The Manitoba Hydro-Electric Board

QUARTERLY REPORT

for the six months ended September 30, 2014

Comments by

THE CHAIR OF THE BOARD

and by

THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

FINANCIAL OVERVIEW

Manitoba Hydro incurred a net loss on consolidated electricity and natural gas operations of $6 million for the first six months of the 2014-15 fiscal year compared to a net loss of $2 million for the same period last year. The increase in net loss was primarily attributable to higher financing expenses partially offset by increased revenues from domestic electricity sales.

The consolidated net loss was comprised of a $22 million loss in the natural gas sector and a $16 million profit in the electricity sector. The loss in the natural gas sector is the result of seasonal variations in the demand for natural gas and is expected to be recouped over the winter heating season.

Based on the continuation of current water flow and export market conditions and assuming normal winter weather, Manitoba Hydro is forecasting that financial results will improve over the balance of the fiscal year and net income should exceed $100 million by March 31, 2015.

Electricity Operations

Revenues from electricity sales within Manitoba totaled $612 million for the six-month period, which was $23 million or 4% higher than same period last year. The increase in domestic revenue was primarily attributable to electricity rate increases and an increase in customers. Extraprovincial revenues of $241 million were $1 million lower than the same period last year reflecting lower sales volumes as a result of a U.S. transmission line outage, mainly offset by favourable foreign exchange rates on U.S. sales. Energy sold in the export market was 6.6 billion kilowatt-hours compared to 7.1 billion kilowatt-hours sold in the same period last year.

Expenses attributable to electricity operations totaled $879 million for the six-month period, an increase of $23 million or 3% higher than the same period last year. The increase was the result of a $29 million increase in finance expense, a $5 million increase in depreciation and amortization expense, a $2 million increase in capital and other taxes and a $1 million increase in fuel and power purchased costs, partially offset by a $10 million decrease in operating and administrative expenses, a $3 million decrease in other expenses and a $1 million decrease in water rental and assessments. Finance expense increased primarily as a result of realized foreign exchange gains on U.S. debt and gains on the sale of U.S. sinking fund investments that were recorded in the previous fiscal year. Depreciation and amortization expense increased primarily as a result of the Riel 230-kV station and the Pointe du Bois spillway coming into service in the current year. Operating and administrative expenses decreased due to a greater focus on capital requirements relating to new and existing infrastructure.

The net loss attributable to non-controlling interest represents Taskinigahp Power Corporation's 33% share of the Wuskwatim Power Limited Partnership's operating results for the first six months of the 2014-15 fiscal year.

Capital expenditures for the six-month period amounted to $943 million compared to $634 million for the same period last year. Expenditures during the current period included $429 million related to future Keeyask generation, $115 million for Bipole III projects, $89 million for the Pointe du Bois projects, $23 million for future Conawapa generation and $20 million for the Riel Station. The remaining capital expenditures were incurred for ongoing system additions and modifications necessary to meet the electrical service requirements of customers throughout the province. The Corporation also incurred $13 million for electric demand-side management programs.

Natural Gas Operations

In the natural gas sector, a net loss of $22 million was incurred for the six-month period, compared to the net loss of $21 million in the same period last year. Revenue, net of cost of gas sold, was $50 million which is $1 million higher than the same period last year. The increase in net revenues was primarily related to a distribution rate increase implemented in the summer of 2013. Delivered gas volumes were 596 million cubic metres compared to 643 million cubic metres in the prior period.

Expenses attributable to natural gas operations amounted to $72 million as compared to $70 million for the same period last year. The increase was the result of a $1 million increase in operating and administrative expenses and a $1 million increase in depreciation and amortization expense.

Capital expenditures in the natural gas sector were $16 million for the current six-month period compared to $17 million for the same period last year. Capital expenditures are related to system improvements and other expenditures necessary to meet the natural gas service requirements of customers throughout the province. The Corporation also incurred $4 million for gas demand-side management programs.

Construction Starts on the Keeyask Generating Station

Upon receiving all necessary approvals, construction on the Keeyask Generating Station commenced as scheduled on July 16, 2014. The general civil contract, the largest contract on the Keeyask project, was awarded to BBE Hydro Constructors Limited Partnership (BBE) on March 10, 2014, for a value of $1.4 billion. BBE is a limited partnership between Bechtel Canada Co., Barnard Construction of Canada Ltd. and EllisDon Civil Ltd. BBE has begun to construct river management structures including the quarry cofferdam, north channel rock groin, north channel stage 1 cofferdam and the first portion of the powerhouse cofferdam in preparation for river diversion which will allow for construction of the generating station's principle structures.

The first phase of the Keeyask main camp is nearing completion and staff have begun to occupy some of the camp's 588 rooms. Over the next 18 months, the camp will be expanded to house approximately 2,000 workers which will be required for peak construction of the Keeyask Generating Station.

The $6.5 billion, 695-megawatt Keeyask Generating Station is being developed by Manitoba Hydro in partnership with four Manitoba First Nations — Tataskweyak Cree Nation, War Lake First Nation, Fox Lake First Nation and York Factory First Nation. The generating station will be located on the Nelson River approximately 30 kilometres west of Gillam, within the Split Lake Resource Management Area. The first generator unit in-service date is targeted for 2019 with all units being commissioned by 2020.

Supplier Selected for Largest Bipole III Reliability Project Contract

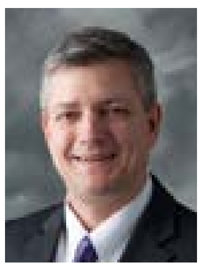
Manitoba Hydro has selected the supplier for the largest contract associated with the Bipole III reliability project. The consortium of Siemens Canada and Mortenson Canada was chosen to design, supply and install the High Voltage Direct Current (HVDC) equipment and buildings required for the project's two convertor stations which is valued at approximately $800 million. The signing of the contract is expected to take place in early October. With the majority of the contract costs now committed, the budget for the Bipole III project is $4.6 billion as compared to the preliminary estimate of $3.3 billion prepared in 2011.

The Bipole III project is the best option for enhancing the reliability of Manitoba Hydro's transmission system and reducing the dependencies on the Dorsey Converter Station and the existing HVDC Interlake corridor. It includes: a 1 384-kilometre, 500 kV direct current transmission line; the Keewatinohk Converter Station and the Riel Converter Station. These facilities will back-up the Bipole I and II HVDC transmission systems, which share a common right-of-way corridor, and the Dorsey Converter Station. Currently over 70 percent of all electricity generated by Manitoba Hydro travels south over two, side-by-side transmission lines, Bipoles I and II and being in such close proximity to each other make the lines susceptible to being impacted by a single weather incident or forest fire event, as happened in September 1996. Bipole III and other converter stations provide an alternate path for electricity to reach customers should such an event re-occur. The project also provides the additional capacity to bring electricity from the new hydro projects in the north to southern Manitoba and offers employment, training and other economic benefits for Manitoba.

Natural Gas Rate Changes

In accordance with Manitoba Hydro's methodology to change natural gas rates every quarter depending on the price of gas purchased from Alberta, rates for residential customers decreased on August 1, 2014 by 0.8% or approximately $7 per year. Rate changes for larger volume customers ranged from a decrease of 2.0% to an increase of 3.8% depending on the customer class and consumption levels.

William Fraser, FCA
Chair of the Board



Scott Thomson, CA
President and
Chief Executive Officer
November 15, 2014

Consolidated Statement of Income

In Millions of Dollars (Unaudited)

	Six Months Ended September 30 2014	Six Months Ended September 30 2013	Three Months Ended September 30 2014	Three Months Ended September 30 2013
Revenues				
Electric – Manitoba	612	589	298	285
– Extraprovincial	241	242	130	128
– Other	29	33	14	15
Gas – Commodity	58	45	18	13
– Distribution	50	49	21	20
	990	958	481	461
Cost of gas sold	58	45	18	13
	932	913	463	448
Expenses				
Operating and administrative	264	273	132	138
Finance expense	258	229	135	104
Depreciation and amortization	228	222	116	112
Water rentals and assessments	62	63	33	33
Fuel and power purchased	66	65	30	28
Capital and other taxes	60	58	30	29
Other expenses	13	16	7	7
	951	926	483	451
Net Loss before non-controlling interest	(19)	(13)	(20)	(3)
Net Loss attributable to non-controlling interest	13	11	7	6
Net Income (Loss)	(6)	(2)	(13)	3

Consolidated Balance Sheet

In Millions of Dollars (Unaudited)

	As at September 30 2014	As at September 30 2013
Assets		
Capital assets	14 443	13 000
Current assets	847	516
Other assets	1 201	1 105
	16 491	14 621
Liabilities and Equity		
Long-term debt (net)	11 501	9 419
Current liabilities	728	1 205
Other liabilities	968	780
Contributions in aid of construction	402	355
Non-controlling interest	111	84
Retained earnings	2 710	2 540
Accumulated other comprehensive income	71	238
	16 491	14 621

Consolidated Cash Flow Statement

In Millions of Dollars (Unaudited)

	Six Months Ended September 30		Three Months Ended September 30	
	2014	**2013**	**2014**	**2013**
Operating Activities				
Cash receipts from customers	1 195	1 088	556	514
Cash paid to suppliers and employees	(656)	(503)	(198)	(214)
Net interest	(309)	(290)	(162)	(140)
	230	295	196	160
Financing Activities	885	512	523	324
Investing Activities	(950)	(781)	(560)	(448)
Net increase in cash	165	26	159	36
Cash at beginning of period	142	32	148	22
Cash at end of period	307	58	307	58

Consolidated Statement of Comprehensive Income

In Millions of Dollars (Unaudited)

	Six Months Ended September 30		Three Months Ended September 30	
	2014	**2013**	**2014**	**2013**
Net Income (Loss)	(6)	(2)	(13)	3
Other Comprehensive Income (Loss)				
Unrealized foreign exchange gains (losses) on debt in cash flow hedges	(26)	(25)	(88)	40
Realized foreign exchange (gains) losses on debt in cash flow hedges reclassified to income	-	(14)	-	(8)
Unrealized fair value losses on available-for-sale U.S. sinking fund investments	-	(9)	-	(3)
Realized gains on redemption of U.S. sinking fund investments	-	(13)	-	(13)
	(26)	(61)	(88)	16
Comprehensive Income (Loss)	(32)	(63)	(101)	19

Segmented Information

In Millions of Dollars (Unaudited)

Six Months Ended	Electricity		Gas		Total	
September 30	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Revenue (net of cost of gas sold)	882	864	50	49	932	913
Expenses	879	856	72	70	951	926
Net Income (Loss) before non-controlling interest	3	8	(22)	(21)	(19)	(13)
Net Loss attributable to non-controlling interest	13	11	-	-	13	11
Net Income (Loss)	16	19	(22)	(21)	(6)	(2)
Three Months Ended						
September 30						
Revenue (net of cost of gas sold)	442	428	21	20	463	448
Expenses	447	417	36	34	483	451
Net Income (Loss) before non-controlling interest	(5)	11	(15)	(14)	(20)	(3)
Net Income attributable to non-controlling interest	7	6	-	-	7	6
Net Income (Loss)	2	17	(15)	(14)	(13)	3
Total Assets	15 803	14 026	688	595	16 491	14 621

Generation and Delivery Statistics

	Six Months Ended September 30		*Three Months Ended September 30*	
	2014	**2013**	**2014**	**2013**
Electricity in gigawatt-hours				
Hydraulic generation	17 557	17 725	9 120	9 189
Thermal generation	16	44	11	20
Scheduled energy imports	39	77	11	39
Wind purchases (MB)	420	382	187	154
Total system supply	18 032	18 228	9 329	9 402
Gas in millions of cubic metres				
Gas sales	283	277	87	76
Gas transportation	313	366	130	167
	596	643	217	243

For further information contact:

Public Affairs
Manitoba Hydro
PO Box 815 STN Main
Winnipeg, Manitoba, Canada
R3C 2P4
Telephone: 1-204-360-3233

Manitoba Hydro

Cover: On August 23, 2014, the official in-service date of the new Pointe du Bois spillway, the first waters of the Winnipeg River pass through gate two.