base for the government.

As with the other provinces and the Canadian economy as a whole, Manitoba's economy is expected to resume growth in 2010 (provincial forecasts project growth of 2.5%). Though unemployment ticked up in 2009, Manitoba's labour market remains relatively tight as the 2009 unemployment rate of 5.2% was one of the lowest in the country and well below the national average of 8.3%. The population and labour force also continue to expand through net in-migration, particularly international immigration.

Operating Environment

The national operating environment in which Manitoba operates is typical of advanced industrial economies, characterized by high GDP per capita, low GDP volatility and a high ranking on the World Bank's Government Effectiveness Index, all of which suggest a minimal level of systemic economic, financial and political risk. As evidenced by Canada's record of continued economic expansion and political stability, the macroeconomic environment is robust and federal government institutions are responsive. Accordingly, the conditions that have historically preceded national crises associated with widespread defaults of regional and local governments are not present in Canada.

Institutional Framework

The Province of Manitoba, like all Canadian provinces, enjoys significant flexibility in its financial management. Compared to their counterparts in other countries, such as the German Länder and the Australian states, Canadian provinces enjoy far greater autonomy in terms of both the spending and revenue sides of their budgets. Unfettered access to a broad range of tax bases and the ability to alter expenditure programs provide Canadian provinces with substantial flexibility to meet fiscal challenges. As such, Canadian provinces benefit from a high degree of fiscal policy flexibility that is more akin to that of sovereign governments than to many of their international sub-sovereign peers. These positive institutional factors increase Canadian provinces' ability to manage through economic downturns and handle relatively high debt burdens. In conjunction with the high degree of fiscal flexibility, a system of fiscal transfers from the federal government, which seeks to reduce the fiscal disparities across the country, also provides support to Canadian provinces' creditworthiness.

Application of Joint-Default Analysis

The Aa1 rating assigned to Manitoba reflects the application of Moody's joint-default analysis methodology for regional and local governments. The province's rating is composed of two principal inputs: a baseline credit assessment of 3 (on a scale of 1-21, in which 1 represents the lowest level of credit risk) and a very high likelihood of extraordinary support from the federal government (rated Aaa, stable) to prevent a default by Manitoba, or any province. The very high likelihood of support reflects Moody's assessment of the incentive provided by the risk to the federal government's reputation if Manitoba, or any province, were to default, as well as indications of a moderately positive national government policy stance, as illustrated by the flexibility inherent in the system of federal provincial transfers.

Rating History

Province of Manitoba

DATE	RATING
November 2006	Aa1
January 2003	Aa2
September 1998	Aa3
May 1985	A1
September 1975	Aa
October 1968	A

Annual Statistics

Province of Manitoba

DEBT STATEMENT (C$ MILLIONS, AS AT 3/31)	2006	2007	2008	2009	2010F
Treasury Bills and Promissory Notes	325	325	850	1,185	1,500
Canada Pension Plan	756	606	597	492	480
Direct Debentures	18,237	18,923	20,252	20,906	22,314
Other	1,021	1,047	756	742	358
Total Direct Debt	**20,339**	**20,901**	**22,455**	**23,325**	**24,652**
Guaranteed Debt					
Manitoba HydroBonds and Promissory Notes	485	670	347	398	251
Other Guarantees	83	87	94	92	102
Total Direct and Indirect Debt	**20,907**	**21,658**	**22,896**	**23,815**	**25,005**
Less:					
Manitoba Hydro	6,625	6,640	7,142	7,836	8,289
Manitoba HydroBonds and Promissory Notes	485	670	347	398	251
Direct Debt Sinking Fund	3,918	4,118	3,334	2,741	2,582
Net Direct and Indirect Debt	**9,879**	**10,230**	**12,073**	**12,840**	**13,883**
DEBT TRENDS (AS AT 3/31)					
Net Direct and Indirect Debt (C$ millions)	9,879	10,230	12,073	12,840	13,883
As % GDP	23.7	22.7	24.8	25.3	27.7
As % Personal Income	29.3	28.7	31.8	32.0	34.2
Per Capita (C$)	8,384	8,640	10,116	10,647	11,361
As % Total Revenues	92.1	93.7	97.1	99.4	111.0
Total Direct and Indirect Debt	20,907	21,658	22,896	23,815	25,005
% Hydro Debt	31.7	30.7	31.2	32.9	33.1
Total Foreign Currency Debt (Before Hedges)	5,672	6,286	5,890	6,178	5,158
As % Total Direct and Indirect Debt	27.1	29.0	25.7	25.9	20.6
Foreign Currency Debt Net of Hedges (C$ Millions)	2,838	2,804	2,706	3,005	2,426
As % Total Direct and Indirect Debt	13.6	12.9	11.8	12.6	9.7
Short-Term Debt	2247.0	1941.0	3118.0	3364.0	3141.0
As % of Total Direct and Indirect Debt	10.7	9.0	13.6	14.1	12.6
Actuarial Pension Liability (Surplus) (C$ millions)	3,430	3,460	2,300	2,003	1,813
As % of GDP	8.2	7.7	4.7	3.9	3.6
As % of Revenue	32.0	31.7	18.5	15.5	14.5
Total Employer Cash Contributions [1]	319	426	1,976	155	466
As % of Revenue	3.0	3.9	15.9	1.5	3.7

[1] In 2008 this includes a special contribution of C$1.5 billion, which was borrowed in the capital markets by the province to fund pension plans.

Province of Manitoba

CONSOLIDATED REVENUES AND EXPENSES (C$ MILLIONS, YEAR ENDING 3/31)	2007	2008	2009	2010F	2011B
Revenues					
Personal Income Tax	2,130	2,285	2,455	2,654	2,421
Corporate Income Tax	311	367	386		247
Payroll Tax (Health and Education)	318	341	357		282
Retail Sales Tax	1,277	1,391	1,486		1,669
Net Income of Government Business Enterprises	627	946	807	687	699
Federal Transfers	3,317	3,597	3,866	4,072	4,126
Other	2,940	3,510	3,558	5,089	3,278
Total Revenues	**10,920**	**12,437**	**12,915**	**12,502**	**12,720**
Expenses					
Health	4,005	4,224	4,586	4,851	5,085
Family Services and Housing	1,142	1,224	1,321	1,321	1,326
Education	2,397	3,218	3,154	3,240	3,419
Community, Economic and Resource Development	1,280	1,406	1,582	1,834	1,819
Debt Service	835	815	830	739	767
Other	831	974	972	1,072	848
Total Expenses	**10,490**	**11,861**	**12,445**	**13,057**	**13,264**
Consolidated Surplus/(Deficit)	**430**	**576**	**470**	**(555)**	**(545)**
Cash Financing Surplus/(Requirement)	**365**	**(560)**	**(440)**	**(913)**	**(1,317)**

FINANCIAL TRENDS (YEAR ENDING 3/31)	2006	2007	2008	2009	2010F
% Change in Revenue	6.8	1.8	13.9	3.8	(3.2)
As a % of Revenue					
Consolidated Surplus (Deficit)	3.5	3.9	4.6	3.6	(4.4)
Cash Financing Surplus (Requirement)	(1.7)	3.3	(4.5)	(3.4)	(7.3)
Interest Expense	7.4	7.6	6.6	6.4	5.9
Intergovernmental Transfers	28.9	30.4	28.9	29.9	32.6
% Change in Expenses	9.6	1.4	13.1	4.9	4.9
As a % of Expenses					
Health	37.2	38.2	35.6	36.9	37.2
Education	22.9	22.9	27.1	25.3	24.8
Interest Expense	7.6	8.0	6.9	6.7	5.7
As a % of GDP					
Revenues	25.8	24.3	25.5	25.7	24.9
Expenses	24.9	23.3	24.3	24.7	26.0
Consolidated Surplus (Deficit)	0.9	1.0	1.2	0.9	(1.1)
Cash Financing Surplus (Requirement)	(0.4)	0.8	(1.1)	(0.9)	(1.8)
Health Expenses	9.3	8.9	8.7	9.1	9.7
Expenses Per Capita (C$)	8,784	8,860	9,938	10,319	10,685

Province of Manitoba

ECONOMIC TRENDS (YEAR ENDING 12/31)	2005	2006	2007	2008	2009
Population in 1000s	1,178	1,184	1,194	1,206	1,222
Real GDP (2002 C$ millions)	38,603	39,880	41,394	42,079	41,685
% Growth	2.0	3.3	3.8	1.7	-0.9
Nominal GDP (C$ millions)	41,512	44,957	48,727	50,324	50,200
% Growth	4.4	8.3	8.4	3.3	-0.2
Personal Income (C$ millions)	33,705	35,600	38,024	40,198	40,597
Per Capita (C$)	28,605	30,067	31,859	33,332	33,222
As % Canadian Average	89.2	88.5	89.3	90.7	91.2
Personal Disposable Income (C$)	26,386	28,028	29,841	31,911	32,393
As % Personal Income	78.3	78.7	78.5	79.4	79.8
Employment Growth (%)	0.6	1.2	1.6	1.7	0.0
Participation Rate	68.6	68.8	69.4	69.6	69.4
Unemployment Rate	4.8	4.3	4.4	4.2	5.2
Manufacturing Shipments (C$ millions)	13,688	14,862	16,168	16,378	14,568
Housing Starts (units)	4,731	5,028	5,738	5,537	4,174
Retail Sales (C$ millions)	12,372	12,874	14,016	14,980	14,915
Per Capita (C$)	10,500	10,873	11,743	12,421	12,205
CPI, All Items	106.6	108.7	110.9	113.4	114.1
Inflation Based on CPI % Change	2.7	2.0	2.0	2.3	0.6

Moody's Related Research

Credit Opinion:

» Canada, May 2010

Special Comments:

» Canadian Provinces: Conditions Remain Challenging, February 2010 (122837)

» Moody's 2010 Outlook for Sub-Sovereigns, January 2010 (121563)

Statistical Handbook:

» Non-U.S. Regional and Local Governments, June 2010 (125279)

Rating Methodologies:

» Regional and Local Governments Outside the US, May 2008 (107844)

» The Application of Joint-Default Analysis to Regional and Local Governments, December 2008 (99025)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not

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MOODY'S INVESTORS SERVICE

CREDIT ANALYSIS

Manitoba, Province of

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This Credit Analysis provides an in-depth discussion of credit rating(s) for Manitoba, Province of and should be read in conjunction with Moody's most recent Credit Opinion and rating information available on Moody's website.

Ratings

Manitoba, Province of

Category	Moody's Rating
Outlook	Stable
Bonds	Aa1

Summary Rating Rationale

The Province of Manitoba's Aa1 rating reflects the province's sound fiscal plan, stable debt burden, high degree of financial flexibility, and diversified economy. The fiscal plan has produced steady and generally balanced fiscal outcomes in recent years. While moderate cash requirements have increased the province's stock of debt, additions to debt have been broadly in line with economic growth, keeping the province's debt burden relatively stable. The province's fiscal flexibility is high and the proportion of revenue consumed by interest payments remains low at an estimated 5.8% in 2010-11. The Aa1 rating is also supported by the province's diversified economy, which tends to underperform the Canadian average in boom years, but outperform in years of weak economic conditions, providing a measure of stability.

National Peer Comparison

The Province of Manitoba is rated in the mid-range of Canadian provinces, whose ratings remain in a narrow range of Aaa-Aa2. Manitoba's debt burden, while higher than that of some of its Western Canadian peers, remains below the Canadian median. Moreover, the province's diversified economy and resulting economic stability positions the province well relative to Canadian peers.

Rating Outlook

The outlook is stable.

What Could Change the Rating - Up

An upgrade to Aaa is considered unlikely in the near term. However, many years of stronger than expected fiscal performance leading to a material and sustained reduction in the province's debt burden could apply upward pressure on the rating.

What Could Change the Rating - Down

A loss of fiscal discipline leading to a material and sustained increase in debt and debt service ratios could exert downward pressure on the rating.

Key Rating Considerations

Financial Position and Performance

Deficits in 2009-10 and 2010-11

Manitoba is forecasting a deficit in its 2011-12 Budget for the third year in a row after five consecutive years of positive fiscal outcomes. However, these deficits have remained minimal and the province still expects to return to fiscal balance by 2014-15.

Between 2004-05 and 2008-09, consolidated surpluses averaged 4.3% of revenues, or 1.1% of GDP, owing to the province's containment of expense growth below revenue growth in most years. As a result of this, the province was well positioned as the Canadian economy entered the recent downturn.

The Province recorded a small consolidated deficit of C$201 million in 2009-10, equivalent to 1.6% of revenues. The deficit resulted from a combination of lower taxation revenue with the economic downturn and continued expense pressures. The recorded deficit was much lower than the forecasted amount of C$555 million, reflecting the outperformance of the province's economy, which avoided a 0.9% economic contraction projected in the 2009-10 Budget. The highly diversified provincial economy, while it tends to underperform the Canadian average in boom years, tends to outperform in times of weaker economic conditions, providing a measure of stability.

The province's consolidated deficit for 2010-11 is estimated at C$467 million, or 3.8% of revenues, which is C$78 million lower than had been projected in the 2010-11 Budget, mainly due to an upward revision to revenues, particularly income taxes. However, part of the increase in revenues was offset by an increase in expenditures, including emergency spending for flooding and forest fires. Given the improved performance in the economy, the estimated deficit may be lower than projected. On a cash basis of accounting, the consolidated surplus is expected to translate into a financing requirement of C$1.1 billion, or 8.8% of revenues (2.1% of GDP). This reflects primarily the difference between amortization and cash outlays required for capital expenditures.

Latest Budget Continues Plan to Return to Balance by 2014-15

In its 2011-12 Budget, the province forecasts a deficit of C$438 million, or 3.3% of revenues, slightly lower than forecast a year ago. Built into this figure is C$30 million for potential expenditures to address flooding in the province that is offset by a recovery from the federal government amounting to C$27 million, resulting in a net flooding related expenditure of C$3 million for the province. With the significant flooding experienced in the province, flooding related expenditure may be higher than anticipated, but will be largely offset by federal government recoveries. Provincial elections are set for October 2011, and Budget 2011-12 includes a few new measures, such as increasing basic personal tax credits and increasing the education and property tax credit. These measures are expected to have limited fiscal impact, however, and the plan to return to balance by 2014-15 was reaffirmed.

To return to balance over the fiscal plan, the province plans to limit expenditure growth to an average of 2.0% from 2011-12 to 2014-15, while revenue growth is expected to average 3.2% over the same period. Healthcare expense will be limited to less than 5% growth per year and education spending to 4.5%, meaning spending in other areas is slated to either hold constant or to decline. Expense restraint measures will include managing salary costs and strategically managing and prioritizing expenditures. The budgeted expense growth restraint appears ambitious in light of recent experience as expenses grew at an estimated average annual growth rate of 6.4% from 2005-06 to 2009-10.[1] Nonetheless, thus far the province remains on track in achieving its fiscal plan and we expect that Manitoba will be able to achieve these targets given its strong track record of fiscal prudence.

Debt Profile

Rising Debt Ratios Expected to Stabilize

In recent years, the increase in Manitoba's debt has roughly matched the growth in the economy, though it grew at a slightly faster pace than revenues indicating a marginal increase in debt burden. As a percentage of GDP, net direct and indirect debt remained relatively stable, hovering around 25% between 2004-05 to 2010-11, while debt as a percentage of revenues grew to 112%, up from 98% of revenues six years earlier.

Though debt rose to $14.7 billion, or 28% of GDP, as of the end of 2010-11 and is expected to increase further in 2011-12, Manitoba's debt ratios are considered manageable given the high degree of fiscal policy flexibility inherent in the institutional framework governing the way Canadian provinces operate, as well as the province's high level of reserves. Manitoba presently holds roughly C$667 million in its Fiscal Stabilization Account, from which it will draw C$110 million in 2011-12 for debt repayment. Given the province's 5-year fiscal plan and track record, we expect the debt burden will begin to stabilize and then decrease over the fiscal plan.

In addition, the province's debt affordability remains high, as evidenced by the declining proportion of revenues consumed by interest costs, which declined to an estimated 5.8% in 2010-11 from 7.6% in 2006-07, largely as a result of lower interest rates. In the early years of the current decade, this ratio measured over 12%. This improvement in debt affordability illustrates the province's heightened shock-absorption capacity.

The province's debt structure has also improved. Foreign currency exposure has been eliminated on the province's debt portfolio for all debt but that associated with Manitoba Hydro (discussed below) which, by virtue of its exports of hydroelectric power to the United States, has a natural hedge against

[1] This figure adjusts for the consolidation of school boards in 2007-08.

USD-CAD currency fluctuations. Floating rate exposure, excluding short-term instruments and current maturities, was roughly 10% at March 31, 2011.

Significant Borrowing for Manitoba Hydro, but Self-Supported

Roughly one third of the province's total direct and indirect debt is attributed to Manitoba Hydro (issued and on-lent by the province) and is considered to be self-supporting. This Crown Corporation's ability to meet its own financial obligations without recourse to provincial subsidies is a positive credit attribute for the province. In our view, the likelihood that the contingent liability represented by Manitoba Hydro's debt would materialize remains relatively remote.

Manitoba Hydro is currently planning for significant future capital expenditures of roughly C$20 billion over the next decade with a view to increasing its generation and transmission capacity to meet domestic demand as well as to exploit export opportunities over the next 25-30 years. These projects include the 200MW Wuskwatim Generating Station, which has an estimated total capital cost of C$1.6 billion (including the generation and transmission components) and is scheduled to come into service in December 2011. Other projects include the larger Keeyask (695MW) and Conawapa (1,485 MW) generating stations, with in-service dates estimated at 2019 (earliest) and 2024 respectively, as well as the construction of a third high voltage direct current line (Bipole III), targeted to be in service in 2017/18, and a 500 kV interconnection to the United States, estimated to be completed at 2024 (earliest). The Bipole III line and the interconnection to the United States would allow power to be carried from new generation stations to southern parts of the province and to export markets. Capital expenditure, estimated to peak at over $2 billion in 2018-19, is expected to be covered with internally-generated funds from operations and external debt financing, requiring significant new debt financing of about C$11.7 billion over the next decade. We will continue to monitor developments with Manitoba Hydro's capital plan to ensure that our conclusion regarding the self-supporting status of the utility's debt remains appropriate.

Province Addressing Pension Liabilities

In 2007-08, the province debt-financed C$1.5 billion of the Teachers' Retirement Allowance Fund (TRAF) unfunded liability. Investments held for the TRAF and the Civil Service Superannuation Fund (CSSF), which totaled C$2.2 billion in 2007-08, were reclassified and irrevocably restricted for pension purposes in 2008-09. As a result of the debt-funding of pension liabilities, the province's unfunded pension obligations declined to an estimated C$1.8 billion at the end of 2010-11 (13.5% of revenues), from C$3.3 billion at March 31, 2004 (39.2% of revenue). The government expects to make another debt financing in 2011-12. We consider unfunded pension liabilities as debt-like and take them into account when establishing a government's credit profile. As such, we view Manitoba's debt-funding of unfunded pension liabilities as credit-neutral.

Governance and Management Factors

Manitoba, over the past several years, has relied on multi-year fiscal planning, prudent economic and revenue assumptions and ongoing expense restraint to maintain a strong financial profile. Overall, Manitoba displays strong governance and management factors. Fiscal management measures are supported by comprehensive and transparent financial reporting that is typical of governments in advanced industrial economies.

Economic Fundamentals

Only Provincial Economy Not To Contract in 2009

Manitoba's economy is characterized by a high degree of diversification, which is a major source of credit strength, ensuring a broad and productive tax base for the government. The lack of a dominant sector that acts as a catalyst for growth in boom years and represents a drag on the provincial economy in recessions also helps to reduce economic volatility and explain why the Manitoba economy tends to underperform the Canadian economy in times of rapid economic growth and to outperform in economic slowdowns.

After underperforming the national average through the first part of the last decade (which saw relatively strong economic growth in Canada), Manitoba was the only Canadian province in 2009 that avoided a contraction in real GDP. In 2010, the province forecasts the economy grew by an estimated 2.5%, with construction, wholesale and retail trade contributing to the growth. Over the past three years, Manitoba's average growth rate of 2.0% was the highest among all the provinces. While unemployment increased in 2009 and 2010, Manitoba's unemployment rate, at 5.4%, is among the lowest in the country. The population and labour force also continue to expand through net in-migration, particularly international immigration.

Diverse Economy and Stable Growth Strengthen Credit Profile

Manitoba's service sector—including finance and insurance, real estate, public administration and transportation—accounts for over 70% of real economic output, contributing to the province's overall economic diversity. Manufacturing accounts for the largest share of the goods-producing sector, representing 11% of real GDP. However, the nature of Manitoba's manufacturing sector, which includes niche areas such as aerospace and transit buses, and its high level of diversification have helped it manage through difficult external conditions. Manitoba is also less exposed to the US economy than most Canadian provinces; the province's exports to the United States account for approximately 64% of its foreign exports, compared to approximately 75% for the Canadian economy as a whole. As a result, the province was less affected by the recent US slowdown than Ontario or Quebec, which are more exposed to the health of the US economy.

Operating Environment

The national operating environment in which Manitoba operates is typical of advanced industrial economies, characterized by high GDP per capita, low GDP volatility and a high ranking on the World Bank's Government Effectiveness Index, all of which suggest a minimal level of systemic economic, financial and political risk. As evidenced by Canada's record of continued economic expansion and political stability, the macroeconomic environment is robust and federal government institutions are responsive. Accordingly, the conditions that have historically preceded national crises associated with widespread defaults of regional and local governments are not present in Canada.

Institutional Framework

The Province of Manitoba, like all Canadian provinces, enjoys significant flexibility in its financial management. Compared to their counterparts in other countries, such as the German Länder and the Australian states, Canadian provinces enjoy far greater autonomy in terms of both the spending and revenue sides of their budgets. Unfettered access to a broad range of tax bases and the ability to alter expenditure programs provide Canadian provinces with substantial flexibility to meet fiscal challenges. As such, Canadian provinces benefit from a high degree of fiscal policy flexibility that is more akin to that of sovereign governments than to many of their international sub-sovereign peers. These positive institutional factors increase Canadian provinces' ability to manage through economic downturns and handle relatively high debt burdens. In conjunction with the high degree of fiscal flexibility, a system of fiscal transfers from the federal government, which seeks to reduce the fiscal disparities across the country, also provides support to Canadian provinces' creditworthiness.

Application of Joint-Default Analysis

The Aa1 rating assigned to Manitoba reflects the application of Moody's joint-default analysis methodology for regional and local governments. The province's rating is composed of two principal inputs: a baseline credit assessment of 3 (on a scale of 1-21, in which 1 represents the lowest level of credit risk) and a very high likelihood of extraordinary support from the federal government (rated Aaa, stable) to prevent a default by Manitoba, or any province. The very high likelihood of support reflects Moody's assessment of the incentive provided by the risk to the federal government's reputation if Manitoba, or any province, were to default, as well as indications of a moderately positive national government policy stance, as illustrated by the flexibility inherent in the system of federal provincial transfers.

About Moody's Sub-Sovereign Ratings

National and Global Scale Ratings

Moody's National Scale Ratings (NSRs) are intended as relative measures of creditworthiness among debt issues and issuers within a country, enabling market participants to better differentiate relative risks. NSRs differ from Moody's global scale ratings in that they are not globally comparable with the full universe of Moody's rated entities, but only with NSRs for other rated debt issues and issuers within the same country. NSRs are designated by a ".nn" country modifier signifying the relevant country, as in ".mx" for Mexico. For further information on Moody's approach to national scale ratings, please refer to Moody's Rating Implementation Guidance published in August 2010 entitled "Mapping Moody's National Scale Ratings to Global Scale Ratings."

The Moody's Global Scale rating for issuers and issues allows investors to compare the issuer's/issue's creditworthiness to all others in the world, rather than merely in one country. It incorporates all risks relating to that country, including the potential volatility of the national economy.

Rating History

Manitoba, Province of

Date	Rating
November 2006	Aa1
January 2003	Aa2
September 1998	Aa3
May 1985	A1
September 1975	Aa
October 1968	A

Annual Statistics

Province of Manitoba

Debt Statement (C$ millions, as at 3/31)	2008	2009	2010	2011F	2012B
Treasury Bills and Promissory Notes	850	1,185	1,500	1,250	1,300
Canada Pension Plan	597	492	480	492	388
Direct Debentures	20,252	20,906	22,336	23,502	25,626
Other	756	742	785	345	375
Total Direct Debt	**22,455**	**23,325**	**25,101**	**25,589**	**27,689**
Guaranteed Debt					
Manitoba HydroBonds and Promissory Notes	347	398	331	163	238
Other Guarantees	94	107	102	105	105
Total Direct and Indirect Debt	**22,896**	**23,830**	**25,534**	**25,857**	**28,031**
Less:					
Manitoba Hydro	7,142	7,836	8,288	8,467	9,030
Manitoba HydroBonds and Promissory Notes	347	398	331	163	238
Direct Debt Sinking Fund	3,334	2,685	2,592	2,478	2,371
Net Direct and Indirect Debt	**12,073**	**12,911**	**14,323**	**14,749**	**16,393**
Debt Trends (as at 3/31)					
Net Direct and Indirect Debt (C$ millions)	12,073	12,911	14,323	14,749	16,393
As % GDP	24.7	25.3	28.1	27.6	29.0
As % Personal Income	31.8	32.1	35.3	-	-
Per Capita (C$)	10,116	10,706	11,740	11,939	-
As % Total Revenues	97.1	101.2	113.3	112.3	122.1
Total Direct and Indirect Debt	22,896	23,830	25,534	25,857	28,031
% Hydro Debt	31.2	32.9	32.5	32.7	32.2
Total Foreign Currency Debt (Before Hedges)	5,890	6,178	6,194	-	-
As % Total Direct and Indirect Debt	25.7	25.9	24.3	-	-
Foreign Currency Debt Net of Hedges (C$ Millions)	2,706	3,005	2,426	-	-
As % Total Direct and Indirect Debt	11.8	12.6	9.5	-	-
Short-Term Debt	3118.0	3364.0	3464.0	-	-
As % of Total Direct and Indirect Debt	13.6	14.1	13.6	-	-
Actuarial Pension Liability (Surplus) (C$ millions)	2,300	1,991	1,800	1,778	1,779
As % of GDP	4.7	3.9	3.5	3.3	3.2
As % of Revenue	18.5	15.6	14.2	13.5	13.3
Total Employer Cash Contributions [1]	1,976	155	466	319	385
As % of Revenue	15.9	1.2	3.7	2.4	2.9

[1] In 2008 this includes a special contribution of C$1.5 billion, which was borrowed in the capital markets by the province to fund pension plans.

Province of Manitoba

Consolidated Revenues and Expenses

(C$ millions, Year Ending 3/31)	2008	2009	2010	2011F	2012B
Revenues					
Personal Income Tax	2,285	2,455	2,402	2,916	2,725
Corporate Income Tax	367	386	257	-	423
Payroll Tax (Health and Education)	341	261	264	-	294
Retail Sales Tax	1,391	1,569	1,570	-	1,671
Net Income of Government Business Enterprises	947	764	772	752	781
Federal Transfers	3,597	3,866	3,924	4,086	3,945
Other	3,568	3,462	3,458	5,376	3,583
Total Revenues	**12,496**	**12,763**	**12,647**	**13,130**	**13,421**
Expenses					
Health	4,232	4,588	4,830	5,125	5,387
Family Services and Housing	1,224	1,192	1,295	1,392	1,402
Education	3,224	3,091	3,227	3,406	3,560
Community, Economic and Resource Development	1,420	1,729	1,814	1,944	1,908
Debt Service	864	830	756	762	807
Other	974	882	926	968	795
Total Expenses	**11,938**	**12,312**	**12,848**	**13,597**	**13,859**
Consolidated Surplus/(Deficit)	**558**	**451**	**(201)**	**(467)**	**(438)**
Cash Financing Surplus/(Requirement)	**(578)**	**(367)**	**(1,416)**	**(1,150)**	**(1,107)**

Financial Trends (Year Ending 3/31)	2008	2009	2010	2011F	2012B
% Change in Revenue	14.4	2.1	(0.9)	3.8	2.2
As a % of Revenue					
Consolidated Surplus (Deficit)	4.5	3.5	(1.6)	(3.6)	(3.3)
Cash Financing Surplus (Requirement)	(4.6)	(2.9)	(11.2)	(8.8)	(8.3)
Interest Expense	6.9	6.5	6.0	5.8	6.0
Intergovernmental Transfers	28.8	30.3	31.0	31.1	29.4
% Change in Expenses	13.8	3.1	4.4	5.8	1.9
As a % of Expenses					
Health	35.4	37.3	37.6	37.7	38.9
Education	27.0	25.1	25.1	25.0	25.7
Interest Expense	7.2	6.7	5.9	5.6	5.8
As a % of GDP					
Revenues	25.5	25.0	24.8	24.5	23.8
Expenses	24.4	24.1	25.2	25.4	24.5
Consolidated Surplus (Deficit)	1.2	0.9	(0.4)	(0.9)	(0.8)
Cash Financing Surplus (Requirement)	(1.2)	(0.7)	(2.8)	(2.1)	(2.0)
Health Expenses	8.7	9.0	9.5	9.6	9.5
Expenses Per Capita (C$)	10,002	10,209	10,531	11,006	-

Province of Manitoba

Economic Trends (Year Ending 12/31)	2006	2007	2008	2009	2010
Population in 1000s	1,184	1,194	1,206	1,220	1,235
Real GDP (2002 C$ millions)	40,181	41,263	42,057	42,077	43,129
% Growth	3.4	2.7	1.9	0.0	2.5
Nominal GDP (C$ millions)	45,173	48,920	51,048	50,973	53,528
% Growth	8.4	8.3	4.3	-0.1	5.0
Personal Income (C$ millions)	35,673	38,106	40,360	40,927	-
Per Capita (C$)	30,067	31,859	33,332	33,222	-
As % Canadian Average	88.5	89.6	90.5	91.2	
Personal Disposable Income (C$)	28,157	29,973	32,016	32,825	
As % Personal Income	78.9	78.7	79.3	80.2	
Employment Growth (%)	1.2	1.7	1.7	0.0	1.9
Participation Rate	68.5	69.0	69.3	69.1	69.6
Unemployment Rate	4.3	4.4	4.2	5.2	5.4
Manufacturing Shipments (C$ millions)	14,862	16,179	16,373	14,653	14,422
Housing Starts (units)	5,028	5,738	5,537	4,174	5,888
Retail Sales (C$ millions)	12,874	14,016	14,980	14,915	15,738
Per Capita (C$)	10,873	11,743	12,421	12,225	12,739
CPI, All Items	108.7	110.9	113.4	114.1	115.0
Inflation Based on CPI % Change	2.0	2.0	2.3	0.6	0.8

Moody's Related Research

Credit Opinion:

» Canada, June 2011

Special Comment:

» Outlook for Canadian Provinces 2011, March 2011 (131625)

Statistical Handbook:

» Non-U.S. Regional and Local Governments, December 2010 (128941)

Rating Methodologies:

» Regional and Local Governments Outside the US, May 2008 (107844)

» The Application of Joint-Default Analysis to Regional and Local Governments, December 2008 (99025)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

» contacts continued from page 1

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CREDIT ANALYSIS

Manitoba, Province of

Canada

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Ratings

Manitoba, Province of

Category	Moody's Rating
Outlook	Stable
Bonds	Aa1

Summary Rating Rationale

The Province of Manitoba's Aa1 rating reflects the province's relatively stable debt burden, high degree of financial flexibility and diversified economy. While moderate cash requirements have increased the province's stock of debt, additions to debt have been broadly in line with economic growth, keeping the province's debt burden relatively stable. The province's fiscal flexibility is high and the proportion of revenue consumed by interest payments remains low at an estimated 5.9% in 2011-12. The Aa1 rating is also supported by the province's diversified economy, which tends to underperform the Canadian average in boom years, but outperform in years of weak economic conditions, providing a measure of stability.

National Peer Comparison

The Province of Manitoba is rated in the mid-range of Canadian provinces, whose ratings remain in a narrow range of Aaa to Aa2. Manitoba's debt burden, while higher than that of some of its Western Canadian peers, remains below the Canadian median. Moreover, the province's diversified economy and resulting economic stability positions the province well relative to Canadian peers.

Rating Outlook

The outlook is stable.

This Credit Analysis provides an in-depth discussion of credit rating(s) for the Province of Manitoba and should be read in conjunction with Moody's most recent Credit Opinion and rating information available on Moody's website.

What Could Change the Rating - Up

An upgrade to Aaa is considered unlikely in the near term. However, many years of stronger than expected fiscal performance leading to a material and sustained reduction in the province's debt burden could apply upward pressure on the rating.

What Could Change the Rating - Down

A loss of fiscal discipline leading to a material and sustained increase in debt and debt service ratios could exert downward pressure on the rating.

Key Rating Considerations

Financial Position and Performance

2011-12 Affected by Flooding

Manitoba's financial performance in 2011-12 was significantly impacted by the costs associated with severe flooding across the province in Spring 2011. The estimated deficit was C$1.1billion (8.1% of revenues), however, this included almost C$1 billion in direct and indirect expenditures related to the flooding. Abstracting from this extraordinary spending and recoveries from the federal government, Manitoba would have been close to its original budget forecasted deficit of C$438 million (3.3% of revenues).

With spending and revenues associated with the impacts of flooding mostly falling out of the 2012-13 budget, Manitoba is projecting a deficit for 2012-13 of C$460 million (3.3% of revenues). Overall spending is slated to fall compared to estimates for 2011-12, but abstracting from 2011-12 spending related to flooding, it is set to rise roughly 3.9%. This masks, however, some efficiency gains to be achieved through rationalizing the number of regional health authorities, merging the Manitoba Lotteries Commission and Manitoba Liquor Control Commission and reducing the number of government-appointed agencies, boards and commissions, as well as some other expenditure reduction measures. These efficiencies allow room for 4.9% growth in health spending and 3.8% in education. After few tax measures introduced in the past few years, the 2012-13 budget announced some new revenue measures. These included a broadening in the base for provincial sales taxes as well as rises in gasoline, tobacco and financial sector capital taxes. These, along with continued growth in the economy, will help revenues grow at a projected 3.4% (excluding recoveries related to flooding).

Return to Balance Expected in 2014-15

While the impact of the flooding significantly increased the province's recorded deficit in 2011-12, Manitoba has kept to its plan of returning to balanced budgets by 2014-15. It is planning to do so by keeping expenditures growing at an annual average of roughly 1.9% over 2012-13 through 2014-15 (excluding the impacts of flooding). Some of the expenditure reduction measures are ongoing, nevertheless, the province will need to remain diligent in keeping the growth in spending relatively low, particularly given continued pressures in health care spending. We will continue to monitor developments, however, we expect Manitoba will be able to achieve its targets given its strong track record of fiscal prudence and steady and stable growth in the economy.

Debt Profile

Debt Ratios Expected to Stabilize

In recent years, the increase in Manitoba's debt has roughly matched the growth in the economy, though it grew at a slightly faster pace than revenues resulting in a small increase in debt burden. As a percentage of GDP, net direct and indirect debt remained relatively stable, hovering around 25-30% between 2004-05 to 2011-12, while debt as a percentage of revenues grew to 124%, up from 98% of revenues seven years earlier.

Though net debt rose to $17.1 billion, or 30% of GDP, as of the end of 2011-12 and is expected to increase slightly in 2012-13, Manitoba's debt ratios are considered manageable given the high degree of fiscal policy flexibility inherent in the institutional framework governing the way Canadian provinces operate, as well as the province's significant level of reserves. Manitoba presently holds an estimated C$525 million in its Fiscal Stabilization Account, from which it will draw C$140 million in 2012-13 for debt repayment. Given the province's 5-year fiscal plan and track record, we expect the debt burden will begin to stabilize and then decrease over the fiscal plan.

In addition, the province's debt affordability remains high, as evidenced by the declining proportion of revenues consumed by interest costs, which declined to an estimated 5.9% in 2011-12 from 7.6% in 2006-07, largely as a result of lower interest rates. This ratio measured over 12% nearly ten years earlier. This improvement in debt affordability illustrates the province's increased shock-absorption capacity.

The province's debt structure has also improved. Foreign currency exposure has been eliminated in the province's debt portfolio for all debt but that associated with Manitoba Hydro (discussed below), which, by virtue of its exports of hydroelectric power to the United States, has a natural hedge against USD-CAD currency fluctuations.

Significant Borrowing for Manitoba Hydro, but Self-Supported

Roughly one third of the province's total direct and indirect debt is attributed to Manitoba Hydro (issued and on-lent by the province) and is considered to be self-supporting. This Crown Corporation's ability to meet its own financial obligations without recourse to provincial subsidies is a positive credit attribute for the province. In our view, the likelihood that the contingent liability represented by Manitoba Hydro's debt would materialize remains relatively remote.

Manitoba Hydro is currently planning for significant future capital expenditures of roughly C$20 billion over the next decade with a view to increasing its generation and transmission capacity to meet domestic demand as well as to exploit export opportunities over the next 25-30 years. These projects include the 200MW Wuskwatim Generating Station, which has an estimated total capital cost of C$1.7 billion (including the generation and transmission components) and is scheduled to come into service in 2012. Other projects include the larger Keeyask (695MW) and Conawapa (1,485 MW) generating stations, with in-service dates estimated at 2019-20 and 2024-25 respectively, as well as the construction of a third high voltage direct current line (Bipole III), targeted to be in service in 2017-18. The Bipole III line and the interconnection to the United States would improve reliability and allow power to be carried from new generation stations to southern parts of the province and to export markets. Capital expenditure, estimated to peak at over $2 billion in 2017-18, is expected to be covered with internally-generated funds from operations and external debt financing, requiring significant new debt financing of over C$12 billion over the next decade. Manitoba Hydro has applied to the Public Utilities Board (PUB) for a 2.5% rate increase effective 1 September 2012, with a further

3.5 % increase effective 1 April 2013. Even with these proposed increases, Manitoba Hydro would still have one of the lowest electricity rates in North America. We will continue to monitor developments with Manitoba Hydro's capital plan to ensure that our conclusion regarding the self-supporting status of the utility's debt remains appropriate.

Province Addressing Pension Liabilities

In 2007-08, the province debt-financed C$1.5 billion of the Teachers' Retirement Allowance Fund (TRAF) unfunded liability. Investments held for the TRAF and the Civil Service Superannuation Fund (CSSF), which totaled C$2.2 billion in 2007-08, were reclassified and irrevocably restricted for pension purposes in 2008-09. As a result of the debt-funding of pension liabilities, the province's unfunded pension obligations declined to an estimated C$1.7 billion at the end of 2011-12 (12.3% of revenues), from C$3.5 billion at March 31, 2007 (31.7% of revenue). The province made a C$240 million payment in 2011-12, which brought the funded status of its pensions to roughly 75%. We consider unfunded pension liabilities as debt-like and take them into account when establishing a government's credit profile. As such, we view Manitoba's debt-funding of unfunded pension liabilities as credit-neutral.

Governance and Management Factors

Manitoba, over the past several years, has relied on multi-year fiscal planning, prudent economic and revenue assumptions and ongoing expense restraint to maintain a strong financial profile. Overall, Manitoba displays strong governance and management factors. Fiscal management measures are supported by comprehensive and transparent financial reporting that is typical of governments in advanced industrial economies.

Economic Fundamentals

Steady Growth and Strong Labour Market

Manitoba's economy is characterized by a high degree of diversification, which is a major source of credit strength, ensuring a broad and productive tax base for the government. The lack of a dominant sector that acts as a catalyst for growth in boom years and represents a drag on the provincial economy in recessions also helps to reduce economic volatility and explain why the Manitoba economy tends to underperform the Canadian economy in times of rapid economic growth and to outperform in economic slowdowns.

After underperforming the national average through the first part of the last decade (which saw relatively strong economic growth in Canada), Manitoba grew at the fastest average annual rate amongst the provinces over 2005 to 2010 at 2.4%, above the national average of 1.2%.In 2011, growth was estimated at 2.2%, with manufacturing recovery and housing starts hitting a 24-year high. The unemployment rate, at an unchanged 5.4% in 2011, is among the lowest in the country. The population and labour force also continue to expand through net in-migration, particularly international immigration. Immigration to Manitoba has more than tripled over the past decade and in 2011 it reached its highest level since 1946.

Diverse Economy and Stable Growth Strengthen Credit Profile

Manitoba's service sector—including finance and insurance, real estate, public administration and transportation—accounts for over 70% of real economic output, contributing to the province's overall economic diversity. Manufacturing accounts for the largest share of the goods-producing sector, representing 11% of real GDP. However, the nature of Manitoba's manufacturing sector, which includes niche areas such as aerospace and transit buses, and its high level of diversification have helped it manage through difficult external conditions. Manitoba is also less exposed to the US economy than most Canadian provinces; the province's exports to the United States account for just over 61% of its foreign exports, compared to roughly 75% for the Canadian economy as a whole. As a result, the province was less affected by the recent US slowdown than Ontario or Quebec, which are more exposed to the health of the US economy.

Operating Environment

The national operating environment in which Manitoba operates is typical of advanced industrial economies, characterized by high GDP per capita, low GDP volatility and a high ranking on the World Bank's Government Effectiveness Index, all of which suggest a minimal level of systemic economic, financial and political risk. As evidenced by Canada's record of continued economic expansion and political stability, the macroeconomic environment is robust and federal government institutions are responsive. Accordingly, the conditions that have historically preceded national crises associated with widespread defaults of regional and local governments are not present in Canada.

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The Province of Manitoba, like all Canadian provinces, enjoys significant flexibility in its financial management. Compared to their counterparts in other countries, such as the German Länder and the Australian states, Canadian provinces enjoy far greater autonomy in terms of both the spending and revenue sides of their budgets. Unfettered access to a broad range of tax bases and the ability to alter expenditure programs provide Canadian provinces with substantial flexibility to meet fiscal challenges. As such, Canadian provinces benefit from a high degree of fiscal policy flexibility that is more akin to that of sovereign governments than to many of their international sub-sovereign peers. These positive institutional factors increase Canadian provinces' ability to manage through economic downturns and handle relatively high debt burdens. In conjunction with the high degree of fiscal flexibility, a system of fiscal transfers from the federal government, which seeks to reduce the fiscal disparities across the country, also provides support to Canadian provinces' creditworthiness.

Application of Joint-Default Analysis

The Aa1 rating assigned to Manitoba reflects the application of Moody's joint-default analysis methodology for regional and local governments. The province's rating is composed of two principal inputs: a baseline credit assessment of aa2 and a very high likelihood of extraordinary support from the federal government (rated Aaa, stable) to prevent a default by Manitoba, or any province. The very high likelihood of support reflects Moody's assessment of the incentive to the federal government to minimize market disruptions if Manitoba, or any province, were to default, as well as indications of a moderately positive national government policy stance, as illustrated by the flexibility inherent in the system of federal provincial transfers.

Rating History

Manitoba, Province of

Date	Rating
November 2006	Aa1
January 2003	Aa2
September 1998	Aa3
May 1985	A1
September 1975	Aa
October 1968	A

Annual Statistics

Province of Manitoba

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Direct Debentures	20,906	22,336	23,751	26,476	27,854
Other	742	785	780	295	100
Total Direct Debt	**23,325**	**25,101**	**26,273**	**28,563**	**30,070**
Guaranteed Debt					
Manitoba HydroBonds and Promissory Notes	398	331	241	254	227
Other Guarantees	107	102	100	105	105
Total Direct and Indirect Debt	**23,830**	**25,534**	**26,614**	**28,922**	**30,402**
Less:					
Manitoba Hydro	7,836	8,288	8,467	9,095	9,946
Manitoba HydroBonds and Promissory Notes	398	331	241	254	227
Direct Debt Sinking Fund	2,685	2,592	2,458	2,458	2,271
Net Direct and Indirect Debt	**12,911**	**14,323**	**15,298**	**17,115**	**17,958**
Debt Trends (as at 3/31)					
Net Direct and Indirect Debt (C$ millions)	12,911	14,323	15,298	17,115	17,958
As % GDP	25.0	27.8	28.2	30.1	30.4
As % Personal Income	32.0	34.8	36.0	38.8	-
Per Capita (C$)	10,710	11,748	12,392	13,685	143,162
As % Total Revenues	101.2	113.2	115.9	123.9	129.7
Total Direct and Indirect Debt	23,830	25,534	26,614	28,922	30,402
% Hydro Debt	32.9	32.5	32.4	31.4	32.7
Total Foreign Currency Debt (Before Hedges)	6,178	6,194	6,172	6,887	6,887
As % Total Direct and Indirect Debt	25.9	24.3	23.2	23.8	22.7
Foreign Currency Debt Net of Hedges (C$ Millions)	3,005	2,426	1,884	2,037	2,037
As % Total Direct and Indirect Debt	12.6	9.5	7.1	7.0	6.7
Short-Term Debt	3,364	3,464	3,349	3,236	3,989
As % of Total Direct and Indirect Debt	14.1	13.6	12.6	11.2	13.1
Actuarial Pension Liability (Surplus) (C$ millions)	1,991	1,800	1,772	1,704	1,885
As % of GDP	3.7	3.2	3.0	2.8	-
As % of Revenue	15.6	14.2	13.4	12.3	13.6
Total Employer Cash Contributions	155	466	319	385	-
As % of Revenue	1.2	3.7	2.4	2.8	-

Province of Manitoba

Consolidated Revenues and Expenses (C$ millions, Year Ending 3/31)	2009	2010	2011	2012F	2013B
Revenues					
Personal Income Tax	2,455	2,402	2,592	2,702	2,796
Corporate Income Tax	386	257	330	439	406
Payroll Tax (Health and Education)	261	264	269	290	306
Retail Sales Tax	1,569	1,570	1,618	1,651	1,834
Other Taxes	1,446	1,447	1,519	1,533	1,648
Net Income of Government Business Enterprises	764	772	775	761	722
Federal Transfers	3,866	3,924	4,047	4,351	3,889
Other	2,016	2,012	2,055	2,082	2,251
Total Revenues	**12,763**	**12,648**	**13,205**	**13,809**	**13,851**
Expenses					
Health	4,588	4,831	5,120	5,286	5,547
Family Services and Housing	1,192	1,295	1,363	1,047	1,064
Education	3,091	3,227	3,341	3,576	3,710
Community, Economic and Resource Development	1,729	1,813	1,972	2,614	2,317
Debt Service	830	756	773	813	858
Other	882	926	934	1,593	815
Total Expenses	**12,312**	**12,848**	**13,503**	**14,929**	**14,311**
Consolidated Surplus/(Deficit)	**451**	**(200)**	**(298)**	**(1,120)**	**(460)**
Cash Financing Surplus/(Requirement)	**(367)**	**(1,413)**	**(1,195)**	**(1,677)**	**(886)**
Financial Trends (Year Ending 3/31)	2009	2010	2011	2012F	2013B
% Change in Revenue	2.1	(0.9)	4.4	4.6	0.3
As a % of Revenue					
Consolidated Surplus (Deficit)	3.5	(1.6)	(2.3)	(8.1)	(3.3)
Cash Financing Surplus (Requirement)	(2.9)	(11.2)	(9.0)	(12.1)	(8.0)
Interest Expense	6.5	6.0	5.9	5.9	6.2
Intergovernmental Transfers	30.3	31.0	30.6	31.5	28.1
% Change in Expenses	3.1	4.4	5.1	10.6	(4.1)
As a % of Expenses					
Health	37.3	37.6	37.9	35.4	38.8
Education	25.1	25.1	24.7	24.0	25.9
Interest Expense	6.7	5.9	5.7	5.4	6.0
As a % of GDP					
Revenues	24.7	24.6	24.3	24.3	23.4
Expenses	23.9	24.9	24.9	26.2	24.2
Consolidated Surplus (Deficit)	0.9	(0.4)	(0.5)	(2.0)	(0.8)
Cash Financing Surplus (Requirement)	(0.7)	(2.7)	(2.2)	(2.9)	(1.5)
Health Expenses	8.9	9.4	9.4	9.3	9.4
Expenses Per Capita (C$)	10,213	10,538	10,938	11,938	11,286

Province of Manitoba

Economic Trends (Year Ending 12/31)	2008	2009	2010	2011	2012F
Population in 1000s	1,205	1,219	1,235	1,251	1,268
Real GDP (2002 C$ millions)	42,838	42,705	43,746	44,708	45,737
% Growth	3.8	-0.3	2.4	2.2	2.3
Nominal GDP (C$ millions)	51,575	51,518	54,257	56,916	59,135
% Growth	5.4	-0.1	5.3	4.9	3.9
Personal Income (C$ millions)	40,403	41,145	42,499	44,114	-
Per Capita (C$)	33,516	33,748	34,425	35,275	-
As % Canadian Average	90.9	92.6	91.8	91.3	-
Personal Disposable Income (C$)	32,006	32,792	34,129	35,289	-
As % Personal Income	79.2	79.7	80.3	80.0	
Employment Growth (%)	1.7	0.0	1.9	0.8	0.9
Participation Rate	69.3	69.1	69.6	69.3	-
Unemployment Rate	4.2	5.2	5.4	5.4	5.4
Manufacturing Shipments (C$ millions)	16,373	14,653	14,422	15,316	-
Housing Starts (units)	5,537	4,174	5,888	6,083	-
Retail Sales (C$ millions)	14,980	14,915	15,766	16,448	-
Per Capita (C$)	12,427	12,234	12,771	13,152	-
CPI, All Items	113.4	114.1	115.0	118.4	120.6
Inflation Based on CPI % Change	2.3	0.6	0.8	3.0	1.9

Moody's Related Research

Credit Opinion:

» Canada

Special Comments:

» Canadian Provinces Consolidating Finances in 2012, March 2012 (140455)

» Canadian Municipalities: Remaining Strong in Turbulent Times, February 2012 (139798)

Statistical Handbook:

» Non-U.S. Regional and Local Governments, June 2012 (141944)

Rating Methodologies:

» Regional and Local Governments Outside the US, May 2008 (107844)

» The Application of Joint-Default Analysis to Regional and Local Governments, December 2008 (99025)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

» contacts continued from page 1

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November 20, 2008

Manitoba Hydro-Electric Board

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Manitoba Hydro-Electric Board

Major Rating Factors

Corporate Credit Rating
None

Strengths:

- Low-cost hydroelectric generation
- Government ownership and support
- Vertically integrated electricity monopoly
- Diversified customer base
- Supportive regulation

Weaknesses:

- Significant hydrology risk exposure and lack of fuel diversification
- Aggressive financial policy
- Merchant risk to uncontracted electricity exports and trading activities

Rationale

The 'A-1+' rating on Manitoba Hydro-Electric Board's short-term debt reflects the debt service guarantee of its owner, the Province of Manitoba (AA/Stable/A-1+). Standard & Poor's Ratings Services has not assigned a long-term debt or issuer credit rating to Manitoba Hydro.

In our opinion, the ratings on Manitoba reflect the province's gradually falling tax-supported debt burden and strong financial and economic performances. Offsetting these strengths are Manitoba's direct and tax-supported debt burdens, which are average compared with those of its Canadian and international peers; and ongoing increases in the self-supported debt of Manitoba Hydro. (For more information, please see our full analysis on the province, published Dec. 17, 2007, on RatingsDirect.) The ratings on Manitoba capture the company's contribution to the province's business risk and cash flow. This report focuses on the utility's business risk and financial risk profiles.

We believe Manitoba Hydro's monopoly, gas and electric franchises, and related regulatory frameworks provide satisfactory cash flow stability. Furthermore, the utility's owner, the province, strongly supports its creditworthiness. In our opinion, exposure to significant hydrology risk and its highly leveraged financial risk profile offset these strengths.

Manitoba Hydro is a vertically integrated electric utility serving about 522,000 customers. The company's monopoly electricity network business serves the entire province. There is no effective competition in electricity generation. Generation facilities include 14 hydroelectric generating stations (5,003 megawatts [MW]), two thermal generating stations (462 MW), and four diesel sites (10 MW), for total capacity of 5,475 MW. The company also owns and operates a monopoly natural gas distribution business serving about 261,000 customers across southern Manitoba. Total debt outstanding as of March 31, 2008, was about C$7.6 billion, of which about C$7.1 billion is in the form of advances from Manitoba. Total debt, net of sinking fund assets of C$700 million, was C$6.9 billion. Also as of March 31, Manitoba guaranteed C$352 million of long-term debt issued in the utility's name. The province, however, does not guarantee Manitoba Hydro-Electric Board bonds, totaling C$104 million and issued for mitigation settlements.

The regulatory framework governing the company's gas operations is shifting to a cost-of-service basis for the distribution business, and continues to provide timely protection from exposure to gas commodity costs. Manitoba Hydro passes the price it pays for gas supply directly to the customer without any markup. It is protected from price risk, as gas rates are adjusted quarterly, subject to regulatory approval. There is no defined regulatory mechanism to mitigate the risk associated with the utility's much larger obligation to supply electricity to the province and the resulting significant exposure to volume risk and volatile costs of electricity imports and fossil fuels. Instead, Manitoba Hydro makes periodic applications to its regulator for rate increases for noncommodity-related gas and all electricity-related costs. The regulator approved a 5% rate increase effective July 1.

We expect a continuing close relationship between Manitoba Hydro and the province, based on the company's strategic nature, the provincial government's energy policy, the government's provision for debt guarantees, and the governance structures in place.

The combined impact on the utility's cash flows of poor hydrology and resulting exposure to fossil fuel and replacement power costs can be quite severe. Hydroelectric generation contributes more than 90% of the utility's typical annual production. Despite benefiting from large and diverse drainage basins (which include most of Saskatchewan, Manitoba, northwestern Ontario, and parts of Alberta and North Dakota), Manitoba Hydro can expect drought conditions on average about once every 10 years. Under these conditions, diminished profits from hydroelectric-based export sales, and the high cost of replacement fossil fuel-based generation and imports required to meet domestic needs, lead to lower and sometimes negative funds from operations (FFO). As of March 31, the utility expected water storage levels and water inflows to be above average for fiscal 2008.

In our opinion, Manitoba Hydro has an aggressive financial risk profile, with adjusted FFO (AFFO) interest coverage typically less than 2.2x and AFFO-to-total debt of less than 10% as of March 31. We expect the utility's financial risk profile to remain under pressure in the long term due to largely debt-financed capital spending. Adjusted total debt-to-total capital was about 77% as of March 31, which was better than 83% and 84% at fiscals year-end 2007 and 2006, respectively, but could weaken without average or better water flows and favorable export prices. We expect Manitoba Hydro's total debt burden to increase about C$500 million per year in the next several years. We believe the utility will use the funds to finance the construction of Wuskwatim (200 MW) hydroelectric development, planning costs for Conawapa, and other hydroelectric developments.

Liquidity

Standard & Poor's considers Manitoba Hydro's liquidity to be sufficient, given its very supportive relationship with its owner. Manitoba Hydro has a commercial paper program, which the province guarantees, for C$500 million or US$500 million, of which C$165 million was outstanding as of Sept. 30. The program funds the utility's operating cash flow requirements, and is supported by bank credit facilities for up to C$500 million or US$500 million, which the province does not guarantee. As of Sept. 30, 2008, the company had access to C$335 million or US$335 million through its bank credit facility.

We expect the utility to generate positive FFO of about C$600 million in fiscal 2008-2009. Maintenance and growth-related capital expenditures will be about C$1 billion during the same period of which about C$500 million is related to new generation under construction. We do not expect the utility to pay out a dividend in fiscal 2008-2009.

Accounting

Manitoba Hydro prepares its audited annual financial statements (fiscal year end March 31) in accordance with Canadian generally accepted accounting principles and reports in Canadian dollars. In analyzing Manitoba Hydro's financial risk profile, Standard & Poor's considers long-term debt net of sinking funds (see table 1).

Table 1

Reconciliation Of Manitoba Hydro-Electric Board Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. C$)*

	--Fiscal year ended March 31, 2008--							
Manitoba Hydro-Electric Board reported amounts (mil. C$)	**Debt**	**Operating income (before D&A)**	**Operating income (before D&A)**	**Operating income (after D&A)**	**Interest expense**	**Cash flow from operations**	**Cash flow from operations**	**Capital expenditures**
Reported	6,870.0	1,135.0	1,135.0	786.0	473.0	630.0	630.0	827.0
Standard & Poor's adjustments								
Postretirement benefit obligations	N/A	10.0	10.0	10.0	N/A	7.0	7.0	N/A
Accrued interest not included in reported debt	106.0	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Capitalized interest	N/A	N/A	N/A	N/A	44.0	(44.0)	(44.0)	(44.0)
Reclassification of nonoperating income (expenses)	N/A	N/A	N/A	33.0	N/A	N/A	N/A	N/A
Total adjustments	106.0	10.0	10.0	43.0	44.0	(37.0)	(37.0)	(44.0)
Standard & Poor's adjusted amounts	**Debt**	**Operating income (before D&A)**	**EBITDA**	**EBIT**	**Interest expense**	**Cash flow from operations**	**Funds from operations**	**Capital expenditures**
Adjusted	6,976.0	1,145.0	1,145.0	829.0	517.0	593.0	593.0	783.0

*Manitoba Hydro-Electric Board reported amounts shown are taken from the company's financial statements but might include adjustments made by data providers or reclassifications made by Standard & Poor's analysts. Please note that two reported amounts (operating income before D&A and cash flow from operations) are used to derive more than one Standard & Poor's-adjusted amount (operating income before D&A and EBITDA, and cash flow from operations and funds from operations, respectively). Consequently, the first section in some tables may feature duplicate descriptions and amounts. D&A--Depreciation and amortization. N/A--Not applicable.

Outlook

The outlook on Manitoba Hydro's owner and debt guarantor, the Province of Manitoba, is stable. There is no outlook on the utility. An upward rating action on the province would not change the 'A-1+' short-term debt rating on the utility.

Table 2

Manitoba Hydro-Electric Board--Peer Comparison*

Industry Sector: Government-Owned Electric Utility

	--Average of past three fiscal years--				
(Mil. C$)	**Manitoba Hydro-Electric Board§**	**Newfoundland and Labrador Hydro****	**New Brunswick Electric Finance Corp.¶¶**	**Hydro-Quebec****	**British Columbia Hydro & Power Authority¶¶**
Rating as of Nov. 20, 2008¶	A-1+	A:A-1	NR	A+;A-1+	AAA
Revenues	2,263.0	551.3	1,500.0	11,460.3	4,454.3

Table 2

Manitoba Hydro-Electric Board--Peer Comparison*(cont.)					
Net income from continuing operations	294.3	74.5	42.0	2,621.3	347.3
Funds from operations (FFO)	570.7	124.2	228.2	4,213.4	799.7
Capital expenditures	618.7	59.9	260.4	3,083.3	746.3
Cash and short-term investments	84.3	16.5	18.3	2,231.3	17.7
Debt	6,861.0	1,428.0	3,292.6	35,921.5	7,910.7
Equity	1,601.0	569.8	52.5	18,189.7	1,543.7
Debt and equity	8,462.0	1,997.8	3,345.1	54,111.1	9,454.4
Adjusted ratios					
EBIT interest coverage (x)	1.5	1.5	1.2	2.0	1.6
FFO interest coverage (x)	2.0	1.8	2.0	2.4	2.2
FFO/debt (%)	8.3	8.7	6.9	11.7	10.1
Discretionary cash flow/debt (%)	(0.7)	6.2	(1.7)	(1.3)	(3.5)
Net cash flow/capex (%)	92.2	175.0	84.6	84.6	67.3
Total debt/debt plus equity (%)	81.1	71.5	98.4	66.4	83.7
Return on common equity (%)	18.4	12.5	19.3	12.8	18.4
Common dividend payout ratio (unadjusted; %)	0.0	26.1	21.4	70.7	80.8

*Fully adjusted (including postretirement obligations). ¶Guaranteed debt rating.§For the three years ended March 31, 2008. **For the three years ended Dec. 31, 2007. ¶¶For the three years ended March 31, 2007. NR--Not rated.

Table 3

Manitoba Hydro-Electric Board--Financial Summary*					
Industry Sector: Government-Owned Electric Utility					
	--Fiscal year ended March 31--				
(Mil. C$)	**2008**	**2007**	**2006**	**2005**	**2004**
Rating history¶	A-1+	A-1+	A-1+	A-1+	A-1+
Revenues	2,250.0	2,140.0	2,399.0	2,017.0	1,781.0
Net income from continuing operations	346.0	122.0	415.0	136.0	(436.0)
Funds from operations (FFO)	593.0	426.0	693.0	414.0	(167.0)
Capital expenditures	783.0	608.0	465.0	470.0	463.0
Cash and short-term investments	133.0	1.0	119.0	9.0	6.0
Debt	6,976.0	6,883.0	6,724.0	6,807.0	6,875.0
Equity	2,118.0	1,405.0	1,280.0	858.0	721.0
Debt and equity	9,094.0	8,288.0	8,004.0	7,665.0	7,596.0
Adjusted ratios					
EBIT interest coverage (x)	1.6	1.2	1.7	1.2	0.2

Table 3

Manitoba Hydro-Electric Board--Financial Summary*(cont.)					
FFO interest coverage (x)	2.2	1.7	2.1	1.7	0.7
FFO/debt (%)	8.5	6.2	10.3	6.1	(2.4)
Discretionary cash flow/debt (%)	(2.7)	(2.6)	3.4	(0.8)	(9.2)
Net cash flow/capex (%)	75.7	70.1	149.0	88.1	(36.7)
Debt/debt and equity (%)	76.7	83.0	84.0	88.8	90.5
Return on common equity (%)	17.1	6.3	35.5	12.6	(49.5)
Common dividend payout ratio (unadjusted; %)	0.0	0.0	0.0	0.0	0.0

*Fully adjusted (including postretirement obligations). ¶Guaranteed debt rating.

Ratings Detail (As Of November 20, 2008)*	
Manitoba Hydro-Electric Board	
Related Entities	
Manitoba (Province of)	
Issuer Credit Rating	AA/Stable/A-1+
Commercial Paper	A-1+
Canadian National Scale Commercial Paper Rating	A-1(HIGH)
Senior Unsecured (71 Issues)	AA

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

Manitoba Hydro-Electric Board

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Manitoba Hydro-Electric Board

Major Rating Factors

Issuer Credit Rating
None

Strengths:

- Low-cost hydroelectric generation
- Government ownership and support
- Vertically integrated electricity monopoly
- Diversified customer base
- Supportive regulation

Weaknesses:

- Significant hydrology risk exposure and lack of fuel diversification
- Aggressive financial policy
- Merchant risk to uncontracted electricity exports and trading activities

Rationale

The 'A-1+' global scale commercial paper rating on Manitoba Hydro-Electric Board reflects the debt service guarantee of its owner, the Province of Manitoba (AA/Stable/A-1+). Standard & Poor's Ratings Services has not assigned a long-term issuer credit rating to Manitoba Hydro.

In our opinion, the ratings on Manitoba reflect the province's well-diversified economy and track record of robust operating performance. Offsetting these strengths are Manitoba's direct and tax-supported debt burdens, which are moderate compared with those of its Canadian peers, but remains above the median for its rating category peer group; and ongoing increases in the self-supported debt of Manitoba Hydro. (For more information, see the analysis on the province published Sept. 14, 2012, on RatingsDirect on the Global Credit Portal.) The ratings on Manitoba capture the company's contribution to the province's business risk and cash flow. This report focuses on the utility's business risk and financial risk profiles.

We believe Manitoba Hydro's monopoly, gas and electric franchises, and related regulatory frameworks provide satisfactory cash flow stability. Furthermore, the utility's owner, Manitoba, strongly supports its creditworthiness. In our opinion, exposure to significant hydrology risk and its highly leveraged financial risk profile offset these strengths.

Manitoba Hydro is a vertically integrated electric utility serving about 545,000 customers. The company's monopoly electricity network business serves the entire province. There is no effective competition in electricity generation. Generation facilities include 14 hydroelectric generating stations (5,017 megawatts [MW]), two thermal generating stations (458 MW), and four diesel sites (10 MW). The company also owns and operates a monopoly natural gas distribution business serving about 268,000 customers across southern Manitoba. Total debt outstanding as of March 31, 2012, was about C$9.4 billion, of which about C$9.1 billion is in the form of advances from Manitoba. Total debt, net of sinking fund assets of C$372 million, was C$9.05 billion.

The utility has an obligation to supply electricity to the province which leads to significant exposure to volume risk and volatile costs of electricity imports. Manitoba Hydro passes the price it pays for gas supply directly to the customer without any markup. It is protected from price risk, because gas rates are adjusted quarterly (subject to regulatory approval). Manitoba Hydro makes periodic cost-of-service applications to its regulator for rate increases for noncommodity-related gas and all electricity-related costs. The regulator approved interim electricity rate increases of 2.0% effective April 1, 2012 and an additional 2.5% effective September 1, 2012.

We expect a continuing close relationship between Manitoba Hydro and the province, based on the company's strategic nature, the provincial government's energy policy, the government's provision for debt guarantees, and the governance structures in place.

The combined impact on the utility's cash flows of poor hydrology and resulting exposure to fossil fuel and replacement power can be costly. Hydroelectric generation contributes more than 90% of the company's typical annual production. Despite benefiting from large and diverse drainage basins (which include most of Saskatchewan, Manitoba, northwestern Ontario, and parts of Alberta and North Dakota), Manitoba Hydro can expect drought conditions on average about once every 10 years. Under these conditions, diminished profits from hydroelectric-based export sales, and the high cost of replacement fossil fuel-based generation and imports required to meet domestic needs, lead to lower and sometimes negative funds from operations (FFO).

In our opinion, Manitoba Hydro has an aggressive financial risk profile, with adjusted FFO (AFFO) interest coverage typically less than 2.0x and AFFO-to-total debt of less than 5% as of March 31, 2012. We expect the utility's financial risk profile to remain under pressure in the long term largely due to debt-financed capital spending. Adjusted total debt-to-total capital was about 77% as of March 31, 2012 which was better than 80% at fiscal year-end 2009 (March 31), respectively, but could weaken without average or better water flows and favorable export prices. Preliminary results for fiscal 2013 indicate that depressed export prices and lower net income will put pressure on the utility's interest coverage ratios.

We expect Manitoba Hydro's debt to continue to climb in the next 10 years as the utility undertakes an C$18 billion capital program. Debt issuance is likely to peak in 2018 at slightly more than C$2.0 billion, when funding requirements for the remainder of new generation and transmission projects come on-stream. In the near term, the utility's capital program includes the completion of the 200 MW Wuskwatim Generating Station. We expect that all three of the generating units will be commissioned by the fall of 2012. Other major energy projects under consideration in the medium term include Bipole III, a major transmission line at a cost of about C$3.3 billion; the C$5.6 billion Keeyask generating station, a 695 MW hydro generating facility in northern Manitoba, with a proposed in-service date of fiscal 2020; and the Conawapa Generating Station, a 1,485 MW generating facility with a proposed in-service date of fiscal 2025. We believe that Bipole III will bolster the utility's reliability and that these new generation facilities and interconnection will effectively meet domestic load requirements and take advantage of export market opportunities. For example, the energy from Keeysak will supplement energy requirements under proposed long-term firm export contracts with Minnesota Power and Wisconsin Public Service Corp.

Liquidity

Standard & Poor's considers Manitoba Hydro's liquidity to be sufficient, given its very supportive relationship with its owner. The company has a commercial paper program, which the province guarantees, for C$500 million or US$500 million, of which C$2.0 million was outstanding as of June 30, 2012. The program funds the utility's operating cash flow requirements, and is supported by bank credit facilities, which the province does not guarantee. As of June 30, 2012, Manitoba Hydro had access to C$498 million or US$498 million through its commercial paper program.

We expect the utility to generate positive FFO of about C$300 million-C$400 million in fiscal years 2013 and 2014. Maintenance and growth-related capital expenditures will be C$1.10 billion-C$1.55 billion in fiscal years 2013 and 2014, of which about 60% relates to new generation under construction.

Accounting

Manitoba Hydro prepares its audited annual financial statements in accordance with Canadian generally accepted accounting principles and reports in Canadian dollars. The utility expects to adopt International Financial Reporting Standards for its 2013-2014 fiscal year with comparative information presented for the 2012-2013 fiscal year. In analyzing Manitoba Hydro's financial risk profile, Standard & Poor's considers long-term debt net of sinking funds.

Outlook

The outlook on Manitoba Hydro's owner and debt guarantor, the Province of Manitoba, is stable. There is no outlook on the utility. An upward rating action on the province would not affect the 'A-1+' short-term debt rating on the utility.

Table 1

Manitoba Hydro-Electric Board--Peer Comparison*

Industry Sector: Government-Owned Electric Utility

	--Average of past three fiscal years--		
(Mil C$)	Manitoba Hydro-Electric Board†	Hydro-Quebec‡	British Columbia Hydro & Power Authority‡
Rating as of Sept. 14, 2012§	A-1+	A-1+	A-1+
Revenues	1,991.3	12,354.7	4,035.7
EBITDA	940.3	7,626.3	1,186.7
Net income from continuing operations	124.7	2,667.7	467.3
Funds from operations (FFO)	448.7	4,800.6	512.1
Capital expenditures	992.3	3,517.3	1,356.2
Free operating cash flow	(543.7)	1,368.0	(881.4)
Discretionary cash flow	(543.7)	(734.0)	(993.1)
Cash and short-term investments	98.0	2,060.0	75.3
Debt	8,620.3	42,076.6	11,387.5
Equity	2,710.7	17,630.7	2,153.3
Adjusted ratios			
EBIT interest coverage (x)	1.0	1.8	1.4
FFO/debt (%)	5.2	11.4	4.5

Table 1

Manitoba Hydro-Electric Board--Peer Comparison* (cont.)			
Free operating cash flow/debt (%)	(6.3)	3.3	(7.7)
Debt/EBITDA (x)	9.2	5.5	9.6
Total debt/debt plus equity (%)	76.1	70.5	84.1

*Fully adjusted (including postretirement obligations). §Guaranteed debt rating. †For the three years ended fiscal 2012. ‡For the three years ended fiscal 2011.

Table 2

Manitoba Hydro-Electric Board--Financial Summary*					
Industry Sector: Government-Owned Electric Utility					
	--Fiscal year ended March 31--				
(Mil C$)	**2012**	**2011**	**2010**	**2009**	**2008**
Rating history§	A-1+	A-1+	A-1+	A-1+	A-1+
Revenues	1,902.0	2,019.0	2,053.0	2,364.0	2,250.0
EBITDA	880.0	978.0	963.0	1,120.0	1,145.0
Net income from continuing operations	61.0	150.0	163.0	298.0	346.0
Funds from operations (FFO)	409.0	447.0	490.0	635.0	561.0
Capital expenditures	954.0	1,028.0	995.0	864.0	783.0
Debt	9,391.0	8,551.0	7,919.0	7,881.0	6,942.0
Equity	2,863.0	2,754.0	2,515.0	1,927.0	2,118.0
Debt and equity	12,254.0	11,305.0	10,434.0	9,808.0	9,060.0
Adjusted ratios					
EBIT interest coverage (x)	0.8	1.0	1.2	1.5	1.6
FFO interest coverage (x)	1.6	1.8	2.1	2.3	2.3
FFO/debt (%)	4.4	5.2	6.2	8.1	8.1
Discretionary cash flow/debt (%)	(5.8)	(6.8)	(6.4)	(2.9)	(3.2)
Net cash flow/capex (%)	42.9	43.5	49.2	73.5	71.6
Debt/debt and equity (%)	76.6	75.6	75.9	80.4	76.6

*Fully adjusted (including postretirement obligations). §Guaranteed debt rating.

Table 3

Reconciliation of Manitoba Hydro-Electric Board Reported Amounts with Standard & Poor's Adjusted Amounts (Mil. C$)								
	--Fiscal year ended March 31, 2012--							
Manitoba Hydro-Electric Board reported amounts	**Debt**	**Shareholders' equity**	**Revenues**	**EBITDA**	**Operating income**	**Interest expense**	**Cash flow from operations**	**Capital expenditures**
Reported	9,010.0	2,777.0	1,902.0	865.0	484.0	436.0	567.0	1,124.0
Standard & Poor's adjustments								
Postretirement benefit obligations	268.0	(14.0)	N/A	15.0	15.0	N/A	12.0	N/A
Capitalized interest	N/A	N/A	N/A	N/A	N/A	170.0	(170.0)	(170.0)
Asset Retirement Obligations	9.0	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Table 3

Reconciliation of Manitoba Hydro-Electric Board Reported Amounts with Standard & Poor's Adjusted Amounts (Mil. C$) (cont.)								
Non-operating income (expense)	N/A	N/A	N/A	N/A	13.0	N/A	N/A	N/A
Minority Interests	N/A	100.0	N/A	N/A	N/A	N/A	N/A	N/A
Debt--accrued interest not included in reported debt	104.0	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total adjustments	381.0	86.0	0.0	15.0	28.0	170.0	(158.0)	(170.0)
Standard & Poor's adjusted amounts	**Debt**	**Shareholders' equity**	**Revenues**	**EBITDA**	**Operating income**	**Interest expense**	**Cash flow from operations**	**Capital expenditures**
Adjusted	9,391.0	2,863.0	1,902.0	880.0	512.0	606.0	409.0	954.0

N/A--Not applicable.

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December 19, 2008

Manitoba (Province of)

Primary Credit Analyst:
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Manitoba (Province of)

Major Rating Factors

Issuer Credit Rating
AA/Stable/A-1+

Strengths:
- Historically robust financial results
- Well-diversified economy, with a lengthy history of solid performances
- Moderate net tax-supported debt burden
- Strong support from the Canadian federal system
- Healthy liquidity levels, owing to large pool of sinking funds

Weaknesses:
- Self-supported debt that could rise in next five years
- Relatively moderate unfunded pension liabilities
- Potentially reduced financial flexibility due to moderate infrastructure requirements

Rationale

In Standard & Poor's Ratings Services' opinion, the ratings on Manitoba reflect the following:

- Manitoba's historically strong track record of robust operating surpluses, despite modestly softer performance in fiscal 2008 (year ended March 31). The province posted a narrower operating surplus of 1% of revenues in fiscal 2008 on a summary basis (which includes the financial results of hospitals and universities). In its fiscal 2009 budget, the province is forecasting an operating surplus of 4.8% of revenues. However, Standard & Poor's expects that the deteriorating global environment could contribute to potentially a narrower operating surplus in fiscal 2009;
- Manitoba's well-diversified economy, which produced yet another solid economic performance in 2007 with real GDP rising 3.3%. Monthly indicators point to continuing strength in the provincial economy through November 2008. Employment, for instance, rose by 1.7% on a year-to-date basis through November compared with the same period the previous year, while the unemployment rate average 4.1%. This continued the solid gain of 1.6% in employment seen in 2007. More important, consumer spending, investment spending, and exports all reached record levels in 2007. In its first-quarter update, the province revised its expectation for economic growth to a gain of 2.5% for 2008 from 2.7% in its fiscal 2009 budget. In light of the deteriorating global economic environment, the risks are biased toward significantly lower growth for fiscal 2009;
- The province's substantial progress since fiscal 2007 in significantly reducing its large unfunded pension liabilities through market borrowing. One caveat, however, is that although the borrowing creates an offsetting asset, this introduces the risk that poor or negative returns might not necessarily result in a superior net financial liability position;
- The federal government's significant revenue support through the equalization program and the Canada Health Transfer and Canada Social Transfer payments. For fiscal 2009, these transfers constitute a substantial proportion of provincial revenues--about 27% of operating revenues on a summary basis; and
- The province's substantial pool of sinking funds, which stood at C$4.4 billion at the end of fiscal 2008, providing healthy liquidity to support debt service payments.

We believe that credit concerns include:

- An expected increase in the province's self-supported debt, specifically debt issued by the province on behalf of its wholly owned electric utility, Manitoba Hydro-Electric Board. We expect the utility's self-supported debt to resume rising after leveling off since fiscal 2004. We expect the province to issue debt on behalf of Manitoba Hydro for the Wuskwatim hydroelectric project in the next five years;
- The province's relatively moderate unfunded pension liabilities expressed both as a percent of revenues and GDP; and
- Potentially reduced financial flexibility resulting from ongoing moderate capital spending requirements and the budgetary pressures stemming from a slowing economy.

Outlook

The stable outlook reflects our expectation that Manitoba will continue to manage its finances prudently; and that despite a modest deterioration in its operating results in the near term, it will remain committed to adhering to its balanced-budget legislation in the medium term. Nevertheless, Standard & Poor's expects that infrastructure renewal pressures in the near term, alongside some potential deterioration in the province's operating balances will put upward pressure on its debt burden. Accordingly, in the medium term, we expect net financial liabilities as a percent of total revenues to rise modestly. A material and sustained increase in net financial liabilities, a significant decline in either cash and investment holdings, or a marked deterioration in budgetary performances could place downward pressure on the ratings. Declines in Manitoba's net financial liabilities, as well as stronger-than-expected budgetary performances, are preconditions for an upgrade.

Comparative Analysis

Manitoba's immediate peer group consists of the Canadian provinces of New Brunswick (AA-/Stable/A-1+) and Saskatchewan (AA+/Stable/A-1+); the Historical Territory of Bizkaia (in Spain; AA+/Stable/A-1+); the Region of Brussels-Capital (in Belgium; AA/Positive/--); the Region of Champagne-Ardenne (in France; AA-/Stable/A-1+); the Region of Vastra Gotaland (in Sweden; AA+/Stable/A-1+); the Department of Loiret (in France; AA+/Stable/--); the State of Hesse (in Germany; AA/Stable/A-1+); the State of Tasmania (in Australia; AA+/Stable/A-1+); and the Canton of Vaud (in Switzerland; AA/Stable/--).

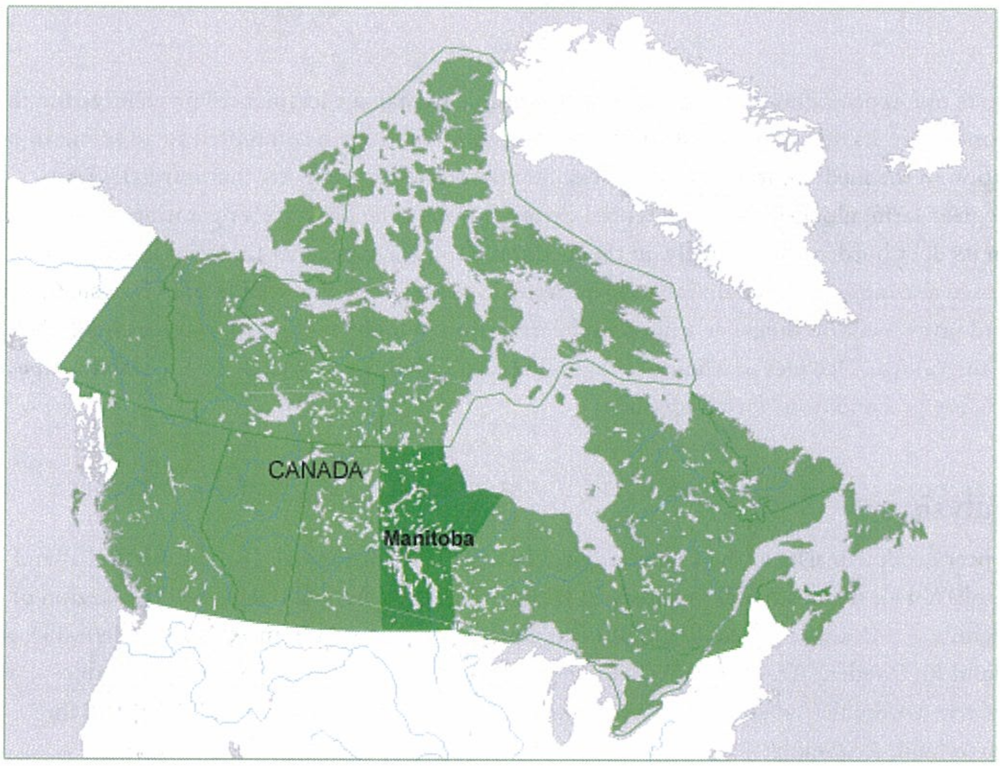
Manitoba's economy compares very well with those of its peer group. The province's real GDP growth is slightly above the median for the 'AA' category and is better than those of its immediate peers. Similarly, its unemployment rate is also below the median for the category and all of its immediate peers. Within the Canadian peer group, Manitoba's economy is relatively more diversified than those of New Brunswick and Saskatchewan, but predictably less diversified than the larger economies of Ontario and Quebec.

Comparisons of operating results in Manitoba's case are not as clear-cut, with the transition to our analysis of the more fully consolidated entity (summary basis). Nevertheless, the province's recent financial results compare quite favorably with those of its peers. The province's operating surpluses and after capital balances are below the medians for the 'AA' category. Manitoba's capital spending, as a share of total spending, was markedly below the median for the category but in line with that of its Canadian peers.

Although Manitoba, like the rest of the Canadian provinces, are typically more indebted than most governments in the 'AA' category, Manitoba's debt burden relative to operating revenues has improved to the degree that the province is only modestly above the medians for the category. The exception is Manitoba's burden of tax-supported debt as a share of GDP, which is significantly above the median. Nevertheless, the province's debt burdens are consistent with those of its Canadian peers. Its debt service burden is also significantly higher than the category median.

Global Pressures To Weigh On Economy

Manitoba (Province Of)



Manitoba is in the geographic center of Canada (see map) and had a population of about 1.2 million as of July 31, 2007. The provincial economy is well-diversified: Key sectors are finance, manufacturing (transportation equipment and agricultural products), and agriculture.

Solid economic performance in 2007 continuing in 2008

Manitoba's well-diversified economy produced yet another solid economic performance in 2007, with real GDP rising 3.3%. Monthly indicators point to continuing strength in the provincial economy through November 2008. Employment, for instance, rose by 1.7% on a year-to-date basis through November compared with the same period the previous year; retail sales continued to advance at a healthy clip of 8.7% year-to-date through September. This continued the solid gain of 1.6% in employment in 2007. More important, consumer spending, investment spending, and exports all reached record levels in 2007. In its first-quarter update, the province revised its expectation for economic growth to a gain of 2.5% for 2008 from 2.7% in its fiscal 2009 budget. In light of the deteriorating global economic environment, the risks are biased toward significantly lower growth for fiscal 2009.

Labor force results echoed the real GDP gains. Employment grew by a robust 1.6% in 2007, following a 1.2% gain in 2006. However, the unemployment rate edged by 0.1% higher to 4.4%, as a result of a sharp 1.7% increase in the province's labor force. Nevertheless, Manitoba's 2007 unemployment rate remained well below the national average and has been the second-lowest provincial rate (after Alberta's) for 9 out of the last 10 years. Manitoba had the third-best participation rate in 2009 at 69.4%, behind Alberta and Saskatchewan. Recent labor force statistics confirm that the province is set to match or better its labor force projections for this year.

In its first-quarter update, the province revised its economic outlook to 2.5% for 2008 from 2.7% in its fiscal 2009 budget, reflecting the impact of the slowing global economy. The rapidly deteriorating global economic environment is more of a risk for 2009 economic prospects since most of the 2008 growth is already baked in. However, the worsening global picture keeps the focus and risks to the downside for fiscal 2010. Although Manitoba's economy, and, more broadly, Canada's economic growth, has remained somewhat resilient in the context of worsening U.S. conditions through 2008, most recent indicators point to weaker growth in 2009 and potentially 2010. The latter could lead to a much weaker-than-expected export and business investment performance in 2009. Moreover, the sharp drop in global equity markets is beginning to affect consumer confidence, which could negatively affect consumer spending--which has been a pillar of strength for Manitoba's economy. The Bank of Canada's cumulative rate cuts to date, including the 75 basis-point drop rate cut Dec. 9 and the weakening Canadian dollar, are potentially mitigate factors. Moreover, the sharp slide in oil prices, although negative for oil-producing provinces such as Alberta, Saskatchewan, and Newfoundland and Labrador, is a positive for predominantly energy consuming and importing provinces such as Manitoba and Ontario.

Province posts narrower operating surplus in fiscal 2008

To improve comparability across local and regional governments globally, Standard & Poor's adjusts the published figures of all provinces to reflect their budgetary balances on a cash basis. This includes adjusting for major accruals, restating capital spending back to a cash basis by removing the influence of capital amortization and the net income of certain government business enterprises, and adjusting for one-time revenues. Now included in the government reporting entity are regional health authorities, school boards, and universities.

We have evaluated the fiscal 2008 results on a summary basis only in line with the province's shift to similar reporting. Manitoba's summary reporting entity now incorporates line-by-line, the revenues and expenditures of all regional health authorities, school boards, and universities. The results are included in the fiscal 2008 financial statements and the fiscal 2009 budget. Historically, Standard & Poor's has only reported on the financial performances of the operating fund reporting entity. Previous years' results have not been restated, and comparability of some more recent metrics with past values could be limited. The Canadian provinces have been moving to a broader reporting entity in recent years, as a part of an initiative by the Canadian Public Sector Accounting Board to enhance the financial reporting of governments.

Manitoba produced respectable financial results in fiscal 2008. The province's fiscal 2009 budget revealed that its operating surplus narrowed somewhat to a 1.0% of operating revenues in fiscal 2008 (Standard & Poor's-adjusted; on a summary reporting basis) and followed a surplus of 3.2% of revenues in the previous year. At the same time, the province posted a wider overall deficit of 7.3% of revenues (Standard & Poor's-adjusted; including capital spending) in fiscal 2008, which followed a deficit of 3.2% of revenues in 2007. In its first quarter update, the province revealed that both revenues and expenditures were on budget expectations as at June 30, 2008 for the current fiscal year. In fiscal 2009, the province is forecasting a wider operating surplus, but is expecting a significant narrowing in its overall budgetary deficit, reflecting a decline in capital spending from the previous fiscal year. Since the budget, global economic prospects have continued to deteriorate and with both the U.S. and Canada now officially in recession (as indicated by the Bank of Canada alongside its rate cut decision Dec. 9), the risks point to a sharp deceleration in operating revenues in the second half of fiscal 2009 and potentially a further deterioration in fiscal 2010. Thus, Standard & Poor's expects that the province could post operating and overall deficits in fiscal 2009 and 2010.

Operating revenues rose by 6% in fiscal 2008, on growth in personal income and sales tax revenues and federal government transfers. Corporate income tax revenues declined in fiscal 2008. In fiscal 2009, the province expects operating revenues to post another healthy gain, based on broad based primarily on gains in personal income tax revenues and sales tax revenues. However, Standard & Poor's expects that the risks of a slowing economy noted above could dampen overall revenue growth for the remainder of fiscal 2009 and fiscal 2010.

Operating expenditures rose by 8.5% in fiscal 2008. Spending increases were broad-based and in line with historical norms. One noteworthy exception was education, which accounted for 23% of total spending in fiscal 2008, significantly up from previous years. In fiscal 2009, the province expects a return to more modest spending increases for all departments, including education and health care.

Capital spending rose sharply in fiscal 2008 to C$1.02 billion from C$771 million in the previous year, as the province continued to address key infrastructure needs. The Manitoba Floodway, which provides crucial flood protection to the City of Winnipeg (the province's capital and largest urban center; AA/Stable/--), was the single biggest capital expenditure in fiscal 2008, with roads and highways second. We expect capital spending to remain elevated in fiscal 2009 with roads, the floodway, and health care facilities likely to command the lion's share of spending, but at a slower pace than in fiscal 2008. Typically, provincial capital spending is not a major expenditure, constituting about 5% of total expenditures annually. We believe that the province's near-term moderate capital spending requirements could reduce its financial flexibility, especially as revenues decelerate alongside a slowdown in the economy.

Liquidity, Debt, And Contingent Liabilities

Liquidity remains healthy in fiscal 2008

The province's healthy liquidity support bolsters its credit strength. At the end of fiscal 2008, Manitoba's various sinking funds (established for general government, Manitoba Hydro, and other government organization debt) totaled just more than C$4.4 billion and represented 5.5x interest expense. In addition, Manitoba holds about C$1 billion of available cash and investments outside of its sinking funds. All funds are readily accessible and can be quickly used to meet short-term liquidity needs. We foresee no significant change in the province's liquidity position.

The province's maturity schedule is somewhat weighted to the medium-to-long term. As at the end of fiscal 2009, just less than 40% of total indebtedness, which includes debt issued for Manitoba Hydro, matures before the end of fiscal 2014. Floating-rate exposure is fairly limited with only 10% of general-purpose debt had interest rate interest rate exposure at the end of fiscal 2008. This was unchanged from the previous year. The province's foreign currency exposure was also relatively limited, at about 30% as at the end of fiscal 2009. However, although 30% of gross debt was issued in foreign currencies, all but 13% of that has been swapped back to Canadian dollars. The unhedged exposure (issued on behalf of Manitoba Hydro) was in U.S. dollars. The province benefits from a natural hedge arising from its considerable electric power exports to the U.S. by Manitoba Hydro.

Tax-supported debt burden to increase in fiscal 2009

Manitoba issues debt for its own purposes, Manitoba Hydro, and various crown organizations. At the end of fiscal 2008, tax-supported debt (adjusted for sinking funds) stood at C$11.4 billion. Net tax-supported (tax-supported debt less cash and investment holdings) was C$10.4 billion at that time. Net self-supported debt, which consists of debt issued for Manitoba Hydro, was C$6.8 billion.

In fiscal 2008, net tax-supported debt increased by 18.5%, primarily reflecting issuance to reduce the province's unfunded pension liabilities and issuance for capital expenditures, schools, and universities. As a result of the increase, the province's net tax-supported debt burden as a percent of GDP increased to 21.5% in fiscal 2008, reversing a trend of steady declines. With respect to operating revenues, the same rebound trend is also evident. Net tax-supported debt as a percent of revenues rose to 83.9% in fiscal 2008 from a low of 77.3%. In fiscal 2009, the province's net tax-supported debt as a share of GDP and revenues should increase much slower, to 22.3% and 98.4%, respectively. Although Manitoba's well-diversified economy should outperform the rest of Canada in an economic slowdown, Standard & Poor's expects that the inevitable slowdown in economic growth should weigh on revenues and thus contribute to a further increase in Manitoba's net tax-supported debt burden. The extent of the increase will depend on scope and length of the economic slowdown.

For fiscal 2009, the province expects its total cash borrowing requirements to be about C$3.2 billion, which is a slight step-up funding requirement compared to historical patterns of refunding and new issuance of recent years. The province will use new borrowing (net of refinancing) primarily to fund new infrastructure assets (including the floodway) as well as on-lent to Manitoba Hydro.

At the end of fiscal 2008, unfunded pension liabilities for teachers and general government workers amounted to a total of about C$1.8 billion (about 16% of summary operating revenues). This represents a significant decrease from the previous year, reflecting Manitoba's C$1.5 billion in extraordinary contributions since fiscal 2007. The province had made special catch-up contributions of about C$85 million annually before the extraordinary payments. Furthermore, all departments have contributed on a current basis for all employees hired after October 2002. Given the poor performance of global markets this year, the risk is for an increase in the province's unfunded liability in fiscals 2009 and 2010.

Manitoba Hydro-Electric Board

The province issues self-supporting debt in its name on behalf of Manitoba Hydro, its wholly owned electric utility. Manitoba Hydro is a vertically integrated electric utility serving about 520,000 customers. The company's monopoly electricity network business serves the entire province. There is no effective competition in electricity generation. Generation facilities include 14 hydroelectric generating stations (4,992 megawatts [MW]), two thermal generating stations (469 MW), and four diesel sites (9 MW), for total capacity of 5,470 MW. The company also owns and operates a monopoly natural gas distribution business serving about 260,000 customers in several communities in southern Manitoba.

Manitoba Hydro's monopoly, gas and electric franchises, and related regulatory frameworks provide satisfactory cash-flow stability. Furthermore, the utility's owner, the province, strongly supports its creditworthiness. Manitoba

Hydro's exposure to significant hydrology risk and its highly leveraged financial risk profile offset these strengths.

Manitoba Hydro's self-supporting debt, which has risen in the long term, will very likely continue its climb in the next 10-15 years. The utility is constructing the 200 MW Wuskwatim Generating Station and is contemplating two additional major hydro generating facilities in northern Manitoba to meet domestic load requirements and take advantage of export market opportunities. The Wuskwatim project, which the company projects will cost about C$1.3 billion and could be in service as early as 2011, has regulatory approval and the support of First Nations partners. It is in the site preparation phase. In November 2006, the government announced that the Conawapa project would be accelerated for domestic and export requirements, although initial borrowing needs in the next several years would be minor. The company is also considering building the Keeyask generating station. Manitoba will very likely issue significant debt on behalf of Manitoba Hydro to fund the three projects, so the province's self-supported debt could rise significantly in the long-term. Preliminary estimates indicate the projects could cost up to C$10 billion. Standard & Poor's will monitor these projects' progress.

Table 1

Province of Manitoba--Economic Statistics

	--Year ended Dec. 31--				
(% change)	**2008f**	**2007**	**2006**	**2005**	**2004**
Real GDP	2.7	2.3	2.6	2.8	2.6
Employment	1.6	1.6	1.2	0.6	1.1
Unemployment rate (%)	4.2	4.4	4.3	4.8	5.3
Retail sales	N.A.	8.8	3.9	5.9	6.7
Capital formation*	N.A.	15.1	11.7	2.7	6.8
Consumer prices	1.7	2.0	2.0	2.7	2.0

* Current dollars, Statistics Canada data. f--Forecast. N.A.--Not available.

Table 2

Province of Manitoba--Financial Statistics

	--Year ended March 31--				
(%)	**2009b**	**2008**	**2007**	**2006¶**	**2005**
Operating balance/operating revenue	4.8	1.0	3.2	3.6	10.4
Surplus (deficit)/revenue	(2.3)	(8.0)	(4.0)	(1.5)	6.1
Operating revenue growth (% change)	7.4	6.0	4.5	24.7	(1.8)
Operating expenditure growth (% change)	3.3	8.5	4.6	34.5	(7.4)
Total expenditures/GDP	24.6	25.2	24.8	25.1	19.4
Interest/revenue	6.6	7.2	7.8	7.7	6.8
Net tax-supported debt/GDP	22.3	21.5	19.6	21.3	22.1
Net financial liabilities/total revenues*	127.8	130.2	120.3	119.7	152.3
Capital spending/total expenditures	6.9	8.3	6.9	5.1	4.7

*Net financial liabilities: net tax-supported debt plus unfunded pension liabilities. ¶Operating revenue growth, operating expenditure growth, and total expenditures/GDP figures reflect a change to summary basis reporting. b--Fiscal 2009 budget. All ratios are Standard & Poor's-adjusted.

Ratings Detail (As Of December 19, 2008)*

Manitoba (Province of)	
Issuer Credit Rating	AA/Stable/A-1+

Ratings Detail (As Of December 19, 2008)***(cont.)**		
Commercial Paper		A-1+
Canadian National Scale Commercial Paper Rating		A-1(HIGH)
Senior Unsecured (70 Issues)		AA
Issuer Credit Ratings History		
05-Dec-2007	*Foreign Currency*	AA/Stable/A-1+
28-Nov-2006		AA-/Positive/A-1+
30-Jun-1998		AA-/Stable/A-1+
05-Dec-2007	*Local Currency*	AA/Stable/A-1+
28-Nov-2006		AA-/Positive/A-1+
05-Nov-2002		AA-/Stable/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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November 10, 2009

Summary:
Manitoba (Province of)

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Summary:

Manitoba (Province of)

Credit Rating: AA/Stable/A-1+

Rationale

In Standard & Poor's Ratings Services' opinion, the ratings on the Province of Manitoba reflect the following factors:

- Manitoba's historically strong track record of producing robust operating surpluses, despite the modest deterioration expected in fiscal 2010 (year ending March 31). The province posted a slightly wider operating surplus of 6% of revenues in fiscal 2009 on a summary basis (which includes the financial results of schools, hospitals and universities). In its fiscal 2010 budget, Manitoba is forecasting an operating deficit of 2.4% of revenues, which Standard & Poor's expects will deteriorate further in fiscal 2011 as a result of the continuing weakness in the global economic environment;
- The province's well-diversified economy, which remains resilient in the face of weak global economic conditions. Although Manitoba's real GDP growth slowed in 2008, it outperformed that of the Canadian economy. Monthly indicators to date in 2009 point to weaker growth through the first half of 2009; but Manitoba's economic performance remained more resilient than that of other Canadian provinces. The province expects a slow recovery from the recession in 2010;
- The federal government provides revenue support through the equalization program and the Canada Health Transfer and Canada Social Transfer payments. For fiscal 2009, these transfers constitute about 31% of provincial summary revenues(Standard & Poor's-adjusted);
- The province's substantial pool of sinking funds, which stood at C$2.1 billion at the end of fiscal 2009, providing healthy liquidity to support debt service payments; and
- Manitoba's substantial progress since fiscal 2007 in significantly reducing its large unfunded pension liabilities through market borrowing. One caveat, however, is that although the borrowing creates an offsetting asset, this introduces the risk that poor or negative returns might not necessarily result in a superior net financial liability position. The sharp pullback in global economic markets in the past year underscores the risk inherent in this strategy in the short-to-medium term.

We believe that credit concerns include the following:

- Manitoba's moderate net tax-supported debt burden, which despite recent improvements, remains above the median for its rating category peer group. Moreover, we expect the province's net tax supported debt burden to rise in the near term;
- An expected increase in the province's self-supported debt, specifically debt issued on behalf of Manitoba Hydro. We expect the utility's self-supported debt to resume rising after leveling off since fiscal 2004. We also expect the province to issue debt on behalf of Manitoba Hydro for major hydroelectric projects in the next five years;
- Manitoba's relatively moderate unfunded pension liabilities, both as a percent of revenues and of GDP; and
- Potentially reduced financial flexibility from ongoing moderate capital spending requirements and the budgetary pressures stemming from a slower economy.

Outlook

The stable outlook reflects our expectation that Manitoba will continue to manage its finances prudently in the medium term; and that despite an expected deterioration in its operating results in the near term, the province will continue to take steps to achieve balance budgets in the medium term. Nevertheless, Standard & Poor's expects that infrastructure renewal pressures in the near term and that potential further deterioration in the province's operating balances will put upward pressure on its debt burden. Accordingly, in the medium term, we expect net financial liabilities as a percent of total revenues to rise modestly. A material and sustained increase in net financial liabilities, a significant decline in either cash and investment holdings, or a marked deterioration in budgetary performances could place downward pressure on the ratings. We believe that declines in Manitoba's net financial liabilities, as well as stronger-than-expected budgetary performances, are preconditions for an upgrade.

STANDARD & POOR'S

Global Credit Portal®
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December 13, 2010

Manitoba (Province of)

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Manitoba (Province of)

Major Rating Factors

Issuer Credit Rating
AA/Stable/A-1+

Strengths:
- Historically robust financial results
- Well-diversified economy with a lengthy history of solid performances
- Strong support from the Canadian federal system
- Healthy liquidity levels, owing to a large pool of sinking funds

Weaknesses:
- Moderate net tax-supported debt burden compared to Canadian provinces
- Self-supported debt that could rise in the next five years
- Relatively moderate unfunded pension liabilities
- Adequate financial flexibility due to moderate infrastructure requirements

Rationale

The 'AA' ratings on the Province of Manitoba and the 'A-1+' short-term rating on the province and Manitoba Hydro-Electric Board reflect Standard & Poor's Ratings Services' opinion of the following factors:

- Manitoba's historically strong track record of producing robust operating surpluses, despite the deterioration in budgetary performances in fiscals 2010 and 2011 (year ending March 31). The province posted a higher-than-expected after-capital deficit of 10.1% of revenues in fiscal 2010 on a summary basis (which includes the financial results of schools, hospitals, and universities). In its fiscal 2011 budget, Manitoba is forecasting a wider after-capital deficit to 15.1% of revenues, which Standard & Poor's expects will narrow in fiscal 2012 as the economy recovers and the fiscal stimulus spending slows to a more measured pace;
- The province's well-diversified economy, which remains resilient in the face of sluggish global economic conditions. Although Manitoba's real GDP growth remained unchanged in 2009, it outperformed that of the Canadian economy, which posted a decline of 2.5%. Monthly indicators to date in 2010 point to weaker growth through the second half of 2010, but Manitoba's economic performance remained more resilient than that of other Canadian provinces. The province expects a slow recovery from the recession in 2011;
- The federal government's revenue support, provided through the equalization program and the Canada Health Transfer and Canada Social Transfer payments. For fiscal 2010, these transfers constitute about 31% of provincial summary revenues (Standard & Poor's-adjusted);
- The province's substantial pool of sinking funds, which stood at C$1.9 billion at the end of fiscal 2010, providing healthy liquidity to support debt service payments; and
- Manitoba's substantial progress since fiscal 2007 in significantly reducing its large unfunded pension liabilities through market borrowing. One caveat, however, is that although the borrowing creates an offsetting asset, this introduces the risk that poor or negative returns might not necessarily result in a superior net financial liability position. The sharp pullback in global economic markets in 2008 underscores the risk inherent in this strategy in the short-to-medium term.

We believe that credit concerns include the following:

- Manitoba's net tax-supported debt burden, which is moderate compared with that of Canadian peers, but remains above the median for its rating category peer group. Moreover, we expect the province's net tax-supported debt burden to rise further in the near term;
- An expected increase in the province's self-supported debt, specifically debt issued on behalf of Manitoba Hydro. We expect the utility's self-supported debt to resume rising after leveling off since fiscal 2004. We also expect the province to issue debt on behalf of Manitoba Hydro for hydroelectric projects in the next five years;
- Manitoba's relatively moderate unfunded pension liabilities, both as a percent of revenues and of GDP; and
- Adequate financial flexibility stemming from ongoing moderate capital spending requirements and the budgetary pressures stemming from a slower economy.

Outlook

The stable outlook reflects our expectation that Manitoba will continue to manage its finances prudently in the medium term and that it will take continue to take steps to restore balanced budgets in the medium term. Standard & Poor's expects that infrastructure renewal pressures in the near term will put upward pressure on Manitoba's net tax-supported debt burden. Accordingly, in the medium term, we expect net financial liabilities as a percent of total revenues to rise modestly. A material and sustained increase in net financial liabilities, a significant decline in cash and investment holdings, or a marked deterioration in budgetary performances could place downward pressure on the ratings. In our view, declines in Manitoba's net financial liabilities, as well as stronger-than-expected budgetary performances, are preconditions for an upgrade.

Comparative Analysis

Manitoba's immediate peer group consists of the Canadian provinces of New Brunswick (AA-/Negative/A-1+) and Saskatchewan (AA+/Stable/A-1+); the Historical Territory of Bizkaia (in Spain; AA/Stable/A-1+); the Region of Brussels-Capital (in Belgium; AA/Negative/--) and the Region of Champagne-Ardenne (in France; AA-/Stable/A-1+).

Manitoba's economy compares very well with those of its peer group. The province's real GDP growth is slightly above the median for the 'AA' category and is better than those of its immediate peers. Similarly, its unemployment rate is also below the median for the category and all immediate peers. Within the Canadian peer group, Manitoba's economy is relatively more diversified than those of New Brunswick and Saskatchewan, but predictably less diversified than the larger economies of Ontario and Quebec. The province's economy typically posts stable economic performances and has proven relatively resilient during periods of recessions.

Recent financial results (on a summary reporting basis) compare quite favorably with those of its peers. Manitoba's operating and after-capital budgetary balances historically remained below the medians for the 'AA' category. The province's budgetary performance during the recent downturn underscored the latter, outperforming that of its peers. Its capital spending, as a share of total spending, remains markedly below the median for the category as well but in line with that of its Canadian peers.

Although Manitoba, like the rest of the Canadian provinces, is more indebted than most governments in the 'AA' category, its debt burden relative to operating revenues is only modestly above the category medians. The exception is the province's net tax-supported debt burden as a share of GDP, which is significantly above the peer group median, although it is moderate compared to other Canadian provinces. Nevertheless, although Manitoba's debt burden is comparable with that of other Canadian provinces, we expect its outperformance in fiscal 2010 and 2011 to reflect favorably compared with the deteriorating debt burden of other Canadian provinces. Its debt service burden remains significantly higher than the category median.

Global Recovery Stuck In Second Gear

Manitoba (Province Of)

Manitoba is in the geographic center of Canada (see map) and had a population of about 1.2 million as of July 31, 2010. We believe the provincial economy is well-diversified: Key sectors are finance, manufacturing (mainly transportation equipment and agricultural products), and agriculture.

Economy remained resilient in 2009

In 2009, major economies around the world began emerging from the worst recession since the 1930s. Historically low interest rates, unconventional monetary policy, and government bailouts helped stabilize financial institutions. Governments around the world implemented massive fiscal stimulus packages that included new infrastructure spending to spur economic growth. They also provided help to struggling industries, such as the auto and housing sectors. A recovery began to be evident when Japan and Germany began to show signs of growth in second-quarter 2009, followed by the U.S. and Canada in the third quarter. Strong growth in Asia, where the financial sector was largely insulated from the global crisis, helped increase commodity prices.

Manitoba's well-diversified economy remained durable in 2009 despite a deteriorating global economic environment. The province's economic growth was unchanged during the year; and as was the case in the previous three years, the economy once again outperformed that of Canada, which posted a 2.5% decline. Final domestic spending rose 1.6% during the year, led by gains in consumer spending (1.6%) and business nonresidential investment (15.9%). Overall business investment, however, declined by 3%, with a 21.9% drop in machinery and equipment spending and a 3.7% decrease in residential spending. Both real exports and imports declined in 2009, but net exports contributed to growth, reflecting a larger decline of 6.4% in real imports compared with a 4.5% decrease in real exports.

Labor force results echoed the real GDP performance. Employment was flat in 2009 following a 1.7% gain in 2008, while the unemployment rate increased to 5.2%. Employment growth easily outperformed Canada's 1.6% decline and beat the performance of many other Canadian provinces. The province's participation rate remained close to its all time high level of 69.6%.

Global Recovery To Remain Sluggish

Although Canadian provincial economies have recovered from their 2009 lows, prospects for the Canadian economy, and more broadly the global economy, remain uncertain. We expect to see a half-speed recovery in the U.S. In Europe, we expect a two-track recovery, with southern countries likely to experience slower growth than their northern neighbors. Canada's economy appears to be shifting into lower gear again amid mounting evidence that the strong GDP growth from October 2009 to the first half of 2010 likely won't carry over. The slowdown is evident in consumer and government spending, the two areas that until now had been contributing most to the recovery. Consumers now appear to be holding back after spending more freely in response to a large reduction in interest rates that cut the cost of borrowed funds. We think households' scaling back of purchases could last a few quarters, so we're assuming GDP growth likely will slow to an average rate of 2.5% in the second half of 2010 from 3.9% in the first half of the year. Annually, Standard & Poor's expects Canadian GDP growth of 3.2% in 2010 following a 2.5% contraction in economic activity a year earlier. The recovery's uneven pace promises to continue casting a shadow over recovery prospects for all Canadian provinces through the end of 2010 and the first half of 2011.

Manitoba expects real GDP growth of 2.5% for 2010. In the context of the recovery's uneven pace, we expect that the provincial investment climate will remain weaker than in recent years, because funding for capital projects will be more difficult to acquire. The risks with respect to Manitoba's economy are for a downside surprise in economic growth for this year and potentially in 2011. A potential mitigating influence is the economic stimulus spending to date, which includes stepped-up investment in infrastructure and will continue to be a mitigating influence on the economy. The renewed focus from all Canadian provinces (including Manitoba) on infrastructure renewal projects should help the pace of the economic recovery in the province in the near term. However, this influence should begin to wane in 2011 as stimulus infrastructure programs begin to scale back. In our opinion, unless stimulus programs are expended, the expected reduction in spending and the focus of provincial governments on restoring fiscal balance pose risks to the economic recovery.

Province to post wider after-capital deficit in fiscal 2011

To improve comparability across local and regional governments globally, Standard & Poor's adjusts the published figures of all provinces to reflect their budgetary cash balances. This includes adjusting for major accruals, restating capital spending back to a cash basis by removing the influence of capital amortization and the net income of certain government business enterprises, and adjusting for one-time revenues. We include regional health authorities, school boards, and universities in the government reporting entity, which makes our analysis more consistent with the summary presentation of the province's results.

We have evaluated the fiscal 2011 summary results only in line with the province's reporting on a similar reporting basis. Manitoba's summary reporting entity incorporates line-by-line, the revenues and expenditures of all regional health authorities, school boards, and universities. The fiscal 2010 financial statements and the fiscal 2011 budget include the results. Historically, Standard & Poor's has only reported on the financial performances of the operating fund reporting entity. Financial results before fiscal 2009 have not been restated, and comparability of some more recent metrics with past values could be limited. The Canadian provinces have been moving to a broader reporting entity in recent years, as a part of an initiative by the Canadian Public Sector Accounting Board to enhance governments' financial reporting. Our analysis has been also adjusted to include the results of the wider entity, so that comparability continues across Canadian provinces. Our results might be less comparable for international LRGs, which continue to report their results on a more narrow government basis.

Despite sluggish global economic performance, Manitoba's operating results remained resilient in fiscal 2010. The province's annual financial report revealed it posted its first operating budgetary deficit in more than thirteen years of 0.2% of revenues in fiscal 2010 (Standard & Poor's-adjusted; summary reporting). This followed an operating surplus of 7.0% of revenues in the previous fiscal year. At the same time, it posted a wider after-capital deficit of 10.1% of revenues (Standard & Poor's-adjusted; including capital spending) in fiscal 2010, which followed a 0.8% deficit in fiscal 2009. In fiscal 2011, Manitoba is expecting its operating deficit will widen to 2.4% of revenues while its after capital deficit will widen further to 15.1% of revenues. Since the budget, global economic prospects have stabilized somewhat; however, with fiscal situation for all provinces (including Manitoba) is unlikely to improve significantly until a sustainable recovery takes hold, which we expect will likely occur in the first half of 2011. Standard & Poor's expects that the operating and overall deficits might continue in the next two fiscal years.

Operating revenues fell 0.9% in fiscal 2010 (Standard & Poor's-adjusted) on a decline in personal and corporate income tax revenues; federal government transfer revenues increased 1.5%. Federal equalization revenues were unchanged during the year while health and social transfer revenues increased by 3.1%. In fiscal 2011, the province expects operating revenues to increase 1.2%, based on a forecast increase in personal income tax and sales tax revenues. Standard & Poor's expects that the slow path to recovery will mean that revenues will be slow to recover, especially on the corporate side. In addition to reduced overall near-term profitability, corporations could continue to carry losses forward for years.

Operating expenditures continued to rise at a rate above Manitoba's annual inflation rate, increasing 6.7% in fiscal 2010 following a gain of 3.0% in fiscal 2009. Spending increases were broad-based and in line with historical norms. The province expects spending to increase 3.4% in fiscal 2011, reflecting budgetary pressures in a number of key areas and the influence of fiscal stimulus. Capital spending rose sharply in fiscal 2010 to C$1.2 billion, as the province continued to address key infrastructure needs. The Manitoba Floodway, which provides crucial flood protection to the City of Winnipeg (the province's capital and largest urban center; AA/Stable/--), continued to be the single biggest capital expenditure in fiscal 2010, with roads and highways second. We expect capital spending to remain elevated and rise to C$1.6 in fiscal 2011, with roads, universities, colleges and public schools, health care facilities, and the floodway expansion commanding the lion's share of spending. Typically, provincial capital spending is not a major expenditure, constituting about 5% of the total annually. The fiscal 2011 spending plan reflects acceleration in capital spending as part of the province's fiscal stimulus package. This is by no means unique to Manitoba, as all Canadian provinces and governments around the world have embraced fiscal stimulus to some degree. We believe that the province's near-term capital spending requirements could reduce its financial flexibility in the medium term, especially if revenues are slow to recover.

Liquidity, Debt, And Contingent Liabilities

Manitoba's liquidity support is strong, in our opinion. At the end of fiscal 2010, its various sinking funds (established for general government, Manitoba Hydro, and other government organization debt) totaled slightly less than C$2 billion. In addition, the province held about C$2 billion of available cash and short-term investments outside of its sinking funds. All funds are readily accessible for short-term liquidity needs. We foresee no significant change in the province's liquidity position.

Manitoba's maturity schedule is somewhat weighted to the near-to-medium term. As of the end of fiscal 2010, about 41% of total long-term indebtedness, which includes debt issued for Manitoba Hydro, matures before the end of fiscal 2015. Floating-rate exposure was fairly limited with only 10% of general-purpose debt had interest-rate exposure at the end of fiscal 2010. This represented a modest increase from 9% in the previous year. The province's foreign currency exposure was also relatively limited, at about 25% as at the end of fiscal 2010. However, although it issued about 25% of gross debt in foreign currencies, all but 10% of that has been swapped back to Canadian dollars. The unhedged exposure (issued on behalf of Manitoba Hydro) was in U.S. dollars. The province benefits from a natural hedge arising from Manitoba Hydro's considerable electric power exports to the U.S.

Tax-supported debt burden to rise further in the next two fiscal years

Manitoba issues debt for its own purposes, Manitoba Hydro, and various crown organizations. At the end of fiscal 2010, tax-supported debt (adjusted for sinking funds) stood at C$13.4 billion. Net tax-supported (tax-supported debt less cash and investment holdings) was C$11.5 billion at that time. Net self-supported debt, which consists of debt issued for Manitoba Hydro, was C$7.7 billion.

In fiscal 2010, net tax-supported debt rose 13.7%, primarily reflecting issuance for capital expenditures, schools, and universities. As a result of the increase, the province's net tax-supported debt burden increased to 22.5% of GDP in fiscal 2010 from 19.8% in fiscal 2009. With respect to operating revenues, net tax-supported debt also increased to 93.5% in fiscal 2010 from 80.8% in fiscal 2009. In fiscal 2011, the province expects its net tax-supported debt as a share of GDP and revenues to rise further to about 26% and 110.8%, respectively, reflecting the impact of the fiscal stimulus and lower revenues. Although we believe Manitoba's well-diversified economy should outperform the rest of Canada in an economic slowdown, Standard & Poor's expects that the inevitable sluggish economic recovery will continue to weigh on revenues and contribute to further increases in the province's net tax-supported debt burden in the next two fiscal years. The extent of the increase will depend on the recovery's speed and sustainability.

For fiscal 2011, Manitoba expects its total gross borrowing requirements to be about C$3.4 billion, which is a slight step-up compared with historical patterns of refunding and new issuance of recent years, but a decrease from its fiscal 2010 borrowing requirement of C$4.8 billion. The province will use new borrowing (net of refinancing) primarily to fund new infrastructure assets (including the floodway) and on-lend to Manitoba Hydro.

Manitoba Hydro-Electric Board

The province issues self-supporting debt in its own name and on-lends the proceeds to Manitoba Hydro, its wholly owned electric utility. Manitoba Hydro is a vertically integrated electric utility serving about 532,000 customers, and has a US$500 million commercial paper program. The company's monopoly electricity network business serves the entire province, since there is no effective competition in electricity generation. Generation facilities include 14 hydroelectric generating stations (5,033 megawatts [MW]), two thermal generating stations (468 MW), and four diesel sites (10 MW), for a total capacity of 5,511 MW. The utility is counterparty to an additional 99 MW of contracted wind capacity plus a further 138 MW of contracted wind capacity to be placed in service early in 2011. In addition to its electricity generation business, the company also owns and operates a monopoly natural gas distribution business, Centra Gas, which serves more than 264,000 customers in about 100 communities mainly in southern Manitoba.

We believe that Manitoba Hydro's monopoly gas and electric franchises, and related regulatory frameworks provide satisfactory cash-flow stability. Furthermore, the utility's owner, the province, supports its creditworthiness strongly. Manitoba Hydro's exposure to significant hydrology risk and its highly leveraged financial risk profile offset these strengths.

Standard & Poor's considers the utility's liquidity to be sufficient given its very supportive relationship with its owner. It has a commercial paper program, which the province guarantees, for C$500 million or US$500 million, of which C$267 million was outstanding as of Sept. 30, 2010.

We expect Manitoba Hydro's debt to continue its climb in the next 10 years, as the utility undertakes a C$16.9 billion capital program. We expect debt issuance to peak in 2018 and 2019, when the remainder of new generation and transmission projects come on-stream. In the short term, Manitoba Hydro's capital program consists of the 200 MW Wuskwatim Generating Station, at a cost of about C$1.6 billion, which is under construction and has first power on schedule for late 2011. Other major energy projects under consideration include Bipole III, a major transmission line which will span north to south; the Keeyask Generating Station, a 695 MW hydro generating facility in northern Manitoba with a proposed in-service date of 2019; and, the Conawapa Generating Station, 10 generators with an installed capacity of about 1,485 MW with a scheduled in-service date of 2023. We believe that the new transmission line will bolster the utility's reliability and that these new generation facilities will effectively meet domestic load requirements and take advantage of export market opportunities. Manitoba will very likely issue significant debt on behalf of Manitoba Hydro to fund the three projects, so the province's gross debt could rise significantly in the medium-to-long term. Standard & Poor's will monitor these projects' progress.

Table 1

Province of Manitoba--Economic Statistics

	--Year ended Dec. 31---				
(% change)	**2010f**	**2009**	**2008**	**2007**	**2006**
Real GDP	3.0	0	1.9	2.7	3.4
Employment	1.7	0	1.7	1.6	1.2
Unemployment rate (%)	5.3	5.2	4.1	4.4	4.3
Capital formation*	N/A	0.3	7.8	6.4	11.6

Table 1

Province of Manitoba--Economic Statistics (cont.)					
Consumer prices	0.9	0.6	2.3	2.0	2.0

*Current dollars; Statistics Canada data. f--Forecast. N/A--Not applicable.

Table 2

Province of Manitoba--Financial Statistics*

	--Fiscal year ended March 31--				
(%)	**2011b**	**2010**	**2009**	**2008**	**2007**
Operating balance/ operating revenue	(2.4)	(0.2)	7.0	6.2	9.3
Surplus (deficit)/revenue	(15.1)	(10.1)	(0.8)	(2.3)	2.6
Operating revenue growth (% change)	1.2	(0.9)	3.9	5.3	5.2
Operating expenditure growth (% change)	3.3	6.7	3.0	9.2	4.6
Total expenditures/GDP	25.8	26.8	24.8	25.2	24.7
Interest/revenue	6.1	6.2	6.7	7.3	6.6
Net tax-supported debt/GDP	26.3	22.5	19.8	21.3	19.5
Capital spending/total expenditures	5.8	9.0	7.7	8.3	6.9

*Standard & Poor's-adjusted. b--Fiscal 2011 budget.

Related Criteria And Research

Methodology for Rating International Local And Regional Governments, Sept. 20, 2010

Ratings Detail (As Of December 13, 2010)*		
Manitoba (Province of)		
Issuer Credit Rating		AA/Stable/A-1+
Commercial Paper		A-1+
Canadian National Scale Commercial Paper Rating		A-1(HIGH)
Senior Unsecured (96 Issues)		AA
Issuer Credit Ratings History		
05-Dec-2007	*Foreign Currency*	AA/Stable/A-1+
28-Nov-2006		AA-/Positive/A-1+
30-Jun-1998		AA-/Stable/A-1+
05-Dec-2007	*Local Currency*	AA/Stable/A-1+
28-Nov-2006		AA-/Positive/A-1+
05-Nov-2002		AA-/Stable/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

STANDARD & POOR'S

Global Credit Portal®
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October 24, 2011

Manitoba (Province of)

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Manitoba (Province of)

Major Rating Factors

Issuer Credit Rating
AA/Stable/A-1+

Strengths:

- Historically robust and low volatility in budgetary results
- Well-diversified economy with a lengthy history of solid performances
- Strong system support from the Canadian federal system
- Healthy liquidity levels, owing to a large pool of sinking funds

Weaknesses:

- Moderate net tax-supported debt burden compared with Canadian provinces
- Risks inherent in self-supported debt we expect will rise in the next five years
- Relatively moderate unfunded pension liabilities
- Adequate financial flexibility due to moderate infrastructure requirements

Rationale

The ratings on the Province of Manitoba, including the 'AA' long-term issuer credit and senior unsecured debt ratings and the 'A-1+' global scale commercial paper rating on the province's wholly owned utility, Manitoba Hydro-Electric Board, reflect Standard & Poor's opinion of following positive factors:

- The province's well-diversified economy, which remains resilient despite strong headwinds from a failing global economic recovery. According to the Manitoba Bureau of Statistics, the province's real GDP expanded by 2.5% in 2010. Monthly indicators to date in 2011 point to weaker growth through the second half of 2011, but Manitoba's economic performance is likely to remain more resilient than that of other Canadian provinces in the event of a significant deterioration in global economic conditions. The province expects a slow recovery from the recession in 2011;
- The federal government's revenue support, provided through the equalization program and the Canada Health Transfer and Canada Social Transfer payments. For fiscal 2010 (year ended March 31), these transfers constituted about 31% of provincial summary revenues (Standard & Poor's adjusted);
- Manitoba's track record of robust operating surpluses and, until recently, after-capital surpluses. Manitoba's after-capital results deteriorated in the last two fiscal years to 2011 (year ended March 31) and are on track for an after-capital deficit of 2.8% of revenues in fiscal 2012 (Standard & Poor's adjusted). However, the province is still expecting to post an operating surplus in fiscal 2012 of 6.9% of revenues (Standard & Poor's adjusted);
- The province's large pool of sinking funds, which stood at C$1.8 billion at the end of fiscal 2011, providing healthy liquidity to support debt service payments.

We believe that credit concerns include the following:

- Manitoba's net tax-supported debt burden, which is moderate compared with that of Canadian peers, but remains above the median for its rating category peer group;
- An expected increase in self-supported debt, specifically debt issued on behalf of Manitoba Hydro-Electric Board for hydroelectric projects in the next five years;

- Manitoba's relatively moderate unfunded pension liabilities, both as a percent of revenues and of GDP; and
- Adequate financial flexibility due to moderate capital spending requirements and budgetary pressures from sluggish global economic conditions.

Liquidity

Manitoba's liquidity is positive in our opinion and compares very favorably with peers'. At the end of fiscal 2011, Manitoba had cash and temporary investments of C$1.3 billion and sinking fund balances of C$1.8 billion. The province also has good access to global capital markets in our view. Manitoba's liquidity ratios are strong: the ratio of free cash, liquid assets, and committed facilities to the next 12 months' debt service was about 384%.

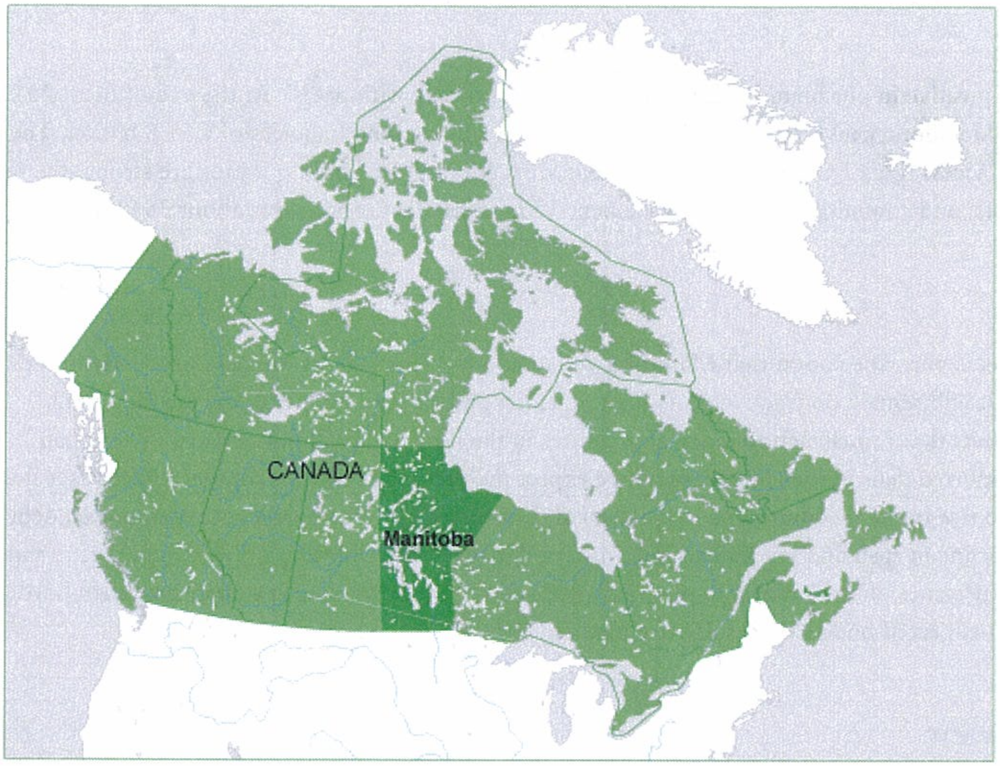
Outlook

The stable outlook reflects our expectation that Manitoba will continue to manage its finances prudently in the medium term and that it will remain on track with its plan to achieve a balanced budget in the medium term. Standard & Poor's expects that infrastructure renewal pressures in the near term will put upward pressure on Manitoba's net tax-supported debt burden and as such, we expect the province's net tax-supported debt as a share of GDP and revenues to rise in the medium term. A material and sustained increase in its net tax-supported debt burden, a significant decline in cash and investment holdings, or a marked deterioration in budgetary performances could place downward pressure on the ratings. In our view, declines in Manitoba's net tax-supported debt burden, as well as stronger-than-expected budgetary results, are preconditions for an upgrade.

Manitoba: Overview

Manitoba is located in the geographic center of Canada (see map) and had a population of 1,250,574 as at July 31, 2011. We believe Manitoba's economy is well-diversified: Key sectors are finance, real estate, and manufacturing (mainly transportation equipment and agricultural products). Its economic diversification has contributed to relatively low volatility in its economic performance in recent years, helping to insulate Manitoba from the global economic turmoil. GDP per capita for 2010 was more than C$41,000, which was on par with other Canadian peers.

Manitoba (Province Of)



Comparative Analysis

Manitoba's immediate peer group consists of the Canadian provinces of Ontario (AA-/Stable/A-1+) and New Brunswick (AA-/Negative/A-1+); the Historical Territory of Bizkaia (in Spain; AA/Stable/A-1+); the Region of Brussels-Capital (in Belgium; AA/Negative/--); and the Region of Champagne-Ardenne (in France; AA-/Stable/A-1+). Overall, Manitoba fits well with its immediate peer group and compares favorably with the median for the 'AA' category.

Manitoba's economy compares very well with that of its peer group. Manitoba's GDP per capita is consistent with the median for the rating category for the peer group. The province's real GDP growth is slightly above the median for the 'AA' category and is better than those of its immediate peers. Similarly, its unemployment rate is also below the median for the category and all immediate peers. Within the Canadian peer group, Manitoba's economy is relatively more diversified than those of New Brunswick, Saskatchewan, and Ontario, but is predictably smaller than the larger economies of Ontario and Quebec. The province's economy typically posts stable economic performances and has proven relatively resilient during periods of recessions.

Overall, although Manitoba, like the rest of the Canadian provinces, is more indebted than most governments in the

'AA' category; its debt burden relative to operating revenues is only modestly above the category medians. The exception is the province's net tax-supported debt burden as a share of GDP, which is significantly above the peer group median -- although it is still moderate compared with that of other Canadian provinces. Nevertheless, although Manitoba's debt burden is comparable with that of other Canadian provinces, we expect its outperformance in the last three fiscal years to reflect favorably compared with the rising debt burden of other Canadian provinces. Similar to all Canadian provinces, its debt service burden remains significantly higher than the category median.

Table 1

Manitoba (Province of) -- 2011 Peer Comparison

	Manitoba (Province of)	Saskatchewan (Province of)	New Brunswick (Province of)	Bizcaya (Historical Territory of)	Brussels-Capital (Region of)	Champagne-Ardenne (Region of)
Issuer credit ratings as of Aug. 9, 2011	AA/Stable/A-1+	AAA/Stable/A-1+	AA-/Negative/A-1+	AA/Stable/A-1+	AA/Negative/--	AA-/Stable/A-1+
	-- Three-year averages (two years of actual data and current budget) --					
Operating balance (% of adjusted operating revenues)	(4.9)	3.1	(4.3)	18.5	10.9	16.4
Balance after capital accounts (% of adjusted total revenues)	(15.4)	(3.1)	(11.8)	(10.2)	(19.0)	(4.6)
Mil. US$	**-- Year ended March 31, 2011 --**					
Total adjusted revenues	12,619.7	11,665.0	7,388.2	2217.5*	3,195.9¶	710.9*
Transfers received (% of total adjusted revenues)	31.2	16.0	36.8	30.3*	41.5¶	43.8*
Modifiable revenues (% of adjusted operating revenues)	68.5	83.8	62.8	92.7*	N.A.	52.5*
Capital expenditures (% of total adjusted expenditures)	10.0	7.0	7.6	28.3*	25.2¶	26*
Direct debt (at year-end)	13,425.1	4,279.5	8,464.3	1458.1*	2,993.7¶	696.5*
Direct debt (% of adjusted operating revenues)	107.2	37.3	115.4	68.1*	94.7¶	105.8*
Tax-supported debt (at year-end)	14,636.5	4,426.3	10,079.7	2151.8*	5,462.3¶	696.5*
Tax-supported debt (% of consolidated operating revenues)	116.9	38.6	137.5	96.1*	102¶	105.8*

Table 1

Manitoba (Province of) -- 2011 Peer Comparison (cont.)						
Interest (% of operating revenues)	6.1	5.4	8.7	3*	N.A.	2.3*
Debt service (% of operating revenues)	(7.9)	10.1	(1.5)	9.7*	N.A.	11.5*
Population	1,236,892	1,045,670	753,761	1,137,000¶	1,050,670¶	1,335,600¶
Nominal GDP per capita (unscaled)	41,195	54,464*	38,849	41,293*	85,483¶	38,972*

*Figures for 2010. ¶Figures for 2009. N.A.--Not available.

Canadian Intergovernmental System Is Predictable And Well Balanced

We view the Canadian federal-provincial intergovernmental system as being "well-balanced and predictable" because of its maturity and stability, moderate degree of mismatching of revenues and expenditures, high level of transparency and accountability, and strong likelihood of extraordinary support from the federal government.

The intergovernmental system is mature and has been stable in the long term. The Canadian constitution establishes the division of powers between the two levels. Historically, changes to the system have been evolutionary and gradual, owing largely to the difficulty of amending the constitution. Of the three main federal transfer programs benefiting the provinces, one--the equalization program--is established in the constitution.

The provinces have direct control over the majority of their revenues except for federal transfers. The main own-source revenues are personal income, corporate income, and sales taxes. Despite the high degree of revenue autonomy, tax competitiveness factors constrain revenue-raising capability. On the expenditure side, the Canadian constitution mandates the provinces to deliver certain key services, in particular health and education. Health spending presently represents more than 40% of provincial budgets, and will further limit expenditure flexibility as the Canadian population continues to age. The federal government does not impose financial control or regulatory systems.

Financial information is typically timely, accurate, and comprehensive. Although no national standards exist concerning disclosure, provincial financial administration statutes mandate certain requirements (such as budgets and public accounts). Strong national accounting standards exist for all governments based on accrual accounting.

The federal government has a substantial track record of extraordinary support for natural disaster recovery and infrastructure. The federal government can provide extraordinary support through its grant-making powers and significant financial resources.

Robust Growth For The Provincial Economy In 2011 And 2012

As a result of its economic diversification, Manitoba's economy in general is relatively more resilient during periods of recession and as such generally exhibits relatively more stable economic performance compared with other Canadian provinces'. After bottoming out in the first half of 2009, Manitoba's economy recovered in 2010 and through the first half of 2011. Hence, after remaining flat in 2009, Manitoba's real GDP rebounded by 2.5% in 2010. While the province fared well during the most recent economic slowdown compared with its peers, it lagged the national rate in recovery in 2010--Canada's real GDP surged 3.2% after a drop of 2.8% in 2009. Manitoba's retail sales increased 5.6% in 2010, ranking Manitoba third highest among provinces and in line with the national growth of 5.5%. The rise was mainly driven by sales of motor vehicles, personal care, and gasoline. Export industries continued to struggle in 2010, a factor that we expect will continue to weigh on Canada's provinces throughout 2011 and in early 2012.

Manitoba's labor market results showed considerable improvement in employment and labor force in 2010. The province generated 11,500 jobs last year--a 1.9% increase from 2009. Furthermore, favorable demographic and economic conditions supported labor force expansion and a rise in participation rate last year, growing at 0.5%. As a result of a rise in share of working age population, unemployment rate marginally increased to 5.4% in 2010. Nevertheless, it remains second lowest in the country and well below the national rate of 8%. Manitoba's government expects the rate of unemployment to decline further, down to 4.9% by 2012.

All areas of investment posted strong growth in 2010. Public investment increased an estimated 25.2%, mainly through infrastructure projects. Private investment showed signs of recovery with a 3.6% rise in 2010, after dropping modestly in the previous year. Total capital investment also had strong results, climbing 10.4% in 2010. However, growth in investment is likely to slow significantly in the coming year. The Government of Manitoba projects the growth rates of public and private investment to drop to 1.9% and 0.6%, respectively, in 2011. On the other hand, we believe that the large number of projects under way will support economic growth in the province. Continuation of the Wuskwatim hydro-electric dam, work on the Canadian Museum of Human Rights, and construction of a football stadium at University of Manitoba are among the projects expected to boost investment in the province in the medium term, leading employment and incomes, which will continue to support consumer spending.

The government forecasts real GDP to grow at a relatively robust rate of 2.7% in 2011 and 2012. Economic indicators remained positive through the first half of 2011. Employment, unemployment, and earnings results continued to improve, helping to boost retail spending. However, housing starts posted a decline during the first half of the year, alongside a general pullback in housing starts for Canada as a whole. Moreover, Statistics Canada investment survey results point to a moderation in the province's capital spending for 2011.

Table 2

Manitoba (Province of) Economic Statistics

	--- Year Ended Dec. 31 ---				
(% change)	**2011f**	**2010**	**2009**	**2008**	**2007**
Real GDP	2.7	2.5	0.0	1.9	2.7
Employment	1.5	1.9	0.0	1.7	1.6
Unemployment Rate (%)	5.1	5.4	5.2	4.1	4.4
Capital formation *	N.A.	N.A.	0.3	7.8	6.4
Consumer prices	2.0	0.8	0.6	2.3	2.0

*Current dollars, Statistics Canada. F -- Forecast. 2010 GDP is an estimate. N.A.--Not applicable.

Despite the generally favorable economic outlook, the current global economic recovery remains fragile with significant risks from the U.S. or Europe that threaten to derail the global economic recovery entirely. The continuing high level of unemployment in the U.S., fiscal uncertainty for federal and state governments, and a flagging housing sector could undermine growth in the medium term. Moreover, sovereign debt problems in Europe threaten to bring about another round of bank difficulties, which could also restrain global growth. In Manitoba, the challenges include the effects of the strengthening Canadian dollar and economic consequences of flooding.

Manitoba's Financial Management Is Positive

The province's financial management is strong, in our view, in transparency and disclosure. Similar to Saskatchewan, the province reports its financial results on a summary level of consolidation. Alberta and British Columbia are the only two Canadian provinces that budget for two years beyond the current budget year on a line-by-line basis. Budget information and annual financial reports are relatively comprehensive and detailed. However, the province does not provide detailed economic and financial forecasts beyond one fiscal year or detailed long-term capital plans. Compared with peers, in our opinion this is a credit weakness. Debt management and related policies are prudent and risk-averse. The province's political and management culture is conservative and supported by a capable and experienced administration.

Province's Budgetary Flexibility Average

Manitoba has considerable budgetary flexibility, though it is average compared with its Canadian peers. In fiscal 2011, modifiable (own-source) revenues represented 70% of operating revenues, which was in line with the long-term average. The main modifiable revenues are taxes, primarily personal and corporate income taxes as well as retail sales tax revenues. Capital revenues are generally small and are usually transfers from the federal government in support of joint infrastructure initiatives. In Manitoba's case federal infrastructure grants in recent years have been for the purpose of general infrastructure renewal and the floodway control expansion.

The province generally has some room to raise taxes if needed, as its personal and corporate income tax rates are somewhat lower than those of some peers such as Ontario and Quebec. But raising taxes in the current political context in most provinces, particularly in western Canada where Manitoba, Saskatchewan, and British Columbia face competitive pressures from the low tax jurisdiction of Alberta. Generally, Canada's western provinces compete with Alberta for investment and labor.

Flexibility is more constrained on the spending side. Health and education costs, which constitute the bulk of the province's operating spending, can be difficult to hold to target growth rates when the province's population is generally growing at a respectable rate. Health care cost escalation has generally been problematic for all provinces for many years, owing to an aging population, rising drug costs, and wage escalation among others. Nevertheless, the province has demonstrated its willingness to hold the line on operating spending increases in the past.

Capital spending represented 10% of total expenditures in fiscal 2011, which remained elevated compared with the 3%-5% typically posted by the province in the first half of the decade. Although capital spending is expected to remain relatively high in the near term, Manitoba may have more room to reduce capital spending in the medium term.

Uncertainty In Financial Results Lies Ahead

To improve comparability across local and regional governments globally, Standard & Poor's makes adjustments to the published figures of all provinces to reflect their budgetary balances on a cash basis. This includes adjusting for major accruals, restating capital spending back to a cash basis by removing the influence of capital amortization and the net income of certain government business enterprises, and adjusting for one-time revenues. The government reporting entity currently includes school boards, regional health authorities, colleges, and universities.

Manitoba's budgetary performance is expected to slip in fiscal 2012 to the weakest performance since the 2008 recession. For most of the last 10 years, the province has recorded the largest operating and after-capital surpluses of all Canadian provinces. The 2008-2009 recession alongside the implementation of fiscal stimulus spending by Canadian provinces, including Manitoba, contributed to a narrowing of the province's operating surplus and a widening of its after-capital deficit.

Fiscal 2012 operating surplus the lowest in many years

Manitoba's operating surplus has generally narrowed since the 2008-2009 recession; however, it remained healthier than that of other provinces including Alberta, which saw its operating surplus narrow to 2% of operating revenues. Manitoba produced an operating surplus in fiscal 2011 of 8.8% of operating revenues, which was slightly wider than the 7.5% of operating revenues posted in fiscal 2010. However, the province is expecting its operating surplus to narrow slightly in fiscal 2012 to 6.9% of operating revenues. From fiscal 2004 to 2009, annual operating surpluses averaged 9% of operating revenues.

In fiscal 2011, operating revenues rebounded by 4.4% following a 0.8% decline in fiscal 2010. The gain in operating revenues was generally broad based, with most revenue categories showing an increase. Personal income tax revenues rose by 7.9% in fiscal 2011, more than recouping the 2.2% loss in the previous year. After plunging 33.4% in fiscal 2010, corporate income tax revenues rebounded by 28.4% in fiscal 2011. Sales tax revenues also rebounded by 3.1% in fiscal 2011, after essentially remaining flat in fiscal 2010. Federal transfers increased by 3.1% in fiscal 2011, largely reflecting higher federal transfers for infrastructure under the federal government's fiscal stimulus program.

Table 3

Manitoba (Province of) -- Financial Statistics

	--- Year Ended March 31 ---				
(%)	2012b	2011	2010	2009	2008
Operating balance/Operating revenue	6.9	8.8	7.5	9.6	14.2
Surplus (deficit)/Revenue	(2.8)	(0.6)	(1.8)	2.6	6.2
operating revenue growth (% change)	1.9	4.4	(0.8)	3.6	11.7
Operating expenditure growth (% change)	4.0	2.9	1.5	9.2	4.5
Total expenditures/GDP	24.0	24.5	26.8	24.8	25.2
Interest/revenue	6.2	6.0	6.1	6.7	7.2
Net tax-supported debt/GDP	26.5	24.9	22.5	19.8	21.3
Capital spending/Total expenditures	10.0	10.4	9.8	8.0	9.1

b--Fiscal 2011 budget. All financial ratios are Standard & Poor's adjusted.

In fiscal 2012, the province expects operating revenues to increase by 1.9%, reflecting increases in personal and corporate income tax revenues as well as sales tax revenues. It expects federal transfers to decline by 2.5%, reflecting lower equalization revenues and lower transfers for infrastructure due to the end of the federal fiscal stimulus program. Although in the first half of fiscal 2012, greater economic uncertainty has led to market speculation of another round of stimulus spending, we do not expect that the federal and provincial governments will follow through, as they remain focused on restoring fiscal balance.

Operating expenditures increased by 2.9% in fiscal 2011 and followed a more moderate 1.5% increase in fiscal 2010. Health expenditures were the biggest culprit, higher by 6% in fiscal 2011. Actual 2011 education spending, conversely, remained very close to budget and last fiscal's figure, increasing by 3.5%. Social and community spending rose by 5.3% in fiscal 2011 after increasing by 8.6% in fiscal 2010. The province projects that operating expenditures will grow at a slightly faster pace of 4% in fiscal 2012. Once again, it expects health and education spending to account for large share of increases, with health care spending increasing by 5.2% and education spending by a further 6.6%.

In its fiscal 2012 first-quarter financial update report, the province is reporting that it remains on track with its fiscal projections for the current fiscal year. Despite challenges from flooding, results are C$103 million better than the budget forecast. The improvement reflects revenues that were C$20 million higher than budget and expenditures that were C$83 million lower than budget. Despite the improvement, there's greater uncertainty over the remainder of the current fiscal year given heightened worries about the global economy.

The main risk to the province's budget assumptions is the potential for a stalled economic recovery in the U.S. and Europe, which raises the possibility that the province's revenue growth forecasts could lag the projections as a result. Furthermore, holding operating expenditures to the growth rate forecast in the budget may prove challenging. However, in our view, Manitoba is generally better positioned than most provinces to weather the storm. The province's economy is generally very resilient and typically is not get significantly affected by the effects of a general economic slowdown. As such, we expect that the province's financial results may deviate very little from the province's budget forecast.

After-capital deficit to widen in fiscal 2012

The province posted an after-capital deficit of 1.8% of revenues in fiscal 2011 and expects this to widen to 3.5% of revenues in fiscal 2012. The widening is the consequence of the smaller operating surplus and higher capital expenditures during the year. Capital expenditures were higher in fiscal 2011 than 2010; capital revenues, which consist of transfers from the federal government, were moderately higher at C$146 million. Manitoba's after-capital performances are mitigated somewhat by its moderate infrastructure requirements compared with those peers.

The fiscal 2011 capital program totaled about C$1.4 billion, which was higher than the C$1.2 billion in fiscal 2010. This represented about 10% of total spending, which was elevated compared with historical norms for the province. The current budget calls for capital spending to remain unchanged at about C$1.4 billion in fiscal 2012.

Strong Liquidity Support

Manitoba's liquidity support is strong, in our opinion. At the end of fiscal 2011, its various sinking funds (established for general government, Manitoba Hydro, and other government organization debt) totaled about C$1.8 billion. Manitoba also had cash and temporary investments of C$1.3 billion. The province also has strong access to global capital markets in our view. Manitoba's liquidity ratios are strong: the ratio of free cash and liquid assets to the next 12 months' debt service was about 384%. We understand that all funds are readily accessible for short-term liquidity needs. We foresee no significant change in the province's liquidity position in fiscal 2012.

Manitoba's maturity schedule is somewhat weighted to the near-to-medium term. As of the end of fiscal 2011, about 41% of total long-term indebtedness, which includes debt issued for Manitoba Hydro, matures before the end of fiscal 2015. Floating-rate exposure was fairly limited with only 10% of general-purpose debt having interest-rate exposure at the end of fiscal 2011. This was unchanged from the previous year. The province's foreign currency exposure was also relatively limited, at about 24% as at the end of fiscal 2011. However, although it issued about 24% of gross debt in foreign currencies, all but 7% of that has been swapped back to Canadian dollars. The unhedged exposure (issued on behalf of Manitoba Hydro) was in U.S. dollars. The province benefits from a natural hedge arising from Manitoba Hydro's considerable electric power exports to the U.S.

Debt Burden To Rise Further In Next Two Years

Manitoba issues debt for its own purposes, Manitoba Hydro, and various Crown organizations. At the end of fiscal 2010, tax-supported debt (adjusted for sinking funds) stood at C$13.4 billion. Net tax-supported (tax-supported debt less cash and investment holdings) was C$11.5 billion at that time. Net self-supported debt, which consists of debt issued for Manitoba Hydro, was C$7.7 billion.

In fiscal 2011, net tax-supported debt increased to 24.7% of GDP, primarily reflecting issuance for capital expenditures, from 22.5% in fiscal 2010. As a percent of operating revenues, net tax-supported debt also increased to about 108% in fiscal 2011 from 93.5% in fiscal 2010. In fiscal 2012, the province expects its net tax-supported debt as a share of GDP and revenues to rise further to 26.5% and 121.9%, respectively, reflecting the impact of infrastructure spending and modest revenue growth. Although we believe Manitoba's well-diversified economy should outperform the rest of Canada in an economic slowdown, Standard & Poor's expects that the inevitable sluggish economic pace of recent months and potential for a return to a global economic recession will continue to weigh on revenues and contribute to further increases in the province's net tax-supported debt burden in the next two fiscal years. The extent of the increase will depend on the severity of the potential slowdown in growth.

In its fiscal 2012 budget, Manitoba forecasted its total gross borrowing requirements to be about C$3.8 billion, which represents only a modest step-up compared with its fiscal 2011 gross borrowing requirement and typical historical patterns of recent years. Of the total, refunding maturing debt will account for C$1.6 million, while new cash requirements will account for C$2.2 billion. New cash requirements will consist of C$583 million for Manitoba Hydro, C$637 million will be for infrastructure investments, and the remainder will be for general government purposes (C354 million), Crowns and organizations (C$384 million), and contributions to the civil service pension plan (C$240 million).

Pension liabilities are moderate

Manitoba has what we view as a moderate unfunded pension liability but not significant enough to alter our view of the province's debt burden. At the end of fiscal 2011, the province's unfunded pension liability stood at about C$1.8 billion representing about 14% of fiscal 2011 operating revenues. Manitoba's net unfunded liabilities ratio, which includes tax-supported debt and unfunded pension liabilities, stood at about 119% of operating revenues at the end of fiscal 2011.

Contingent Liabilities

Manitoba Hydro

The province issues self-supporting debt in its own name and on-lends the proceeds to Manitoba Hydro, its wholly-owned electric utility. Manitoba Hydro is a vertically integrated electric utility serving slightly over 537,000 customers. The company's monopoly electricity network business serves the entire province, as there is no effective competition in electricity generation. Generation facilities include 14 hydroelectric generating stations (5,031 megawatts [MW]), two thermal generating stations (458 MW), and four remote diesel sites (10 MW), for a total capacity of 5,499 MW. The utility is counterparty to an additional 237 MW of contracted wind capacity. The utility delivers electricity to its customers using over 11,700 kilometers (km) of transmission lines and 75,000 km of distribution lines. In addition to its electricity generation business, the company also owns and operates a monopoly natural gas distribution business, Centra Gas, which serves almost 266,000 customers in about 100 communities mainly in southern Manitoba.

We believe that Manitoba Hydro's monopoly gas and electric franchises, and related regulatory frameworks, provide satisfactory cash-flow stability. Furthermore, the utility's owner, the province, strongly supports its creditworthiness. Manitoba Hydro's exposure to significant hydrology risk and its highly leveraged financial risk profile offset these strengths.

Standard & Poor's considers Manitoba Hydro's liquidity to be sufficient given its very supportive relationship with its owner. The utility has a commercial paper program, which the province guarantees, for C$500 million or US$500 million, which C$0 was outstanding as of June 30, 2011.

We expect Manitoba Hydro's debt to continue to climb in the next 10 years, as the utility undertakes an C$18 billion capital program. Debt issuance is likely to peak in 2019 when funding requirements for the remainder of new generation and transmission projects come onstream. In the short term, the utility's capital program consists of the 200 MW Wuskwatim Generating Station, at a cost of about C$1.7 billion including transmission, which is presently under construction and is scheduled for in-service by early 2012. Other major energy projects under consideration in the medium term include Bipole III, a major HVDC transmission line; the Keeyask Generating Station, a 695 MW hydro generating facility in northern Manitoba, with a proposed in-service date of 2019 at the earliest; the Conawapa Generating Station, a 1,485 MW generating facility with a proposed in-service date of 2024 at the earliest; and a 500 kV interconnection to the U.S. in 2024-2025. We believe that Bipole III will bolster the utility's reliability and that these new generation facilities and interconnection will effectively meet domestic load requirements and take advantage of export market opportunities. For example, the energy generated by the Keeysak Generating Station will be used to supplement energy requirements under proposed long-term firm export contracts with Minnesota Power and Wisconsin Public Service. We believe that these contracts will provide some revenue certainty that the utility can use toward mitigating the cost of financing additional capital projects. Nevertheless, Manitoba will very likely issue significant debt on behalf of Manitoba Hydro to fund these projects, so the province's gross debt could rise significantly in the medium-to-long term. Standard & Poor's will monitor these projects' progress.

Ratings Detail (As Of October 24, 2011)		
Manitoba (Province of)		
Issuer Credit Rating		AA/Stable/A-1+
Commercial Paper		A-1+
Canadian National Scale Commercial Paper Rating		A-1(HIGH)
Senior Unsecured (94 Issues)		AA
Issuer Credit Ratings History		
05-Dec-2007	*Foreign Currency*	AA/Stable/A-1+
28-Nov-2006		AA-/Positive/A-1+

Ratings Detail (As Of October 24, 2011) **(cont.)**		
30-Jun-1998		AA-/Stable/A-1+
05-Dec-2007	*Local Currency*	AA/Stable/A-1+
28-Nov-2006		AA-/Positive/A-1+
05-Nov-2002		AA-/Stable/A-1+
Default History		
No default		
Population		1,250,574 as at July 31, 2011
Per Capita GDP		C$41,652 per person
Current Government		
New Democratic Party majority government reelected, led by Premier Greg Selinger		
Election Schedule		
Last election: Oct. 4, 2011		

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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Manitoba (Province of)

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Manitoba (Province of)

Major Rating Factors

Issuer Credit Rating
AA/Stable/A-1+

Strengths:

- Well-diversified economy with a lengthy history of solid performances
- Strong systemic support from the Canadian federal government
- Historically robust and low-volatility budgetary results

Weaknesses:

- Higher tax-supported debt burden compared with peers
- Risks inherent in self-supported debt likely to rise in the next five years
- Relatively moderate unfunded pension liabilities
- Adequate liquidity support

Rationale

The ratings on the Province of Manitoba reflect Standard & Poor's Ratings Services' opinion of the following positive factors:

- The province's well-diversified economy, which remains resilient despite strong headwinds from the global economic slowdown. According to the Manitoba Bureau of Statistics, the province's real GDP expanded by 2.2% in 2011. In its fiscal 2013 budget, the province forecast real GDP growth of 2.3%; however, given indicators of weakening growth in Europe and Asia through the second quarter of 2012, risks are tilted to the downside. We believe that despite this, Manitoba's economic performance is likely to remain more resilient than that of other Canadian provinces in the event of a significant deterioration in global economic conditions;
- The federal government's revenue support, provided through the equalization program and the Canada Health Transfer and Canada Social Transfer payments. For fiscal 2012 (year ended March 31), these transfers constituted about 28% of provincial summary revenues (Standard & Poor's adjusted);
- Manitoba's track record of robust operating surpluses and, until recently, after-capital surpluses. The province's after-capital results deteriorated in the past three fiscal years to 2012 as the after-capital deficit widened to 7.1% of total revenues in fiscal 2012 (Standard & Poor's adjusted). Manitoba is budgeting for a narrower after-capital deficit of 2.2% of revenues in fiscal 2013. However, it is still expecting to post an operating surplus in fiscal 2013 of 7.5% of revenues (Standard & Poor's adjusted).

We believe that credit concerns include the following:

- Manitoba's tax-supported debt burden, which is moderate compared with that of Canadian peers, but remains above the median for its rating category peer group;
- An expected increase in self-supported debt, specifically debt issued on behalf of Manitoba Hydro for hydroelectric projects in the next five years;
- Manitoba's relatively moderate unfunded pension liabilities, both as a percent of revenues and of GDP;
- Adequate liquidity support. In fiscal 2012 the province had cash and marketable securities equal to about 66% of the next 12 months of debt service, which is low in our opinion. Mitigating this somewhat is province's large pool of sinking funds of about C$1.7 billion at the end of fiscal 2012, which can be used to meet short-term liquidity needs

in the event of a market disruption; and
- Adequate financial flexibility due to moderate capital spending requirements and budgetary pressures from sluggish global economic conditions.

Outlook

The stable outlook reflects our expectations that Manitoba will continue to manage its finances prudently in the medium term and remain on track with its plan to achieve a balanced budget by fiscal 2015. Standard & Poor's expects that infrastructure renewal pressures in the near term will put upward pressure on the province's tax-supported debt burden and as such, the province's tax-supported debt as a share of GDP and revenues will rise in the medium term. A material and sustained increase in its tax-supported debt burden, a significant decline in cash and investment holdings, or a marked deterioration in budgetary performances could place downward pressure on the ratings. In our view, declines in Manitoba's tax-supported debt burden, as well as stronger-than-expected budgetary results, are preconditions for an upgrade.

Comparative Analysis

Manitoba's immediate peer group consists of the Canadian provinces of Ontario (AA-/Negative/A-1+) and New Brunswick (A+/Stable/A-1+); the Historical Territory of Bizkaia (in Spain; A/Negative/A-1); the Region of Brussels-Capital (in Belgium; AA/Negative/--); and the Region of Champagne-Ardenne (in France; AA-/Stable/A-1+).

Overall, Manitoba's economy fits well within its immediate peer group and compares favorably with the median for the 'AA' category. Manitoba's GDP per capita is consistent with the median for the rating category. The province's real GDP growth is slightly above the median for the 'AA' category and is better than some of its immediate peers'. Similarly, its unemployment rate is also below the median for the category. Within the Canadian peer group, Manitoba's economy is relatively more diversified than that of New Brunswick, Saskatchewan, and Ontario, but is predictably smaller than the larger economies of Ontario and Quebec. The province's economy typically posts stable economic performances and has proven relatively more resilient than peers during recessions.

Overall, although Manitoba, like the rest of the Canadian provinces is more indebted than most governments in the 'AA' category, its tax-supported debt burden relative to operating revenues is only slightly above the category medians. Moreover, we expect its outperformance in the past four fiscal years to continue to compare favorably with the rising debt burdens of other Canadian provinces. Similar to all Canadian provinces, the province's debt service burden remains significantly higher than the category median.

Canadian Intergovernmental System Is Predictable And Well Balanced

We view the Canadian federal-provincial intergovernmental system as being "well-balanced and predictable" because of its maturity and stability, moderate degree of mismatching of revenues and expenditures, high level of transparency and accountability, and strong likelihood of extraordinary support from the federal government.

The intergovernmental system is mature and has been stable in the long term. The Canadian constitution establishes the division of powers between the two levels. Historically, changes to the system have been evolutionary and gradual, owing largely to the difficulty of amending the constitution. Of the three main federal transfer programs benefiting the provinces, one--the equalization program--is established in the constitution.

The provinces have direct control over the majority of their revenues except for federal transfers. The main own-source revenues are personal income, corporate income, and sales taxes. Despite the high degree of revenue autonomy, tax competitiveness factors constrain revenue-raising capability. On the expenditure side, the Canadian constitution mandates the provinces to deliver certain key services, in particular health and education. Health spending presently represents more than 40% of provincial budgets, and will further limit expenditure flexibility as the Canadian population continues to age. The federal government does not impose financial control or regulatory systems.

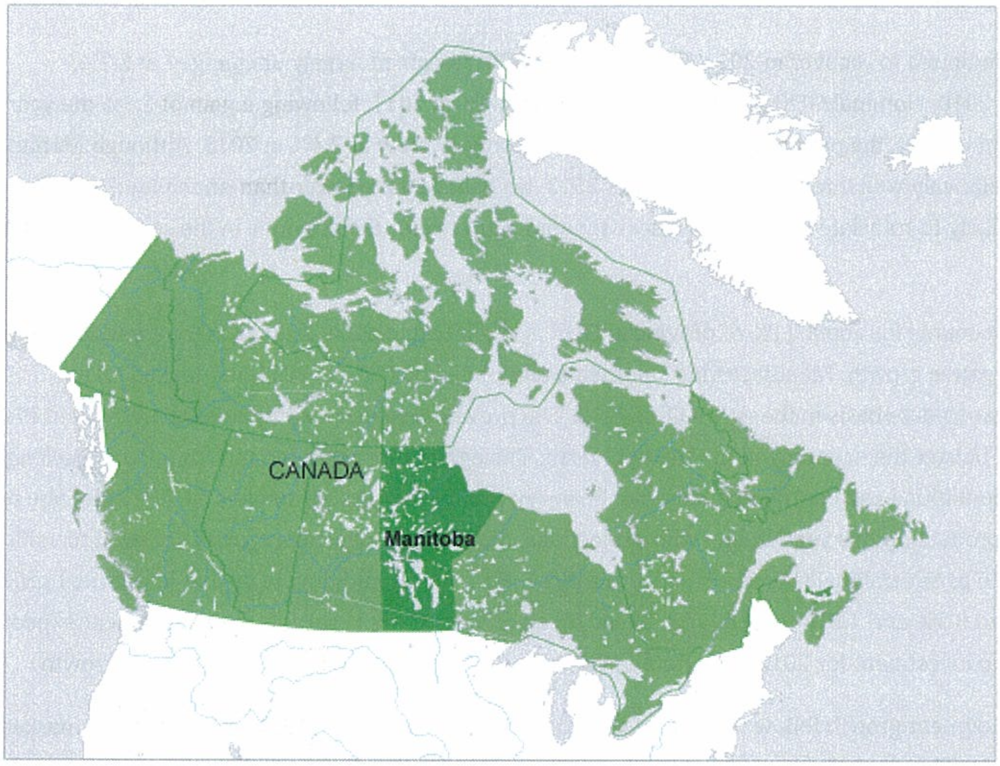
Financial information is typically timely, accurate, and comprehensive. Although no national standards exist concerning disclosure, provincial financial administration statutes mandate certain requirements (such as budgets and public accounts). Strong national accounting standards exist for all governments based on accrual accounting.

The federal government has a substantial track record of extraordinary support for natural disaster recovery and infrastructure. It can provide extraordinary support through its grant-making powers and significant financial resources.

Manitoba's Economy Maintains Stability Amid Global Uncertainty

As a result of a well-diversified economy, Manitoba enjoys relatively low volatility in its economic performance and during the most recent global economic crises has proven to be more resilient than most Canadian provinces. The key sectors of the economy are finance and real estate, manufacturing (mainly transportation equipment and agricultural products), and agriculture. Manitoba's GDP per capita is estimated at over US$46,000, which is comparable with that of its Canadian peers of New Brunswick and Ontario, but remains below the national average.

Manitoba (Province Of)



Potential fallout from global economic woes weighing on economies at all levels

More than three and a half years after the financial and economic crisis upset the world's economies, many countries are still hurting. The debt crisis in Europe persisted through the first half of 2012 and in some respects has intensified, with Italy, Spain, and Greece, among others, increasingly suffering from high sovereign debt burdens, budget deficits, and low growth or negative growth. The latest statistics revealed that real GDP growth in the eurozone slipped by 0.7% (annualized basis) in the second quarter of 2012. The U.S. economy has generally held up better than expected, growing at an annualized growth rate of 1.7% in the second quarter, but amid sluggish employment growth, the recovery has been slowing. Furthermore, growth in Asia has also been slowing, raising the risk that the global economy may once again be on quicksand.

Thus far, Canada's economy has been resilient, but, in our view, is not immune to a global economic slowdown. After the relatively strong emergence from the 2008-2009 recession, the economy has, we believe, been settling into a slower growth pattern. Real GDP rose 2.4% in 2011, down from 3.2% a year earlier. The recent slowdown in hiring is rippling through the economy, contributing to a slow recovery in the unemployment rate and tepid income growth. We believe consumer spending is holding up reasonably well, but the increasing amount of debt accumulated among households in recent years leaves them less able to absorb any potential hike in interest rates. In our baseline projection for the Canadian economy in 2012, we expect a focus on saving will constrain consumer spending, and GDP growth will average 2%.

Manitoba's economy continued to recover in 2011. Growth in real GDP remained largely unchanged at 2.2%, compared with 2.3% in 2010. Nominal GDP growth fell modestly to 4.9% in 2011, following a gain of 5.3% the year before. In its most recent budget, the province is expecting the economy to grow at 2.4% in 2013. Although Manitoba's economy has held up relatively well through the first half of 2012, we believe that slower-than-anticipated growth in the global economy is likely to translate into more modest economic growth for the province in the second half of this year and into 2013.

Manufacturing, which accounts for about 11% of provincial GDP, is beginning to show signs of recovery following two consecutive years of negative growth. Manufacturing shipments rebounded by 6.2% in 2011 and tacked on an additional 2.2% on a year-to-date basis in the first half of 2012. The province expects that additional investment in new technology should help bolster the economy in the medium term. The agriculture sector continues to face challenges from adverse weather conditions and contracting demand; however, preliminary crop estimates for 2012 indicate a sharp rebound in crop production this year. In line with projections, total capital investment growth slowed to 1.5% in 2011 from 15.7% in 2010 as several major projects came to a close. Both public and private capital investment growth rates declined in 2011, to 0.5% and 1.9%, respectively. Based on a Statistics Canada survey, the government expects further declines in public investment for 2012, thus potentially having a negative impact on employment growth.

Despite cooling in employment growth following considerable improvement seen in 2010, Manitoba's labor market has remained relatively stable. The unemployment rate stood at 5.4% in 2011, unchanged from the previous year. According to the most current Labor Force Survey from August of this year, the unemployment rate returned to 5.4% due to a gain of 3,400 jobs; however, it remains well below the national average of 7.3%.

The demographic outlook for the province is favorable. Manitoba's population for 2011 was estimated at 1,250,574 as of July 1, increasing by 1.3% from the year before. The five-year average of 1.1% is in line with that of its peers and the government is forecasting robust population growth in the medium term; 1.4% and 1.3% for 2012 and 2013, respectively. Unlike the aging population trend seen in some of the Canadian provinces (i.e. New Brunswick, Nova Scotia, and Quebec), Manitoba's median age continues to fall as a result of the majority of new immigrants to the province being under the age of 49 and increased fertility rates.

In line with slower-than-anticipated growth in the global economy, the government is forecasting modest growth over the next two years. Real GDP is expected to maintain stability, with projected growth rates of 2.3% in 2012 and 2.4% in 2013. We expect renewed activity in manufacturing and continued diversification of Manitoba's foreign export base to bolster steady economic activity in the province in the medium term. The province expects employment levels to increase 0.9% in 2012 and an additional 1.4% in 2013, keeping the unemployment rate at its current level in the outlook period. Minimal fluctuations in the labor market should also aid in regaining consumer confidence.

Table 1

Manitoba (Province of) Economic Statistics

	--- Year ended Dec. 31 ---					
(% change)	**2013f**	**2012**	**2011**	**2010**	**2009**	**2008**
Real GDP*	2.4	2.3	2.2	2.3	(0.5)	4.0
Employment	1.4	0.9	0.8	1.9	0.0	1.7
Unemployment rate (%)	5.3	5.4	5.4	5.4	5.2	4.2
Capital formation§	N/A	N/A	N/A	9.6	(3.2)	13.9
Consumer prices	2	1.9	3.0	0.8	0.6	2.3

*2012 budget estimate. §Current dollars, Statistics Canada. f--Forecast. N/A--Not applicable.

Risks to the economic forecast

The main risks to the economic outlook pertain to the extent and sustainability of the U.S. economic recovery and the potential for European sovereign risks to spill over into the global economy. Economic growth in the U.S. remains sluggish and could be stalled due to the weak job recovery, thus affecting U.S. demand for Manitoba products. The fragile housing market also poses a risk to growth in the U.S. In addition, Canadian household debt is high and in our view, represents by far the biggest risk to consumer spending in the near-to-medium term. U.S. and Canadian consumers have accumulated significant debt burdens that are likely to continue to limit their flexibility to spend. A significant increase in interest rates or a return to softer economic conditions could further burden consumers and businesses alike. We expect that consumers and business will focus on rebuilding their balance sheets and hence, we continue to see a gradual recovery in the U.S. and Canadian economies. Thus, weaker-than-expected growth in Manitoba's trading partners could result in weaker-than-expected GDP growth in Manitoba, translating to softer provincial revenues. Other key risk factors include the appreciating Canadian dollar, higher-than-forecast oil prices, and ongoing sovereign debt issues in the eurozone.

Manitoba's Financial Management Is Positive

The province's financial management is positive, in our view, in transparency and disclosure. Similar to Saskatchewan, the province reports its financial results on a summary level of consolidation. However, the province does not provide detailed economic and financial forecasts beyond one fiscal year or detailed long-term capital plans. Compared with peers, in our opinion, this is a credit weakness. Alberta, British Columbia, and New Brunswick are the only Canadian provinces that produce budget forecasts for two years beyond the current budget year on a line-by-line basis. Budget information and annual financial reports are relatively comprehensive and detailed. Debt management and related policies are prudent and risk-averse. The province's political and management culture is conservative and supported by a capable and experienced administration.

Province's Budgetary Flexibility Is Average

Manitoba has considerable budgetary flexibility, though it is average compared with that of its Canadian peers. In fiscal 2012, modifiable (own-source) revenues represented about 72% of operating revenues, which represented an increase since 2009; however, this is in line with the province's long-term average share of own-source revenues. Like other

Canadian provinces, the main modifiable revenues are taxes, primarily personal and corporate income tax and retail sales tax revenues. Capital revenues are generally small and are usually transfers from the federal government in support of joint infrastructure initiatives. In Manitoba's case, federal infrastructure grants in recent years have been for the purpose of general infrastructure renewal and floodway control expansion.

The province generally has some room to raise taxes if needed, as its personal and corporate income tax rates are somewhat lower than those of some peers such as Ontario and Quebec. But raising taxes in the current political context in most provinces, particularly in western Canada where Manitoba, Saskatchewan, and British Columbia face competitive pressures from the low tax jurisdiction of Alberta, is unpopular. Generally, Canada's other western provinces compete with Alberta for investment and labor.

Flexibility is more constrained on the spending side. Health, education, and interest costs, which constitute the bulk of the province's operating spending at about 71% of total in fiscal 2012, can be difficult to hold to target growth rates when the province's population is generally growing at a respectable rate. Health care cost escalation has generally been problematic for all provinces for many years, owing to an aging population, rising drug costs, and wage escalation among other factors. Moreover, although Manitoba, like other Canadian provinces, has done a good job in managing borrowing costs, we believe that the province's rising debt burden will contribute to increasing interest costs in the medium term, which will further constrain Manitoba's financial flexibility. Nevertheless, the province has demonstrated its willingness to hold the line on operating spending increases in the past.

Capital spending represented about 9.3% of total expenditures in fiscal 2012, which remained elevated compared with the 3%-5% typically posted by the province in the first half of the decade. Although we expect capital spending to remain relatively high in the near term, Manitoba may have more room to reduce it in the medium term.

Uncertainty Still Clouds Fiscal Outlook

To improve comparability across local and regional governments globally, Standard & Poor's makes adjustments to the published figures of all provinces to reflect their budgetary balances on a cash basis. This includes adjusting for major accruals, restating capital spending back to a cash basis by removing the influence of capital amortization and the net income of certain government business enterprises, and adjusting for one-time revenues. The government reporting entity currently includes school boards, regional health authorities, colleges, and universities.

Operating surplus expected to improve in fiscal 2013

For most of the past 10 years, the province has recorded the largest operating and after-capital surpluses of all Canadian provinces. The 2008-2009 recession alongside the implementation of fiscal stimulus spending by Canadian provinces, including Manitoba, contributed to a narrowing of the province's operating surplus and a widening of its after-capital deficit.

Manitoba's operating surplus has generally narrowed since the 2008-2009 recession; however, it remained healthier than that of other provinces including Alberta, which saw its operating surplus narrow to 2% of operating revenues. Manitoba produced an operating surplus in fiscal 2012 of 2.3% of operating revenues in fiscal 2012, which was markedly narrower than the 8.8% of operating revenues posted in fiscal 2011. However, the province is expecting its operating surplus to widen significantly in fiscal 2013 to 7.5% of operating revenues. From fiscal 2004 to 2009, annual operating surpluses averaged 9% of operating revenues.

In fiscal 2012, operating revenues rebounded by 5.2% following a 4.4% increase in fiscal 2011. The gain in operating revenues was generally broad based, with most revenue categories showing an increase. Personal income tax revenues rose by 5.1% in fiscal 2012, after rising by 7.9% in the previous year. Corporate income tax revenues posted an increase of more than 28%, after a gain of a similar magnitude in the previous year. Sales tax revenues also rose by 3.3% in fiscal 2012, after an increase of 3.1% in fiscal 2011. Federal transfers declined by 4.7% in fiscal 2012, largely reflecting lower federal equalization payments and lower transfers for infrastructure.

In fiscal 2013, the province expects operating revenues to rise by a more modest 1% (Standard & Poor's adjusted), reflecting increases in personal and sales tax revenues. However, corporate income tax revenues are forecast to decline by 4.2% after two sequential outsized gains of more than 28%. The province expects federal transfers to eke out a modest decline of just 0.1%, as lower equalization payments are offset by gains in Canada health and social payments. Although in the first half of fiscal 2012, greater economic uncertainty led to market speculation of another round of stimulus spending, we do not expect that the federal and provincial governments will follow through, as they remain focused on restoring fiscal balance.

Operating expenditures jumped by 12.8% in fiscal 2012 (Standard & Poor's adjusted) and followed a more moderate 2.9% increase in fiscal 2011. Health and education spending were the biggest culprits, rising 3.2% and 7% in fiscal 2012, respectively. Social and community spending increased by 9.8% in fiscal 2012, after rising 7.3% in fiscal 2011. The province is forecasting operating expenditures to decline by 4.4% in fiscal 2013, with increases of 4.9% and 3.8% in health and education spending, respectively, being offset by a 9.2% decrease in community and social spending.

The main risk to the province's budget assumptions is the potential for a stalled economic recovery in the U.S. and a deeper-than-expected decline in eurozone GDP in the third quarter. The latter would raise the possibility that the province's revenue growth forecasts could lag the projections as a result. Furthermore, holding operating expenditures to the growth rate forecast in the budget may prove challenging. However, in our view, Manitoba is generally better positioned than most provinces to weather the storm. The province's economy is generally very resilient and typically does not significantly feel the effects of a general economic slowdown. As such, we expect that the province's financial results may deviate very little from the province's budget forecast.

Table 2

Manitoba (Province of) -- Financial Statistics

	--- Year Ended March 31 ---					
(%)	**2013b**	**2012**	**2011**	**2010**	**2009**	**2008**
Operating balance/Operating revenue	7.5	2.3	8.8	7.5	9.6	14.2
Surplus (deficit)/Revenue	(2.2)	(7.1)	(0.6)	(1.8)	2.6	6.2
Operating revenue growth (% change)	1.0	5.3	4.4	(0.8)	3.6	11.7
Operating expenditure growth (% change)	(4.4)	12.8	2.9	1.5	9.2	4.5
Total expenditures/GDP	23.7	25.6	24.1	24.5	23.6	23.1
Interest/revenue	6.3	6.0	6.0	6.1	6.7	7.2
Net tax-supported debt/GDP	27.9	27.3	24.3	22.3	19.5	21.3

Table 2

Manitoba (Province of) -- Financial Statistics (cont.)						
Capital spending/Total expenditures	9.7	9.3	10.4	9.8	8.0	9.1

b--Fiscal 2013 budget. All financial ratios are Standard & Poor's adjusted.

After-capital deficit to narrow in fiscal 2013

The province posted a much wider after-capital deficit of 7.1% of total revenues in fiscal 2012, but expects this to narrow to 2.2% of total revenues in fiscal 2013. The narrowing of its after-capital deficit in fiscal 2013 is the consequence of the larger operating surplus during the year. Capital expenditures remained elevated in fiscal 2012. Manitoba's after-capital performances in recent years are mitigated somewhat by its moderate infrastructure requirements compared with those peers.

The fiscal 2012 capital program on a summary basis totaled about C$1.4 billion, which was unchanged from the previous year. This represented about 10% of total spending, which is elevated compared with historical norms for the province. The current budget calls for capital spending to remain unchanged at about C$1.4 billion in fiscal 2013.

Adequate Liquidity Support

Manitoba's liquidity support is adequate, in our opinion. At the end of fiscal 2012, Manitoba had cash and temporary investments estimated at C$1.5 billion. It also had C$1.7 billion in its various sinking funds (established for general government, Manitoba Hydro, and other government organization debt), which we understand that all funds are readily accessible for short-term liquidity needs. Presently, Manitoba's liquidity ratio is low in our opinion but comparable with that of other Canadian peers: the ratio of free cash, liquid assets, and committed facilities to the next 12 months' debt service is about 60%. The province also has strong access to global capital markets in our view. We foresee no significant change in the province's liquidity position in fiscal 2013.

Manitoba's maturity schedule is somewhat weighted to the near-to-medium term. As of the end of fiscal 2012, about 36% of total long-term indebtedness, which includes debt issued for Manitoba Hydro, matures before the end of fiscal 2016. Floating-rate exposure was fairly limited with only 10% of general-purpose debt having interest-rate exposure at the end of fiscal 2012. This was down from 13% in the previous year. The province's foreign currency exposure was also relatively limited, at about 24% as at the end of fiscal 2012. However, although it issued about 24% of gross debt in foreign currencies, all but 7% of that has been swapped back to Canadian dollars. The unhedged exposure (issued on behalf of Manitoba Hydro) was in U.S. dollars. The province benefits from a natural hedge arising from Manitoba Hydro's considerable electric power exports to the U.S.

Debt Burden Continues To Rise In Fiscal 2013

Manitoba issues debt for its own purposes, Manitoba Hydro, and various Crown organizations. At the end of fiscal 2012, tax-supported debt (adjusted for sinking funds) stood at C$16.9 billion, representing a sharp increase of 16.1% from fiscal 2011. Net tax-supported debt (tax-supported debt less cash and investment holdings) was C$15.6 billion at that time. Net self-supported debt, which consists of debt issued for Manitoba Hydro, was C$9.1 billion.

In fiscal 2012, tax-supported debt increased to 31.2% of GDP, primarily reflecting issuance for general purpose and capital expenditures, from 28.3% in fiscal 2011. As a percent of consolidated operating revenues, tax-supported debt also increased further to about 112.7% in fiscal 2012 from 100% in fiscal 2011. In fiscal 2013, the province expects its tax-supported debt as a share of GDP and consolidated operating revenues to rise further to 29% and 119.3%, respectively, reflecting the impact of infrastructure spending and modest operating revenue growth. Although we believe Manitoba's well-diversified economy should outperform the rest of Canada in an economic slowdown, Standard & Poor's expects that the inevitable sluggish economic pace of recent months and potential for a return to a global economic recession will continue to weigh on revenues and contribute to further increases in the province's net tax-supported debt burden in the next two fiscal years. The extent of the increase will depend on the severity of the potential slowdown in growth.

In its most recent budget, Manitoba forecasted its total gross borrowing requirements to be about C$3.7 billion in fiscal 2013, representing a drop of 29% compared with its fiscal 2012 gross borrowing requirement. Of the total, refunding maturing debt will account for C$2 billion, while new cash requirements net of estimated payments will account for C$1.7 billion. New cash requirements will consist of C$947 million for Manitoba Hydro; C$751 million for infrastructure investments; and the remainder for general government purposes (C$448 million), Crowns and organizations (C$75 million), and health facilities and post-secondary institutions (C$240 million).

Pension liabilities are moderate

Manitoba has what we view as a moderate unfunded pension liability but not significant enough to alter our view of the province's debt burden. At the end of fiscal 2012, the province's unfunded pension liability stood at about C$1.7 billion representing about 13% of fiscal 2012 operating revenues.

Contingent Liabilities

Manitoba Hydro

The province issues self-supporting debt in its own name and on-lends the proceeds to Manitoba Hydro, its wholly-owned electric utility.

Manitoba Hydro is a vertically integrated electric utility serving about 545,000 customers. The company's monopoly electricity network business serves the entire province. There is no effective competition in electricity generation. Generation facilities include 14 hydroelectric generating stations (5,017 megawatts [MW]), two thermal generating stations (458 MW), and four diesel sites (10 MW). The company also owns and operates a monopoly natural gas distribution business serving about 268,000 customers across southern Manitoba. Total debt outstanding as of March 31, 2012, was about C$9.4 billion, of which about C$9.1 billion is in the form of advances from Manitoba. Total debt, net of sinking fund assets of C$372 million, was C$9.05 billion.

The utility has an obligation to supply electricity to the province which leads to significant exposure to volume risk and volatile costs of electricity imports. Manitoba Hydro passes the price it pays for gas supply directly to the customer without any markup. It is protected from price risk, because gas rates are adjusted quarterly (subject to regulatory approval). Manitoba Hydro makes periodic cost-of-service applications to its regulator for rate increases for noncommodity-related gas and all electricity-related costs. The regulator approved interim electricity rate increases of

2.0% effective April 1, 2012 and an additional 2.5% effective Sept. 1, 2012.

We expect a continuing close relationship between Manitoba Hydro and the province, based on the company's strategic nature, the provincial government's energy policy, the government's provision for debt guarantees, and the governance structures in place.

For a full discussion of Manitoba Hydro's credit review, please see the analysis published Sept. 14, 2012, on RatingsDirect on the Global Credit Portal.

Related Criteria And Research

Methodology For Rating International Local And Regional Governments, Sept. 20, 2010

Ratings Detail (As Of September 14, 2012)		
Manitoba (Province of)		
Issuer Credit Rating		AA/Stable/A-1+
Commercial Paper		A-1+
Senior Unsecured		AA
Issuer Credit Ratings History		
05-Dec-2007	*Foreign Currency*	AA/Stable/A-1+
28-Nov-2006		AA-/Positive/A-1+
30-Jun-1998		AA-/Stable/A-1+
05-Dec-2007	*Local Currency*	AA/Stable/A-1+
28-Nov-2006		AA-/Positive/A-1+
05-Nov-2002		AA-/Stable/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.