INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

STATUS UPDATE REPORT as at October 31, 2014

TABLE OF CONTENTS

TOPIC	PAGE
Executive Summary	3
1.0 Introduction	8
2.0 Overview of IFRS Conversion Project	11
3.0 Key Areas of Impact	15
3.1 Rate-Regulated Accounting	15
3.2 Goodwill & Intangible Assets	22
3.3 Property, Plant & Equipment	27
3.4 Capitalization of Overhead Costs	34
3.5 Employee Pension and Benefits	37
3.6 Financial Instruments	40
3.7 Leases	43
3.8 Customer Contributions	44
3.9 IFRS 1 - Initial Adoption of IFRS	46
4.0 Financial Reporting & Disclosure	47
5.0 Key Systems & Processes	51
6.0 IFRS Changes	53
7.0 Next Steps	62

Executive Summary

Manitoba Hydro (MH) will be required to prepare financial statements in accordance with International Financial Reporting Standards (IFRS) effective for its 2015/16 fiscal year with comparative information presented for 2014/15. The 2015/16 transition year represents an additional one year deferral to MH's previous deferred transition date of 2014/15 and is the result of a February 2013 decision by the Accounting Standards Board of Canada (AcSB) to extend the option for rate-regulated entities to transition to IFRS to 2015. The AcSB provided for an additional deferral of transition in anticipation of an approval by the International Accounting Standards Board (IASB) of an interim standard permitting rate-regulated entities to continue to recognize rate regulated accounts for financial reporting upon transition to IFRS. On January 30, 2014, the IASB issued the interim standard IFRS 14 *Regulatory Deferral Accounts.* MH will adopt the interim standard upon transition to IFRS and will continue to recognize rate-regulated accounts for its financial reporting.

Overall, the transition to IFRS is not expected to have a significant impact on customer rates. Increases to operating and administrative expenses due to reductions in overhead eligible for capitalization will be substantially offset in the future by corresponding reductions in depreciation and amortization expense. The net impact of the transition to IFRS for 2015/16 is expected to be a decrease to net income of approximately $20 million. In addition to the net income impacts, retrospective application for changes in accounting resulting from differences from existing GAAP is required. For MH, the transition to IFRS will result in an initial adjustment to retained earnings of approximately $54 million and an adjustment to Accumulated Other Comprehensive Income (AOCI) of $445 million.

The following table identifies the consolidated transitional adjustments and projected 2015/16 net income impact of MH's transition to IFRS *(In millions of dollars):*

	IFRS IMPACTS INCREASE / (DECREASE)		
	Retained Earnings April 1, 2015	**AOCI**	**Net Income 2015/16**
Administrative Overhead	(56)		(57)*
Pension & Employee Benefits	(24)	(445)	3
Meter Compliance, Exchange and Sampling			5
Capital Taxes	-		3
Removal of Asset Retirement Costs from Depreciation	62		64
Change to Equal Life Group Method of Depreciation	(36)		(38)
Total	**(54)**	**(445)**	**(20)**

*net of reductions in amortization

The topics in the following table have been identified as having the highest potential impact to MH upon its transition to IFRS:

Topic	Issue
Rate-Regulated Accounting	- Prior to December 2013, IFRS did not include a standard that recognized rate-regulated accounting. In the absence of a such a standard, MH would be required to charge approximately $335 million in rate regulated accounts to retained earnings upon transition to IFRS and future expenditures on these items would be required to be expensed as incurred. - In its May 2012 meeting, the IASB supported giving priority to developing a standards-level project and detailed discussion paper for rate-regulated activities. This decision was based on the feedback the IASB received on its June 2011 Agenda Consultation. - As a result of the developments at the IASB, in September 2012 the AcSB extended the optional transitional deferral for rate-regulated entities by an additional one year to January 1, 2014. - In its December 2012 meeting, the IASB decided that an Exposure Draft for an Interim Standard should be developed as a temporary solution until the IASB completes its comprehensive project on rate-regulated activities. The interim standard would permit "grandfathering" of existing recognition and measurement policies for rate-regulated accounts and would require these accounts to be presented separately in the financial statements. - Supported by the actions of the IASB, in February 2013, the AcSB extended the optional transition date deferral to IFRS for rate-regulated entities by an additional one year to January 1, 2015. - In April 2013, The IASB issued the Exposure Draft "Regulatory Deferral Accounts" with comments to be received by September 4, 2013. The exposure Draft applied to first–time adopters of IFRS only, permitted grandfathering of existing rate-regulated accounting practices, and required regulatory accounts to be presented separately in the financial statements. - On January 30, 2014, the IASB issued an Interim IFRS (IFRS 14 *Regulatory Deferral Accounts*) for rate-regulated activities effective January 1, 2016 with earlier adoption permitted. Manitoba Hydro will early adopt the interim standard effective April 1, 2015 and will continue to recognize rate-regulated accounts upon its transition to IFRS.

Topic	Issue
Intangible Assets	- GAAP converged with IFRS effective for MH's 2009/10 financial statements. The impact of this change on prior years was a cumulative reduction to retained earnings of $37 million related to the write-off of ineligible research and promotional related expenditures.
Property, Plant & Equipment (PP&E)	- The IASB has approved an exemption for rate-regulated entities to carry forward existing PP&E balances as of the transition date to IFRS. - MH has established new components as part of their review for compliance with IFRS and has completed a depreciation study based on these new components. - MH will change from the Average Service Life method of calculating depreciation to the Equal Life Group approach so as to ensure that each asset within a pool is fully depreciated upon its retirement. - MH will remove the provision for asset removal costs (negative salvage) from depreciation rates as this is not an IFRS eligible cost for self-constructed assets. - The impacts in 2015/16 to net income from the change to the Equal Life Group method and the elimination of the provision for asset removal costs will result in an annual decrease in depreciation of $26 million.
Capitalization of Overhead Costs	- IFRS specifically states that administration and other general overhead costs are not eligible for capitalization. - Through to 2012/13, MH adjustments with respect to discontinuing the capitalization of overhead costs total $62 million. This amount grows to $65 million by 2014/15 including inflation. - MH will discontinue the capitalization of an additional $58 million annually of general overhead costs upon transition to IFRS in 2015/16. - The $58 million is comprised primarily of expenditures for training, services and administration and managerial related charges.

Topic	Issue
Pension Costs	- IFRS does not permit the deferral of experience gains and losses for calculating expected fund returns and does not permit the use of expected asset returns in determining the discount rate used to measure the pension obligation. - IAS 19 has been amended (effective January 1, 2013) such that all actuarial gains and losses are to be recognized in Other Comprehensive Income. - MH expects to reclassify unrecognized actuarial experience losses of approximately $445 million to Accumulated Other Comprehensive Income upon adoption of IFRS.
Employee Benefits	- IFRS requires the estimated obligation for the unvested portion of accumulating benefits to be recognized over the period of service. - IFRS also requires past service benefit charges to be expensed as incurred. - Upon transition, MH expects to recognize approximately $15 million in increases to obligations with corresponding adjustments to retained earnings for unvested sick leave and severance benefits. - In addition, MH expects to charge approximately $9 million to retained earnings for unamortized past service balances for Retirement Health Spending Plan amendments.

1.0 Introduction

In February 2008, The AcSB declared January 1, 2011 as the date for Canadian publicly accountable enterprises to commence using International Financial Reporting Standards (IFRS) as a replacement for Canadian Generally Accepted Accounting Principles (GAAP). The Public Sector Accounting Board (PSAB) standards requires that public-sector enterprises with self-sustaining commercial-type operations (government business enterprises) such as Manitoba Hydro (MH) follow IFRS. Since 2008, the ACSB has approved several optional one-year deferrals of the transition to IFRS for Canadian entities subject to rate-regulation.

Although IFRS and GAAP are both principles-based, there are a number of differences between IFRS and GAAP that will result in changes in the timing of when costs are recognized by MH. Prior to January 2014, the most significant difference for entities subject to rate-regulation is that IFRS did not include a standard that recognized rate-regulated activities.

In recognition of the importance of this issue to North American utilities, the IASB started deliberations on this topic back in 2008 and since that time has started a project on rate regulated activities, issued an exposure draft in 2009, discontinued the project in 2010, restarted the project in 2012, issued an exposure draft in 2013 and issued an interim standard permitting the recognition of rate-regulated accounts in January 2014 (effective January 1, 2016 with early adoption permitted). Given the many years of uncertainty as to whether or not rate-regulated accounting would be permitted by the IASB, the AcSB issued multiple optional one-year deferrals of the transition to IFRS for Canadian rate-regulated entities. The following table summarizes the optional one-year deferrals of transition to IFRS as issued by the AcSB:

AcSB Decision Date	Revised IFRS Transition Date	Effective Date for Manitoba Hydro
September 2010	January 1, 2012	April 1, 2012
March 2012	January 1, 2013	April 1, 2013
September 2012	January 1, 2014	April 1, 2014
February 2013	January 1, 2015	April 1, 2015

Manitoba Hydro adopted each of the optional one-year deferrals issued by the AcSB and will be transitioning to IFRS effective April 1, 2015 for its 2015/16 fiscal year with comparative information for the 2014/15 fiscal year. Upon transition, MH will early adopt the IFRS interim standard IFRS 14 *Regulatory Deferral Accounts* and will continue to recognize regulatory deferral accounts in its financial statements.

MH has completed its assessment of the major differences upon transition to IFRS and has identified adjustments to retained earnings and ongoing differences in the timing of the recognition of certain transactions. The impacts of the transition affect primarily the accounting for property, plant and equipment (PP&E), general and administrative overhead capitalized and pension and benefits.

The overall impacts from conversion to IFRS can be summarized in the following three categories:

a) **Transitional Adjustments**

MH's transition to IFRS will result in adjustments to opening Retained Earnings and Accumulated Other Comprehensive Income (AOCI) as IFRS generally requires retrospective application. Such adjustments are somewhat less onerous due to an exemption that allows rate-regulated entities to carry-forward the historical cost of its PP&E and the interim standard that permits first-time adopters of IFRS to maintain rate-regulated accounts upon transition to IFRS.

b) **Ongoing differences**

MH has identified ongoing differences in the timing of recognition of certain transactions under IFRS. Increases in the amounts reported as annual operating and administrative expense resulting from annual overhead related expenditures that no longer qualify for capitalization or deferral are substantially offset over time by reductions in annual depreciation and amortization charges.

The following table identifies the consolidated transitional adjustments and projected 2015/16 net income impact of the transition to IFRS and the related accounting changes:

	IFRS IMPACTS INCREASE / (DECREASE)		
	Retained Earnings April 1, 2015	**AOCI**	**Net Income 2015/16**
Administrative Overhead	(56)		(57)*
Pension & Employee Benefits	(24)	(445)	3
Meter Compliance, Exchange and Sampling			5
Capital Taxes			3
Removal of Asset Retirement Costs from Depreciation	62		64
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Total	**(54)**	**(445)**	**(20)**

*net of reductions in amortization

2.0 Overview of IFRS Conversion Project

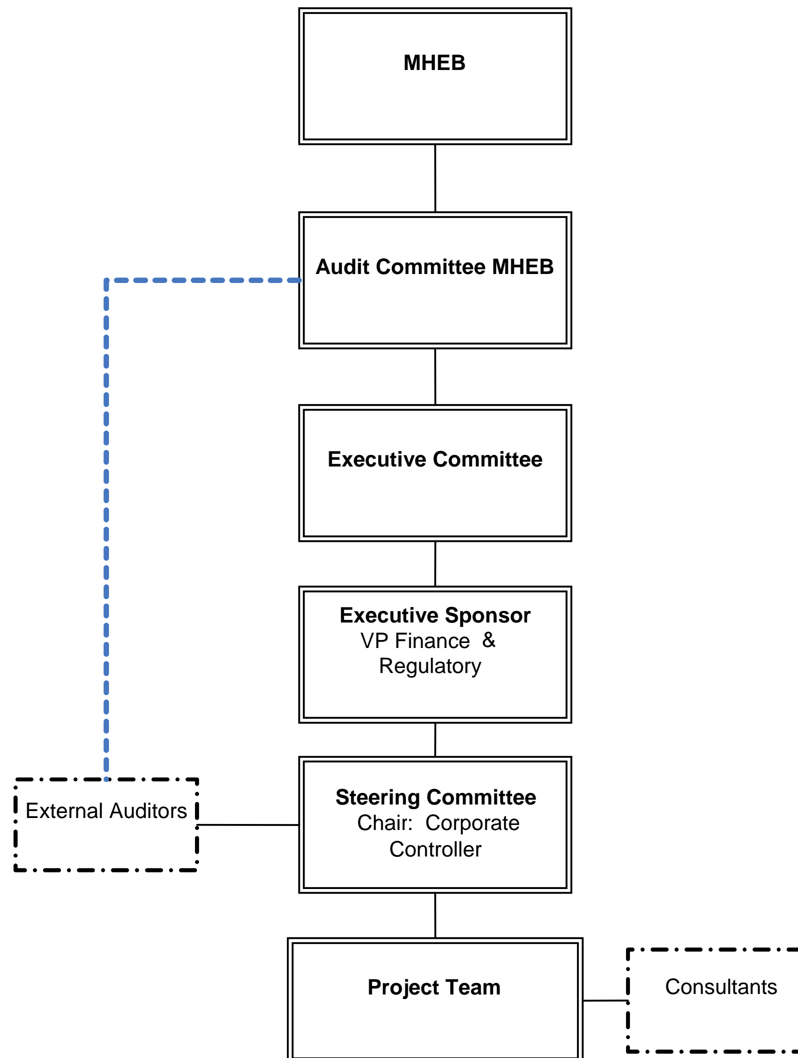
The following sections provide an overview of the MH IFRS conversion project structure, the project phases and the roles of the external consultants and auditors engaged to assist MH with the adoption of IFRS.

2.1 Project Structure

In 2008, MH formed a project team to manage the overall conversion to IFRS. Project team members work closely with a number of other employees throughout the Corporation to analyze the technical accounting issues and possible impacts of available options. The time commitment for these employees varies according to the complexity of the topics being considered.

In addition to the project team, a Steering Committee was established comprised of senior management representing each business unit, as well as other senior MH finance staff and a representative from MH's external auditor, Ernst & Young. The Executive Sponsor of the IFRS conversion project is the Vice-President Finance & Regulatory who has responsibility for the project and the communication of project results through the Executive Committee to the Audit Committee and the Manitoba Hydro-Electric Board (MHEB).

MH's formal project structure is summarized as follows:



2.2 Project Phases

The IFRS conversion project was divided into four phases with the following primary objectives:

1) Initial Assessment & Project Mobilization

- Establish project structure and mobilize project team;
- Develop initial project plan; and
- Identify potential gap differences between MH's policies and IFRS.

2) Detailed Design

- Prepare detailed gap analysis between MH's policies and IFRS;
- Assessment of the impact on key systems and related processes; and
- Update conversion plan.

3) Solution Development

- Develop comprehensive and detailed plans to convert systems and processes;
- Provide pro-forma financial statements and policies; and
- Develop detailed training programs.

4) Implementation

- Convert systems and processes;
- Prepare related documents and perform system testing; and
- Deliver IFRS training.

2.3 External Consultants

Through its project team and structure, MH managed the IFRS conversion project internally with the assistance of its primary consultant KPMG. Specifically, to date, KPMG has assisted the MH project team with:

- Project plan development, establishing priorities and monitoring progress;
- Detailed gap analysis of accounting and disclosure differences;
- Identifying accounting and system/process issues and raising awareness through educational sessions with management and staff;
- Application and interpretation of IFRS towards accounting policy and financial statement development;
- Assessment of information technology system requirements and possible solutions; and
- Detailed training and knowledge transfer.

There are also a number of technical areas involved in the IFRS project and MH has engaged Gannett Fleming Inc. and Ellement & Ellement to assist in the following areas:

Gannett Fleming Inc.:

- Application of IFRS as it applies to PP&E;
- Development of asset groupings that comply with IFRS componentization requirements;
- Development of IFRS compliant depreciation rates and related policies and practices applicable to each asset group;
- Development of historic cost and accumulated depreciation for the new asset groups; and
- Support for the regulatory review process.

Ellement & Ellement:

- Actuarial services on employee benefit obligations; and
- Review and consultation on pension calculations.

MH is in the process of hiring a consultant to assist with the technical system changes to facilitate financial reporting requirements under both IFRS and Canadian GAAP upon transition.

2.4 External Auditors

In order to opine on MH's consolidated financial statements for the year ended March 31, 2016 under IFRS, MH's external auditors will be required to:

- Review MH's accounting policies under IFRS standards;
- Audit MH's opening balance sheet at April 1, 2014 under IFRS, perform audit procedures on individual IFRS adjustments and the restatement of comparative periods;
- Review information system, process and internal control changes; and
- Review and comment on financial statement presentation and disclosures under IFRS.

MH's current external auditor, Ernst & Young, has provided advice and has concurred with accounting changes that have been implemented to March 31, 2014. In addition, Ernst & Young has participated in discussions on various IFRS conversion issues particularly with respect to overhead costs eligible for capitalization and pension and benefits.

3.0 Key Areas of Interest

The following topic areas were analyzed as to their impact to MH upon conversion to IFRS:

1. Rate-Regulated Accounting
2. Goodwill & Intangible Assets
3. Property, Plant & Equipment
4. Capitalization of Overhead Costs
5. Employee Pension and Benefits
6. Financial Instruments
7. Leases
8. Customer Contributions
9. IFRS 1 - Initial Adoption of IFRS

The following sections provide an overview of each of these main topic areas.

3.1 Rate-Regulated Accounting

The following sections describe rate-regulated accounting under GAAP and IFRS and describe the IASB's process towards the establishment of a comprehensive project to study the impacts of rate-regulation on financial reporting and the establishment of an interim standard for rate-regulated accounting.

3.1.1 Rate-Regulated Accounting under GAAP

MH recognizes the impact of rate-regulation by applying various accounting policies that allow for the deferral of certain costs or credits which will be recovered or refunded in future rates. This practice is commonly referred to as rate-regulated accounting. In the absence of rate-regulated accounting, these costs or credits may otherwise have been included in the determination of net income in the year incurred.

Effective January 1, 2009, GAAP was revised to remove a temporary exemption that permitted the recognition of assets and liabilities resulting from rate regulation. In the absence of specific guidance under GAAP, rate-regulated entities in Canada are permitted to reference and apply Accounting Standards Codification 980, "Regulatory Operations" (formerly FAS 71), issued by the US Financial Accounting Standards Board (FASB), which allows for

the recognition of rate-regulated assets and liabilities under the following circumstances:

a) The enterprise's rates for regulated services or products are established by or subject to approval by an independent, third-party regulator;
b) The regulated rates are designed to recover the specific enterprise's costs of providing the regulated services; and
c) It is reasonable to assume that rates set at levels that will recover the enterprise's costs can be charged to and collected from customers.

Pursuant to a practice allowed by Canadian GAAP, MH has relied on this standard to maintain its current accounting treatment for rate-regulated assets and liabilities through to 2014/15.

3.1.2 Rate-regulated Accounting Under IFRS

Prior to January 30, 2014, IFRS did not include a standard that permitted the recognition of the economic effects of rate regulation. While IFRS did not preclude the recognition of regulatory assets and liabilities, it required that an asset or liability must meet the existing framework for recognition. The application of the IFRS framework in other countries did not typically result in the recognition of regulatory assets and liabilities.

The absence of specific IFRS guidance for rate-regulated accounting had been a significant concern of the Canadian utility industry since the AcSB decision to transition to IFRS. This issue was on the agenda of both the International Financial Reporting Interpretation Committee (IFRIC) and the IASB in 2008. The IASB added this project to its agenda in December 2008 because of concerns that differences of views would emerge in practice about whether it was appropriate for entities to recognize assets and liabilities arising from rate regulation and because of the ongoing requests for guidance on this issue.

The IASB issued an Exposure Draft (ED), *Rate-regulated Activities,* on July 23, 2009. The proposed standard allowed for assets and liabilities that arise from rate-regulated activities (within the scope of the ED) to be recognized under IFRS.

The responses to the ED were submitted in November 2009 and were mixed in terms of those supporting and opposing the proposed standard. MH provided commentary to the IASB on the

ED and also provided input into the Canadian Electrical Association (CEA), Canadian Gas Association and Canadian Energy Pipeline Association joint response.

The IASB met to discuss the comments received and to provide direction on the Rate-regulated Activities ED on February 17, 2010. At this meeting it was tentatively confirmed that entities subject to rate regulation should be allowed an additional exemption to IFRS to carry forward existing balances of PP&E and intangibles at transition to IFRS. No other decisions as to the future direction of the ED was reached however, as the diversity in responses to the ED made it difficult for the IASB to conclude on a future direction.

On May 6, 2010, the IASB approved an amendment to IFRS 1 (First-time Adoption of IFRS) to allow entities with rate-regulated activities to use the carrying amount of their PP&E and intangible asset balances from their previous GAAP as deemed cost upon transition to IFRS. These balances may include amounts that would not be permitted for capitalization under IAS 16 Property, Plant and Equipment, IAS 23 Borrowing Costs and IAS 38 Intangible Assets.

Due to the uncertainty of the timing of the resolution of this issue by the IASB, on September 8, 2010, the AcSB approved an optional one-year deferral for transition to IFRS for entities subject to rate regulation. The deferral was in recognition that entities with rate-regulated activities will require additional time to prepare themselves and the users of their financial statements for conversion to IFRS. As was the case with most other rate-regulated utilities in Canada, MH adopted this deferral.

On September 16, 2010, the IASB further reviewed the issue of rate-regulated accounting and concluded that members were clearly divided in terms of those supporting and those opposing the recognition of rate-regulated assets and liabilities. The IASB thus decided to discontinue the project on rate-regulated accounting on the basis that this topic would require more analysis and discussion than IASB resources would allow in consideration of other priorities.

3.1.3 IASB Agenda Consultation:

In July 2011, the IASB issued an Agenda Consultation document that requested feedback from its constituents as to its future strategic priorities and those areas of financial reporting

that should be given the highest priority for improvement. The document listed the deferred projects of the IASB (including the rate-regulated accounting project) and requested suggestions for selecting new projects or removing projects to free up resources for other priorities. Comments on the IASB agenda consultation were due November 30, 2011. The CEA responded to the consultation indicating the need for the future agenda to address the impacts of rate regulation so as to reduce the extent of divergence in financial reporting emerging in the Canadian utility industry.

In March 2012, members the IASB met with the AcSB, the Big 4 accounting firms and industry representatives (including members from the CEA) to discuss the Canadian feedback from the IASB 2012 agenda consultation. One of the main issues discussed was the divergence in practice (IFRS, US GAAP and modified IFRS) emerging in the financial reporting of Canadian utilities due to a perceived lack of clarity regarding the accounting for rate-regulated activities under IFRS. It was suggested that an interim standard permitting the continued use of rate-regulated accounting in conjunction with the transition to IFRS be issued so as to reduce divergence in practice while a more comprehensive project was underway.

IASB representatives at the meeting acknowledged that this issue should be a priority and were amenable to an interim solution, but time and resources would prevent them from issuing an interim standard prior to 2015. Based on these discussions, on March 30, 2012, the AcSB announced a further extension of the optional deferral of the mandatory changeover date to IFRS for entities with qualifying rate regulated activities by an additional one-year to January 1, 2013.

In its May 2012 meeting, the IASB supported giving priority to developing a standards-level project for rate-regulated activities and in September 2012, the IASB decided to restart the project with the development of a comprehensive Discussion Paper to assess whether and how the IASB should develop an IFRS (or amend existing IFRSs) to reflect the impact of rate-regulation. In recognition that the development a comprehensive standards-level proposal will take several years, the IASB also discussed the potential for an interim IFRS for use until a comprehensive review is completed. As a result of the developments at the IASB, in September 2012 the AcSB extended the optional transitional deferral for rate-regulated

entities by an additional one year to January 1, 2014.

In its December 2012 meeting, the IASB decided that an Exposure Draft for an Interim Standard should be developed as a temporary solution until the IASB completes its comprehensive project on rate-regulated activities. The interim standard would permit "grandfathering" of existing recognition and measurement policies for entities currently recognizing rate-regulated accounts and that these accounts would be required to be presented separately in the financial statements. Based on the actions of the IASB, in February 2013, the AcSB extended the optional transition date deferral to IFRS for rate-regulated entities by an additional one year to January 1, 2015.

In April 2013, The IASB issued the Exposure Draft *Regulatory Deferral Accounts* with comments to be received by September 4, 2013. The exposure Draft permitted grandfathering of existing rate-regulated accounting practices, required regulatory accounts to be presented separately in the financial statements and applied to rate-regulated entities that are first–time adopters of IFRS. MH provided comments to the IASB in support of the proposals in the exposure draft.

In its November 2013 meetings, the AcSB decided that with the issuance of an interim standard for regulatory deferral accounts by the IASB, they will not provide a further optional one year deferral of the mandatory date to transition to IFRS. As such, Canadian rate-regulated entities will be required to transition to IFRS effective January 1, 2015.

On January 30, 2014, the IASB approved the new interim standard IFRS 14, *Regulatory Deferral Accounts* which is effective January 1, 2016 with earlier adoption permitted. The key aspects of the new standard are as follows:

- An entity is permitted to apply the interim standard only if it:
    - is a first-time adopter of IFRS;
    - conducts rate-regulated activities; and
    - recognized amounts that qualify as regulatory deferral account balances in its financial statements in accordance with its previous GAAP.
- A rate-regulated entity is to continue to use its previous GAAP accounting policies, for the recognition, measurement and impairment of regulatory deferral account balances;

- The entity is to present regulatory deferral account balances as separate line items in the statement of financial position and to present movements in those account balances as a separate line item in the statement of profit or loss and other comprehensive income; and
- The entity is to provide specific disclosures to identify clearly the nature of, and risks associated with, the rate regulation that has resulted in the recognition of regulatory deferral account balances.

MH's operations fall within the scope of the new interim standard and it will early adopt the standard upon its transition to IFRS effective April 1, 2015.

3.1.4 Recent Developments

On September 17' 2014 The Discussion Paper "*Reporting the Financial Effects of Rate Regulation*" was issued and describes a type of rate regulation that contains elements of both cost recovery and incentive approaches. The Discussion Paper considers the common features of rate regulation and explores which of them, if any, creates a combination of rights and obligations that is distinguishable from rights and obligations arising from non rate-regulated activities. The Discussion Paper does not include specific accounting proposals, but rather explores several possible approaches that the IASB could consider when deciding how best to report the financial effects of a defined type of rate regulation. The deadline for comments for the Discussion Paper is January 15, 2015.

3.1.5 Rate Regulated Accounts – Summary

MH's rate-regulated assets consist of the following:

- **Power Smart Programs:** represent expenditures for the costs of the Corporation's energy conservation programs for both the electric and gas operations.
- **Site Restoration Costs:** represent expenditures on restoring MH electric (including diesel sites) and gas sites.
- **Deferred Taxes:** represent the unamortized balance of taxes paid upon the acquisition of Centra Gas by MH. Upon Centra's acquisition, Centra became a nontaxable entity which triggered this charge to MH.
- **Acquisition costs**: represent the internal and external costs associated with the acquisitions of Centra Gas and Winnipeg Hydro.

- **Regulatory costs**: represent past MH internal and external costs associated with electric and gas regulatory hearings.
- **Purchased gas variance account (PGVA)**: represents timing differences between the actual cost of gas to serve our market and the recovery of those costs through PUB approved sales rates. This account may, at any time, be in an asset or liability position.
- **DSM deferral liability**: represents the difference between actual and planned DSM spending.

MH's regulatory assets/liabilities meet the recognition criteria for regulatory deferral accounts under the interim IFRS 14 standard and as such, will continue to be recognized separately on the financial statements of MH upon transition to IFRS. The following tables summarize the actual balance sheet amounts for 2013-14 and projected income statement and balance sheet amounts for 2014-15 and 2015-16:

Table 3.1.1 Summary of Rate-Regulated Accounts

Comparative Year 2014-15

	Electric		**Gas**		
Item	**March 31 2014**	**Fiscal 2014-15***	**March 31 2014**	**Fiscal 2014-15***	**Ending Balance Consolidated**
Power Smart Programs	184	20	54	2	**260**
Site Remediation Costs	33	(2)	3	-	**34**
Deferred Taxes	-	-	27	(2)	**25**
Acquisition Costs	19	(1)	-	-	**18**
Regulatory Costs	-	1	1	1	**3**
PGVA	-	-	39	-	
Regulated Assets	**236**	**18**	**124**	**1**	**379**
DSM deferral	16	-	6	-	22
Regulated Liabilities	**16**	**16**	**6**	**6**	**22**

* 2014-15 projected expenditures net of amortization

Transition Year 2015-16

	Electric		Gas		
Item	**March 31 2015**	**Fiscal 2015-16***	**March 31 2015**	**Fiscal 2015-16***	**Ending Balance Consolidated**
Power Smart Programs	204	8	56	(4)	**264**
Site Remediation Costs	31	(1)	3	-	**33**
Deferred Taxes	-	-	25	(2)	**23**
Acquisition Costs	18	(1)	-	-	**17**
Regulatory Costs	1	1	2	(2)	**2**
PGVA	-	-	39	(29)	**10**
Regulated Assets	**254**	**7**	**125**	**(37)**	**349**
DSM deferral	16	(16)	6	(6)	-
Regulated Liabilities	**16**	**-**	**6**	**-**	**-**

* 2015-16 projected expenditures net of amortization

3.2 Goodwill & Intangible Assets

Effective for MH's 2009/10 fiscal year, GAAP was converged with IFRS for the recognition and measurement of Goodwill & Intangible Assets (GAAP section 3064). The new standard required retrospective application for the 2008/09 fiscal year.

3.2.1 Goodwill

MH acquired two major utility operations - Centra Gas in July 1999 and Winnipeg Hydro in September 2002. As a result of these acquisitions, MH has recorded Goodwill in the amount of $108 million which has remained unchanged since March 31, 2003. In accordance with GAAP, goodwill is not amortized; it is tested for impairment on an annual basis unless all of the following criteria have been met:

a) The assets and liabilities that make up the reporting unit have not changed significantly since the most recent fair value determination;
b) The most recent fair value determination resulted in an amount that exceeded the carrying amount of the reporting unit by a substantial margin; and
c) Based on an analysis of events that have occurred and circumstances that have changed since the most recent fair value determination, the likelihood that a current

fair value determination would be less than the current carrying amount of the reporting unit is remote.

The goodwill accounting requirements under GAAP and IFRS are converged, however, GAAP uses a different impairment testing model from IFRS. IFRS generally determines an impairment loss as the excess of the carrying amount above the recoverable amount of the cash generating unit to which the goodwill is allocated, rather than the difference between carrying amount and fair value of the reporting unit's goodwill as required for GAAP.

Under IFRS and GAAP, irrespective of whether there is any indication of impairment, an entity is required to annually test goodwill acquired in a business combination for impairment. The IFRS impairment testing model is applied at the cash generating unit level as compared to the GAAP model which is applied at the reporting unit level. In addition, IFRS allows for a reversal of an impairment loss for long lived assets, but it does not permit an impairment reversal for goodwill.

MH will incorporate these changes into an annual impairment test for the goodwill resulting from the acquisition of Centra Gas and Winnipeg Hydro. MH does not expect that the application of this impairment test upon transition to IFRS will result in any impairments.

3.2.2 Transitional Requirements (IFRS 1)

IFRS requirements are applied retrospectively when an entity adopts IFRS. Under IFRS 1, however, a first-time adopter has the optional exemption to not retroactively restate any business combinations that occurred prior to the date of transition to IFRS. MH will take the exemption and not restate any past business combinations.

3.2.3 Intangible Assets

The new Canadian standard (section 3064) includes criteria for an expenditure to qualify for recognition as an intangible asset and stipulates that research related expenditures are to be expensed in the period incurred. Under GAAP and IFRS, an expenditure is recognized as an intangible asset only if it meets one of the following “identifiable” criteria:

a) Is separable (i.e., is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability); or
b) Arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

Examples of identifiable intangibles are franchise rights, patents and licenses. In addition to the “identifiable” requirement, an entity must demonstrate its ability to control and obtain the future economic benefits from the intangible asset. For internally generated intangible assets, the new section 3064 also requires the following “research” related activities to be expensed as incurred:

a) Activities aimed at obtaining new knowledge;
b) The search for, evaluation and final selection of, applications of research findings or other knowledge;
c) The search for alternatives for materials, devices, products, processes, systems or services; and
d) The formulation, design, evaluation and final selection of possible alternatives for new or improved materials, devices, products, processes, systems or services.

Activities incurred after the selection of a chosen alternative for the project are eligible for capitalization with the exception of:

- Selling, administrative and other general overhead expenditures unless this expenditure can be directly attributed to preparing the asset for use;
- Identified inefficiencies and initial operating losses incurred before the asset achieves planned performance; and
- Expenditures on training staff to operate the asset.

The following sections summarize the impact of the convergence of GAAP with IFRS for MH with respect to intangible assets.

Power Smart Programs (Demand Side Management-DSM)

MH previously recognized electric DSM program expenditures as deferred costs and natural

gas DSM program expenditures as rate-regulated assets. Upon the issuance of section 3064, an assessment determined that electric DSM activities did not meet the new intangible asset recognition criteria as these activities are not capable of being separated and transferred to another entity. As a result, MH reclassified unamortized electric related DSM charges to rate-regulated assets consistent with gas related DSM charges.

The new standard 3064 and IFRS specifically identify research, selling/promotion and indirect expenditures as ineligible costs for capitalization as an intangible asset. New DSM programs typically include research activities as well as promotional activities to introduce the DSM programs. Thus, upon adoption of section 3064, MH retrospectively adjusted unamortized DSM related balances for ineligible research and promotional related balances. The cumulative retained earnings adjustment associated with the April 1, 2008 DSM balance was approximately $5 million for electric related DSM charges and $1 million for gas related DSM charges.

Planning Studies

To comply with GAAP and IFRS, MH also reviewed its planning study expenditures and separated the expenditures into two categories:

a) Next generation and transmission studies; and
b) Emerging energy studies (i.e. wind studies to identify potential sites, hybrid electric vehicles).

The studies for next generation and transmission plant meet the criteria for recognition as an asset, but because such expenditures are intended to ultimately result in the construction of a tangible plant asset, deferral as an intangible asset is not appropriate. Therefore, these expenditures will be recognized as tangible construction in progress (CWIP) assets at the point in time when there is reasonable assurance that a commitment to construction will be made. Expenditures incurred prior to this point will be expensed in the period incurred.

Planning studies for emerging energies result in the accumulation of information and /or research data that enables MH to assess the impacts of energy options on its operations. Although emerging energy studies are necessary, the information generated from such studies does not normally result in the creation of separate or identifiable intangible assets and thus, does not meet the criteria for recognition as an asset. Therefore the costs associated with

emerging energy activities will be expensed in the period incurred. The cumulative retained earnings adjustment associated with the April 1, 2008 planning studies balance for ineligible charges was approximately $25 million.

Information Technology - Application Development

MH reviewed its computer system application development process and concluded that, for the most part, expenditures of this nature met the requirements for recognition as intangible assets. However, research and planning related activities involving the need for a new system (software / hardware) or the research and feasibility analysis of alternative solutions should be expensed in the period incurred. The cumulative retained earnings adjustment associated with the April 1, 2008 Application Development Projects balance for ineligible charges was approximately $5 million.

3.2.4 Presentation and isclosure

GAAP and IFRS emphasize that intangible assets are separate and identifiable stand alone assets and as such, should be presented separately on the balance sheet rather than being classified in PP&E. Upon adoption of section 3064, MH reclassified (April 1, 2008 balances, net of accumulated amortization) $103 million of Computer Software development and $37 million of Easements from Property, Plant & Equipment to a separate category titled Goodwill and Intangible Assets.

3.2.5 Summary of Impacts

The following tables summarize the actual April 1, 2008 retained earnings adjustments with respect to the retrospective application of the new standard and the impact to net income for 2009/10 amounts:

Table 3.2.1 Summary of Transitional Adjustments to Intangible Assets - Charge to April 1, 2008 Retained Earnings
(In millions of dollars)

Item	Electric	Gas	Consolidated
Demand Side Management - Research and Promotion	5	1	6
Planning Studies	25	-	25
IT Application Development - Research	4	1	5
Other	1	-	1
Decrease to Retained Earnings	**35**	**2**	**37**

Table 3.2.2 Summary of Net Income Impacts from Intangible Assets - 2009/10
(In millions of dollars)

Item	Electric	Gas	Consolidated
Demand Side Management - Research and Promotion	(1)	(1)	(2)
Planning Studies	(2)	-	(2)
IT Application Development - Research	(1)	-	(1)
Other	-	-	-
Consolidated Amortization Offsets	**5**	**-**	**5**
Net Income Impact	**1**	**(1)**	**0**

The annual impacts to net income related to the changes in the standard for intangible assets reflects offsets for reductions in amortization and will vary in the future according to the degree of annual spending for these items.

3.3 Property, Plant & Equipment (PP&E)

Amounts recognized as PP&E under IFRS can differ from current GAAP both at the time of initial transition and subsequent to the transition to IFRS.

3.3.1 Transitional Requirements (IFRS 1)

In general, IFRS requires retrospective application. There are exemptions available from this general requirement under IFRS 1. An entity may elect to measure an item of PP&E at the date of transition to IFRS at its fair value and use that fair value as its deemed cost at that date. Alternatively, entities with rate-regulated activities may use the carrying amount of their PP&E and intangible asset balances from their previous GAAP as deemed cost upon transition; subject to an impairment test as at the transition date. As a result of the IFRS exemptions, no retroactive adjustment would be required to adjust any differences in capitalized costs.

MH supports that carrying forward historical cost is the appropriate treatment for a rate-regulated entity as existing and future rates are largely based on historical costs. MH will take the exemption that a rate-regulated entity can elect to use the historical carrying value of PP&E as its deemed cost on transition to IFRS.

3.3.2 Subsequent to the Transition to IFRS

Under existing GAAP, PP&E is recorded based on actual historical costs, which represents historical capitalized costs net of accumulated depreciation. Under IFRS, a company has the option of choosing either the historical cost model or the revaluation model for recording PP&E. Under the cost model, PP&E is carried at its net book value – i.e. historical cost less accumulated depreciation. Under the revaluation model, a class of PP&E can be carried at fair value less any subsequent accumulated depreciation. Determining the appropriate method of measuring fair value may require the use of professionally qualified valuators.

MH will continue with the cost model as the revaluation model would continuously change the value of PP&E, increasing the volatility of depreciation expense due to changes in the fair value of the assets and potentially increasing the need for customer rate changes.

3.3.3 Componentization/Depreciation

Under GAAP, depreciation must be recognized in a rational and systematic manner over the estimated useful life of the asset. Depreciation methods and estimates of the life and useful life are reviewed on a regular basis; however, GAAP does not specify the frequency of a

"regular" basis. MH currently completes a depreciation study every five years and at that time adjusts its depreciation methods and estimates as appropriate.

Under GAAP, if an item of PP&E is made up of significant separable component parts, its cost must be allocated to the parts when practicable and when estimates can be made of the lives of the separate components. MH's policy is to group assets and amortize them such that the combined cost of the assets is amortized over the estimated average useful life of the group of assets.

IFRS requirements are similar to GAAP requirements. However, IFRS is more rigorous in terms of identifying separate components and addresses non-physical components of assets. IFRS permits the grouping of assets in determining the depreciation charge as long as the assets are from a homogeneous group, are individually insignificant in value and have similar useful lives. To the extent that assets include components with different lives that would materially impact annual depreciation expense, these components must be either separately depreciated or a methodology must be utilized that recognizes the differences in service lives for purposes of calculating depreciation expense. The recognition of non-physical components means that the costs of major overhauls or inspections associated with a capital asset may need to be recognized separately and amortized over a shorter life than the life of the physical asset. MH reviewed its existing components and determined that further componentization was required primarily for generation and distribution assets. In addition, MH determined that a change in the methodology for determining depreciation would also be required in order to avoid the need to componentize to a very detailed level.

With the assistance of its depreciation consultant, Gannett Fleming Inc., MH has established new component groupings consistent with the requirements of IFRS, assuming a change to the Equal Life Group procedure for group depreciation and has completed a depreciation study based upon these new component groupings. Normally, a depreciation study process is routine and involves updating the retirement experience of existing asset classes and reviewing operational factors to assess what new considerations are warranted. However, because of the new component groupings required under IFRS, an extensive effort involving accounting and operational personnel was required to research historical records and to assess operational factors of all new, existing and modified component groupings in order to establish account

balances and to estimate service lives. MH has implemented the new service lives that resulted from the depreciation study during its 2011/12 fiscal year. The impact of this change in estimate is a decrease to depreciation expense of $36 million, $39 million and $42 million in 2011/12, 2012/13 and 2013/14, respectively.

MH completed a new depreciation study in 2014 with the assistance of the same depreciation consultant, Gannett Fleming, Inc., based on the asset components established in 2011/12. A detailed review of asset activity was conducted by MH's accounting and operating staff, to understand the actual impacts of the previous componentization changes, and to incorporate operational findings from recent asset condition assessment reviews. As a result, some of the cost allocation and service life estimates made during the initial componentization in 2011/12 were refined to reflect actual experience. The impact of these changes in estimate is a further decrease to depreciation expense of $26 million for 2014/15.

3.3.4 Change to Equal Life Group Method

A further IFRS related enhancement to depreciation calculations is that of moving from the Average Service Life (ASL) procedure to the Equal Life Group (ELG) procedure.

The ASL procedure, which has been used by MH in the past, calculates depreciation expense based upon the average life of all assets within each class. Under this method, those assets that have a shorter life than average will not be fully depreciated when retired from service. Conversely, other assets in this class that have a longer life than average will be over-depreciated when they are retired from service. Where an asset component grouping includes assets with different service lives, this method is viewed as problematic from an IFRS perspective because, except for those assets which have a life exactly equal to the average service life of that group, assets are being depreciated over a longer or shorter timeframe than their expected service life. Such would be the case with MH's existing asset component groupings.

The ELG procedure addresses these issues by developing depreciation rates with specific consideration of the expected retirement pattern for each asset type within each depreciation class. Every asset in the class is depreciated over its own expected service life and therefore is

expected to be fully depreciated (not over or under depreciated) when it is removed from service. The resulting ELG depreciation expense calculations are in compliance with IFRS.

3.3.5 Gains and Losses on Disposal of Assets

Under existing GAAP, Canadian utilities are generally allowed to defer gains or losses that occur on the disposal of assets either through accumulated depreciation or a deferral account. Therefore the gains or losses are not immediately recognized in the income statement. MH currently recognizes gains and losses on the retirement of plant assets in accumulated depreciation.

IFRS requires that any gains and losses on disposal/retirement of assets be recognized immediately in income. As indicated in the previous section, when assets are retired from service under the ASL depreciation methodology, they are typically over or under depreciated. Under IFRS, assets that are over or under depreciated when they are removed from service will result in the recognition of a gain or loss. A further advantage of the ELG depreciation methodology is that depreciation expense is calculated such that the gains or losses upon asset retirements are minimized or eliminated which reduces the impacts on net income from asset retirements.

3.3.6 Elimination of Asset Removal Costs from Depreciation Rates

MH's depreciation rates currently include an amount for the costs to be incurred upon the removal of an asset. This is referred to as negative salvage value. This "precollection" of asset removal costs is maintained in accumulated depreciation reserves, and when assets are ultimately removed from service, the costs associated with the removal of an asset are charged against that reserve. Under this methodology, there are no direct charges against income for asset removal costs.

Negative salvage is not an eligible cost of self-constructed PP&E under IFRS. As the IASB allows rate-regulated entities to carry over the net book value of PP&E upon transition to IFRS, any existing negative salvage amounts included in accumulated depreciation will form part of the deemed costs of assets on transition.

Upon transition to IFRS, MH is eliminating the inclusion of negative salvage in depreciation rates as a means to offset other financial impacts associated with the transition. To the extent that it is necessary to remove an asset in order to replace it, the costs of removal of replaced assets will be capitalized as a cost component of the replacement asset. All other asset removal costs will be charged against income as incurred.

3.3.7 Provisions - Asset Retirement Obligations (ARO)

The concept of provisions under IFRS encompasses a wider range of circumstances that may result in the recognition of more liabilities than GAAP. Under IFRS, the threshold for recognizing a liability or provision is whether the underlying event giving rise to the liability or provision is probable or “more likely than not”. This is lower than the “likely” threshold under GAAP and could lead to additional provisions being recognized under IFRS. In addition, under IFRS provisions must be recognized when they can be reliably estimated, and only in rare circumstances is it presumed that an estimate cannot be made.

Under GAAP, an asset retirement obligation is recorded if an entity has a legal obligation to incur an expenditure in the future associated with the retirement of an asset currently in use. IFRS requires a liability to be recorded for constructive obligations as well as for legal obligations. A constructive obligation is derived from an entity’s actions by way of an established pattern of past practice, published policies or a specific current statement whereby the entity has indicated to other parties that it will accept certain responsibilities such that the other parties expect the entity to discharge its responsibilities.

Under GAAP, MH has recognized AROs for the decommissioning of a thermal generating station and for the partial decommissioning of a hydraulic generating station spillway. MH has reviewed its circumstances and has concluded that no new provisions exist pertaining to constructive obligations relating to ARO’s. MH will recognize such obligations when a commitment is made to decommission an asset and significant removal and/or remediation costs are expected to be incurred.

3.3.8 Capitalization of Borrowing Costs

Under current GAAP, carrying costs such as interest that are directly attributable to the construction of an asset may be capitalized (Interest During Construction or IDC). IFRS

requires that actual borrowing costs for a period be capitalized to an asset that takes a substantial period of time to get ready for use. A substantial period of time is not a defined term and requires judgment in its application. MH has reviewed the average time period for construction of its major capital projects and has concluded that there will not be a significant change in projects eligible for interest capitalization.

MH has also reviewed the specific items included in the calculation of the interest capitalization rate for general asset additions and has made the necessary adjustments required for compliance with IFRS. The interest capitalization rate will now consist of the weighted average debt rate for all debt outstanding for the period, including anticipated borrowings in the upcoming fiscal year. MH implemented this change for its 2010/11 fiscal year under Canadian GAAP.

IFRS requires the segregation of specific and generally financed capital projects where possible in order to determine the borrowing costs eligible for capitalization. Therefore, where debt is designated to finance a particular capital project, MH will capitalize interest to the asset based on the interest rate from that designated debt issue.

3.3.9 Transitional Requirements (IFRS 1)

As the IASB allows rate-regulated entities to carry over the net book value of PP&E upon transition to IFRS, any existing capitalized interest included in PP&E may form part of the deemed costs of PP&E on transition. Therefore, no April 1, 2014 retroactive adjustment is required to adjust for differences in capitalized borrowing costs. In addition, there are no April 1, 2014 retroactive adjustments that are required for componentization, the change to ELG and the removal of negative salvage from depreciation rates. However, the net impact of the move to ELG and the removal of asset retirement costs from depreciation rates will result in an increase in retained earnings of $26 million in 2014/15.

3.3.10 Summary of Impacts

The following table summarizes the adjustments to retained earnings upon transition to IFRS for items pertaining to PP&E:

Table 3.3.1 Summary of Transitional Adjustments
(In millions of dollars)

Item	Electric Fiscal 2014/15	Gas Fiscal 2014/15	Consolidated
Change to ELG	(33)	(3)	(36)
Removal of the pre-collection of Retirement Costs	57	5	62
Increase to Retained Earnings	**24**	**2**	**26**

The following table summarizes the net income impact in 2015/16 for items pertaining to PP&E:

Table 3.3.2 Summary of Net Income Impacts
(In millions of dollars)

Item	Electric Fiscal 2015/16	Gas Fiscal 2015/16	Consolidated
Change to ELG methodology	(36)	(2)	(38)
Removal of Net Salvage	60	4	64
Net Income Increase (Decrease)	**24**	**2**	**26**

3.4 Capitalization of Overhead Costs

Under GAAP, MH has historically applied a full cost accounting methodology. Tangible and intangible assets are stated at cost which includes direct labour, materials, contracted services, a proportionate share of overhead costs and interest applied at the average cost of debt. Overhead costs allocated to capital included support staff (Finance, Human Resources, Information Technology, Corporate, Legal, etc.), management time, training, depreciation, interest and facility related charges. This approach recognized that MH is both a construction

and operating company and thus, maintains integrated resources in order to sustain all aspects of its operations.

IFRS requires that PP&E and intangible items that qualify for recognition as an asset shall be measured at cost which includes direct costs, such as materials, and all overhead costs that can be directly attributable to capital projects and intangible assets. IFRS identifies costs that are not eligible for capitalization such as the following:

a) Costs of opening a new facility;
b) Costs of introducing a new product or service (including costs of advertising and promotional activities);
c) Costs of conducting business in a new location or with a new class of customer (including costs of staff training); and
d) Administration and other general overhead costs

Based on a review of its existing cost capitalization practices, and considering industry trends to move away from full cost accounting, MH has eliminated the following cost components from its capitalized overhead under GAAP (totaling $62 million annually through to the end of 2012/13):

Table 3.4.1 Costs no Longer Capitalized

Reduction to Costs Capitalized in fiscal 2008/09 (In millions of dollars)**:**

Interest and Facilities Overhead on Stores	**5**

Reduction to Costs Capitalized in fiscal 2009/10 (In millions of dollars)**:**

Executive Costs	2
Property Taxes on Facilities	2
Total	**4**

Reduction to Costs Capitalized in fiscal 2010/11(In millions of dollars)**:**

Interest on Common Assets (Facilities & Equipment)	12
General and Administrative Departmental Costs	5
Interest on motor vehicles	4
Total	**21**

Reduction to Costs Capitalized in fiscal 2012/13 (In millions of dollars)**:**

IT Infrastructure and Related Support	21
Building Depreciation and Operating Costs	11
Total	**32**

MH has completed its review of its capitalization methodology, including the cost components and activities currently being capitalized to assess costs eligible for capitalization under IFRS. This review considered all guidance available in the accounting standards, interpretations from the major international accounting firms (including Ernst & Young), as well as information from the CEA and other Canadian utilities. The review concluded that an additional $58 million (Electric - $55 M, Gas $3 M) of annual charges do not meet the IFRS criteria for capitalization. A summary of these ineligible charges is as follows:

Table 3.4.2 Additional Costs Ineligible for Capitalization upon Transition to IFRS (In millions of dollars)**:**

Technical and Soft Skills Training	17
Service Areas (Management accounting, Treasury, HR, Safety, etc)	13
Administrative & Clerical Support Staff	13
Division and Department Manager	14
Fleet & Stores Administration	1
Total	**58**

The $58 million of ineligible charges consists of expenditures where a direct link to a specific capital asset cannot be made due to the nature of the expenditure or expenditures for items such as training which is explicitly disallowed for capitalization by IFRS unless incurred in respect of specific staff to commission a specific asset.

Systems and process changes to facilitate the accounting of capitalized costs in an IFRS compliant manner will be completed for implementation in fiscal 2014/15 to allow for comparative year reporting.

3.4.1Transitional Requirements (IFRS 1)

The IASB allows rate-regulated entities to carry over the net book value of PP&E upon transition to IFRS and thus, any existing capitalized costs included in PP&E may form part of the deemed costs of PP&E on transition. Therefore, no retroactive adjustment is required to adjust the differences in capitalized overhead costs to April 1, 2014. However, $56 million of expenditures capitalized under GAAP for the fiscal 2014/15 fiscal year will have to be adjusted to retained earnings upon transition to IFRS.

3.5 Employee Pension and Benefits

There are a number of differences that will result from adopting IFRS for defined benefit pension plans and other employee benefits.

3.5.1 Return on Plan Assets

The expected return on plan assets forms part of the annual pension expense. GAAP currently allows the expected return on plan assets to be based on either the fair value or a market-related value (moving average not exceeding a period of five years) of the assets. MH currently uses market-related values to estimate the expected return on plan assets and to apply experience gains and losses in the corridor calculation. A market-related value approach reduces volatility of actuarial gains and losses on the expected annual return on plan assets and subsequent amortization of balances outside the corridor, therefore, reducing volatility on annual pension expense.

Under IFRS, the expected return on plan assets is replaced by interest income calculated using the fair value of plan assets with the same discount rate used to measure the pension obligations.

3.5.2 Past Service Costs

GAAP allows past service costs associated with plan improvements/amendments to be recognized over the average remaining service life of the employee group. MH has implemented pension plan improvements that contain both vested and non-vested components and is currently amortizing those improvements over the average remaining service life of the employee group.

Under IFRS, past service costs associated with plan improvements/amendments are recognized as expense through profit or loss when the amendment or curtailment occurs.

3.5.3 Discount Rate

GAAP CICA section 3461.063 states that "*the discount rate used to determine the accrued benefit obligation shall be the interest rate determined by*

a) market interest rates at the measurement date on high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments; or

b) The interest rate inherent in the amount at which the accrued benefit obligation could be settled.

The Canadian GAAP requirement is similar to the IFRS standards. IAS 19.83 states that, *"the rate used to discount post-employment benefit obligations (both funded and unfunded) shall be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. In countries where there is no deep market in such bonds, the market yields (at the end of the reporting period) on government bonds shall be used.*"

MH determines an annual discount rate which complies with the recommendations of the Canadian Institute of Actuaries, GAAP and IFRS. MH validates the selection of its discount rate with its external actuary, as well through the review of discount rates used by other Canadian utilities and the Civil Service Superannuation Board. Based on the similarities between the Canadian GAAP and IFRS requirements, MH does not anticipate changing the manner in which it determines its annual discount rate upon transition to IFRS.

3.5.4 Amended IFRS for Employee Benefits (IAS 19)

In April 2010, the IASB issued the "Defined Benefit Plans" Exposure Draft as part of its project to improve the accounting for employee benefits. This Exposure Draft did not require significant changes to the measurement provisions, but proposed significant changes to the recognition, presentation and disclosure of defined benefit plans. In June, 2011, the IASB published the amended standard on employee benefits; effective for annual periods beginning on or after January 1, 2013.

In addition to the fore-mentioned differences between IFRS and GAAP for pension accounting, the significant changes introduced by the amended standard that impact MH are as follows:

- That entities recognize re-measurements (actuarial gains and losses) and adjustments related to changes in the value of the defined benefit obligation and in the value of the plan assets only in Other Comprehensive Income (OCI) in the period in which they occur with no subsequent recycling to net income.
- Under IFRS, the expected return on plan assets is replaced by interest income calculated using the fair value of plan assets with the same discount rate used to measure the pension obligations. Currently under GAAP, the expected return on plan assets is calculated using a forecast rate of expected return appropriate for the plan asset mix of investments.
- That additional disclosure be provided that focuses on the characteristics of defined benefit plans and the risks associated with the plans.
- That the IFRS 1 exemption allowing an entity to adjust all unamortized actuarial gains and losses to retained earnings upon transition be eliminated.

3.5.5 Transitional Requirements (IFRS 1 – Amended IAS 19)

The amended IAS 19 is effective for MH for the 2014/15 IFRS comparative fiscal period, but early adoption is permitted. A first time adopter must retrospectively apply the Standard in the financial statements beginning on or after January 1, 2013. MH is adopting the amended IAS 19 upon transition to IFRS on April 1, 2015. The cumulative re-measured and restated unamortized experience gains and losses for the comparative year will be recalculated under IAS 19 and reclassified to Accumulated Other Comprehensive Income as of April 1, 2014.

3.5.6 Employee Benefits

MH offers accumulating benefits for service and currently under GAAP recognizes obligations for the vested portions only.

IFRS recognizes an obligation as an employee renders service regardless of vesting criteria. Therefore, under IFRS, actuarial obligations must be recognized for all accumulating benefit plans such as sick leave and severance.

Under IFRS, experience gains and losses resulting from actuarial valuations for certain long-term employee benefits such as MH's Retiree Health Spending Account and long-term disability must be expensed when determined. Under GAAP, these gains and losses may be amortized over the period until the next actuarial valuation (3 years for MH). Upon transition to IFRS, MH will adjust to retained earnings any unamortized gains and losses for such benefits.

The following table identifies the April 1, 2015 consolidated transitional adjustments associated with employee benefits:

Table 3.5.1 Transitional Adjustments – Employee Benefits
(In millions of dollars)

Item	**Retained Earnings**
Unamortized Past Service Amendments for Retiree Health Spending Account	(9)
Unamortized Experience Losses for Long-term Disability Account	-
Recognize Unvested Sick Leave liability	(7)
Recognize Unvested Severance liability	(8)
Increase (Decrease)	**(24)**

3.6 Financial Instruments

For the most part, GAAP is substantially harmonized with IFRS with the introduction of standards 3855 *Financial Instruments – Recognition and Measurement* and 3865 *Hedges*, implemented by MH in the 2007/08 fiscal year. Under the existing IFRS guidance, *Financial Instruments Recognition and Measurement*, MH's financial assets such as customer loans and accounts receivable would continue to be classified as loans and receivables, initially recorded at fair value and subsequently measured at amortized cost. Long term debt and other financial liabilities would continue to be initially recorded at fair value, and subsequently measured at amortized cost using the effective interest method.

Any unrealized foreign exchange gains and losses would be recorded to net income when there is no accounting hedge in place. U.S. sinking funds would continue to be classified as available-for-sale, however IFRS allows for a "natural" hedging of foreign exchange risk on foreign currency. Under IFRS, foreign exchange gains and losses related to available-for-sale monetary financial assets are recorded in net income. This means MH will continue to record foreign exchange gains/losses on its sinking fund investments in net income without the GAAP requirement to maintain a designated accounting hedge relationship between the U.S. sinking fund and the associated U.S. debt. Under both GAAP and IFRS, fair value changes related to changes in interest rates continue to be recorded in Other Comprehensive Income.

3.6.1 Hedges

As described above, GAAP requires that foreign exchange gains and losses on available for sale sinking fund assets be recorded in Other Comprehensive Income. However, designating these investments in a fair value hedge relationship has allowed MH to record offsetting foreign exchange translation gains and losses on the U.S. sinking funds (hedged item) and corresponding U.S. debt (hedging item) to net income. Under IFRS, the monthly translation of U.S. sinking fund investments would be recorded in net income as will off-setting changes in the fair value of the US debt, without the need for hedge accounting. Therefore, these fair value hedges are no longer required under IFRS.

MH's current cash flow hedges between anticipated U.S. revenues (hedged item) and U.S. debt (hedging item) are not expected to be impacted by the transition to IFRS.

3.6.2 Commodity Contracts

Under IFRS, commodity contracts that can be settled either in cash or by another financial instrument, and do not meet the "own-use" scope exception are within the scope of IAS 39 and should be accounted for as a non-financial derivative, consequently subject to fair value accounting treatment. The "own-use" exception relates to contracts for non-financial items that were entered into and continue to be held for the purpose of the receipt or delivery of the non-financial item in accordance with the entity's expected purchase, sale or usage requirements.

In principle, this exemption provides MH with the ability to exclude the majority of its commodity purchase and sales contracts from fair value accounting treatment, as the majority of its commodity contracts are used within the normal course of its business to deliver physical energy to and from varying locations. However, there are certain instances where the "own-use" exemption may not be available under IFRS. MH has developed an on-going review process of all commodity contract terms to assess whether the own use exemption applies.

Natural gas fixed price swaps utilized in the Primary Gas Fixed Rate Service have been identified as financial derivatives and are currently being measured at fair value on the balance sheet with changes in fair value recorded to net income. There are no accounting changes required for these contracts under IFRS.

3.6.3 IASB Future Developments – Financial Instruments

Since November 2008, the IASB has been working on a project to replace IAS 39, Financial Instruments: Recognition and Measurement with a new standard, IFRS 9. The IASB issued IFRS 9, Financial Instruments in July 2014. IFRS 9 is applicable from January 1, 2018 and focuses on the classification and measurement of financial assets and liabilities, impairment methodology for financial assets and hedge accounting.

The objective of this standard is to improve the usefulness of financial statements by simplifying the classification and measurement requirements for financial instruments. The impairment requirements will be applied to financial assets based on an expected credit losses model, rather than the current incurred loss model in IAS 39. New hedge accounting guidance will align hedge accounting with risk management, allowing certain changes to the hedge relationship after inception of the hedge.

Some of the potential impacts to MH from the new standard are as follows:

- Sinking funds would be reclassified from the current available-for-sale category to amortized cost;
- There will no longer be the requirement to recognize changes in fair value due to changes in interest rates for sinking fund assets in Other Comprehensive Income; and
- Hedge accounting effectiveness testing will be more closely aligned with risk

management and will be simplified by eliminating the 80% - 125% bright line and retrospective testing.

3.7 Leases

In general, the principles relating to accounting for leases under CICA standard 3065 Leases and IFRS are converged, except that:

a) IFRS uses the term "finance lease" in the same manner as Section 3065 uses "capital lease";
b) IFRS does not subdivide finance leases into sales type leases and direct financing leases; and
c) The disclosure requirements differ.

Both standards classify leases based on whether or not substantially all the risks and rewards incidental to ownership are transferred. GAAP, however, provides more quantitative thresholds for evaluating whether a lease is a capital or operating lease. IFRS does not contain such quantitative thresholds. The interpretations provided under GAAP for determining whether an arrangement contains a lease are primarily the same under IFRS.

MH has reviewed its agreements and has not identified any additional leases that are required to be recognized upon transition to IFRS.

3.7.1 IASB Major Project on Leases

As part of a joint project with the US Financial Accounting Standards Board (FASB), in August 2010, the IASB issued an Exposure Draft on Leases. The Exposure Draft was proposed to correct for issues in existing standards which have been criticized for not meeting the needs of the users of the financial statements as they do not provide a faithful representation of leasing transactions. The IASB believes that existing standards fail to recognize rights and obligations that meet the definition of assets and liabilities within the existing IFRS framework. The significant changes proposed by the Exposure Draft were as follows:

- The distinction between finance and operating leases is discontinued;
- The Lessee would apply a *right-of-use* model that would recognize an asset for its right to use an asset and a liability for its obligation to make lease payments; and

- The Lessor would recognize an asset representing its rights to receive lease payments and, depending on the circumstances of the lease, recognize a lease liability while continuing to recognize the underlying asset or de-recognize the portion of the underlying asset that is transferred to the lessee.

In general, the feedback received on the ED indicated that the proposals were overly complicated and would be costly to implement. As a result, The IASB and FASB conducted a long and extensive outreach process across all major geographical regions involving round table discussions, preparer workshops, meetings, webcasts and publications. Overall, there has been support for the "right of use model" and it has generally been accepted that lease contracts result in assets and liabilities.

Having worked through many of the complications identified in the feedback, in May 2013, the IASB and FASB issued a revised exposure draft that incorporates many aspects of the earlier exposure draft and proposed a dual model approach for lessee accounting, under which a lessee would classify each lease as other Type A or Type B. As well, a lessee would recognize a right-of-use asset and a lease liability for all leases of more than 12 months and can choose not to do so for leases of 12 months or less.

The main feedback received was that the dual model proposed for lessees was too complex. As such, the IASB is recommending a single lease accounting model for lessees in which all leases would be recorded on the balance sheet except for short term leases and small ticket leases. The IASB also decided no significant changes are required to the current guidance offered to lessors in IAS 17, Leases.

Further deliberations are necessary before the IASB can issue the new standard, expected in 2015. FASB had decided to pursue its own standard.

3.8 Customer Contributions

Under GAAP, non-refundable contributions in aid of construction are separately recorded on the balance sheet and amortized to income on a straight-line basis as a reduction to depreciation over the life of the related item of PP&E. Refundable contributions are recorded

in Other Long-term Liabilities by MH, and are refunded to customers if the criteria for the refund have been met.

Under IFRS, customer contributions are to be recognized as revenue; either immediately or over some future period of time. The customer contribution is recognized as revenue based upon fulfillment of the performance obligations of the underlying arrangement. An entity in receipt of a capital contribution is required to assess if separately identifiable services have been provided. That is, the utility must assess if the capital contribution is solely for the purpose of connecting the customer to the utility's grid such that the utility has no obligation beyond connecting the customer or if the contribution is also linked to the ongoing supply of energy. If it can be demonstrated that the service connection represents stand-alone value to the customer then the customer contribution should be recognized as revenue immediately. If it can be demonstrated that the contribution can be linked to the ongoing supply of energy, then all revenue arising from the contribution is deferred and amortized to income as the service is provided.

MH has reviewed its customer contribution arrangements and has concluded that the service connection to the customer does not have stand-alone value as the customers are not allowed to choose their energy distributor in Manitoba and are not able to resell connection assets that they do not own (such assets are the property of MH). The sole purpose of the connection is to provide access to an ongoing supply of energy (electricity or gas) from MH as a customer would derive no value from a connection without the future supply of energy. As the connection does not have stand alone value for the customer, the revenue should be recognized over time as energy is provided to the customer. If the arrangement does not specify a period, the revenue shall be recognized over a period no longer than the useful lives of the connection assets.

This will result in no impact to net income. However, classification on the income statement will change as the amortization of the contribution that was previously recognized as an offset in depreciation expense will now be recognized as revenue.

Under IFRS, the method for recognizing revenue related to refundable contributions would also change. The practice under Canadian GAAP excludes 100% of the refundable capital

contributions from being amortized. Under IFRS, only the amount that is expected to be refunded would be excluded from the amount that is amortized into revenue.

3.9 IFRS 1 - Initial Adoption of IFRS

IFRS 1 requires an entity to comply with IFRS standards effective at the reporting date of the entity's first annual financial statements prepared and presented in accordance with IFRS. For MH, this would include IFRS standards in effect as of March 31, 2016. New accounting policies must be retrospectively applied (unless the relevant election is available and chosen) and adjustments made at the start of comparative period. Thus, for an entity adopting IFRS for the first time on April 1, 2015, it will be necessary to prepare and present a comparative opening balance sheet under IFRS as at April 1, 2014. In the comparative opening balance sheet, an entity must:

- Recognize all assets and liabilities that IFRS require be recognized;
- Derecognize from assets and liabilities those items for which IFRS do not permit recognition;
- Reclassify items when, in accordance with the GAAP previously followed by the entity, they would have been presented differently from how they would be in accordance with IFRS; and
- Apply IFRS in re-measuring all recognized assets and liabilities.

The underlying principle in IFRS 1 is that a first time adopter should prepare and present financial statements as if it had always applied IFRS. This will require the retrospective adjustment of accounts. However, there are certain exemptions and/or elections to this general principle which allow prospective application. In addition, IFRS 1 prohibits retrospective application in certain areas.

There are IFRS 1 elections for areas including financial assets and liabilities, hedge accounting, business combinations, value of PP&E, leases, financial instruments, decommissioning liabilities and borrowing costs. Where applicable, MH has addressed the transitional elections it is considering in the various sub-sections of this report.

4.0 Financial Reporting & Disclosure

There are a number of differences in the disclosure requirements of GAAP compared to IFRS. Set out below is a summary of the major differences that are likely to arise on an on-going basis.

4.1 On-Going Disclosures - Primary Statements

Under IFRS, there will be a number of changes to the primary financial statements which include the income statement, balance sheet and cash-flow statement. The following section outlines these changes.

Statement of Income

Under IFRS, the presentation of the income statement will be similar to GAAP. However, MH will be required to present its expenses based on their nature or by function. In addition, the new interim standard for Regulatory Deferral Accounts requires the net movement in all regulatory account balances that impact net income to be presented separately from the non-regulatory account income and expenses and other comprehensive income. This will be achieved by the use of a sub-total for the amount of profit or loss or other comprehensive income before the net movement in regulatory deferral account balances.

Statement of Financial Position (Balance Sheet)

MH expects changes to the current presentation of the statement of financial position with respect to balances currently disclosed as “other assets” and “other liabilities” which will need to be classified according to their type. In addition, MH will be required to follow the new interim standard for Regulatory Deferral Accounts and present sub-totals of all assets and liability balances before regulatory deferral account debit and credit balances which will be presented on separate lines.

Statement of Cash-Flow

Under IFRS, MH will have the choice of presenting its cash-flow on a direct or indirect basis. Currently MH discloses on a direct basis. In addition, MH will have the choice of presenting cash-flows from interest received as either operating or investing activities and cash-flows from interest paid as either operating or financing activities.

Incremental disclosures include:

- Separate disclosure of disposal proceeds and capital contributions received;
- Disclosure of total amount of interest paid (whether expensed or capitalized); and
- Reconciliation of cash-flows from operating activities to net income.

Other

MH will be required to present a separate statement of changes in equity. This will incorporate information currently presented in the statement of retained earnings and the statement of Accumulated Other Comprehensive Income.

4.2 On-Going Disclosures - Notes to the Financial Statements

Under IFRS, there will be a number of changes to the notes to the financial statements which are outlined below.

IFRS 14 - Regulatory Deferral Accounts

The new interim standard for Regulatory Deferral Accounts requires extensive disclosures intended to assist the reader in understanding the nature of, and the risks associated with the rate regulation that restricts the prices the entity can charge. As per the interim standard, for each portion of rate-regulated activities that is material to the financial performance of the entity, an entity shall disclose:

(a) a brief description of the nature and extent of the rate-regulated activities and the nature of the regulatory rate-setting process;

(b) the identity of the rate regulator; and

(c) how the future recovery of each regulatory deferral account debit balance or reversal of each regulatory deferral account credit balance is affected by risks and uncertainty, for example:

(i) demand risk;

(ii) regulatory risk; and

(iii) other risks (for example, currency or other market risks).

In addition to the above, the new standard requires an entity to disclose the following for each material regulatory account:

- The basis on which regulatory deferral account balances are recognized and measured initially and subsequently;
- A reconciliation of the carrying amount at the beginning and the end of the period;
- The amounts that have been recognized in the current period in the statement of financial position as regulatory deferral account balances to be recovered or reversed in the current or future periods;
- The amounts that are recognized in the statement of profit or loss and other comprehensive income relating to balances that have been recovered, amortized or reversed in the current period;
- The rate of return applicable to each class of regulatory deferral account; and
- The remaining periods over which the entity expects to recover or amortize the carrying amount of each regulatory deferral account.

Property, Plant and Equipment

Under IFRS, there will be the requirement to present a detailed continuity schedule for each class of PP&E. In addition, given that MH will elect to deem its net book value on transition as its opening cost under IFRS, this will require that accumulated depreciation be set to zero.

Pension Assets and Liabilities

IFRS requires disclosure of the amounts for the current and previous periods of: the present value of the defined benefit obligation; the fair value of plan assets, any surplus or deficit in the plan; and experience adjustments on plan liabilities and plan assets.

Provisions and Asset Retirement Obligations

IFRS requires disclosure of detailed continuity schedules for each class of provisions.

Harmonization of Accounting Policies

IFRS requires uniform accounting policies to be applied to all entities in a consolidated group. Manitoba Hydro will be harmonizing its accounting policy with respect to costs associated with its Meter Sampling, Exchange and Testing program. Prior to the transition to IFRS such costs were capitalized for the Electric operations and expensed for the Gas operations. The

harmonization of accounting policies will result in an increase to net income of $5 million for 2015/16.

Other

IFRS requires disclosure of related party information, including details of the entity's parent and controlling party as well as greater disclosure of judgments and estimates in the financial statements.

4.3 Initial adoption of IFRS (IFRS 1)

The first accounts that are prepared under IFRS are required to include a number of extensive reconciliations and narratives showing the effects of the transition from GAAP to IFRS. This information must include details of key changes in accounting policies, IFRS 1 elections made and measurement differences from GAAP.

MH is in the process of reviewing changes in financial statement presentation, required disclosures and related system and process changes for transition to IFRS.

5.0 Key Systems & Processes

As identified early in the project, the conversion to IFRS will have impacts on systems and related business processes. MH established an information technology (IT) team to identify and address these impacts. As part of this work, MH reviewed the capability of its SAP system to produce the required financial information for the 2014/15 comparative fiscal period and forward. Through this review, MH concluded that, with modifications, the existing SAP system is capable of meeting the financial reporting requirements under IFRS. MH is also reviewing financial systems that interface with SAP to ensure they will also be capable of meeting the financial reporting requirements.

MH has issued an RFP seeking consulting expertise to assist with the design of the technical SAP system solution required to facilitate financial statement changes required as part of the transition to IFRS.

The key areas of IFRS that will impact systems and processes are:

5.1 Componentization of Property Plant & Equipment

This change will require that capital project forecasts and expenditures be further delineated into constituent components. The SAP system is capable of providing the framework necessary to facilitate these changes. Fixed Asset ledgers have been updated with new component groupings. There will be a large element of change management and training to ensure that new requirements are properly understood and adhered to across the organization.

5.2 Calculation of IFRS Compliant Depreciation

Under GAAP, depreciation expense calculations incorporate factors relating to the service life of assets and cost of removals using a mass property approach based upon historical plant values. Under IFRS, the depreciation method will change from the average service life method to the equal life group approach. The SAP asset management system is capable of providing the framework necessary for this work as new opening component balances are being determined and depreciation calculation processes utilizing the ELG approach have been put in place. There is a significant effort to transfer existing assets and ongoing projects into their new components. New routines will also be developed to ensure that asset retirements are identified and processed in more detail than previously required under GAAP.

5.3 Changes to Cost Allocations

Under IFRS, administration and other general overhead costs can no longer be capitalized. Work to ensure that the costing systems and processes capture and allocate costs to capital projects in a manner that is IFRS compliant is near completion. This required changes to activity rates used for capitalization, as well as changes to overhead rates and internal cost allocation routines. It required changes to time carding instructions and processes to ensure that costs charged are properly linked to the capital projects to which they pertain. The basic cost allocation framework developed in SAP was capable of meeting these requirements. Subsystems were assessed to ensure that the correct IFRS compliant information was being provided into the system and processed correctly.

Work to allow for the accounting of capitalized costs in an IFRS compliant manner will be completed for implementation in fiscal 2014/15 to allow for comparative year reporting.

5.4 Presentation of Regulatory Deferral Accounts

Under IFRS, regulatory deferral accounts will be required to be separated in the presentation of the Statement of Income and Statement of Financial Position. In addition, IFRS requires extensive note disclosure with respect to the regulatory deferral accounts. MH’s existing systems maintain separate accounts for each of its existing regulatory account balances and it is anticipated that these systems will be capable of capturing the information required for both the financial reporting and note disclosure requirements under IFRS.

6.0 IFRS Changes

MH is required to prepare its first set of IFRS financial statements in accordance with the standards that are in effect as at the end of the first year of adoption of IFRS (i.e. March 31, 2016). MH chooses its accounting policies based on these standards and then applies them from the beginning of the comparative period, i.e. from April 1, 2014. MH's preliminary accounting policy choices as set out in this report, should not therefore, be considered final and may continue to evolve as the IFRS standards themselves change both before and after the transition date.

The IASB has a very active agenda and a number of projects may impact MH significantly. The effective date of any IFRS amendments and new standards is usually 6-18 months after their publication date. However, the IASB considers all relevant facts including whether to allow early adoption. It is important to note that many IFRS requirements will not change between now and fiscal 2015/16. However, there are significant changes to IFRS that have been published which may have an impact to MH. There are several active projects of the IASB that may have implications to MH post transition to IFRS.

Set out below is a summary of recent IFRS changes that may be relevant to MH:

Table 6.1 Relevant IFRS Changes

Topic	Issues	Timing
Rate Regulated Accounting	In April 2013, the IASB issued an exposure draft "*Regulatory Deferral Accounts*" which proposed an interim standard permitting rate-regulated entities that are 1st time adopters of IFRS to continue to recognize their regulatory accounts on an interim basis until the comprehensive project on rate-regulated activities is complete.	On January 30, 2014, the IASB issued an interim standard IFRS 14 - *Regulatory Deferral Accounts* effective January 1, 2016 with earlier application permitted. MH will early adopt the new standard effective April 1, 2015 upon its transition to IFRS.
	The IASB committed to developing a Discussion Paper to assess whether and how the IASB should develop an IFRS reflecting the impact of rate-regulation.	On September 17, 2014 The Discussion Paper "Reporting the Financial Effects of Rate Regulation" was issued and describes a type of rate regulation that contains elements of both cost recovery and incentive approaches. The Discussion paper considers the common features of rate regulation and explores which of them, if any, creates a combination of rights and obligations that is distinguishable from rights and obligations arising from non rate-regulated activities. The deadline for comments for the Discussion Paper is January 15, 2015.

Topic	Issues	Timing
Financial Instruments	The IASB completed a three-part project to replace IAS 39, Financial Instruments: *Recognition and Measurement* with a new standard, IFRS 9. The three main parts of the project are: a) Classification and measurement; Eliminated Held-to-Maturity, Available-for-Sale, and Loans and Receivables categories. New categories for financial assets are limited to fair value and amortized cost. Classification of financial assets is based on cash flow characteristics and the business model in which the asset is held. b) Amortized cost and impairment (loan loss provisions); Introduced a new expected loss impairment model that will require more timely recognition of expected credit losses. c) Hedge accounting. The general hedging model attempts to: - Align hedge accounting more closely with risk management - Simplify effectiveness testing by eliminating the 80% - 125% bright line test. - More principal based approach to hedge accounting. - Address inconsistencies and weaknesses in the existing model in IAS 39.	Classification and measurement of financial assets and liabilities was completed in 2010 In November 2012, the IASB issued an exposure draft on limited amendments to classification and measurement requirements of IFRS 9. In July 2013 the IASB deferred the effective date of IFRS 9 from January 1, 2015 to an unspecified date, pending the completion of the impairment and classification and measurement phases. Supplementary document *Financial Instruments: Impairment* was published in January 2011. Comments closed in April 2011 and an exposure draft was issued March 2013. In September 2012, the IASB issued a review draft of the forthcoming general hedge accounting requirements to be added to IFRS 9. Comments received on this review draft were considered and in November 2013, a general hedge accounting model was finalized. A companion project to address macro hedging was started and a discussion paper is targeted for 2014. In July 2014, the IASB issued IFRS 9, Financial Instruments to replace IAS 39, effective January 1, 2018 with earlier application permitted. MH will not early adopt this standard.

Topic	Issues	Timing
Fair Value Measurement Guidance	New standard (IFRS 13 Fair Value Measurement) issued by IASB in May, 2011. - IFRS 13 defines fair value and sets out in a single standard a framework for measuring fair value. - Describes how to measure fair value when another IFRS standard requires fair value.	To be applied prospectively for annual periods beginning on or after January 1, 2013, with early application permitted.
Consolidations	New standard (IFRS 10 Consolidated Financial Statements) issued by IASB in May, 2011. IFRS 10 does not change consolidation procedures. It provides guidance on whether an entity should be consolidated by revising the definition of control. Establishes one control model that applies to all entities. June 2012, IASB published amendments to IFRS 10 to clarify the transitional requirements; limiting the requirement to provide comparative information to only the preceding comparative period.	IFRS 10 and the amendments to IAS 27 are effective for annual periods on or after January 1, 2013 and must be applied retrospectively. If adopted early, must be adopted with IFRS 11 (Joint Arrangements) and IFRS 12 (*Disclosure of Interests in Other Entities*).

Topic	Issues	Timing
Disclosure of Interests in Other Entities	IFRS 12 *Disclosure of Interests in Other Entities* was issued by the IASB in May 2011 and requires increased disclosure of relationships with subsidiaries. Expands disclosure requirements as parent now required to disclose summarized financial information for each subsidiary that has material non-controlling interest.	Effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.
Presentation of Financial Statements	In June, 2011, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* to change the grouping of items in OCI. Current and future changes to IFRS will result in increased recognition of items in OCI (eg. IFRS 9 Financial Instruments, IAS 19 Employee benefits). Items that could be reclassified to profit and loss at a future date (i.e. recycled) are to be classified separately from items that will never be recycled.	Amendments are effective for annual periods beginning on or after July 1, 2012.

Topic	Issues	Timing
Employee Benefits	In April 2010, the IASB issued the "Defined Benefit Plans" Exposure Draft as part of its project to improve the accounting for employee benefits. This Exposure Draft proposed significant changes to the recognition, presentation and disclosure of defined benefit plans. In June, 2011, the IASB published the amended standard on employee benefits; effective for annual periods beginning on or after January 1, 2013. The significant changes introduced by the amended standard that impact MH are as follows: • Entities recognize re-measurements (actuarial gains and losses) and adjustments in Other Comprehensive Income (OCI) in the period in which they occur with no subsequent recycling to net income. • The discount rate used to measure the defined benefit obligation will also be used to calculate the interest income on plan assets. • That additional disclosure be provided that focuses on the characteristics of defined benefit plans and the risks associated with the plans. • That the IFRS 1 exemption allowing an entity to adjust all unamortized actuarial gains and losses to retained earnings upon transition be eliminated. • The distinction between short-term and other long-term benefits is based on the expected timing of settlement rather than the employee's entitlement to the benefit.	On June 16, 2011 the IASB issued IAS 19 Employee Benefits, which is effective from January 1, 2013. These amendments finalize proposals in the exposure draft Defined Benefit Plans, published in April 2010. MH is adopting the amended IAS 19 upon transition to IFRS on April 1, 2015. Cumulative unamortized experience gains and losses as recalculated under IAS 19 will be reclassified to Accumulated Other Comprehensive Income at that time.

Set out below is a summary of IFRS projects that may be relevant to MH post transition to IFRS:

Table 6.2 Relevant IFRS projects

Topic	Issues	Timing
Leases	IASB and FASB are reconsidering the accounting for leases. An exposure draft was issued in August 2010 which included the elimination of operating and finance lease classifications. Comments indicated the proposed amendments were too complex. In May 2013, a revised exposure draft was issued proposing a dual approach to lease recognition (one approach for depreciable assets and one approach for land and long-lived property). The main feedback received on the 2013 exposure draft was that the dual model proposed was too complex. As such, the IASB is recommending a single lease accounting model for lessees and has decide no significant changes are needed to the current lessor accounting model.	The IASB expects to issue a new Leases Standard in 2015.

Topic	Issues	Timing
Revenue Recognition	IASB and FASB to develop a single comprehensive set of principles for revenue recognition on when and how revenue should be recognized; to improve comparability over a range of industries / companies and countries. Exposure Draft was issued in June 2010. Comments on original proposal found it too complicated. Re-Exposure Draft was issued in November 2011. The key principles on which the Standard is based – that revenue is recognized on transfer to the customer, measured at the transaction price – are consistent with much of current practice. The IASB and FASB believe the Standard will improve financial reporting by: • Providing a more robust framework for addressing issues as they arise; • increasing comparability across industries and capital markets; • providing enhanced disclosures; and • clarifying accounting for contract costs.	The IASB and FASB have completed their re-deliberations of the comments on the revised ED with respect to recognition and measurement principles, scope, disclosure and transition. Project staff have begun drafting the final Revenue Recognition Standard. The new standard IFRS 15 Revenue from Contracts with Customers was issued in May 2014 and is effective January 1, 2017 with early adoption permitted.

Topic	Issues	Timing
Amendment to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets – Clarification of Acceptable methods of Depreciation and Amortization	The objective of the proposed amendments is to ensure that preparers do not use revenue-based methods to calculate charges for the depreciation or amortization of items of PP&E or intangible assets. This is because a revenue-based method reflects a pattern of economic benefits being generated from the asset, rather than the expected pattern of consumption of the future economic benefits embodied in the asset. On December 4, 2012, the IASB issued an Exposure Draft of proposed amendments to paragraph 62 of IAS 16 and paragraph 98 of IAS 38 to state that a method of depreciation/ amortization that is based on the revenue expected to be generated from the use of an asset in an entity's business is not an appropriate method. On May 12, 2014 the IASB published "*Clarification of Acceptable Methods of Depreciation and Amortization (Amendments to IAS 16 Property, Plant & Equipment and IAS 38 Intangible Assets)*" which amends the requirements of IAS 16 and IAS 38 to clarify that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is inappropriate. This is because such methods reflect a pattern of *generation* of economic benefits that arise from the operation of the business of which an asset is part, rather than the pattern of *consumption* of an asset's expected future economic benefits.	The amendments to IAS 16 and IAS 38 are effective for annual periods beginning on or after January 1, 2016 with earlier application permitted.

7.0 Next Steps

The next steps in the project will focus on ensuring that key systems and processes meet the accounting and reporting requirements for the 2014/15 comparative year and forward. This work will be performed with the assistance of MH's internal IT staff and SAP consulting expertise.

7.1 Advancing Topics to Phase 4 - Implementation

Most topics are at the end of the solution development stage where recommendations are being drafted, and implementation plans are being implemented. Any substantial system and process changes that are deemed to be appropriate to optimize related internal accounting processes pertaining to overhead capitalization policies will be developed and implemented for fiscal 2014-15. Detailed discussions with MH's external auditor Ernst & Young to obtain confirmation that MH has interpreted and applied IFRS consistent with their interpretation are ongoing.

7.2 Changes to Key Systems and Processes:

For each accounting topic analyzed by MH, key systems and related processes and interfaces were identified. As outlined in section 5.0 of this document, the key system changes identified in the project pertain to impacts created by the additional componentization of PP&E assets and changes to overhead capitalization policies. The current focus is to implement planned changes, ensure all interfacing systems and processes are modified accordingly, document new systems and processes where required and train all users of the various systems and processes.

7.3 Training Programs

Throughout the project, MH has incorporated training into the various phases. Where possible, those most impacted by IFRS related changes have been involved in the development of solutions and identification of issues and related systems and processes. The next phase of the training process is to work with those groups to formalize detailed training programs so as to embed IFRS into the "business as usual" practices of MH. It is expected that this form of training will focus on the accounting policies that are changing, the reason for the change, and the impact on the systems and processes, as well as additional training for staff that are the most impacted on a day to day basis.