The Manitoba Hydro-Electric Board

QUARTERLY REPORT

for the six months ended September 30, 2011

Comments by

THE CHAIRMAN OF THE BOARD

and by

THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

FINANCIAL OVERVIEW

Manitoba Hydro's consolidated net income from electricity and natural gas operations was $13 million for the first six months of the 2011–12 fiscal year. This represented an increase of $3 million compared to the net income of $10 million for the same period last year. The increase was largely attributable to higher revenues from electricity sales within the province.

Consolidated net income was comprised of a $37 million profit in the electricity sector and a $24 million loss in the natural gas sector. The loss in the natural gas sector is the result of seasonal variations in the demand for natural gas and will be recouped over the winter heating season. Based on current conditions, Manitoba Hydro is forecasting that net income will continue to improve over the balance of the fiscal year and should exceed $130 million by March 31, 2012.

Electricity Operations

Revenues from electricity sales within Manitoba totaled $568 million for the six-month period, an increase of $37 million or 7% higher than the same six-month period last year. The increase in domestic revenue was mainly attributable to increased weather-related usage in the residential sector compared to the previous year. In addition, a 2% general rate increase implemented on April 1, 2011 contributed approximately $11 million to the revenue increase over the six-month period. Extraprovincial revenues of $226 million were $10 million or 4% lower than the same period last year reflecting decreased prices in export markets. Energy sold in the export market was 6.8 billion kilowatt-hours compared to the 5.9 billion kilowatt-hours sold in the same period last year.

Expenses attributable to electricity operations totaled $757 million for the six-month period, an increase of $24 million or 3% higher than the previous year. The increase was the net result of an $18 million increase in power purchases, a $15 million increase in operating and administrative expenses, a $5 million increase in water rentals and a $3 million increase in taxes partially offset by a $10 million decrease in finance expense and a $7 million decrease in depreciation and amortization. Power purchased costs increased primarily as a result of new energy purchases from the St. Joseph wind farm. Operating and administrative expenses increased as a result of higher costs of system maintenance. Water rentals and assessments increased due to higher hydraulic generation. The decrease in finance expense was primarily the result of a stronger Canadian dollar. Depreciation and amortization decreased as a result of revised depreciation rates partially offset by additions to capital assets over the past year.

Capital expenditures for the six-month period amounted to $484 million compared to $568 million for the same period last year. Expenditures during the current fiscal year included $116 million for Wuskwatim generation and transmission, $49 million related to future Conawapa and Keeyask generation, $27 million for Bipole III projects, $22 million for the Riel Station, $16 million for Pointe du Bois projects, $14 million for upgrades to the Kelsey Generating Station, and $12 million for demand-side management programs. The remaining capital expenditures were incurred for ongoing system additions and modifications necessary to meet the electrical service requirements of customers throughout the province.

Natural Gas Operations

In the natural gas sector, a net loss of $24 million was incurred for the six-month period which was consistent with the same period last year. Revenue, net of cost of gas sold, was $46 million which was $2 million higher than the same period last year. The increase in revenues was primarily attributable to increased weather-related demand over the six-month period. Delivered gas volumes were 592 million cubic metres compared to 515 million cubic metres in the prior period.

Expenses attributable to natural gas operations amounted to $70 million compared to $68 million for the same period last year. The $2 million increase was largely attributable to higher maintenance and customer service costs.

Capital expenditures in the natural gas sector were $16 million for the current six-month period compared to $15 million for the same period last year. Capital expenditures included $12 million related to system improvements and other expenditures necessary to meet the natural gas service requirements of customers throughout the province, and $4 million for demand-side management programs.

Natural Gas Rate Decrease

Natural gas rates for residential customers decreased on August 1, 2011 by approximately 1.8% or $16 per year. Rate decreases for larger volume customers ranged from 2.0% to 3.5%, depending on customer class and consumption levels. The rate decreases are the net result of reductions in the price that Manitoba Hydro pays for natural gas from Alberta.

Wind Development — St. Leon Wind Farm

Algonquin Power & Utilities Corp. will build an additional 10 turbines, producing 16.6 megawatts of power, at the St. Leon Wind Farm near Treherne, Manitoba. St. Leon became fully operational in 2006 and currently has over 60 turbines producing 103 megawatts.

Manitoba Hydro will purchase the output of the wind farm in accordance with a newly signed 25-year power-purchase agreement for the additional generation.

Manitoba Hydro wins Better Communications Awards

Manitoba Hydro was recognized with eight awards at the 2011 Utility Communicators International Better Communications Competition. This is a prestigious competition which draws entries from utilities around the world. At this year's competition, Manitoba Hydro picked up four first-place awards, two second-place awards and two third-place awards for a number of Manitoba Hydro's external publications.

Manitoba Hydro Named Top 100 Employer

For the second consecutive year, Manitoba Hydro was selected as one of Canada's top 100 employers. The selection was made by a panel drawn from universities across Canada and was sponsored by Mediacorp Canada. The criteria for selecting the top 100 employers included the following key areas: physical workplace, work atmosphere, health and family benefits, communications, performance management, and training and skills development.

Victor H. Schroeder, QC
Chairman of the Board

R. B. Brennan, FCA
President and
Chief Executive Officer
November 15, 2011

Consolidated Statement of Income

In Millions of Dollars (Unaudited)

			Six Months Ended September 30		Three Months Ended September 30	
			2011	**2010**	**2011**	**2010**
Revenues						
Electric	–	Manitoba	568	531	277	264
	–	Extraprovincial	226	236	125	144
Gas	–	Commodity	50	53	16	20
	–	Distribution	46	44	20	20
			890	864	438	448
Cost of gas sold			50	53	16	20
			840	811	422	428
Expenses						
Operating and administrative			236	220	121	105
Finance expense			210	219	106	109
Depreciation and amortization			193	200	90	101
Water rentals and assessments			61	56	32	31
Fuel and power purchased			76	58	41	32
Capital and other taxes			51	48	25	25
			827	801	415	403
Net Income			13	10	7	25

Consolidated Balance Sheet

In Millions of Dollars (Unaudited)

	As at September 30	As at September 30
	2011	**2010**
Assets		
Capital assets	11 293	10 524
Current assets	956	613
Other assets	1 125	923
	13 374	12 060
Liabilities and Equity		
Long-term debt (net)	9 145	7 696
Current liabilities	509	866
Other liabilities	665	594
Non-controlling interest	94	76
Contributions in aid of construction	303	295
Retained earnings	2 402	2 249
Accumulated other comprehensive income	256	284
	13 374	12 060

Consolidated Cash Flow Statement

In Millions of Dollars (Unaudited)

	Six Months Ended September 30		*Three Months Ended September 30*	
	2011	**2010**	**2011**	**2010**
Operating Activities				
Cash receipts from customers	1 000	976	466	455
Cash paid to suppliers and employees	(556)	(511)	(251)	(251)
Net interest	(238)	(248)	(115)	(118)
	206	217	100	86
Financing Activities	741	428	(4)	186
Investing Activities	(522)	(648)	(282)	(326)
Net increase (decrease) in cash	425	(3)	(186)	(54)
Cash at beginning of period	69	174	680	225
Cash at end of period	494	171	494	171

Consolidated Statement of Comprehensive Income

In Millions of Dollars (Unaudited)

	Six Months Ended September 30		*Three Months Ended September 30*	
	2011	**2010**	**2011**	**2010**
Net Income	13	10	7	25
Other Comprehensive Income				
Unrealized foreign exchange gains (losses) on debt in cash flow hedges	(131)	(27)	(143)	57
Realized foreign exchange losses on debt in cash flow hedges reclassified to income	—	1	—	1
Unrealized fair value gains on available-for-sale U.S. sinking fund investments	19	24	14	8
	(112)	(2)	(129)	66
Comprehensive Income (Loss)	(99)	8	(122)	91

Segmented Information

In Millions of Dollars (Unaudited)

Six Months Ended September 30	Electricity 2011	Electricity 2010	Gas 2011	Gas 2010	Total 2011	Total 2010
Revenue (net of cost of gas sold)	794	767	46	44	840	811
Expenses	757	733	70	68	827	801
Net Income (Loss)	37	34	(24)	(24)	13	10
Three Months Ended September 30						
Revenue (net of cost of gas sold)	402	408	20	20	422	428
Expenses	381	370	34	33	415	403
Net Income (Loss)	21	38	(14)	(13)	7	25
Total Assets	12 807	11 501	567	559	13 374	12 060

Generation and Delivery Statistics

	Six Months Ended September 30 2011	*Six Months Ended September 30* 2010	*Three Months Ended September 30* 2011	*Three Months Ended September 30* 2010
Electricity (gigawatt-hours)				
Hydraulic generation	17 079	15 838	8 770	8 840
Thermal generation	43	30	24	12
Scheduled energy imports	31	142	12	10
Wind purchases	384	167	182	81
Total system supply	17 537	16 177	8 988	8 943
Natural Gas (millions of cubic metres)				
Gas sales	237	220	77	84
Gas transportation	355	295	168	140
	592	515	245	224

For further information contact:

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Cover: Wind turbine fall scene, St. Leon, Manitoba.