

CENTRA GAS MANITOBA INC.
ACQUISITION OF THE ASSETS OF
SWAN VALLEY GAS CORPORATION

DUE DILIGENCE PROCEDURES AND ACCOUNTING TREATMENT OF THE
PROPOSED TRANSACTION

INDEX

1	4.0	Introduction.....	1
2	4.1	Due Diligence Procedures.....	1
3	4.2	Required Approvals.....	2
4	4.3	Accounting Treatment of Transaction	3
5	4.4	Tax Impacts of the Transaction	3
6			
7		<i>Attachments</i>	
8	4.1	Due Diligence Checklist	

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PROPOSED TRANSACTION**

1 **4.0 Introduction**

2 Centra has conducted due diligence procedures with respect to the assets, finances and
3 operations of SVGC. Centra has entered into the Asset Purchase Agreement with SVGC
4 for the purchase of SVGC's assets as well as other related agreements to provide safe,
5 reliable and economical service to SVGC's customers.

6

7 This Tab also discusses the accounting treatment and tax implications of the proposed
8 transaction.

9

10 **4.1 Due Diligence Procedures**

11 This section provides a detailed description of all the due diligence procedures
12 conducted by Centra prior to finalizing the proposed transaction.

13

14 Centra has carried out due diligence with respect to the assets, finances and operations
15 of SVGC. Following an initial approach by SaskEnergy, Centra expressed its interest in
16 further pursuing the prospect of purchasing SVGC. A multi-disciplinary Centra team
17 reviewed information provided by SaskEnergy including financial statements, various
18 forecast information, and gas supply, transportation and franchise agreements. Site
19 visits were also made to SVGC facilities and SaskEnergy offices. Centra's due diligence
20 procedures included a review of the sources of information listed in the Due Diligence

1 Checklist, which is provided as Attachment 4.1 to Tab 4.

2

3 An internal technical evaluation of the SVGC gas transmission and distribution system
4 was prepared by Centra. This report can be found as Attachment 3.1 to Tab 3. The
5 work involved a site visit to SVGC facilities, discussions with SaskEnergy staff and a
6 review of system technical specifications, construction standards and operation and
7 maintenance practices in place. The review concluded that the SVGC natural gas
8 system is designed, constructed and operated in accordance with the requirements of all
9 applicable codes and regulations. No major issues or concerns that would affect the
10 integrity or operation of the pipeline system were identified. A leak survey and depth of
11 cover survey (including water course crossings) were conducted by SaskEnergy and
12 provided to Centra. There was one leak identified and that was repaired. An internal
13 environmental evaluation of the SVGC gas transmission and distribution system was
14 conducted. The environmental review found no indications of any significant source of
15 potential environmental liability. A copy of the Environmental Evaluation of the Swan
16 Valley Gas Corporation Gas Transmission and Distribution System is included as
17 Attachment 3.2 to Tab 3.

18

19 All the foregoing formed the basis for the negotiation of the Asset Purchase Agreement.

20

21 **4.2 Required Approvals**

22 This section provides a summary of all approvals that must be obtained in connection
23 with the proposed transaction and the status of these approvals.

24

25 A summary of the required approvals from Centra's perspective is as follows:

- 1 1. Board of Directors of Centra Gas Manitoba Inc. – approval has been received in
- 2 October 2012;
- 3 2. Consents and approvals required from the Communities to assign the Franchise
- 4 Agreements to Centra; and,
- 5 3. Public Utilities Board approval.

6

7 **4.3 Accounting Treatment of Transaction**

8 This section provides a description of the accounting treatment of the proposed
9 transaction.

10

11 The purchase price will be recorded as plant assets and intangible assets in Centra's
12 financial records and depreciated/amortized over their estimated useful lives. The
13 identifiable assets acquired will be measured at their fair values at acquisition. This
14 accounting treatment is consistent with Canadian Institute of Chartered Accountants
15 Handbook Section 1582, Business Combinations and International Financial Reporting
16 Standards 3, Business Combinations.

17

18 **4.4 Tax Impacts of the Transaction**

19 This section discusses the tax consequences of the proposed transaction.

20

21 Income Tax

22 Centra, as a wholly-owned subsidiary of Manitoba Hydro is exempt from paying federal
23 and provincial income taxes. Therefore, the acquisition of the assets of SVGC will not
24 have any income tax impacts on Centra.

25

1 Retail Sales Tax (RST)

2 The RST at a rate of 8% will be applicable to the majority of the assets acquired. This
3 tax is generally applied to the purchase of tangible personal property, which makes up
4 the bulk of the assets acquired. The tax will not apply to the portion of the acquisition
5 price that is allocated to real property and intangible items such as land rights.

6

7 It is estimated that approximately \$15 thousand will be paid to the Province of Manitoba
8 in the form of RST on this transaction. The final determination of the RST payable will
9 be based on the final acquisition cost of the assets and the allocation of the acquisition
10 cost to the various types of assets being purchased.

11

12 Goods and Services Tax (GST)

13 Due to the flow-through nature of the GST and the fact that Centra is acquiring the
14 assets of SVGC for commercial purposes, the company will recover any GST paid with
15 respect to the purchase and there will be no additional cost incurred.

16

17 Manitoba Corporation Capital Tax (MCCT)

18 The MCCT is tax payable on the capital of the corporation. The acquisition of the SVGC
19 assets affects the amount of MCCT paid by the company in the same manner that the
20 acquisition of any other asset would. In general terms the tax will be applied against any
21 increase in the debt and equity of the corporation as a result of the asset acquisition at
22 an incremental rate of 0.5%.

23

24 Property Taxes

25 Property taxes are paid based on the assessed values of the underlying assets as

1 determined by The Municipal Assessment Act. The assessed values of the purchased
2 assets will be the same for Centra as they were for SVGC. In 2012, SVGC paid
3 approximately \$116 thousand in municipal property taxes and it is expected that Centra
4 will continue to pay a comparable amount after future changes to assessed values and
5 mill rates.

6

7 Employee Related Taxes, Withholding and Remittances

8 Centra will assume no responsibilities with respect to employee-related taxes,
9 withholdings or remittances as this is a purchase of assets. The conditions of closing
10 require SVGC to bear responsibility for all such obligations up to the date of closing.