

**PUB MFR 14**

**Finance Expense and Debt**

**Most recent credit rating reports from DBRS, Moody's, and S&P.**

Please see attachments to this response:

- Attachment 1 – Moody's Credit Rating Report (May 4, 2021)
- Attachment 2 – Moody's Credit Rating Report (June 22, 2021)
- Attachment 3 – DBRS' Credit Rating Report (November 12, 2020)
- Attachment 4 – DBRS' Credit Rating Report (December 9, 2020)
- Attachment 5 – S&P's Credit Rating Report (May 17, 2021)

In a press release issued on November 4, 2021 and included as Attachment 6 to this response, DBRS reaffirmed the province's ratings.

## CREDIT OPINION

4 May 2021

Update

✓ Rate this Research

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# Manitoba Hydro Electric Board

## Update to credit analysis

### Summary

Manitoba Hydro Electric Board's (Manitoba Hydro) credit profile is driven by that of the Province of Manitoba (Province: Aa2 stable). The Province explicitly guarantees \$500 million of Manitoba Hydro's commercial paper program and we do not expect issuance to exceed amounts guaranteed by the Province.

### Covid-19 Developments

The rapid spread of the coronavirus outbreak, several global economic shock, low oil prices, and asset price volatility are creating a severe and extensive credit shock across many sectors, regions and markets. The combined effect of these developments are unprecedented. We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. We expect Manitoba Hydro to be resilient to these pressures because the Province explicitly guarantees all of Manitoba Hydro's rated debt.

### Credit Strengths

» Manitoba Hydro's commercial paper program is explicitly guaranteed by the Province of Manitoba

### Rating Outlook

Manitoba Hydro's stable outlook reflects the Province's unconditional guarantee of Manitoba Hydro's commercial paper program. Manitoba Hydro is rated Prime-1. According to our Global Short-Term Rating scale, the Province would have to be downgraded 4 notches, to A3, before the Prime-1 rating would move to Prime-2.

### Factors that Could Lead to an Upgrade

The Prime-1 rating is the highest short-term rating Moody's can assign and is indicative of a superior ability to repay short-term debt obligations. Therefore, Manitoba Hydro's Prime-1 rating cannot have any upward revision.

### Factors that Could Lead to a Downgrade

Manitoba Hydro's Prime-1 rating is determined by the Province's long-term rating. Manitoba Hydro's Prime-1 rating could be revised downward to Prime-2 should the Province fail to maintain a long-term rating above A3.

## Profile

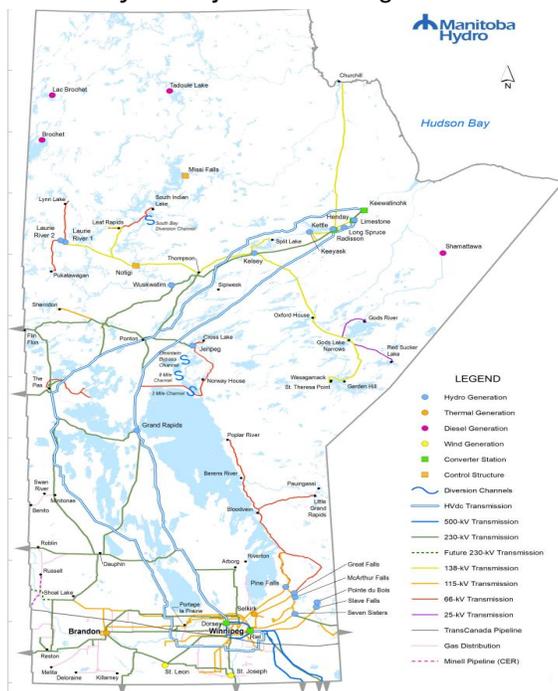
Manitoba Hydro is a crown corporation that is wholly owned by the Province. It is an integrated electric and gas utility that is regulated by the Manitoba Public Utilities Board (MPUB).

Manitoba Hydro's 5,615 MW of installed generating capacity produces over 90% of its electricity via hydroelectric generation. The hydro generation is complemented by two thermal and four diesel facilities, in addition to power purchased from two independent wind farms.

About 20% of Manitoba Hydro's FY 2020 electric revenue comes from export sales with US and Canadian utilities and four wholesale markets. The smaller natural gas distribution segment, which sources its gas from Alberta, accounts for around 5.7% of FY2020's total revenue net of procurement cost. Manitoba Hydro serves about 593,000 electric and 289,000 gas customers in the Province.

Exhibit 1

### Manitoba Hydro's major electrical and gas facilities



Source: Manitoba Hydro

## Detailed Credit Considerations

### Ownership by the Province of Manitoba

We view the Province's ownership of Manitoba Hydro as the anchor that links Manitoba Hydro's credit quality closely to that of the Province. At FYE 2020, \$23.1 billion of the \$23.3 billion reported total debt consists of long-term debt advances from the Province. Of debt obligations not owed to the Province, the Province guarantees Manitoba Hydro's short-term promissory note program (i.e. commercial paper program or CP) and its other long term debt (with the exception of Manitoba Hydro-Electric Board Bonds issued for mitigation purposes, which stood at \$61 million at FYE2020). In turn, Manitoba Hydro is required to make sinking fund payments each year for no less than 1% of the preceding fiscal year's principal debt outstanding and 4% of the preceding fiscal year's sinking fund balance. In addition, the Provincial Debt Guarantee Fee is calculated as 1% of total guaranteed debt outstanding. Given the company's ongoing weak financial profile and limited rate increases we may reassess our view of Manitoba Hydro's self-sufficiency.

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### Low rates and low rate increases pressure financial metrics

On 28 May 2019, the MPUB approved a rate increase of 2.5% effective starting 1 June 2019. Manitoba Hydro had filed a 2019-2020 electric general rate application requesting a 3.5% rate increase. The revenue generated from the rate increase will be placed in a deferral account which will help to mitigate future rate increases related to major projects currently under construction. Subsequently, on December 1 2020, the company increased rates by 2.9% as legislated. Prior to that, on 1 May 2018, the MPUB approved a rate increase of 3.6% effective from June 1, less than the 7.9% rate increase requested by Manitoba Hydro. We note that its customers continue to pay some of the lowest rates across North America.

Rate increases are nominally set on a cost-of-service basis. However, rate increases have not been keeping up with costs as evidenced by ongoing weak financial metrics. The MPUB independently oversees the rate setting process and tries to balance the interests of both ratepayers and the financial health of Manitoba Hydro. If passed, Bill 35 would establish a process for rate setting over a 5 year period by the MPUB beginning in 2024. In the interim, rates may be varied or be established by government regulations. Revenues from exports to the US and other Canadian provinces account for over 20% of electric revenue.

### New capacity planned to meet demand and boost exports

To enhance reliability and in anticipation of demand growth, several major projects have been undertaken. The 695 MW hydroelectric Keeyask Generating Station (Keeyask), with an estimated \$8.7 billion cost, is under construction. The first unit of Keeyask went into commercial service in February 2021 with full in-service expected during 2021-2022. Like all major construction projects, Keeyask is exposed to execution risk and has experienced cost overruns and in-service date delays. It was originally projected to cost \$6.5 billion and be in service in late 2019. The \$5 billion Bipole III transmission line expansion project was placed into service in July 2018. With this project's completion and the progress made on Keeyask, annual capital expenditures declined during the fiscal years ending March 2019 and 2020.

The new capacity will be underpinned by fixed price long-term export contracts. Generation capacity from new hydro stations is developed in large "blocks" while demand grows incrementally. This creates an opportunity to sell surplus firm power under long-term contracts. Manitoba Hydro has already entered into long term contracts on its existing assets and assets under development, aggregating over 1,500 MW, with multiple investment grade counterparties. The contracts set electricity prices at a negotiated, largely fixed price. The contracts are not conditional on the completion of the capital program.

Manitoba Hydro also began construction on a 500 kV transmission line, Manitoba-Minnesota Transmission Project, after receiving approval from the Canada Energy Regulator on 22 August 2019. The project, budgeted at cost of around \$490 million, was put in service during June 2020 and increases US market access.

### Financial targets to be challenged by high capex

As part of its debt management strategy, Manitoba Hydro targets certain financial metrics such as an interest coverage ratio greater than 1.8x and equity-to-capitalization greater than 25%. However, both targets are not expected to be met for an extended period of time due to its large capital program and limited rate increases. For example, during the last twelve month ending 31 December 2020, Moody's adjusted EBITDA to interest expense ratio was 1.4x, EBIT to interest expense was 0.8x and debt to book capitalization was 89%. These financial metrics are among the weakest, if not the weakest, of any of Manitoba Hydro's peers, including vertically integrated provincially owned crown corporations in Canada. Total capital expenditures are forecasted to decline to around \$1.2 billion in FY 2022 and thereafter remain below \$1 billion.

The willingness to operate outside of set targets is a material credit negative because it restricts financial flexibility and adds risk in case of unexpected events. Offsetting this risk are benefits from Manitoba Hydro's access to funding from the Province, although it represents a contingent liability for the Province.

### ESG considerations

Manitoba Hydro has low carbon transition risk as more than 90% of its generation comes from hydroelectric plants. Social risks are primarily related to health and safety as well as demographic and societal trends, as its infrastructure is critical to the economy of the Province. From a governance perspective, Manitoba Hydro's day to day business is overseen by Board of Directors appointed by the Lieutenant-Governor in Council.

## Liquidity Analysis

\$500 million of Manitoba Hydro's commercial paper program is unconditionally guaranteed as to the principal and interest by the Province of Manitoba. The Manitoba Hydro Act was amended in April 2020 to allow Manitoba Hydro to issue up to \$1.5 billion of commercial paper, an increase from \$500 million, however the government guarantee has not yet been amended to reflect the increase. We do not expect the company to issue beyond the amounts guaranteed by the Province. At March 31 2020 the company did not have any CP outstanding.

The Province does not maintain committed bank credit facilities in support of its short-term borrowing programs. However, we believe that the probability that the Aa2 rated Province would be unable to obtain funding on a timely basis either from the capital markets or from its bankers is highly remote.

## Ratings

Exhibit 2

<u>Category</u>	<u>Moody's Rating</u>
<b>MANITOBA HYDRO ELECTRIC BOARD</b>	
Outlook	Stable
Bkd Commercial Paper	P-1
<b>PARENT: MANITOBA, PROVINCE OF</b>	
Outlook	Stable
Senior Unsecured	Aa2
Other Short Term -Dom Curr	P-1

Source: Moody's Investors Service

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## CREDIT OPINION

22 June 2021

Update

✓ Rate this Research

### RATINGS

#### Manitoba, Province of

Domicile	Canada
Long Term Rating	Aa2
Type	Senior Unsecured - Fgn Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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## Province of Manitoba (Canada)

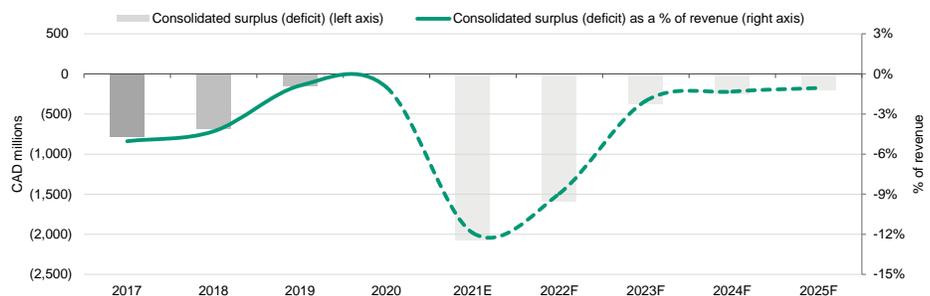
### Update to credit analysis

#### Summary

The credit profile of the [Province of Manitoba](#) (Aa2 stable) reflects continued strong debt affordability - despite rising debt - given a prolonged period of low interest rates, as well as a sound institutional framework and economic diversity which cushions the province's vulnerability to macroeconomic shocks, including the coronavirus pandemic. Manitoba's credit profile also reflects challenges related to multi-year deficits due to the coronavirus pandemic along with an uncertain expectation to return to balance, as well as rising debt levels with our estimate that net debt could approach 185% of revenues over the next four years. The rising debt of Manitoba Hydro is a material contingent liability of the province. We assume a high likelihood of extraordinary support from the [Government of Canada](#) (Aaa stable) should the province face acute liquidity stress.

Exhibit 1

#### The province faces sizeable near-term fiscal shortfalls due to the pandemic



For years ending March 31

Sources: Province of Manitoba, Moody's Investors Service

#### Credit strengths

- » Economic diversity reduces vulnerability to external shocks
- » Solid levels of liquidity and strong debt affordability supported by low interest rates
- » Mature institutional framework and important federal transfers

#### Credit challenges

- » Rising debt burden and elevated contingent liability risk of Manitoba Hydro
- » Multi-year projected deficits pressure fiscal profile

## Rating outlook

The rating outlook is stable, which reflects our assumption that the province will be able to reduce the deficits over the next two years to credit neutral levels, aided by fiscal controls and a projected economic recovery. The rise in the debt burden will be cushioned by solid liquidity and continued strong debt affordability given low interest rates.

## Factors that could lead to an upgrade

The rating could be upgraded if a faster than anticipated fiscal recovery supports a material reduction in the debt burden and a material increase in available liquidity over the next 2-3 years.

## Factors that could lead to a downgrade

The rating could be downgraded if the province were unable to meaningfully control expenditures leading to larger or longer lasting deficits than we currently anticipate. A material increase in the debt burden or a rise in the indebtedness of Manitoba Hydro materially above forecasted levels could also result in downward rating pressure.

## Key indicators

Exhibit 2

### Province of Manitoba

Key Indicators (Year Ending March 31)	2017	2018	2019	2020	2021E	2022F	2023F
Net Direct and Indirect Debt as a % of Revenues	168.8	164.8	167.8	161.1	175.0	174.2	177.6
Net Direct and Indirect Debt as a % of GDP	39.3	37.3	39.1	38.5	43.0	41.4	41.5
Cash Financing Surplus (Requirement) as a % of Revenues	(10.6)	(5.8)	(4.6)	(1.2)	(13.8)	(13.2)	(5.5)
Consolidated Surplus (Deficit) as a % of Revenues	(5.0)	(4.3)	(0.9)	0.0	(11.9)	(9.0)	(2.0)
Interest Expense as a % of Revenues	5.9	5.9	5.9	5.9	5.4	5.6	5.7
Intergovernmental Transfers as a % of Revenue	26.3	26.0	26.6	27.5	33.6	31.6	na
Real GDP Growth (%) [1]	3.3	1.5	0.6	(4.8)	4.1	3.6	na

[1] Corresponds to calendar year.

Sources: Province of Manitoba, Statistics Canada, Moody's Investors Service

## Detailed credit considerations

### Baseline credit assessment

The credit profile of the Province of Manitoba, as expressed in its Aa2 stable rating, combines (1) a baseline credit assessment (BCA) of a1, and (2) a high likelihood of extraordinary support coming from the Government of Canada in the event that the province faced acute liquidity stress.

### Economic diversity reduces vulnerability to external shocks

Manitoba's higher degree of economic diversification relative to other provinces along with its access to a broad and productive tax base will continue to support the economic recovery following the downturn caused by the coronavirus pandemic. Manitoba's economic growth before the pandemic had been relatively strong, averaging 2.1% real GDP growth per year between 2011-2019. After a real GDP decline of 4.8% in 2020, the province projects a recovery of 4.1% in 2021 and 3.6% in 2022, supported by continued growth in the real estate, agriculture, education, food processing and financial services sectors. Manufacturing is especially important including machinery, transportation and electronics, as well as agricultural goods including wheat, canola and soybeans. Both the decline and subsequent recovery are more muted than our assumptions of economic activity for Canada for 2020 (5.4% decline) and 2021 (6.2% growth), reflecting the greater diversity in Manitoba's economic sectors.

The economic diversity allows the province to more easily weather the pandemic-related fiscal shock than the many of its provincial peers. As a result, we expect a return to historical growth as containment measures ease. The sector diversification also allows Manitoba to have a diversified export market to trading partners including the United States, China, Hong Kong, Japan, Mexico and other economies, which provides a buffer against trading partner-specific shocks. While trade moderated in 2020 due to a decrease

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in US-bound exports, a strong performance in agriculture commodities and resilient trade with China and Japan provided offsets. We expect that a recent surge in capital spending in the province will further expand food manufacturing exports.

The provincial unemployment rate has been historically low, although unemployment the rate rose in 2020 and will remain elevated in 2021 reflecting job losses and layoffs related to the pandemic, before gradually returning to long-term trends. The province projects the unemployment rate to gradually improve from 8.0% in 2020 to 6.0% by 2022, rates that compare favourably with our current estimates for the majority of provincial peers.

Manitoba's level of taxation, including its sales taxes, is competitive among Canadian provinces, presenting the province the flexibility to raise taxes if revenues were to fall below expected levels while still remaining competitive with other jurisdictions.

#### **Solid levels of liquidity and low interest rates support strong debt affordability**

Manitoba's liquidity remains strong for its rating category with CAD3.7 billion in cash and investments (excluding sinking funds) in 2019-20, which covered 21% of expenses and 13% of net debt. Although we expect that these levels could be temporarily weaker during the pandemic, we project a rebound over the next 2-3 years in line with the projected fiscal recovery. Liquidity was also sufficient to cover upcoming debt maturities (net of refinancings) and debt servicing. The province also maintains CAD974 million in sinking funds, and CAD500 million in unused revolving bank credit facilities. The province also retains capacity to issue an additional CAD2 billion in Treasury bills.

The continued low interest rate environment will help mitigate the effect of higher debt on the province's interest expense, limiting the impact to the its fiscal position. As a result, interest expense will rise slower than the rise in the notional value of outstanding debt. We expect that the interest expense will remain between 5% and 6% of revenue over the next four years, a level that is approximately in line with the 10-year average.

The province maintains prudent debt management policies, including issuing the majority of its debentures in Canadian dollars and fully hedging its foreign currency debt to Canadian dollars, which reduces exchange rate volatility and risk.

#### **Mature institutional framework and important federal transfers**

Manitoba enjoys significant flexibility in its financial management. Compared with their counterparts in other countries, such as the German Länder and the Australian states, Canadian provinces enjoy far greater autonomy in terms of both the spending and revenue sides of their budgets.

Unfettered access to a broad range of tax bases and the ability to alter expenditure programs provide Canadian provinces with substantial flexibility to meet fiscal challenges. As such, Canadian provinces benefit from a high degree of fiscal policy flexibility similar to sovereign governments than to many of their international sub-sovereign peers. These positive institutional factors increase Canadian provinces' ability to manage through economic downturns and handle relatively high debt burdens.

Manitoba's fiscal management measures are supported by comprehensive and transparent financial reporting that is typical of governments in advanced industrial economies. Fiscal planning is presented through annual budgets including multi-year fiscal and economic outlooks. During the pandemic, the province has also adopted scenario analysis to reflect projections of various speeds of fiscal and economic recovery.

The institutional framework also includes important federal fiscal transfers to the province, including equalization, health and social transfers. These transfers are highly predictable and secure and are therefore largely unaffected by economic changes. Federal transfers accounted for approximately 27% of Manitoba's total revenues in recent years, but increased to a projected 34% in 2020-21 as a result of increased pandemic-related federal transfers and weaker own-source revenues. We expect that this ratio will gradually return to the long-term levels over the next 2-3 years as pandemic-related federal support declines and own-source revenues recover.

Since the onset of the pandemic, the federal government has initiated a number of support programs for both individuals and businesses, as well as directly to provinces and municipalities. Provinces have benefitted from significant federal support, including under the CAD19 billion (combined for all provinces) Safe Restart Program for transit, municipal support, health, testing, equipment and other coronavirus-related support, of which approximately CAD418 million has been allocated to Manitoba.

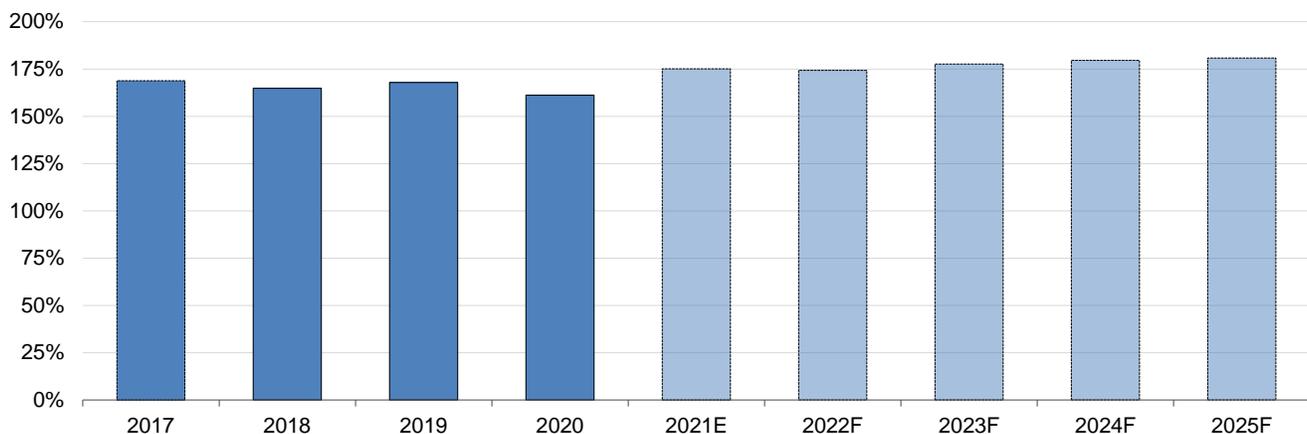
**Rising debt burden and elevated contingent liability risk of Manitoba Hydro**

The combination of multi-year deficits and an elevated capital spending plan will continue to upward pressure on the province's debt levels and the debt burden (as measured by net direct and indirect debt relative to revenue). We project that the debt burden will increase from 174% of revenue in 2020-21 to between 175% and 185% over the next four years.

The 2021-22 budget estimates capital expenses of CAD1.6 billion in 2021-22. These levels are elevated when compared to the province's average annual spending of CAD1.3 billion over the last five years, and reflect infrastructure spending for transportation, health, education and housing projects. A large component of the capital plan will require debt financing, which, along with debt financing of the projected deficits, will result in gradually rising debt levels. A continued rise in debt levels could lead to an erosion in the province's debt affordability.

Exhibit 3

**Projected deficits and a large capital program will put upward pressure on debt levels  
 (Net direct and indirect debt as a % of revenue)**



For years ending March 31  
 Sources: Province of Manitoba, Moody's Investors Service.

The province maintains modest unfunded pension liabilities of around 17% of revenues (March 31, 2020). We view unfunded pension liabilities as contingent liabilities of the province, which are not included in the province's debt metrics.

The province also faces contingent liability risk through debt issued on behalf of Manitoba Hydro, its wholly-owned electric utility company. Manitoba Hydro's debt currently makes up 43% of the province's total debt (projected at March 31, 2021), however we exclude this debt from the province's net direct and indirect debt metric given the utility's ability to generate sufficient revenues to meet its own debt service requirements. Nevertheless, Manitoba Hydro's debt remains the largest contingent liability of the province, and is included in our assessment of the creditworthiness of the province.

Manitoba Hydro's total reported debt has risen considerably, almost doubling over the last five years to CAD23.1 billion at March 31, 2020. Manitoba Hydro's debt financing needs will remain high through 2024 as it completes its capital projects. However, debt financing for the province's largest capital project, the Keeyask hydroelectric station north of Winnipeg - which generates renewable hydroelectric energy and is designed to meet anticipated demand increases over the next few years and boost electricity exports - will decline as the project is forecast to fully come into service during the 2021-22 fiscal year.

**Multi-year projected deficits pressure fiscal profile**

Leading up to the coronavirus outbreak, Manitoba's fiscal position showed gradual signs of improvement driven by GDP growth and cost controls. The province's 2021-22 budget projects a period of multi-year deficits over the next four years including a deficit of CAD1.6 billion (9.0% of revenue) in 2021-22 and CAD0.4 billion (2.0%) in 2022-23 followed by smaller deficits over the subsequent two years. Nevertheless, the province has not committed to balancing its budget within the next eight years, only providing a broad expectation to return to balance by 2028-29 and requiring an amendment to the province's balanced budget legislation. Although the

budget includes some buffer against revenue uncertainty in the form of contingencies, the level of fiscal rebound rests on the pace of the economic recovery, which has been recently adversely impacted by a stronger than anticipated third pandemic wave.

Following a sharp increase in expenditures in 2020-21 (up 11% year-over-year) reflecting elevated pandemic-related spending, the province projects that expenditures will remain significantly above pre-pandemic levels over the next four years despite a modest improvement in the first two years relative to the 2020-21 expenditures. Despite this modest improvement, expenditures will be elevated given that COVID-19-related health and emergency spending will largely be replaced by elevated program spending. Nevertheless, a faster pace of vaccination and phased reopening could accelerate recovery and reduce future spending pressure.

Revenues are budgeted to increase by 2% in 2021-22 and will rise by an average 3.3% annually over the four-year budget horizon given the forecast of higher income and sales tax revenues and higher revenue from government business enterprises as the economic recovery takes hold, as well as rising equalization transfers which are driven by formulaic increases. At the same time, education tax revenue will decline following the phasing out of education property taxes, and pandemic-related federal support will taper down as the projected economic recovery takes hold.

### Extraordinary support considerations

We consider Manitoba to have a high likelihood of extraordinary support from the federal government in case of acute liquidity need, reflecting our assessment of the federal government's incentive to minimize the risk of potential disruptions to capital markets if Manitoba or any province were to default. It also incorporates our assumption of a moderately positive federal government policy stance, as illustrated by the flexibility inherent in the system of federal-provincial transfers.

### ESG considerations

#### How environmental, social and governance risks inform our credit analysis of Manitoba

Moody's takes into account of the impact of environmental (E), social (S) and governance (G) factors when assessing sub-sovereign issuers' economic and financial strength. In the case of Manitoba, the materiality of ESG to the credit profile is as follows:

Environmental considerations are not material to the credit profile and exposure is low. Although the province is susceptible to natural disasters such as floods and severe weather that could result in mitigation expenses and economic losses, the province manages these risks prudently and the amounts do not result in significant pressure on the province's fiscal profile. Additionally, the province can apply for federal disaster relief to help cover costs for larger disasters that exceed specific, preset levels.

Exposure to social risks is moderate for Manitoba's credit profile. We regard the coronavirus outbreak as a social risk, given the substantial implications for public health and safety. The uncertainty regarding the outbreak's breadth and severity adds to downward risk on fiscal outcomes. The province also faces social risks stemming from its general responsibility to provide services in sectors such as healthcare, transportation related infrastructure, public safety and education.

Governance considerations are material to Manitoba's credit profile, but overall governance risk is low. Financing planning is prudent with forward-looking analysis and transparent and timely financial statements (public accounts) audited by the provincial auditor general.

Further details are provided in the "Detailed credit considerations" section above. Our approach to ESG is explained in our cross-sector methodology '[General Principles for Assessing Environmental, Social and Governance Risks](#)'.

## Rating methodology and scorecard factors

In the case of Manitoba, the BCA of a1 assigned by the rating committee is one notch below the scorecard-indicated outcome of aa3. The scorecard-indicated outcome of aa3 reflects (i) an idiosyncratic risk score of 4 (presented below) on a 1 to 9 scale, where 1 represents the strongest relative credit quality and 9 the weakest; and (ii) a systemic risk score of Aaa, as reflected in the sovereign bond rating for the Government of Canada (Aaa stable).

For details about our rating approach, please refer to [Rating Methodology: Regional and Local Governments](#), 16 January 2018.

Exhibit 4

### Province of Manitoba Regional & Local Governments

Baseline Credit Assessment – Scorecard	Score	Value	Sub-factor Weighting	Sub-factor Total	Factor Weighting	Total
<b>Factor 1: Economic Fundamentals</b>				<b>5.20</b>	<b>20%</b>	<b>1.04</b>
Economic Strength [1]	7	88.67%	70%			
Economic Volatility	1		30%			
<b>Factor 2: Institutional Framework</b>				<b>1</b>	<b>20%</b>	<b>0.20</b>
Legislative Background	1		50%			
Financial Flexibility	1		50%			
<b>Factor 3: Financial Position</b>				<b>4.25</b>	<b>30%</b>	<b>1.28</b>
Operating Margin [2]	5	3.41%	12.5%			
Interest Burden [3]	7	5.88%	12.5%			
Liquidity	1		25%			
Debt Burden [4]	7	161.12%	25%			
Debt Structure [5]	3	11.11%	25%			
<b>Factor 4: Governance and Management</b>				<b>5</b>	<b>30%</b>	<b>1.50</b>
Risk Controls and Financial Management	5					
Investment and Debt Management	1					
Transparency and Disclosure	1					
<b>Idiosyncratic Risk Assessment</b>						<b>4.02 (4)</b>
<b>Systemic Risk Assessment</b>						<b>Aaa</b>
<b>Suggested BCA</b>						<b>aa3</b>

- [1] Local GDP per capita as % of national GDP per capita  
[2] Gross operating balance by function/operating revenues  
[3] (Adjusted) interest expenses/operating revenues  
[4] Net direct and indirect debt/operating revenues  
[5] Short-term direct debt/total direct debt  
Source: Moody's Investors Service; Fiscal 2019.

## Ratings

Exhibit 5

Category	Moody's Rating
<b>MANITOBA, PROVINCE OF</b>	
Outlook	Stable
Senior Unsecured	Aa2
Other Short Term -Dom Curr	P-1
<b>MANITOBA HYDRO ELECTRIC BOARD</b>	
Outlook	Stable
Bkd Commercial Paper	P-1

Source: Moody's Investors Service

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# Rating Report

## Province of Manitoba

### DBRS Morningstar

November 12, 2020

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### Ratings

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

\* Includes the Short- and Long-Term Obligations issued by the Manitoba Hydro-Electric Board.

### Rating Update

DBRS Limited (DBRS Morningstar) confirmed the Issuer Rating and Long-Term Debt rating of the Province of Manitoba (Manitoba or the Province) at A (high) and confirmed the Province's Short-Term Debt rating at R-1 (middle). All trends are Stable, supported by a well-diversified and resilient economy, increased focus on fiscal sustainability prior to the onset of the Coronavirus Disease (COVID-19) pandemic, and prudent debt management. These attributes provide Manitoba with ample flexibility to withstand the near-term deterioration in financial risk factors.

Manitoba's economy and public finances have been significantly affected by the coronavirus pandemic. The Province expects economic activity to contract by 5.2%, and recent forecasts suggest the budget deficit will surge to \$2.9 billion in 2020–21 (\$2.4 billion after including additional federal assistance not captured in the Q1 update). The projected operating result equates to a DBRS Morningstar-adjusted deficit of \$3.0 billion, or 4.2% of GDP. The weaker result stems from a significant decrease in own-source revenue and higher program spending, partially offset by increased federal transfers.

While the economic impact of the pandemic has been painful for all provinces, Manitoba's economy is performing better than most other provinces. On most economic indicators, Manitoba is among the top-performing provinces in the country, including employment levels, the unemployment rate, retail sales, manufacturing sales, merchandise exports, and residential and nonresidential investment.

Manitoba's most recent forecasts assume a relatively quick recovery, which appears increasingly uncertain. Manitoba has experienced a surge in coronavirus cases in recent weeks, which has prompted the government to reimpose various social and economic restrictions.

Manitoba, like most provinces, has not released a multiyear budget forecast. However, the extent of the budget deficit and the broader economic weakness suggest the Province will likely face several years of operating losses.

The significant deterioration in the budget outlook along with a planned increase in capital spending have also led to a significant increase in debt. The Province's borrowing requirement has increased to \$8.6 billion, while net debt is forecast to rise to \$28.1 billion, or 39.6% of GDP. Manitoba's DBRS Morningstar-adjusted debt ratio is projected to rise to 48.2% in 2020–21 from 42.7% in the prior year. DBRS Morningstar expects the adjusted debt ratio to remain elevated over the next two years.

### Rating Drivers

Manitoba's critical rating factors are well anchored, and, despite near-term deterioration in financial risk assessment factors, DBRS Morningstar does not anticipate a rating change over the medium term. A positive rating action could result from a return to a balanced budget on a sustained basis and a significant reduction in the provincial debt burden. A negative rating action could result from a sustained deterioration in the provincial economy and failure to stem chronic deficit spending and debt growth.

### Financial Information

(CAD millions)	For the year ended March 31				
	2021B*	2020	2019	2018	2017
Debt/GDP (%)	48.2	42.7	43.0	41.2	43.1
Surplus (deficit)/GDP (%)	(4.2)	(0.4)	(0.6)	(1.5)	(2.2)
Federal transfers/total revenue (%)	34.4	27.5	26.7	26.1	26.5
Interest costs/total revenue (%)	5.8	5.7	5.6	5.6	5.7
Real GDP growth (%)	(5.2)	0.6	1.5	3.3	1.4

\* B = budget as of Q1 update.

### Issuer Description

Located in Western Canada, Manitoba is one of the prairie provinces. The Province is relatively small with a population of 1.4 million, but it has a diversified and resilient economy. The Province also possesses significant renewable energy resources, generating hydroelectricity for domestic and export markets.

### Rating Considerations

#### Strengths

##### 1. Diversified and resilient economy

Manitoba has a diversified and resilient economy with no undue reliance on any industry. The Province has a stable labour market, low unemployment, and relatively strong population and labour force growth. The Province's interprovincial and international exports are diversified in both composition and destination (relative to other provinces). As a result, the Province's economy tends to post stable growth and exhibit lower volatility than the economies of most other provinces.

##### 2. Demographics

Manitoba has a relatively young population, and while there has been persistent interprovincial outmigration over the last two decades, the population has continued to grow with natural increases and international migration to the Province. Birth rates are relatively high, which has contributed to a decline in the median age. Over the medium term, the population is expected to continue to grow, which should support labour force growth and potential output.

### *3. Debt management*

The Province's debt burden has risen sharply in recent years but remains prudently managed. The Province maintains a reasonably smooth debt maturity profile, no unhedged foreign currency exposure, and only a moderate level of floating-rate exposure. Manitoba enjoys good market access with well-established domestic and international borrowing programs and maintains liquidity to mitigate the risk of market disruptions in the form of sinking funds, uncommitted credit facilities, and treasury bill and promissory note programs.

### *4. Abundant low-cost hydroelectricity*

Manitoba has low-cost hydroelectric-based generating capacity that results in one of the lowest variable cost structures in North America. This has enabled The Manitoba Hydro-Electric Board (Manitoba Hydro or the Utility) to provide electricity to its domestic customers at one of the lowest rates on the continent. Low-cost electricity provides Manitoba a distinct advantage when competing for new business investment in some industries.

## **Challenges**

### *1. Persistent deficit spending*

Manitoba reported a modest operating surplus in 2019–20 following a prolonged period of deficit spending. As with other provinces, the budget outlook has now deteriorated significantly. While the Province has yet to provide a multiyear outlook, the extent of the budget deficit and the broader economic weakness suggest the Province is likely facing several years of operating losses. In contrast to most other provinces, Manitoba has gone through a significant multiyear deficit reduction exercise in recent years. The people and framework remain in place, which likely supports a quicker deficit reduction effort than elsewhere.

### *2. Elevated debt levels*

Manitoba's debt ratios stabilized in recent years and were poised to gradually decline following the Province's deficit reduction efforts. The outlook now suggests that the Province's DBRS Morningstar-adjusted debt burden will rise 48.2% in 2020–21 and may rise modestly higher in subsequent years.

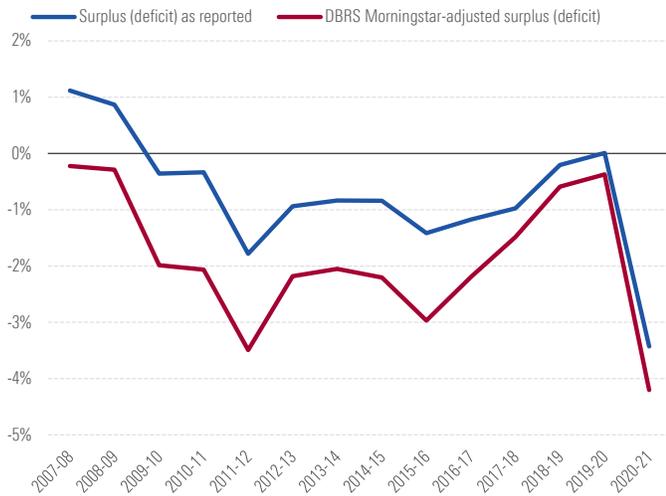
### *3. High taxes and limited fiscal capacity*

Manitoba has relatively high taxes and a weaker underlying revenue base, which limits the Province's ability to increase own-source revenue and leaves it somewhat dependent on the federal government's equalization program.

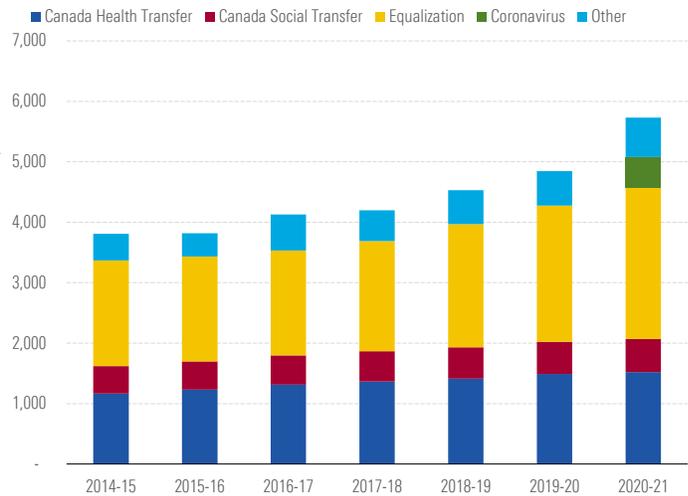
### *4. Moderate reliance on federal transfers*

Federal transfers, including equalization, typically account for about 30% of provincial revenue. Outside of Atlantic Canada, Manitoba is the most reliant province on federal transfers, which exposes it to some risk of federal policy changes and the dynamics of the various transfer programs. While a change to a transfer program could significantly affect the Province, material changes tend to be gradual and well communicated.

**Exhibit 1** Operating Results (Share of GDP)



**Exhibit 2** Federal Transfers (CAD millions)



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

### 2020–21 Budget

The Province tabled its 2020 budget on March 19, 2020. The budget was a stay-the-course plan with a deficit forecast of \$220 million. As economic conditions began to deteriorate, the Province tabled a supplementary document outlining possible economic and fiscal impacts from the coronavirus pandemic. That document suggested healthcare costs could rise between \$50 million and \$200 million, while the deficit could increase by as much as \$682 million to \$902 million. The Province subsequently introduced Supplementary Estimates in early April, which provided \$1.0 billion in new spending authorities, including \$500 million for healthcare and \$500 million for enabling and emergency spending.

The Province revised its outlook through the course of the summer, providing a range of possible outcomes. The most recent forecast, from late September, was for a budget deficit of \$2.9 billion. The forecast did not incorporate \$503 million in federal transfers associated with the Safe Restart and Safe Return to School agreements. Consequently, the forecast budget deficit was likely closer to \$2.4 billion. This is consistent with the scenario analysis DBRS Morningstar presented in May 2020.

The forecast was based on a relatively strong economic recovery beginning in the second half of 2020 and carrying into 2021. The deterioration from the original budget forecast reflects significantly lower own-source revenue (-\$1.5 billion), an increase in federal transfers (+\$593 million), and an increase in expense (+\$1.2 billion).

The Province budgeted for \$1.3 billion in capital investment in 2020–21 (+30% over the prior year) and subsequently announced that it would increase capital spending further to support economic activity. The Province has yet to provide a revised forecast. However, DBRS Morningstar assumes that capital investment is likely to be lower than suggested. In past years, actual capital investment has tended to

be, on average, about 25% lower than the budget projection. Physical distancing requirements and possible supply disruptions may also weigh on actual spending.

The revised budget forecast translates to a DBRS Morningstar-adjusted deficit of \$3.0 billion, equivalent to 4.2% of GDP. This is also consistent with DBRS Morningstar's May 2020 scenario analysis. DBRS Morningstar typically excludes one-time and nonrecurring spending from its DBRS Morningstar-adjusted measure. Currently, it is unclear what share of the revenue and expense impacts will be one-time in nature. DBRS Morningstar will revise its adjusted figure once more details are available.

Despite being halfway through the fiscal year, the outlook remains subject to significant uncertainty. While economic conditions during the summer and early fall suggested that the budget results could have a somewhat stronger recovery than forecast, the outlook has since deteriorated. There has been a surge in coronavirus cases in recent weeks, which has prompted the Province to further restrict economic and social activity in the province.

**Exhibit 3** Budget Summary (CAD millions)

	2020-21	2019-20	2018-19	2017-18	2016-17	2015-16
	Q1 Update	Actual	Actual	Actual	Actual	Actual
Revenue	16,680	17,641	17,028	16,152	15,627	14,916
Expense						
Program expense	18,115	16,599	16,177	15,894	15,486	14,993
Interest expense	1,000	1,037	1,000	952	930	855
<b>Surplus (Deficit) as Reported</b>	<b>(2,435)</b>	<b>5</b>	<b>(149)</b>	<b>(694)</b>	<b>(789)</b>	<b>(932)</b>
<b>DBRS Morningstar Adjustments</b>						
Nonrecurring items	-	-	-	-	-	-
Capital investment	(1,338)	(1,025)	(1,006)	(1,123)	(1,417)	(1,702)
Amortization	789	745	723	760	728	677
<b>Adjusted Surplus (Deficit)</b>	<b>(2,984)</b>	<b>(275)</b>	<b>(432)</b>	<b>(1,057)</b>	<b>(1,478)</b>	<b>(1,957)</b>
Share of nominal GDP (%)	(4.2)	(0.4)	(0.6)	(1.5)	(2.2)	(3.0)

Note: 2020-21 budget adjusted to include \$503 million in federal transfers related to coronavirus.

**Outlook**

Manitoba has not released a multiyear budget outlook. There is considerable uncertainty in the fiscal outlook; however, DBRS Morningstar believes the budget deficit will likely remain elevated through the next three years. While the government's commitment to balanced budgets and low debt remains clear, the pace of fiscal consolidation will likely be gradual to avoid harming the economic recovery.

**2019-20 Results**

The Province reported a \$5.0 million budget surplus for the year ended March 31, 2020, which is a considerable improvement from the original forecast of a \$360 million deficit. The better result stems from higher revenue. On a DBRS Morningstar-adjusted basis, the result equates to a \$275 million deficit (0.4% of GDP).

Total revenue growth was moderate in 2019–20, rising by \$613 million (+3.6%) on a DBRS Morningstar-adjusted basis. Higher federal transfers (+\$316 million), fines and fees (+\$147 million), and taxes (+\$88 million) were the main contributors to year-over-year revenue growth.

Total expenditures were modestly higher in 2019–20, rising by \$462 million (+2.7%) on a DBRS Morningstar-adjusted basis. Both program spending (+2.6%) and interest costs (+3.7%) were higher year over year. Investment in tangible capital assets rose modestly (+1.9%) to \$1.0 billion, but fell short of the budget forecast of \$1.3 billion. As noted in past reports, capital investment has been lower in recent years after peaking in 2016–17 when several major capital projects were underway. DBRS Morningstar previously expected capital investment to normalize around \$1.0 billion annually.

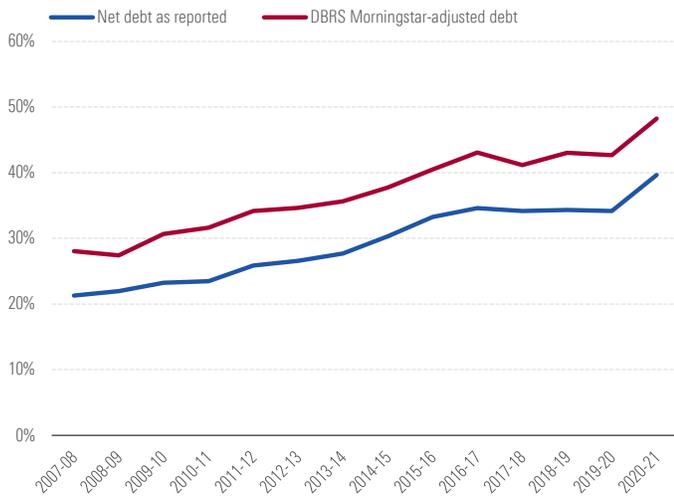
Net interest costs continued to rise during the year, reaching \$996 million (+3.8%) because of past deficit spending and ongoing debt-financed capital expenditures. However, as in past years, interest rates rose more gradually than expected, which provided for a positive variance against budget projections.

Manitoba's public accounts remain subject to a qualified audit opinion by its auditor general. The qualifications remain the same and relate to the removal of the Workers Compensation Board and the Manitoba Agricultural Services Corporation's Production Insurance Trust and Hail Insurance Trust from the government's reporting entity. The auditor general's accounting treatment results in a \$38 million increase to the operating result and a \$1.2 billion reduction in the accumulated deficit. DBRS Morningstar understands that the Province and the auditor general continue to make progress in addressing these concerns.

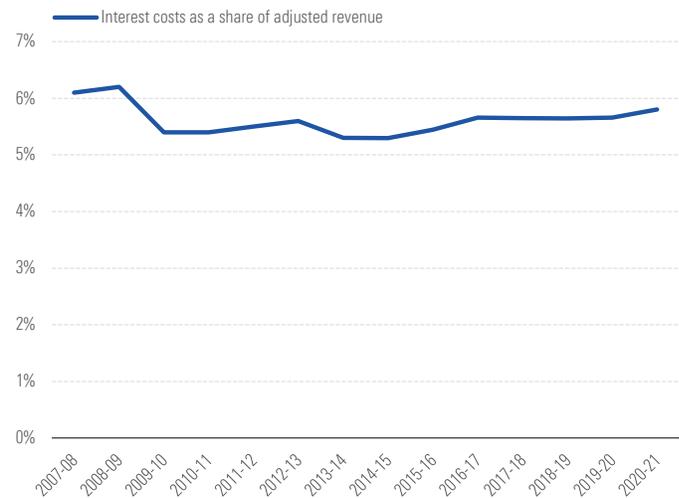
### Debt Profile

Manitoba's debt burden rose quickly in the years after the 2008–09 financial crisis with persistent deficit spending, but the pace of debt growth slowed with the current government's efforts to reduce the deficit and scale back capital investment. However, with the coronavirus pandemic, the Province's debt and debt-to-GDP ratios are now set to rise sharply in 2020–21.

**Exhibit 4 Debt-to-GDP Ratios**



**Exhibit 5 Interest Costs as a Share of Adjusted Revenue**



Sources: Province of Manitoba, DBRS Morningstar, and Statistics Canada.

Manitoba's first-quarter fiscal update suggests net debt will rise to \$28.1 billion (39.6% of GDP), while DBRS Morningstar-adjusted debt will rise by \$2.7 billion to \$34.2 billion (48.2% of GDP).

The Province's borrowing program is currently estimated to be \$8.6 billion, which includes a portion of prefunding for 2021–22. To date, the Province has raised \$6.3 billion. The remaining amount to be borrowed reflects \$1.0 billion for Manitoba Hydro and \$1.15 billion for the Province—both amounts largely for 2021–22 prefunding.

The medium-term outlook is subject to considerable uncertainty; however, DBRS Morningstar expects that Manitoba's debt levels will continue to rise because of relatively large budget deficits and ongoing debt-financed capital spending. DBRS Morningstar expects the DBRS Morningstar-adjusted debt-to-GDP ratio to remain around the current forecast level through 2021–22.

In the past, the Province has not had an explicit debt reduction target or policy objective; however, the government's past efforts centred on a methodical approach to controlling spending while revenues steadily rose. Through this, the budget deficit fell and the debt-to-GDP ratio stabilized. DBRS Morningstar expects the Province will take a similar approach in the future.

The Province projects that its net interest costs will fall modestly in the coming year with lower borrowing rates offsetting growth in the debt stock. Manitoba projects interest costs, net of sinking fund earnings, to be \$966 million in 2020–21, down from \$996 million in 2019–20. Interest costs remain modest relative to the overall size of the budget, forecast to account for just 5.8% of adjusted revenue.

The debt profile is largely unchanged, with a prudent maturity profile and no unhedged foreign currency exposure. Exposure to interest rate increases within the next 12 months is limited, with maturing debt and the Province's short-term borrowing program accounting for 11.2% of the debt stock at March 31, 2020.

The Province has extended the average term to maturity for the debt stock and generally has no more than \$3.5 billion maturing in any given year. The weighted-average (WA) term to maturity for the Province's term debt is forecast to rise to 17.3 years at March 31, 2021, and the WA interest cost is forecast to fall to 3.45%.

The overall direction of the borrowing program and strategy remains unchanged. The Province intends to maintain relatively large and liquid benchmarks in the domestic market (five year, 10 year, and 30 year) and to issue opportunistically in international markets when the all-in cost is competitive. In recent years, the domestic market has typically accounted for 60% to 70% of issuance.

While Manitoba has borrowed heavily in international markets, the Province swaps back its foreign currency exposure to Canadian dollars. As at March 31, 2020, the Province was party to derivatives contracts with notional principal amounts totalling \$51.0 billion, consisting largely of foreign currency and interest rate swaps. The Province has Credit Support Annexes in place with its counterparties, which are all large domestic and international banks rated A (high) or better by DBRS Morningstar.

With the market pressures earlier in the year, the Province has increased its liquidity position and now has more than \$4.7 billion in cash and liquid investments (excluding the Province's trust portfolios). The Province also maintains an uncommitted revolving credit facility (\$504 million) and further capacity to increase its Treasury bill and promissory note borrowings.

The Province's unfunded pension liabilities continue to rise and are projected to reach \$3.2 billion, or 4.5% of GDP, by March 31, 2021. The civil service superannuation plan and the teachers' pension plan account for most of the unfunded pension obligations. Contribution rates were raised in the past, indexation was made conditional, and the Province made debt-funded contributions. Nevertheless, in the absence of more substantial changes to plan design or funding, the unfunded liability is likely to track modestly higher in the coming years.

### **Manitoba Hydro**

The Province issues debt on behalf of Manitoba Hydro (agent of the Crown) and guarantees much of Manitoba Hydro's legacy debt. The debt issued on behalf of the Utility amounts to \$23.1 billion, or about 44% of the Province's total outstanding market debt at March 31, 2020.

In recent years, Manitoba Hydro's debt has increased sharply because of two major capitals projects: the Bipole III transmission line and the Keeyask generating station. Manitoba Hydro is revising its strategic plan, which will include a new rate strategy and long-term plan. In the interim, the Province has introduced legislation that will allow it to set electricity rates through regulation. The current outlook suggests Manitoba Hydro's gross debt will peak around \$25.0 billion in 2023–24.

The coronavirus pandemic has had a limited impact on Manitoba Hydro's operations and financials. The Utility has provided some relief to households and businesses and has sought to control expenses. The pandemic also led to a further delay at the Keeyask generating station, as the number of staff and contractors on-site were reduced to allow for increased physical distancing. Taken together, operating results are likely to be modestly better than planned for 2020–21.

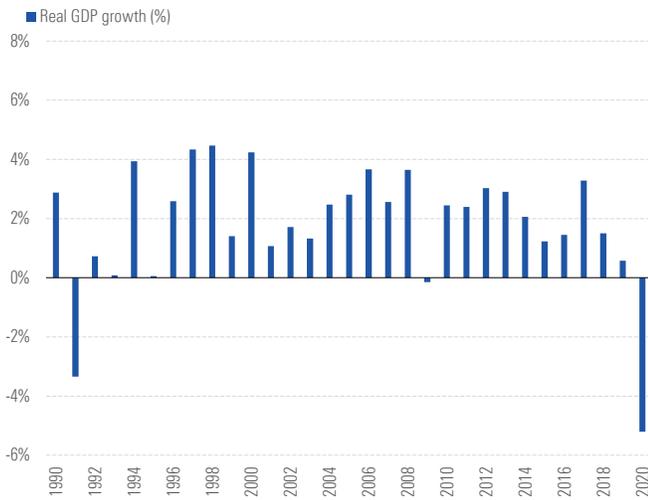
With only modest electricity rate increases in recent years, the large capital program has led to a deterioration in profitability and credit metrics. Profitability and credit metrics will remain pressured through the medium term but are expected to gradually improve over the longer term.

Despite this deterioration, DBRS Morningstar continues to view the hydro-related debt as self-supporting and excludes the related debt from DBRS Morningstar's measure of tax-supported debt. The Progressive Conservative government's commitment to improving the Utility's longer-term financial sustainability, along with the actions taken by the Utility in recent years, give DBRS Morningstar comfort during this period of strong debt growth.

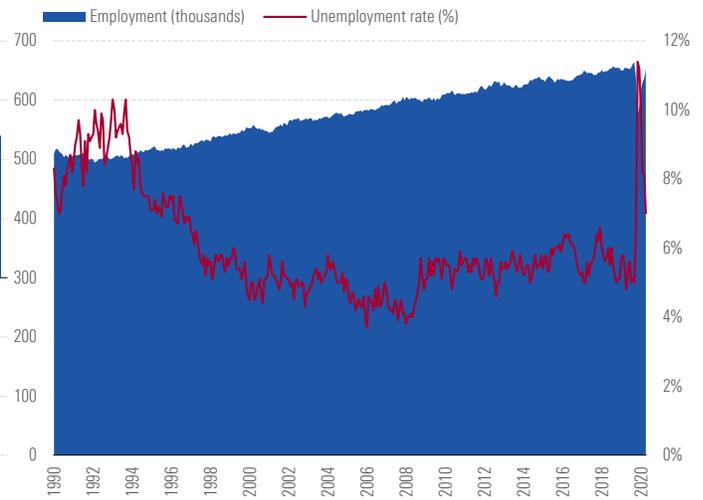
### **Economy**

Manitoba is among Canada's smaller provinces, with a population of 1.4 million and a relatively well diversified economy comprising a balanced mix of industries. There is no undue reliance on any industry, though some industries are relatively small and may lack the depth and breadth found in the larger provinces. Nevertheless, DBRS Morningstar views the stable, diversified economy as a positive for the provincial credit profile. Over the last 20 years, the economy has posted stable, moderate growth in most years and experienced only one modest contraction (-0.2% in 2009).

**Exhibit 6 Economic Growth (Annual)**



**Exhibit 7 Labour Market (Monthly)**



Sources: Statistics Canada and the Province of Manitoba.

The positive record has been, in part, augmented by the Province’s young and growing population, which stands in contrast to the demographic trends facing several other provinces. Manitoba continues to experience strong immigration (as a result of a successful provincial nominee program and growth in federal immigration quotas) and a baby boom (the baby boom echo cohort), which has more than offset modest interprovincial outflows. This has translated into a growing labour force and alleviated some of the pressures associated with an otherwise aging population. Over the last three years, Manitoba has experienced the second-fastest population growth among provinces, with annual growth ranging between 1.2% and 1.6%.

The economic outlook has deteriorated significantly with the coronavirus pandemic. The Province expects economic activity to contract by 5.2% and nominal GDP to fall by 3.8% in 2020. The economic impacts are broadly similar to those in other provinces, stemming from the broad economic shutdowns, resulting surge in unemployment/underemployment, weaker consumption and investment, and heightened uncertainty.

While the economic impact of the pandemic has been significant, Manitoba is faring better than most provinces. On most economic indicators, Manitoba is among the top-performing provinces in the country, including employment levels, the unemployment rate, retail sales, manufacturing sales, merchandise exports, residential and nonresidential investment, and wholesale trade.

The relatively stronger performance reflects the diversified underlying economy, absence of a significant oil and gas industry, a smaller tourism sector, and the less severe initial economic shutdown.

While Manitoba has fared better than other provinces through the first 10 months of 2020, the outlook may now be weakening. Manitoba has experienced a sharp surge in coronavirus cases in recent weeks, which has prompted the government to curtail social and economic activity in the province. Economic

activity is likely to weaken in the final months of 2020 and may weigh on economic activity in 2021. The Province is currently forecasting a relatively strong economic recovery in 2021, with real GDP growth of 4.8% and the unemployment rate falling to 6.7%.

### Economic Data

	2021	2020	2019	2018	2017	2016	2015
<b>Nominal GDP (CAD billions)</b>	<b>75.3</b>	<b>71.0</b>	<b>73.8</b>	<b>73.1</b>	<b>71.3</b>	<b>67.3</b>	<b>65.9</b>
Growth rate (%)	6.0	(3.8)	1.0	2.5	5.9	2.1	2.5
<b>Real GDP (2012 CAD billions)</b>	<b>67.6</b>	<b>64.5</b>	<b>68.1</b>	<b>67.7</b>	<b>66.7</b>	<b>64.5</b>	<b>63.6</b>
Growth rate (%)	4.8	(5.2)	0.6	1.5	3.3	1.4	1.2
<b>Population (thousands)</b>	<b>1,394</b>	<b>1,379</b>	<b>1,370</b>	<b>1,353</b>	<b>1,335</b>	<b>1,314</b>	<b>1,292</b>
Population growth (%)	1.1	0.7	1.2	1.4	1.6	1.7	1.0
<b>Labour Market</b>							
Employment (thousands)	661	657	654	648	644	634	636
Growth rate (%)	0.5	0.6	0.9	0.6	1.7	(0.4)	1.5
Average weekly earnings (CAD)		995	954	934	910	888	880
Growth rate (%)		4.3	1.8	2.9	2.5	0.9	2.0
Unemployment rate (%)	6.7	8.3	5.3	6.0	5.4	6.1	5.6
<b>Other Indicators</b>							
Housing starts		6,304	6,946	7,376	7,501	5,319	5,501
Retail sales (CAD millions)		20,542	20,982	20,809	20,362	18,891	18,210
Inflation rate (CPI)	1.6	0.6	2.3	2.5	1.6	1.3	1.2

Sources: Statistics Canada, Haver Analytics, and Province of Manitoba estimates and projections.

### Government and Elections

<b>Party in Power</b>	Progressive Conservative (majority)	<b>Current Distribution of Seats in the Legislature</b>	
<b>Premier</b>	Brian Pallister	<b>Progressive Conservative</b>	36
<b>Finance Minister</b>	Scott Fielding	<b>New Democratic Party</b>	18
<b>Next Election</b>	October 2, 2023	<b>Liberal Party</b>	3

**Statement of Operations: Revenue (CAD millions)**

	2020-21 Q1 Update	2019-20 Actual	2018-19 Actual	2017-18 Actual	2016-17 Actual	2015-16 Actual
<b>Tax Revenue</b>						
Personal income tax	3,664	3,903	3,628	3,424	3,499	3,261
Corporate income tax	484	612	606	561	459	516
Sales tax	1,959	2,262	2,472	2,444	2,301	2,269
Other	2,080	2,230	2,213	2,144	2,095	1,981
<b>Subtotal</b>	<b>8,187</b>	<b>9,007</b>	<b>8,919</b>	<b>8,573</b>	<b>8,354</b>	<b>8,027</b>
<b>Natural Resource Revenue</b>	<b>140</b>	<b>155</b>	<b>146</b>	<b>170</b>	<b>174</b>	<b>154</b>
<b>Net Income from Government Business Enterprises</b>						
Liquor and lottery	300	606	616	610	586	583
MB Hydro	47	99	121	37	71	49
Insurance	60	208	182	111	(68)	81
<b>Subtotal</b>	<b>407</b>	<b>913</b>	<b>919</b>	<b>758</b>	<b>589</b>	<b>618</b>
<b>Other Own-Source Revenue</b>						
Fines and fees	1,865	2,342	2,195	2,194	2,155	2,072
Investment earnings	352	377	318	257	227	225
<b>Subtotal</b>	<b>2,217</b>	<b>2,719</b>	<b>2,513</b>	<b>2,451</b>	<b>2,382</b>	<b>2,297</b>
<b>Federal Transfers</b>						
Canada Health Transfer	1,521	1,490	1,413	1,365	1,313	1,230
Canada Social Transfer	546	532	518	501	485	467
Equalization	2,510	2,255	2,037	1,821	1,736	1,738
Coronavirus	503	-	-	-	-	-
Other	649	570	563	513	594	385
<b>Subtotal</b>	<b>5,729</b>	<b>4,847</b>	<b>4,531</b>	<b>4,200</b>	<b>4,128</b>	<b>3,820</b>
<b>Total Revenue as Reported</b>	<b>16,680</b>	<b>17,641</b>	<b>17,028</b>	<b>16,152</b>	<b>15,627</b>	<b>14,916</b>
Growth rate (%)	(5.4)	3.6	5.4	3.4	4.8	1.2
<b>DBRS Morningstar Adjustments</b>						
Nonrecurring revenue	-	-	-	-	-	-
Sinking fund earnings	(34)	(41)	(41)	(42)	(46)	(54)
<b>Adjusted Total Revenue</b>	<b>16,646</b>	<b>17,600</b>	<b>16,987</b>	<b>16,110</b>	<b>15,581</b>	<b>14,862</b>
Growth rate (%)	(5.4)	3.6	5.4	3.4	4.8	1.3

Notes: Federal transfers adjusted to include \$503 million in coronavirus-related transfers from the Government of Canada.

**Statement of Operations: Expenditures (CAD millions)**

	2020-21 Q1 Update	2019-20 Actual	2018-19 Actual	2017-18 Actual	2016-17 Actual	2015-16 Actual
<b>Program Expense</b>						
Health	7,272	6,873	6,570	6,469	6,525	6,237
Education	4,871	4,574	4,481	4,395	4,237	4,138
Social services	2,169	2,173	2,187	2,199	2,028	1,938
Other	3,803	2,979	2,939	2,831	2,696	2,680
<b>Subtotal</b>	<b>18,115</b>	<b>16,599</b>	<b>16,177</b>	<b>15,894</b>	<b>15,486</b>	<b>14,993</b>
Debt servicing costs	1,000	1,037	1,000	952	930	855
<b>Total Expense as Reported</b>	<b>19,115</b>	<b>17,636</b>	<b>17,177</b>	<b>16,846</b>	<b>16,416</b>	<b>15,848</b>
Growth rate (%)	8.4	2.7	2.0	2.6	3.6	15.7
<b>DBRS Morningstar Adjustments</b>						
Nonrecurring expenditures	-	-	-	-	-	-
Capital investment	(1,338)	(1,025)	(1,006)	(1,123)	(1,417)	(1,702)
Amortization	789	745	723	760	728	677
Tax-sup. debt sinking fund earnings	34	41	41	42	46	54
<b>Adjusted Total Expenditures</b>	<b>18,600</b>	<b>17,397</b>	<b>16,935</b>	<b>16,525</b>	<b>15,773</b>	<b>14,877</b>
Growth rate (%)	6.9	2.7	2.5	4.8	6.0	15.5

### Statement of Financial Position (CAD millions)

For the year ended March 31

	2021 Q1 Update	2020 Actual	2019 Actual	2018 Actual	2017 Actual	2016 Actual
<b>Financial Assets</b>						
Cash and cash equivalents		2,267	2,720	1,700	2,783	2,415
Temporary investments		561	585	594	376	194
Amounts receivable		1,857	1,867	1,819	1,734	1,576
Inventories for resale		30	42	50	67	83
Portfolio investments		1,798	1,563	1,484	1,461	1,567
Loans and advances		1,604	1,529	1,411	1,458	1,447
Equity in GBEs/partnerships		<b>3,431</b>	<b>3,055</b>	<b>2,991</b>	<b>2,858</b>	<b>3,300</b>
<b>Total Financial Assets</b>		11,548	11,361	10,049	10,737	10,582
<b>Liabilities</b>						
Accounts payable, accrued charges, provisions, and unearned revenue		4,399	4,376	4,338	4,077	4,184
Borrowings		29,272	29,166	27,350	27,397	25,415
Pension liabilities		3,097	2,914	2,726	2,557	2,354
<b>Total Liabilities</b>		<b>36,768</b>	<b>36,456</b>	<b>34,414</b>	<b>34,031</b>	<b>31,953</b>
<b>Net Assets (Debt)</b>	<b>(28,142)</b>	<b>(25,220)</b>	<b>(25,095)</b>	<b>(24,365)</b>	<b>(23,294)</b>	<b>(21,371)</b>
Nonfinancial liabilities		14,138	13,939	13,732	13,370	12,621
<b>Accumulated Surplus (Deficit)</b>		<b>(11,082)</b>	<b>(11,156)</b>	<b>(10,633)</b>	<b>(9,924)</b>	<b>(8,750)</b>
Net debt as a share of GDP	39.6	34.2	34.3	34.2	34.6	32.4

## Debt Profile (CAD millions)

For the year ended March 31

	2021 Budget	2020 Actual	2019 Actual	2018 Actual	2017 Actual	2016 Actual
<b>Tax-Supported Debt</b>						
Total borrowings	56,325	52,500	51,088	46,972	44,284	40,417
Debt incurred for and repayable by MB Hydro	(24,224)	(23,078)	(21,501)	(19,109)	(16,341)	(14,436)
Unamortized debt issue costs	(275)	(277)	(282)	(274)	(285)	(264)
Unamortized foreign currency fluctuation	-	-	(4)	(10)	(16)	(21)
Unamortized gains and losses on derivative contracts	255	268	255	266	274	269
Holdings of Manitoba debt	(105)	(141)	(390)	(495)	(519)	(527)
<b>Net Provincial Borrowings</b>	<b>31,975</b>	<b>29,272</b>	<b>29,166</b>	<b>27,350</b>	<b>27,397</b>	<b>25,438</b>
Loan guarantees	93	116	119	120	123	126
Sinking funds	(1,048)	(974)	(741)	(842)	(1,081)	(1,224)
<b>Net Tax-Supported Debt</b>	<b>31,020</b>	<b>28,414</b>	<b>28,544</b>	<b>26,628</b>	<b>26,439</b>	<b>24,340</b>
<b>Calculation of DBRS Morningstar-Adjusted Debt</b>						
Tax-supported debt	31,020	28,414	28,544	26,628	26,439	24,340
Unfunded pension liabilities	3,229	3,097	2,914	2,726	2,557	2,354
<b>DBRS Morningstar-Adjusted Debt</b>	<b>34,249</b>	<b>31,511</b>	<b>31,458</b>	<b>29,354</b>	<b>28,996</b>	<b>26,694</b>
Share of nominal GDP	48.2	42.7	43.0	41.2	43.1	40.5
<b>Foreign Currency Exposure (net of hedges, share of total)</b>						
Canadian dollars (%)	100	100	100	100	100	100
Other (%)	-	-	-	-	-	-
<b>Foreign Currency Exposure (net of hedges, share of total)</b>						
Fixed rate (%)	90	91	86	86	82	82
Floating and maturing within 12 months (%)	10	9	14	14	18	18
<b>Weighted-Average Term to Maturity</b>						
Term debt (years)	17.3	16.0	16.7	16.2		

### Debt Maturity Profile (CAD millions)

As of March 31, 2020

	Total Public Sector Debt	Share (%)
2020–21	5,714	11.3
2021–22	2,650	5.2
2022–23	2,713	5.4
2023–24	2,833	5.6
2024–25	3,398	6.7
2025–26 to 2029–30	11,470	22.6
2030–31+	21,877	43.2
<b>Total</b>	<b>51,655</b>	<b>100.0</b>

### Rating History

	Current	2019	2018	2017	2016	2015
<b>Issuer Rating</b>	A (high)					
<b>Long-Term Debt</b>	A (high)					
<b>Short-Term Debt</b>	R-1 (middle)					

### Previous Report

- Manitoba, Province of: Rating Report, May 28, 2020.

### Related Research

- Province of Manitoba's Budget 2020*, March 24, 2020.
- Rating Canadian Provincial and Territorial Governments*, May 13, 2020.
- Global Methodology for Government Related Entities*, March 10, 2020.

#### Notes:

All figures are in Canadian dollars unless otherwise noted.

For the definition of Issuer Rating, please refer to Rating Definitions under Rating Policy on [www.dbrsmorningstar.com](http://www.dbrsmorningstar.com).

Generally, Issuer Ratings apply to all senior unsecured obligations of an applicable issuer, except when an issuer has a significant or unique level of secured debt.

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# Rating Report

## The Manitoba Hydro-Electric Board

### DBRS Morningstar

December 9, 2020

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### Ratings

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

\*These Obligations are based on the status of The Manitoba Hydro-Electric Board as a Crown agent of the Province of Manitoba and the unconditional guarantee provided by the Province on Manitoba Hydro's third-party debt and thus reflect the Province's debt ratings.

### Rating Rationale

On November 12, 2020, DBRS Limited (DBRS Morningstar) confirmed The Manitoba Hydro-Electric Board's (Manitoba Hydro or the Utility) Long-Term Obligations at A (high) and its Short-Term Obligations at R-1 (middle). All trends are Stable. The ratings assigned to the Utility's Long-Term and Short-Term Obligations are a flow-through of the ratings of the Province of Manitoba (the Province; rated A (high) and R-1 (middle) with Stable trends by DBRS Morningstar). Pursuant to The Manitoba Hydro Act, the Province unconditionally guarantees almost all of Manitoba Hydro's outstanding third-party debt. The Province also provides most of the Utility's financing through provincial advances (more than 99% of total debt as at March 31, 2020). Please see DBRS Morningstar's *Global Methodology for Government Related Entities* (March 10, 2020) for further details. DBRS Morningstar notes that, while Manitoba Hydro's financial health remains pressured by the ongoing capital expenditures (capex) program, DBRS Morningstar still considers the Utility to be self-supporting as it can fund its own operations and service debt obligations.

In March 2020, the Province introduced The Public Utilities Ratepayer Protection and Regulatory Reform Act; the bill was subsequently reintroduced in October 2020 as Bill 35. If the bill is passed, Manitoba Hydro will transition from the current regulatory framework to a multiyear rate-setting process. Beginning F2024, The Manitoba Public Utilities Board (PUB) would set rates for the Utility for five-year periods and be responsible for reviewing any generation or transmission projects greater than \$200 million. While rates would be limited to the greater of 4% or two times the change in the Consumer Price Index (CPI), the PUB would have to take into consideration debt-to-capitalization targets in Bill 35 as part of its rate-setting process. DBRS Morningstar believes this change is ultimately positive for Manitoba Hydro's financial health as its key financial ratios have been weak during this period of elevated capex for the Keeyask Infrastructure and Generating Station Project (the Keeyask Project; total capex of \$8.7 billion). Leverage for the Utility has increased to more than 87% for F2020, significantly above Manitoba Hydro's target leverage of 75% debt. If passed, Bill 35 would provide a plan for restoring the Utility's financial health by limiting its debt load to 87% for 2025, while decreasing it to 84%, 78%, and 70% by 2030, 2035, and 2040, respectively.

Manitoba Hydro also continues to develop its new long-term strategic plan, which, in conjunction with Bill 35, is expected to guide future rate applications and provide more clarity on how the Utility intends to improve its financial health. While the strategic plan was initially expected to be released in 2020, this was delayed so Manitoba Hydro could focus its resources on maintaining operations and prioritizing the safety of its employees and customers during the ongoing Coronavirus Disease (COVID-19) pandemic. Operationally, the pandemic has led to a short delay for the in-service of the first unit of the Keeyask Project to early 2021. Financially, while the pandemic led to a drop in commercial and industrial throughputs, this has been offset by higher residential usage. The Utility also saw decreased operating and administrative expenses because of a government cost-saving initiative. DBRS Morningstar expects overall earnings for F2021 to be \$111 million, slightly higher than the previous fiscal year.

DBRS Morningstar continues to view Manitoba Hydro as self-supporting, as its earnings and cash flows remain sufficient to cover its operating expenses and service its outstanding debt. However, DBRS Morningstar could consider reclassifying a portion of the Utility's debt to be tax-supported should the financial health of the Utility deteriorate to the point where its expenses cannot be recovered through rates or export revenues. This could potentially arise if rate increases are insufficient to recover Manitoba Hydro's costs or if export revenues are weaker than forecast. If this were to occur, it could potentially put downward pressure on the Province's credit rating. Similarly, a large equity injection by the Province that materially increases tax-supported debt could also put downward pressure on the Province's credit profile. At this time, however, DBRS Morningstar expects the Province's ratings to remain stable.

### Financial Information

	12 months to June 30	For the year ended March 31				
	2020	2020	2019	2018	2017	2016
Cash flow/total debt (%)	2.7	3.1	2.3	1.2	5.3	5.4
Total debt in capital structure (%) <sup>1</sup>	87.2	87.1	86.7	86.0	84.3	83.0
EBIT gross interest coverage (x) <sup>1</sup>	1.08	1.09	1.16	0.97	1.01	1.04

<sup>1</sup> Adjusted for other comprehensive income.

### Issuer Description

Manitoba Hydro, a wholly owned Crown corporation of the Province, is a vertically integrated electric utility that provides generation, transmission, and distribution of electricity to approximately 593,490 customers throughout Manitoba and natural gas service to approximately 289,364 customers via its subsidiary, Centra Gas Manitoba Inc. (Centra Gas). The Utility also exports electricity to 26 electric utilities through its participation in four wholesale markets in Canada and in the midwestern United States.

## Rating Considerations

### Strengths

#### *1. Debt is a direct obligation of the Province*

Manitoba Hydro is an agent of the Crown. Its debt securities, with the exception of \$61 million of Manitoba Hydro-Electric Board Bonds (less than 1% of total debt as at March 31, 2020), are held or guaranteed by the Province. Therefore, the ratings assigned to Manitoba Hydro's obligations are a flow-through of the ratings assigned to the Province.

#### *2. Low-cost hydroelectric-based generation*

The Utility's low-cost hydroelectric-based generating capacity results in one of the lowest variable cost structures in North America, which has enabled it to provide electricity to its domestic customers at one of the lowest rates on the continent. This gives the Utility the flexibility to increase rates in the future, especially in light of the substantially heightened capex requirements.

#### *3. Access to export markets*

Manitoba Hydro's interconnections (approximately 60% of installed capacity), with firm export transfer capability of 2,983 megawatts (MW) to the United States, 175 MW to Saskatchewan (increasing to 315 MW by 2022 once the Birtle Transmission Project is completed), and 200 MW to Ontario, along with additional nonfirm transfer capability, provide the Utility with access to favourable export markets. The interconnections also provide a secure supply of electricity for domestic customers during times of poor hydrology.

### Challenges

#### *1. Weak financial health*

The financial health of Manitoba Hydro has been pressured as a result of the large substantially debt-funded capex program. Leverage at the Utility has increased over the past years, reaching 87.1% for F2020, significantly above the target capital structure of 75% debt. Financial performance has also been weak, with earnings and cash flows negatively affected by growing interest expense. DBRS Morningstar notes that the Utility has managed to successfully contain operating costs through initiatives such as its voluntary departure program and a government cost-saving initiative for the coronavirus pandemic, but DBRS Morningstar does not expect financial performance to meaningfully improve until the Keeyask Project is fully in service and generating export revenues. DBRS Morningstar also notes that the long-term strategic plan currently being developed will have a substantial impact on Manitoba Hydro's financial performance as it will likely guide future rate applications and dictate the pace for reducing leverage. Additionally, Bill 35 includes capitalization targets over the next 20 years for rate-setting purposes under the PUB, which should help decrease leverage over time.

#### *2. High level of planned capex*

The Utility is currently undergoing a period of substantial capex with construction ongoing for the Keeyask Project. Capex is expected to remain elevated until at least F2023 and to stabilize at around \$700 million beginning in F2024.

### 3. Hydrology risk

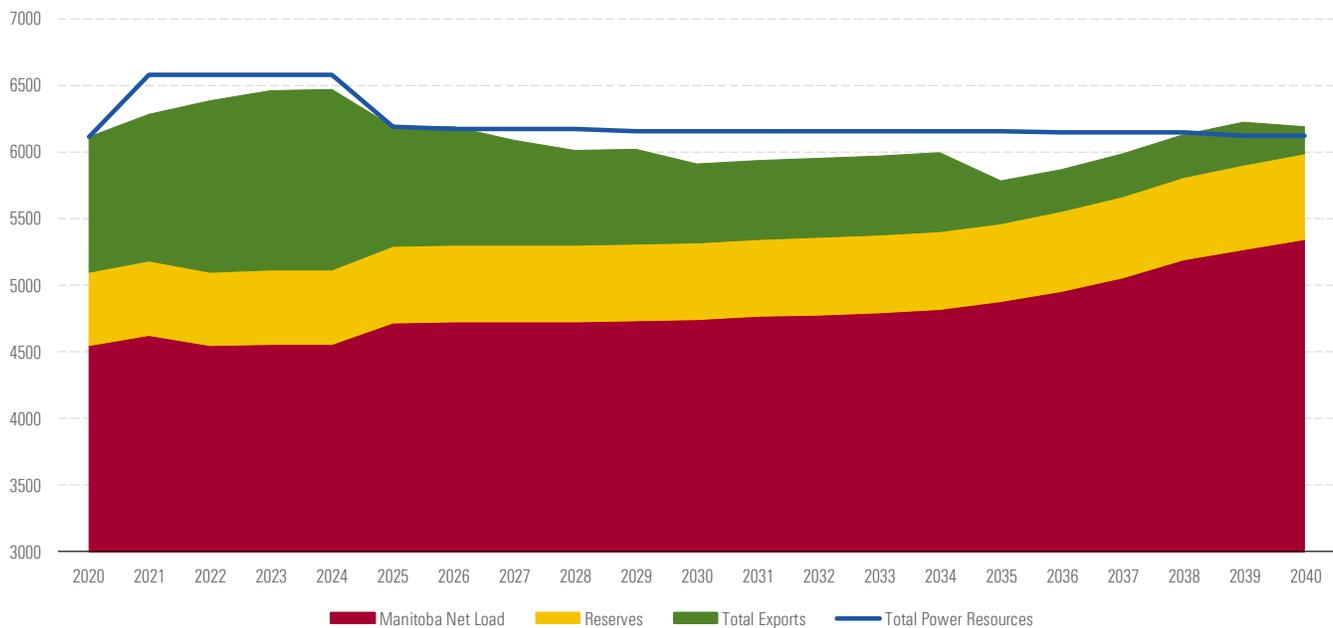
Given that approximately 93% of Manitoba Hydro's installed generating capacity is hydroelectricity-based, earnings and cash flows are highly sensitive to hydrological conditions. The Utility is also exposed to significant price and volume risk because of its export commitments under the fixed price-to-volume contract that may require the Utility to procure power supply from import markets if hydrological conditions are unfavourable.

### Major Projects

Project	Estimated Cost (CAD millions)	Planned Construction Start Date	In-Service Target Date
Keeyask Generating Station	8,700	2014	Early 2021
Manitoba-Minnesota Transmission Project	490	Sep. 2019	June 2020
Birtle Transmission Project	69	2020	June 2021

- The Keeyask Project:** This project includes the development of a 695-MW generation station on the Nelson River. Construction began in July 2014; the first unit is expected to be in service by early 2021. DBRS Morningstar notes that Manitoba Hydro has been successful in obtaining firm long-term export contracts for most of the surplus capacity provided by the Keeyask Project.

### Supply & Demand Plan — Capacity at Winter Peak



Source: Manitoba Hydro.

- Manitoba-Minnesota Transmission Project:** This project involved the construction of a 500-kilovolt (kV) alternating current transmission line from Winnipeg to the Manitoba-Minnesota border, where it

interconnects with Minnesota Power's Great Northern Transmission Line. The transmission line was completed and energized in June 2020.

- **Birtle Transmission Project:** This project involves the construction of a 230-kV transmission line from the Birtle station to the Manitoba-Saskatchewan border, where it will connect with the Saskatchewan system, allowing for increased firm export sales. Construction on the Birtle South Station began in October 2019 while construction on the transmission line began in July 2020.

### Earnings and Outlook

	12 months to June 30	For the year ended March 31				
(CAD millions where applicable)	2020	2020	2019	2018	2017	2016
Net electricity revenues	2,092	2,082	2,041	1,876	1,841	1,759
Net gas revenues	225	230	218	147	159	172
<b>Net revenues</b>	<b>2,317</b>	<b>2,312</b>	<b>2,259</b>	<b>2,023</b>	<b>2,000</b>	<b>1,931</b>
EBITDA	1,452	1,445	1,424	1,165	1,126	1,068
EBIT	946	941	940	746	721	680
Gross interest expense	875	861	813	768	711	654
Earnings before taxes	114	123	164	96	60	45
Net income before nonrecurring items	115	123	167	104	72	55
Reported net income	92	99	121	37	71	49
Return on equity (%) <sup>1</sup>	4.4	3.7	5.2	3.3	2.4	1.9

<sup>1</sup> Adjusted for other comprehensive income.

### F2020 Summary

- EBITDA and EBIT were relatively flat as (1) higher net exports from favourable water conditions, (2) a full year's impact from the recognition of rate increases for the Bipole III Transmission Reliability Project (Bipole III) previously set aside and not recognized in revenues, and (3) a full year's impact from a 2.5% rate increase effective June 1, 2018, were offset by (1) lower customer usage from weather impact, (2) higher depreciation following the completion of Bipole III, and (3) higher finance expenses from the growing debt load.
- Net income included (1) \$7 million of restructuring costs; (2) an \$8 million loss on disposal of property, plant, and equipment; and (3) an \$8 million write-off of coal inventory following the decommissioning of the Brandon Thermal Generating Station.

### F2021 Outlook

- Manitoba Hydro is forecasting net income of \$111 million for F2021, slightly higher than the previous fiscal year.
- The ongoing coronavirus pandemic has, so far, not had a material impact on the Utility's earnings as lower commercial and industry throughputs have been more than offset by higher residential usage.
  - Additionally, while export prices are lower, this has been mitigated by new firm contracts, increasing dependable sales volumes.
  - Operating and administrative expenses have also decreased because of a government cost-saving initiative as a result of the pandemic.

- Following the appointment of its new president and chief executive officer in February 2019, Manitoba Hydro began developing a new long-term strategic plan.
  - DBRS Morningstar notes that, once approved, the long-term strategic plan will have a significant impact on the financial direction of the Utility, including guiding future rate applications to the PUB.
- Over the near term, DBRS Morningstar does not expect profitability at Manitoba Hydro to see a material improvement because of the large capex program.
  - Manitoba Hydro has firm export contracts signed for most of the surplus capacity provided by the Keeyask Project. However, for the near term, the Utility estimates that higher depreciation and interest expenses would offset the export revenues.

### Financial Profile

	12 months to June 30	For the year ended March 31				
(CAD millions where applicable)	2020	2020	2019	2018	2017	2016
Cash receipts from customers		1,453	1,186	2,287	2,314	2,331
Cash paid to suppliers and employees		0	0	(1,493)	(875)	(988)
Interest paid		(745)	(712)	(570)	(584)	(582)
Interest received		22	14	10	17	23
<b>Cash flow from operations</b>	<b>633</b>	<b>730</b>	<b>488</b>	<b>234</b>	<b>872</b>	<b>784</b>
Dividends paid	0	0	0	0	0	0
Capex	(2,028)	(2,203)	(2,319)	(2,933)	(2,912)	(2,269)
<b>Free cash flow</b>	<b>(1,395)</b>	<b>(1,473)</b>	<b>(1,831)</b>	<b>(2,699)</b>	<b>(2,040)</b>	<b>(1,485)</b>
Additions to regulatory deferral accounts	-	(88)	(107)	(104)	(88)	(90)
<b>Net free cash flow</b>	<b>(1,395)</b>	<b>(1,561)</b>	<b>(1,938)</b>	<b>(2,803)</b>	<b>(2,128)</b>	<b>(1,575)</b>
Acquisitions & investments	47	0	(3)	(8)	12	(4)
Net equity change	0	0	0	0	0	0
Net sinking fund withdrawals/(payments)	0	0	0	0	0	114
Net debt change	1,868	1,647	2,244	2,868	1,866	1,803
Other	(148)	(60)	(45)	(61)	(59)	123
<b>Change in cash</b>	<b>372</b>	<b>26</b>	<b>258</b>	<b>(4)</b>	<b>(309)</b>	<b>461</b>
Total debt (net sinking fund investments)	23,241	23,296	21,552	19,250	16,438	14,527
Cash and equivalents	1,287	918	897	640	641	952
Total debt in capital structure (%) <sup>1</sup>	87.2	87.1	86.7	86.0	84.3	83.0
Cash flow/total debt (%)	2.7	3.1	2.3	1.2	5.3	5.4
EBIT gross interest coverage (x)	1.08	1.09	1.16	0.97	1.01	1.04
Dividend payout ratio (%)	0.0	0.0	0.0	0.0	0.0	0.0

<sup>1</sup> Adjusted for other comprehensive income.

### F2020 Summary

- Manitoba Hydro's key financial ratios remained pressured in F2020 because of the ongoing large capex program. While the Utility's cash flow-to-debt saw a modest improvement because of higher cash flows,

the debt-to-capital and EBIT-interest coverage ratios weakened modestly as Manitoba Hydro continued to largely finance its capex program with debt.

- Cash flow from operations increased, tracking the higher net income.
- Net capex remained relatively stable as work continued on the Keeyask Project.
- The Utility had a significant net free cash flow deficit as a result of the ongoing capex program, which was funded mainly through advances from the Province.

### F2021 Outlook

- DBRS Morningstar expects Manitoba Hydro's key financial ratios to remain weak over the medium term.
  - Given the high debt level, the cash flow-to-debt and EBIT-interest coverage ratios are also likely to remain weak.
- DBRS Morningstar notes that the Utility's new long-term strategic plan will likely dictate its financial strategy going forward, including the pace of debt reduction and, potentially, the target leverage ratio (currently 75%).
  - Based on Manitoba Hydro's current status quo projections, leverage will remain at around 87% in F2020 and peak at 89% in F2023. With new export contracts for the Keeyask Project generating additional cash flows, the Utility expects to stop requiring additional debt financing in F2024 and to be able to start reducing its debt load.
  - The Province has included in Bill 35 capitalization targets for the PUB to consider when setting Manitoba Hydro's rates. These targets include leverage of 87% in F2025 before decreasing to 84% by F2030.
  - Given these projections, Manitoba Hydro should continue to be able to generate sufficient cash flows to support its operating expenses and to service its outstanding debt. However, should the Utility's financial health deteriorate to a point where expenses cannot be fully recovered through rates or export revenues, DBRS Morningstar could consider reclassifying a portion of Manitoba Hydro's debt to be tax-supported.

### Debt and Liquidity

<b>Debt Profile</b>				
(CAD millions where applicable)	%	2020	2019	2018
Advances from the Province	99.5	23,078	21,501	19,109
Manitoba Hydro Bonds	0.0	0	0	5
Manitoba Hydro-Electric Board Bonds <sup>1</sup>	0.5	121	121	125
Notes payable	0.0	0	0	50
	<b>100.0</b>	<b>23,199</b>	<b>21,622</b>	<b>19,289</b>
Other adjustments		88	(70)	(39)
<b>Total</b>		<b>23,287</b>	<b>21,552</b>	<b>19,250</b>

<sup>1</sup> Includes \$61 million of unguaranteed bonds at March 31, 2020.

- The Province supports Manitoba Hydro by advancing funds or guaranteeing the Utility's long-term debt issuances. Long-term debt as at March 31, 2020, consisted of the following:
  - \$23,078 million in advances from the Province (all of which have annual sinking fund requirements); and

- \$121 million of Manitoba Hydro-Electric Board Bonds.
- Only \$61 million of Manitoba Hydro-Electric Board Bonds, which were issued for mitigation projects, do not carry the provincial guarantee.
- Manitoba Hydro maintains a relatively smooth maturity profile with potential volatility from foreign currency debt, mostly mitigated through natural and cash flow hedges and a moderate level of floating-rate debt (3.2 % of total debt as at March 31, 2020), which adds stability to debt servicing costs and minimizes interest rate risk.

<b>Debt Maturities</b>							
(CAD millions—as at March 31, 2020)	2021	2022	2023	2024	2025	Thereafter	Total
Principal repayments	1,337	1,226	1,167	590	878	18,001	<b>23,199</b>
% of total	6	5	5	3	4	78	<b>100</b>

- The Manitoba Hydro Act grants the Utility the power to issue short-term promissory notes up to an aggregate amount of \$1,500 million denominated in Canadian and/or U.S. currency. As at March 31, 2020, there were no amounts outstanding. Manitoba Hydro issues short-term promissory notes in its own name for its short-term cash requirements and does not receive short-term funding from the Province. These short-term notes are guaranteed by the Province.

**Province of Manitoba**

*(Excerpt from DBRS Morningstar rating report dated November 12, 2020. Please see report for more detail.)*

DBRS Limited (DBRS Morningstar) confirmed the Issuer Rating and Long-Term Debt rating of the Province of Manitoba (Manitoba or the Province) at A (high) and confirmed the Province’s Short-Term Debt rating at R-1 (middle). DBRS Morningstar also confirmed The Manitoba Hydro-Electric Board’s Long-Term Obligations at A (high) and its Short-Term Obligations at R-1 (middle). All trends are Stable, supported by a well-diversified and resilient economy, increased focus on fiscal sustainability prior to the onset of the Coronavirus Disease (COVID-19) pandemic, and prudent debt management. These attributes provide Manitoba with ample flexibility to withstand the near-term deterioration in financial risk factors.

**Regulation**

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

**Electricity**

- Manitoba Hydro currently reviews its financial targets annually with particular focus on its debt-to-equity target capital structure of 75% to 25%. If the Utility deems a rate adjustment necessary to continue progress toward attaining its financial targets, it submits a rate application to the PUB.
- The PUB would then review the rate adjustment application with the objective of allowing Manitoba Hydro to recover its cost of service and allow for a reasonable contribution toward retained earnings to achieve its long-term debt-to-equity target. Historically, the PUB did not have the mandate to review the

Utility's capex; however, the Province issued Order in Council 92 in April 2017, tasking the PUB with reviewing Manitoba Hydro's capex at the 2017–18 and 2018–19 General Rate Application (GRA).

- Manitoba Hydro submitted its 2019–20 GRA in November 2018, requesting a 3.5% rate increase effective April 1, 2019.
  - In May 2019, the PUB issued its final order on the GRA, approving a 2.5% rate increase effective June 1, 2019. All revenues from this rate increase will be placed in a deferral account for major capital projects currently under construction to mitigate future rate increases once the new projects are in service.
  - The PUB's decision to award a 2.5% rate increase instead of the requested 3.5% increase was partly because of supplemental information filed by Manitoba Hydro during the GRA process. The Utility's updated financial forecast had showed a projected net income of \$64 million for F2020, compared with an originally forecast net loss of \$28 million.
- In March 2020, the Province introduced The Public Utilities Ratepayer Protection and Regulatory Reform Act, which was reintroduced in October 2020 as Bill 35 and is awaiting passage. Bill 35 includes the following terms:
  - Until F2024, rates will be set by regulation.
  - Manitoba Hydro will then transition to a multiyear rate-setting process, with the PUB to approve rates for five-year periods.
  - The PUB will have the authority to review any generation or transmission projects with a budget of more than \$200 million.
  - The PUB will also have authority to approve major new power purchase or export contracts of \$200 million or more.
  - Rate increases will be capped at the greater of 4% or two times the change in the CPI.
  - Rates approved by the PUB will be sufficient for the Utility to achieve a debt-to-capitalization ratio as follows:

	F2025	F2030	F2035	F2040
<b>Debt-to-capitalization (%)</b>	87	84	78	70

- In November 2020, the Province legislated a 2.9% increase in Manitoba Hydro's rates effective December 1, 2020.
- While Manitoba Hydro is the sole retail electricity supplier in Manitoba, under The Manitoba Hydro Amendment Act (the Act), other utilities may access the transmission system to reach customers in neighbouring provinces and states.
  - The Act also explicitly allows Manitoba Hydro to build new generating capacity for export sales, to offer new energy-related services, to enter into strategic alliances and joint ventures, and to create subsidiaries. The Utility has historically built new generating stations in advance of requirement for new domestic needs rather than strictly for exports.
- There are presently no plans to move to full retail competition in the Province.
- Manitoba Hydro retail customers currently enjoy rates that are among the lowest in North America as a result of the Utility's predominantly hydroelectric generation and efficient resource management.

### **Natural Gas Distribution**

- Manitoba Hydro distributes natural gas through its wholly owned subsidiary, Centra Gas. In accordance with the current rate-setting methodology for natural gas, Primary Gas rates are changed every quarter based on 12-month forward natural gas market prices.
  - The Primary Gas cost of gas is a pass-through with no markup to customers.
  - Nonprimary Gas costs such as transportation and storage are also passed on.
- The PUB currently allows Centra Gas to target an annual profit of approximately \$3 million, which is modest compared with Manitoba Hydro's consolidated earnings.
- Under Bill 35, Centra Gas's regulatory framework will also transition effective F2024.
  - During the transition period, rates could be set by legislation or by the PUB.
  - The Province and the PUB will determine a new rate period and rules for the establishment of rates.
  - The PUB will determine rates beginning F2024.

## Assessment of Regulatory Framework

Criteria	Score	Analysis
1. Deemed Equity	Excellent Good Satisfactory Below Average <b>Poor</b>	Manitoba Hydro does not have a deemed equity ratio but targets a debt-to-capitalization ratio of 75%.
2. Allowed Return on Equity	Excellent Good Satisfactory Below Average Poor	Not applicable — there is no allowed return on equity for the Utility.
3. Energy Cost Recovery	<b>Excellent</b> Good Satisfactory Below Average Poor	Most of Manitoba Hydro's generation is from low-cost hydroelectricity sources. The Utility can pass through all energy costs to ratepayers.
4. Capital and Operating Cost Recovery	Excellent Good Satisfactory <b>Below Average</b> Poor	Historically, the PUB did not have the ability to review Manitoba Hydro's capex; this ability resides with the Utility and the Province alone. As such, any rate increases to recover capex would be reviewed afterward by the PUB. DBRS Morningstar notes that the Province did task the PUB with reviewing Manitoba Hydro's capex for the 2017–18 and 2018–19 GRA. Additionally, under Bill 35, the PUB will be responsible for reviewing any generation and transmission projects exceeding \$200 million.
5. Cost of Service versus Incentive Rate Mechanism	<b>Excellent</b> Good Satisfactory Below Average Poor	Manitoba Hydro currently operates under cost of service. Under Bill 35, the Utility would transition to a five-year rate approval period. If there are significant differences between approved and actual costs, the Utility could then file an adjustment with the PUB.
6. Political Interference	Excellent Good Satisfactory <b>Below Average</b> Poor	The Province plays a large role in the electricity industry. Manitoba Hydro is owned by the Province. Under Bill 35, the Province will also determine rate increases for the next five years. The PUB itself is a quasi-judicial body. DBRS Morningstar notes that there has been no adverse legislation for the Utility.
7. Stranded Cost Recovery	<b>Excellent</b> Good Satisfactory Below Average Poor	There have been minimal stranded costs in the Province.
8. Rate Freeze	<b>Excellent</b> Good Satisfactory Below Average Poor	Manitoba Hydro has not experienced a rate freeze in the past 10 years.

### Watershed Storage Capacity

Manitoba Hydro draws water from five distinct watersheds: Nelson River, Winnipeg River, Saskatchewan River, Churchill River (including the Laurie River), and Burntwood River. This provides the Utility with some geographic diversification, especially during times of low hydrology. The main generation source is the Nelson River, which accounted for approximately 76% of power generated in F2020.

<b>Source of Electrical Energy Generated and Imported</b>			
(For the year ended March 31, 2020)			
<b>Nelson River (%)</b>	<b>76.40</b>	<b>Saskatchewan River (%)</b>	<b>5.11</b>
<b>Billion kWh generated</b>	<b>27.2</b>	<b>Billion kWh generated</b>	<b>1.8</b>
Limestone (%)	24.54	Grand Rapids (%)	5.11
Kettle (%)	23.30		
Long Spruce (%)	19.57	<b>Laurie River (%)</b>	<b>0.21</b>
Kelsey (%)	6.36	<b>Billion kWh generated</b>	<b>0.1</b>
Jenpeg (%)	2.62	Laurie River #1 (%)	0.10
		Laurie River #2 (%)	0.11
<b>Winnipeg River (%)</b>	<b>10.75</b>		
<b>Billion kWh generated</b>	<b>3.8</b>	<b>Burntwood River (%)</b>	<b>4.65</b>
Seven Sisters (%)	3.19	<b>Billion kWh generated</b>	<b>1.7</b>
Great Falls (%)	2.84	Wuskwatim (%)	4.65
Pine Falls (%)	1.73		
Pointe du Bois (%)	0.76		
Slave Falls (%)	1.05		
McArthur (%)	1.18		
<b>Thermal (%)</b>	<b>0.09</b>	<b>Purchases (excl. wind; %)</b>	<b>0.29</b>
<b>Billion kWh generated</b>	<b>0.0</b>	<b>Billion kWh imported</b>	<b>0.1</b>
Brandon (%)	0.08		
Selkirk (%)	0.01	<b>Wind (%)</b>	<b>2.52</b>
		<b>Billion kWh</b>	<b>0.9</b>

kWh = kilowatt hour(s).

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

- Cold temperatures reduce overall evaporation rates, as many of the reservoirs are frozen over for up to five months of the year.
- A significant portion of the watersheds consist of rock, which has lower seepage rates and higher runoff than predominantly soil-covered watersheds.
- Lake Winnipeg, Cedar Lake, and Southern Indian Lake serve as large storage reservoirs. The Utility's water storage capacity is a competitive advantage in trading electricity (buying surplus U.S. power at low off-peak prices and selling its electricity during peak demand periods at higher prices).
- In addition to its own generating stations in Manitoba, Manitoba Hydro purchases all electricity from two wind farms in southern Manitoba (St. Joseph Wind Farm and St. Leon Wind Farm). The installed capacity of these facilities is 258.5 MW.
- The Wuskwatim Generating Station is owned by the Wuskwatim Power Limited Partnership, in which Manitoba Hydro is the majority owner. Manitoba Hydro purchases all the electricity generated from the Wuskwatim Generating Station.

## Generating Capacity

### Manitoba Hydro's Generating Stations and Capabilities

(For the year ended March 31, 2020)

Power Station	Location	# of Units	Net Capacity (MW)
<b>Hydroelectric</b>			
Great Falls	Winnipeg River	6	137
Seven Sisters	Winnipeg River	6	170
Pine Falls	Winnipeg River	6	88
McArthur Falls	Winnipeg River	8	55
Pointe du Bois	Winnipeg River	16	34
Slave Falls	Winnipeg River	8	68
Grand Rapids	Saskatchewan River	4	480
Kelsey	Nelson River	7	288
Kettle	Nelson River	12	1,220
Jenpeg	Nelson River	6	90
Long Spruce	Nelson River	10	1,000
Limestone	Nelson River	10	1,400
Laurie River (#2)	Laurie River	3	10
Wuskwatim	Burntwood River	3	208
<b>Total hydroelectric generation</b>		<b>105</b>	<b>5,248</b>
<b>Thermal</b>			
Brandon (gas)		2	238
Selkirk (gas)		2	118
<b>Total thermal generation</b>		<b>4</b>	<b>356</b>
<b>Isolated diesel capabilities</b>			
Brochet			3
Lac Brochet			2
Shamattawa			4
Tadoules Lake			2
<b>Total isolated diesel generation</b>			<b>11</b>
<b>Total generation capacity</b>			<b>5,615</b>

<b>Balance Sheet</b>							
(CAD millions)	Mar. 31	Mar. 31	Mar. 31		Mar. 31	Mar. 31	Mar. 31
<b>Assets</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>Liabilities &amp; equity</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Cash & equivalents	918	897	640	Short-term borrowings	0	0	50
Accounts receivable	446	438	428	Accounts payable	540	534	742
Inventories	107	99	112	Current portion long-term debt	1,339	249	1,000
Prepaid expenses & other	38	36	41	Other current liabilities	243	239	288
<b>Total current assets</b>	<b>1,509</b>	<b>1,470</b>	<b>1,221</b>	<b>Total current liabilities</b>	<b>2,122</b>	<b>1,022</b>	<b>2,080</b>
Net fixed assets	25,190	23,627	21,979	Long-term debt	21,957	21,303	18,200
Goodwill & intangibles	891	722	515	Other long-term liabilities	2,531	2,591	2,436
Investments & others	1,716	1,612	1,454	Shareholders' equity	2,696	2,515	2,453
<b>Total assets</b>	<b>29,306</b>	<b>27,431</b>	<b>25,169</b>	<b>Total liabilities &amp; equity</b>	<b>29,306</b>	<b>27,431</b>	<b>25,169</b>

<b>Ratios</b>	12 months to June 30		For the year ended March 31			
	<b>2020</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Balance sheet &amp; liquidity &amp; capital ratios</b>						
Current ratio (x)	1.33	0.71	1.44	0.59	0.77	1.20
Total debt in capital structure (%)	89.5	89.6	89.6	88.7	87.4	86.9
Total debt in capital structure (%) <sup>1</sup>	87.2	87.1	86.7	86.0	84.3	83.0
Cash flow/total debt (%)	2.7	3.1	2.3	1.2	5.3	5.4
(Cash flow — dividends)/capex (x)	0.31	0.33	0.21	0.08	0.30	0.35
Dividend payout ratio (%)	0.0	0.0	0.0	0.0	0.0	0.0
<b>Coverage ratios (x)</b>						
EBIT gross interest coverage	1.08	1.09	1.16	0.97	1.01	1.04
EBITDA gross interest coverage	1.66	1.68	1.75	1.52	1.58	1.63
Fixed-charge coverage	1.08	1.09	1.16	0.97	1.01	1.04
<b>Profitability ratios</b>						
Purchased power/electricity revenues (%)	n/a	4.8	6.7	9.0	7.0	6.5
Operating margin (%)	35.6	39.2	39.5	34.7	33.8	33.2
Net margin (%)	4.3	5.1	7.0	4.8	3.4	2.7
Return on equity (%)	4.4	3.7	5.2	3.3	2.4	1.9

<sup>1</sup> Adjusted for other comprehensive income.

### Rating History

	Current	2019	2018	2017	2016	2015
Long-Term Obligations*	A (high)					
Short-Term Obligations*	R-1 (middle)					

\*These Obligations are based on the status of The Manitoba Hydro-Electric Board as a Crown agent of the Province of Manitoba and the unconditional guarantee provided by the Province on Manitoba Hydro's third-party debt and thus reflect the Province's debt ratings.

### Previous Actions

- Confirmed, November 12, 2020.
- Confirmed, May 28, 2020.
- Confirmed, May 2, 2019.

### Related Research

- Manitoba, Province of: Rating Report, November 12, 2020.
- "DBRS Morningstar Confirms Province of Manitoba at A (high) and R-1 (middle), Stable Trends," November 12, 2020.

### Previous Report

- Manitoba Hydro-Electric Board, The: Rating Report, December 5, 2019.

#### Notes:

All figures are in Canadian dollars unless otherwise noted.

For the definition of Issuer Rating, please refer to Rating Definitions under Rating Policy on [www.dbrsmorningstar.com](http://www.dbrsmorningstar.com).

Generally, Issuer Ratings apply to all senior unsecured obligations of an applicable issuer, except when an issuer has a significant or unique level of secured debt.

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## Province of Manitoba

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# Province of Manitoba

This report does not constitute a rating action.

## Key Rating Factors

**Issuer Credit Rating**

A+/Stable/A-1

Credit context and assumptions	Base-case expectations
<p>Following a sizable contraction in real GDP growth in 2020, a rebound in the economy will allow the government to resume implementation of policies targeting fiscal sustainability.</p> <ul style="list-style-type: none"> <li>As the administration of vaccines continues, we expect that economic growth will return to pre-pandemic levels during the outlook horizon.</li> <li>We expect the Province of Manitoba's management to resume its fiscal consolidation efforts once pandemic-related spending requirements wane.</li> <li>Canadian provinces' relationships with upper levels of government will remain well balanced.</li> </ul>	<p>Budgetary performance will improve with post-pandemic economic growth and fiscal constraint.</p> <ul style="list-style-type: none"> <li>The province will return to posting operating surpluses and small after-capital deficits as spending requirements normalize and revenues increase.</li> <li>The wind-down of large-scale capital projects at Manitoba Hydro-Electric Board (MHEB) will lessen provincial borrowing needs in the next few years relative to historical trends.</li> <li>We expect the province's internal liquidity to remain adequate and external access to liquidity to remain strong.</li> </ul>

## Outlook

The stable outlook reflects S&P Global Ratings' expectation that the economic repercussions of the COVID-19 pandemic will have a significant, albeit temporary, impact on Manitoba's budgetary performance. We expect that the recovery trajectory in the next two years will be sufficient to allow the government to resume its focus on fiscal sustainability.

### Downside scenario

We could lower the ratings in the next two years if the effects of the pandemic are protracted such that economic recovery is delayed, leading to sustained weak fiscal results and a further erosion in debt service coverage.

### Upside scenario

We could raise the ratings over the next two years if the province quickly returns to a healthy real GDP growth trend and demonstrates fiscal prudence that contributes to improving budgetary results, leading to robust operating balances and debt service coverage.

## **Rationale**

The COVID-19 pandemic has had a material impact on Manitoba's economy and budgetary performance. Although significant uncertainty remains regarding the duration of the pandemic and the recovery trajectory, the ongoing vaccine rollout and expected loosening of restrictions hold promise for the province's operating environment during the outlook horizon. Furthermore, we expect the province will resume its fiscal consolidation efforts once pandemic-related spending diminishes. The province's debt burden will increase in the medium term, albeit at a slower pace, as utility-related capital spending for larger projects winds down. In addition, we expect liquidity will remain sufficient to meet debt service requirements.

### **GDP growth will rebound in 2021, following a significant contraction in 2020**

Efforts to control the spread of COVID-19 and the resultant reduction in economic activity significantly dampened Manitoba's output in 2020, resulting in a 4.8% contraction in real GDP. Although the pace of recovery remains uncertain with the active spread of variants, the continued rollout of effective vaccines offers some optimism for the current year. In line with the provincial budget, we estimate real GDP will increase by 4.1% in 2022 and expect that the province's GDP per capita will remain in line with the national level in 2021 at about US\$50,000.

Manitoba is a centrally located province whose almost 1.4 million residents make up 3.6% of the national population. Its well-diversified economy helped to mitigate the outsized impact of the pandemic on specific sectors such as tourism and energy. Although Manitoba's broad economy helps to insulate it against sector-specific shocks, we believe that it will remain exposed to risks related to the recession and recovery trajectory of its largest trading partner, the U.S.

We expect Manitoba's financial management practices to remain strong. The governing Progressive Conservative party has a majority mandate, which we believe eases some of the practical constraints on its ability to enact the revenue and expenditure measures it deems necessary to respond to, and recover from, the pandemic. Leading up to the pandemic, the government had laid out its plan to restore the province to fiscal balance and had demonstrated an ability to effectively manage finances to meet or exceed its budget targets in the past several years. In our view, the civil service is experienced and qualified to effectively deliver fiscal policies through effective cash management and cash-flow planning, and prudent debt management.

The ratings benefit from the very predictable and well-balanced institutional framework in which Canadian provinces operate. The Canadian constitution is the cornerstone of federal-provincial intergovernmental arrangements, which we view as mature and stable. The federal government provides revenue support through a number of agreements and transfer arrangements, including the Canada Health Transfer and Canada Social Transfer payments. For fiscal 2020, these transfers accounted for about 27% of the provincial adjusted operating revenues. The agreements covering these transfers are long-term, formula-driven, and predictable, but can be subject to change. Typically, the federal and provincial governments discuss proposed changes to transfer programs well ahead of their implementation.

### **Post-pandemic revenue growth and fiscal constraint will bolster budgetary performance in the outlook horizon**

The economic fallout from the various controls put in place nationally to stem the spread of the coronavirus, coupled

with Manitoba's sizable pandemic-related funding requirements, led to an interruption in the province's fiscal consolidation efforts in fiscal 2020 through to the current year, to-date. Nevertheless, we believe that a recovery should begin to take hold in fiscal 2022, allowing the province to resume its path toward greater fiscal sustainability. As operating and after-capital results strengthen with the recovery in the next two years, we expect that the province will, on average, record a near-balanced operating position as a percent of revenue and a moderate after-capital deficit of 7% of total revenue. The government continues with its implementation of tax relief measures in the current budget with the phasing-out of education property taxes. In recent years, the government introduced a one-percentage-point cut to the provincial sales tax. These measures could pressure the province's revenue-raising capacity, especially if the economic recovery is delayed. We believe that this, combined with the expenditure controls already in place, could limit the province's flexibility to achieve further budgetary performance gains in the medium term.

As pandemic-related spending wanes, and budgetary performance improves, Manitoba's annual borrowing requirements will moderate. We expect tax-supported debt will increase to 299% of operating revenues, or C\$59 billion, by fiscal 2024. Of note, our assessment of the province's debt burden fully incorporates the debt on-lent to MHEB, which accounts for more than 40% of the province's total debt. MHEB has several large-scale capital projects that were recently completed or are expected to wind down in the next several years. Accordingly, we expect that borrowing on behalf of MHEB, while still significant, will decline to 25% of total borrowing by 2022 from about 60% of total borrowing on average in fiscal years 2018 to 2020. We believe that MHEB, as a regulated, vertically integrated utility with an effective monopoly position, has the capacity and demonstrated willingness to repay its debt obligations as they become due. Net of on-lent debt to MHEB, the province's debt burden is expected to be about 174% of operating revenues by the end of fiscal 2024. Despite increasing debt, the low interest rate environment will keep interest costs relatively stable at about 11% of operating revenues (7% excluding on-lent debt interest).

We believe the province maintains sufficient cash and liquid assets to manage cash-flow timing differences and debt service requirements. We expect that the province will hold unrestricted cash and liquid investments of almost C\$3.7 billion in the next 12 months (including discretionary sinking funds and proceeds from MHEB for on-lent debt repayments), equal to about 50% of the estimated gross debt service payable in the next 12 months (including debt service for on-lent debt and repayment of all forecast short-term treasury bills outstanding at the end of the year). In addition, we consider the province's access to external liquidity to be strong, given Manitoba's track record of strong access to Canada's deep capital markets.

## Key Statistics

**Table 1**

### Province of Manitoba -- Selected Indicators

(Mil. C\$)	Budget Year*					
	2018	2019	2020bc	2021bc	2022bc	2023bc
Operating revenues	17,439	18,127	18,073	18,772	19,130	19,815
Operating expenditures	17,232	17,396	19,473	19,329	18,773	19,303
Operating balance	207	731	(1,401)	(558)	357	512
Operating balance (% of operating revenues)	1.2	4.0	(7.8)	(3.0)	2	2.6

**Table 1**

**Province of Manitoba -- Selected Indicators (cont.)**

(Mil. C\$)	Budget Year*					
	2018	2019	2020bc	2021bc	2022bc	2023bc
Capital revenues	10	64	44	55	41	38
Capital expenditures	1,006	1,025	1,384	1,741	1,291	1,200
Balance after capital accounts	(789)	(230)	(2,741)	(2,244)	(894)	(650)
Balance after capital accounts (% of total revenues)	(4.5)	(1.3)	(15.1)	(11.9)	(4.7)	(3.3)
Debt repaid	4,362	3,867	3,637	3,547	3,596	4,118
Gross borrowings	7,281	4,713	6,261	4,204	4,265	4,342
Balance after borrowings	2,130	616	(117)	(1,587)	(225)	(426)
Direct debt (outstanding at year-end)	50,667	52,350	55,101	56,530	58,020	59,088
Direct debt (% of operating revenues)	290.5	288.8	304.9	301.1	303.3	298.2
Tax-supported debt (outstanding at year-end)	50,847	52,527	55,277	56,706	58,196	59,264
Tax-supported debt (% of consolidated operating revenues)	291.6	289.8	305.9	302.1	304.2	299.1
Interest (% of operating revenues)	10.2	10.3	10.1	10.1	10.8	10.7
Local GDP per capita (single units)	54,025	53,897	51,618	54,037	56,495	N/A
National GDP per capita (single units)	60,196	61,466	57,994	63,315	65,056	67,332

The data and ratios above result in part from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information. The main sources are the financial statements and budgets, as provided by the issuer. bc--Base case reflects S&P Global Ratings' expectations of the most likely scenario. N/A--Not applicable. N.A.--Not available. N.M.--Not meaningful. \*Budget year 2020 equals fiscal year 2021.

## Ratings Score Snapshot

**Table 2**

**Province of Manitoba -- Ratings Score Snapshot**

Key rating factors	Scores
Institutional framework	2
Economy	1
Financial management	2
Budgetary performance	5
Liquidity	3
Debt burden	4
Stand-alone credit profile	a+
Issuer credit rating	A+

S&P Global Ratings bases its ratings on non-U.S. local and regional governments (LRGs) on the six main rating factors in this table. In the "Methodology For Rating Local And Regional Governments Outside Of The U.S.," published on July 15, 2019, we explain the steps we follow to derive the global scale foreign currency rating on each LRG. The institutional framework is assessed on a six-point scale: 1 is the strongest and 6 the weakest score. Our assessments of economy, financial management, budgetary performance, liquidity, and debt burden are on a five-point scale, with 1 being the strongest score and 5 the weakest.

## Sovereign Statistics

- Sovereign Risk Indicators, April 12, 2021. An interactive version is available at <http://www.spratings.com/sri>

## Related Criteria

- Criteria | Governments | International Public Finance: Methodology For Rating Local And Regional Governments Outside Of The U.S., July 15, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Guarantee Criteria, Oct. 21, 2016
- Principles Of Credit Ratings, Feb. 16, 2011

## Related Research

- Economic Outlook Canada Q2 2021: Consumer Spending Could Set The Pace Of Recovery, March 30, 2021
- Institutional Framework Assessments For International Local And Regional Governments, Feb. 8, 2021
- S&P Global Ratings Definitions, Jan. 5, 2021
- Public Finance System: Canadian Provinces, May 12, 2020
- Guidance: Methodology For Rating Local And Regional Governments Outside Of The U.S., July 15, 2019
- Guidance: Sovereign Rating Methodology, Jan. 22, 2019

### Ratings Detail (As Of May 17, 2021)\*

#### Manitoba (Province of)

Issuer Credit Rating	A+/Stable/A-1
Commercial Paper	
<i>Local Currency</i>	A-1
<i>Canada National Scale Commercial Paper</i>	A-1(MID)
Senior Unsecured	A+

#### Issuer Credit Ratings History

15-May-2020	A+/Stable/A-1
04-Oct-2019	A+/Positive/A-1
21-Jul-2017	A+/Stable/A-1
14-Jul-2016	AA-/Negative/A-1+

\*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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PRESS RELEASE

NOVEMBER 04, 2021

## DBRS Morningstar Confirms the Province of Manitoba at A (high) and R-1 (middle), Stable Trends

### UTILITIES & INDEPENDENT POWER, SUB-SOVEREIGN GOVERNMENTS

DBRS Limited (DBRS Morningstar) confirmed the Issuer Rating and Long-Term Debt rating of the Province of Manitoba (Manitoba or the Province) at A (high) and confirmed the Province's Short-Term Debt rating at R-1 (middle). DBRS Morningstar also confirmed The Manitoba Hydro-Electric Board's Long-Term Obligations at A (high) and its Short-Term Obligations at R-1 (middle). All trends are Stable, supported by a well-diversified and resilient economy, increased focus on fiscal sustainability prior to the onset of the Coronavirus Disease (COVID-19) pandemic, and prudent debt management. These attributes provide the Province with ample flexibility to withstand the near-term fiscal pressures as Manitoba resumes the path to economic recovery.

The Province anticipates real GDP growth of 4.9% in 2021, followed by 3.7% in 2022. The improved outlook (compared with a deceleration of 4.8% in 2020) is mainly driven by accelerated vaccine rollouts, ongoing supports for households and businesses, economic reopening and faster recovery, and improving consumer sentiment. Financial performance deteriorated in F2021 because of an increase in expenditures related to the Province's coronavirus pandemic relief efforts and reduced revenues from broader economic weakness. Including capital expenditures and amortization, the DBRS Morningstar-adjusted deficit was \$2.4 billion, or -3.4% of GDP.

Manitoba's medium-term forecasts now suggest a return to balance within eight years, yet deficits are projected to fall quickly. On a DBRS Morningstar-adjusted basis, deficits are likely to range between \$500 million and roughly \$900 million annually through F2025. Following the resignation of former Premier, Brian Pallister, Heather Stefanson was selected as the new leader of the Progressive Conservative Party and Premier. DBRS Morningstar will be looking ahead to the next budget for clarity and progress on Manitoba's priorities given the change in leadership.

Based on Manitoba's latest plans for debt-funded capital, the DBRS Morningstar-adjusted debt burden will gradually decline to around 43% over the medium term, after peaking at a little more than 47% in 2020-21. This is in line with DBRS Morningstar's previous expectations for debt.

### RATING DRIVERS

DBRS Morningstar views the improvement in Manitoba's fiscal and debt outlook as favourable. Should the Province continue to demonstrate progress towards achieving a balanced budget on a sustained basis and a significant reduction in the provincial debt burden, this could lead to a positive rating action. A negative rating action could result from a sustained deterioration in the provincial economy and failure to stem chronic deficit spending and debt growth.

### ESG CONSIDERATIONS

A description of how DBRS Morningstar considers ESG factors within the DBRS Morningstar analytical framework can be found in the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings at <https://www.dbrsmorningstar.com/research/373262>.

Notes:

All figures are in Canadian dollars unless otherwise noted.

The principal methodologies are Rating Canadian Provincial and Territorial Governments (May 3, 2021; <https://www.dbrsmorningstar.com/research/377881>) and Global Methodology for Government Related Entities (March 8, 2021; <https://www.dbrsmorningstar.com/research/374948>), which can be found on dbrsmorningstar.com under Methodologies & Criteria. Other applicable methodologies include the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings (February 3, 2021; <https://www.dbrsmorningstar.com/research/373262>).

The related regulatory disclosures pursuant to the National Instrument 25-101 Designated Rating Organizations are hereby incorporated by reference and can be found by clicking on the link under Related Documents or by contacting us at [info@dbrsmorningstar.com](mailto:info@dbrsmorningstar.com).

The rated entity or its related entities did participate in the rating process for this rating action. DBRS Morningstar had access to the accounts and other relevant internal documents of the rated entity or its related entities in connection with this rating action.

Generally, the conditions that lead to the assignment of a Negative or Positive trend are resolved within a 12-month period. DBRS Morningstar trends and ratings are under regular surveillance.

DBRS Morningstar will publish a full report shortly that will provide additional analytical detail on this rating action. If you are interested in receiving this report, contact us at [info@dbrsmorningstar.com](mailto:info@dbrsmorningstar.com).

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## Ratings

### Manitoba Hydro-Electric Board, The

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
04-Nov-21	Long-Term Obligations	Confirmed	A (high)	Stb	CA
04-Nov-21	Short-Term Obligations	Confirmed	R-1 (middle)	Stb	CA

### Manitoba, Province of

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
04-Nov-21	Issuer Rating	Confirmed	A (high)	Stb	CA
04-Nov-21	Long-Term Debt	Confirmed	A (high)	Stb	CA

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
04-Nov-21	Short-Term Debt	Confirmed	R-1 (middle)	Stb	<b>CA</b>

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