Consolidated Financial Statements

Manitoba Hydro-Electric Board

March 31, 2020

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Manitoba Hydro-Electric Board

Opinion

We have audited the consolidated financial statements of Manitoba Hydro-Electric Board (the "Entity"), which comprise the consolidated statement of financial position as at March 31, 2020, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies (hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at March 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. Other information comprises the information, other than the financial statements and the auditors' report thereon, included in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the information, other than the financial statements and the auditors' report thereon, included in the Annual Report as at the date of this auditors' report.

If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity‘s financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants

Winnipeg, Canada

July 2, 2020

Consolidated Statement of Income
For the year ended March 31
millions of Canadian dollars

	Notes	2020	2019
Revenues			
Domestic			
Electric		**1 702**	1 707
Gas		**388**	365
Extraprovincial	5	**468**	430
Other	6	**71**	74
		2 629	2 576
Expenses			
Finance expense	7	**838**	778
Operating and administrative	8	**579**	576
Depreciation and amortization	9	**512**	496
Cost of gas sold		**238**	212
Water rentals and assessments		**126**	113
Fuel and power purchased	10	**98**	136
Capital and other taxes	11	**163**	155
Other expenses	12	**104**	130
Finance income		**(43)**	(31)
		2 615	2 565
Net income before net movement in regulatory balances		**14**	11
Net movement in regulatory balances	20	**85**	107
Net Income		**99**	118
Net income (loss) attributable to:			
Manitoba Hydro		**99**	121
Non-controlling interests	29	**-**	(3)
		99	118

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Financial Position
As at March 31
millions of Canadian dollars

	Notes	**2020**	2019
Assets			
Current Assets			
Cash and cash equivalents	13	**926**	900
Accounts receivable and accrued revenue	14	**446**	438
Prepaid expenses		**30**	33
Inventory	15	**107**	99
		1 509	1 470
Property, Plant and Equipment	16	**25 190**	23 627
Non-Current Assets			
Goodwill		**107**	107
Intangible assets	18	**784**	615
Loans and other receivables	19	**537**	480
		1 428	1 202
Total assets before regulatory deferral balance		**28 127**	26 299
Regulatory deferral balance	20	**1 179**	1 132
Total assets and regulatory deferral balance		**29 306**	27 431
Liabilities and Equity			
Current Liabilities			
Current portion of long-term debt	21	**1 337**	249
Accounts payable and accrued liabilities	22	**540**	534
Other liabilities	24	**103**	112
Accrued interest		**140**	127
		2 120	1 022
Long-Term Debt	21	**21 950**	21 303
Non-Current Liabilities			
Other non-current liabilities	25	**589**	595
Employee future benefits	26	**988**	1 015
Deferred revenue	27	**549**	522
Provisions	28	**47**	54
		2 173	2 186
Total liabilities		**26 243**	24 511
Equity			
Retained earnings		**3 141**	3 042
Accumulated other comprehensive loss		**(747)**	(781)
Equity attributable to Manitoba Hydro		**2 394**	2 261
Non-controlling interests	29	**302**	254
Total equity		**2 696**	2 515
Total liabilities and equity before regulatory deferral balance		**28 939**	27 026
Regulatory deferral balance	20	**367**	405
Total liabilities, equity and regulatory deferral balance		**29 306**	27 431

The accompanying notes are an integral part of the consolidated financial statements.

On behalf of the Board of Directors:

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Original Document Signed

Marina R. James
Chair of the Board

Vince A. Warden
Chair of the Audit & Finance Committee

Consolidated Statement of Cash Flows

For the year ended March 31

millions of Canadian dollars

	Notes	2020	2019
Operating Activities			
Net income		**99**	118
Add back:			
Depreciation and amortization	9	**512**	496
Finance expense	7	**838**	778
Net movement impacts		**73**	61
Finance income		**(43)**	(31)
Adjustments for non-cash items		**(83)**	(70)
Adjustments for changes in non-cash working capital accounts			
Accounts receivable and accrued revenue		**33**	(7)
Prepaid expenses		**2**	6
Accounts payable and accrued liabilities		**7**	(210)
Other		**15**	45
Interest received		**22**	14
Interest paid		**(1 044)**	(995)
Cash provided by operating activities		**431**	**205**
Investing Activities			
Additions to property, plant and equipment		**(1 781)**	(1 864)
Additions to intangible assets		**(165)**	(220)
Additions to regulatory deferral balances		**(88)**	(107)
Contributions received		**42**	48
Cash paid to the City of Winnipeg		**(16)**	(16)
Cash paid for mitigation obligations		**(28)**	(14)
Cash paid for major development obligations		**(16)**	(15)
Other		**-**	(3)
Cash used for investing activities		**(2 052)**	(2 191)
Financing Activities			
Proceeds from long-term debt	21	**2 190**	3 527
Retirement of long-term debt	21	**(542)**	(1 233)
Advances to investment entities	19	**(48)**	(52)
Proceeds from partnership issuances	29	**48**	52
Proceeds from (repayments of) short-term borrowings, net	23	**-**	(50)
Sinking fund investment withdrawals	17	**225**	193
Sinking fund investment purchases	17	**(225)**	(193)
Repayment of lease liabilities		**(1)**	-
Cash provided by financing activities		**1 647**	2 244
Net increase in cash and cash equivalents		**26**	258
Cash and cash equivalents, beginning of year		**900**	642
Cash and cash equivalents, end of year		**926**	900

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Comprehensive Income
For the year ended March 31
millions of Canadian dollars

	Notes	**2020**	2019
Net Income		**99**	118
Other comprehensive income (loss)			
Items that will not be reclassified to income			
Actuarial gains on pensions, net of experience losses	26	**50**	(75)
Items that will be reclassified to income			
Cash flow hedges - unrealized foreign exchange losses on debt	30(c)	**(53)**	(47)
Items that have been reclassified to income			
Cash flow hedges - realized foreign exchange losses on debt	30(c)	**37**	29
		34	(93)
Comprehensive Income		**133**	25
Comprehensive income attributable to:			
Manitoba Hydro		**133**	28
Non-controlling interests		-	(3)
		133	25

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Changes in Equity
millions of Canadian dollars

	Notes	Retained earnings	Accumulated other comprehensive income (loss)	**Manitoba Hydro**	Non-controlling interests	Total equity
Balance as at April 1, 2018		2 936	(688)	**2 248**	205	2 453
Net income (loss)		121	-	**121**	(3)	118
Other comprehensive income (loss)		-	(93)	**(93)**	-	(93)
Comprehensive income (loss)		121	(93)	**28**	(3)	25
Change in ownership interest	29	-	-	**-**	52	52
Adjustment for the adoption of new accounting policy		(15)	-	**(15)**	-	(15)
Balance as at March 31, 2019		3 042	(781)	**2 261**	254	2 515
Net income		99	-	**99**	-	99
Other comprehensive income		-	34	**34**	-	34
Comprehensive income		99	34	**133**	-	133
Change in ownership interest	29	-	-	**-**	48	48
Balance as at March 31, 2020		**3 141**	**(747)**	**2 394**	**302**	**2 696**

The accompanying notes are an integral part of the consolidated financial statements.

NOTE 1 REPORTING ENTITY

The Manitoba Hydro-Electric Board and the Manitoba Power Commission were amalgamated in 1961 by enactment of *The Manitoba Hydro Act* to form a Crown corporation in the Province of Manitoba named Manitoba Hydro (the corporation). Manitoba Hydro's mandate is to provide for the continuance of a supply of energy adequate for the needs of the Province and to engage in and to promote economy and efficiency in the development, generation, transmission, distribution, supply and end-use of energy. The head office of the corporation is located at 360 Portage Avenue, Winnipeg, Manitoba. For over 30 years, Manitoba Hydro has provided demand side management programs to Manitobans. In fiscal 2018-19, a new Crown Corporation, Efficiency Manitoba Inc., was created and is devoted to energy conservation. As a result, Manitoba Hydro is transitioning demand side management initiatives to Efficiency Manitoba with effect for future periods.

These consolidated financial statements include the accounts of Manitoba Hydro and its wholly-owned subsidiaries including Centra Gas Manitoba Inc. (Centra), Minell Pipelines Ltd. (Minell), Manitoba Hydro International Ltd. (MHI), Manitoba Hydro Utility Services Ltd. (MHUS), Teshmont LP Holdings Ltd. (which has a 40% ownership interest in the Teshmont Consultants Limited Partnership) and 6690271 Manitoba Ltd. (a subsidiary that was formed to participate in the development of a new transmission line in the U.S.). These consolidated financial statements also include Manitoba Hydro's 67% ownership interest in the Wuskwatim Power Limited Partnership (WPLP) and its 75% ownership interest in the Keeyask Hydropower Limited Partnership (KHLP). For purposes of consolidation, all significant intercompany accounts and transactions have been eliminated.

NOTE 2 BASIS OF PRESENTATION

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

These consolidated financial statements were approved for issue by the Manitoba Hydro-Electric Board on July 2, 2020.

(b) Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis except for the following material items in the consolidated statement of financial position:

- Financial instruments accounted for in accordance with the financial instrument categories defined in Note 3(n) and (o)
- Employee future benefits defined in Note 3(k)
- Provisions defined in Note 3(l)

(c) Functional and presentation currency

The consolidated financial statements are presented in millions of Canadian dollars, the functional currency of the corporation.

(d) Use of estimates and judgment

The preparation of consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect amounts reported as assets, liabilities, income and expenses.

Areas of significant management estimates and judgments are outlined in the following summary and significant accounting policies included in Note 3:

- Accrued revenue for domestic electricity and natural gas deliveries not yet billed at year-end and allowance for doubtful accounts (Note 3(b) and (p))
- Useful life estimates for depreciable and amortizable assets (Notes 3(g) and (i), 16 and 18)
- Measurement of right-of-use assets and associated lease liabilities (Note 3(s))
- Determination of cash generating unit as it pertains to impairment testing (Note 3 (h) and (j))
- Measurement of accrued liabilities (Note 22)
- Measurement of other long-term liabilities and underlying estimates of future cash flows (Note 25)
- Measurement of employee future benefits and underlying actuarial assumptions (Notes 3(k) and 26)
- Measurement of provisions and underlying estimates of future cash flows (Notes 3(l) and 28)
- Fair value measurement of financial instruments (Notes 3(n) and (o) and 30)
- Identification and reporting of operating segments (Note 34)

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES

(a) Regulatory deferral accounts

In January 2014, the International Accounting Standards Board (IASB) issued an interim standard, IFRS 14 *Regulatory Deferral Accounts,* which provides guidance on accounting for the effects of rate regulation under IFRS. This guidance allows entities that conduct rate-regulated activities to continue to recognize regulatory deferral accounts. This interim standard is effective for financial reporting periods beginning on or after January 1, 2016. The corporation has elected to adopt IFRS 14 in its consolidated financial statements. The interim standard is only intended to provide temporary guidance until the IASB completes its comprehensive project on rate-regulated activities. IFRS 14 remains in force until either repealed or replaced by permanent guidance on rate-regulated accounting from the IASB.

Regulatory deferral account balances usually represent timing differences between the recognition of items of income or expenses for regulatory purposes and the recognition of those items for financial reporting purposes. Regulatory deferral account balances arising from rate-regulated activities are recognized and measured separately if they do not meet the criteria to be recognized as an asset or liability in accordance with other standards. The balances recorded as regulatory deferral balances will be recovered or refunded in future rates, based on approvals by the regulator. These amounts would otherwise have been included in the determination of net income in the year they are incurred.

Under rate regulation, the prices charged for the sale of electricity and natural gas within Manitoba are subject to review and approval by the Public Utilities Board of Manitoba (PUB). The rate-setting process is designed such that rates charged to electricity and natural gas customers recover costs incurred by Manitoba Hydro in providing electricity and natural gas service plus a sufficient contribution to retained earnings.

The following regulatory deferral account balances are initially recorded at cost and amortized on a straight-line basis using the specified periods:

Demand side management (DSM) programs	10	years
Site restoration costs	15	years
Deferred taxes	30	years
Acquisition costs	30	years
Regulatory costs	up to 5	years
Ineligible overhead	34	years
Conawapa	30	years
Bipole III deferral	5	years
Change in gas meter depreciation rate	5	years
Impact of 2014 depreciation study	5	years
Meter exchange costs	3	years

The Affordable Energy Fund is amortized to the consolidated statement of income at the same rate as the obligation is drawn down. The Purchased Gas Variance Account (PGVA) is recovered or refunded over a period determined by the PUB.

The amortization of the loss on disposal of assets, change in depreciation methodologies from average service life (ASL) to equal life group (ELG), major capital project deferral and the impact of the 2019 depreciation study will be determined at a future regulatory proceeding.

(b) Revenue recognition

The corporation assesses each contract with the customer to identify distinct good(s) and service(s) and the related performance obligation(s). Where the corporation determines that goods and services are not distinct, they are combined until they are distinct. If multiple distinct goods/services are substantially the same and have the same pattern of transfer to the customer, they would be treated as one performance obligation. Revenue is recognized when the control of the goods or services has been transferred to the customer at a point in time or over time.

Domestic electricity and natural gas revenues are recognized upon delivery to the customer and charged in accordance with rates approved by the PUB. Accrued revenues are recorded based on an estimated amount of electricity and natural gas delivered and not yet billed at year-end. Domestic electricity and natural gas contracts include a single performance obligation that represents a promise to transfer to the customer a series of distinct goods that are substantially the same and that have the same pattern of transfer to the customer. The corporation's performance obligation is satisfied over time when the electricity or natural gas is received and consumed by the customer.

Extraprovincial contracts may include multiple distinct goods including electricity, capacity and renewable environmental credits (RECs). Electricity and capacity both represent a promise to transfer to the customer a series of distinct goods that are substantially the same and that have the same pattern of transfer to the customer (customer simultaneously receives and consumes benefits as the corporation performs) and result in a single performance obligation. Control is transferred and revenue is recognized upon the delivery of energy to the customer. RECs sourced from wind energy purchases or generated by the corporation's facilities are a separate performance obligation with revenue recognized at a point in time. Control is transferred and revenue is recognized when title to the credits are transferred to the customer. The costs the corporation incurs to obtain or fulfill a contract with a customer are not significant.

Consulting, technology and maintenance services and other miscellaneous revenue is recognized when services are provided or goods are shipped to the customer. Revenue from fixed price contracts is recognized over time under the percentage-of-completion method. The percentage of completion is determined by comparing the costs incurred at the consolidated statement of financial position date to the total estimated costs, which include costs incurred plus anticipated costs for completing a contract.

Revenue from contract modifications such as change orders and claims is recognized to the extent that the contract modifications have been approved by the customer and the amount can be measured reliably. In cases where the contract modification is approved, but the price has not been finalized, the contract modification is accounted for using variable consideration as it is in addition to the agreed upon performance obligation outlined in the original contract.

Non-refundable contributions in aid of construction received from customers are recorded as deferred revenue. The deferred revenue is initially recorded at the amount of cash contributions received and recognized as revenue on a straight-line basis over the estimated lives of the contracts with customers. Where contracts with customers are perpetual and the related contributed asset is used to provide ongoing goods or services to customers, the life of the contract is estimated to be equivalent to the economical useful life of the related asset for which the contribution was received.

Non-refundable contributions in aid of construction received from developers are recorded as deferred revenue and amortized into other revenue over the life of the related asset for which the contribution was received.

(c) Cost of gas

Natural gas is recorded at purchased cost upon delivery to gas customers.

(d) Finance expense and finance income

Finance expense includes interest on short and long-term borrowings and the provincial debt guarantee fee paid to the Province of Manitoba, foreign exchange gains and losses, the mark to market of foreign exchange forward contracts, accretion expense on provisions and other long-term liabilities, offset by interest capitalized for those qualifying assets under construction. Foreign exchange gains and losses include amounts that had been recognized in other comprehensive income and reclassified from equity to net income in the same periods during which the hedged forecast cash flows (being U.S. export revenues) affect net income. All borrowing costs are recognized using the effective interest rate method. Finance income includes interest earned on loans and advances to investment entities and temporary investments.

(e) Cash and cash equivalents

Cash and cash equivalents include cash on hand and short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

(f) Inventory

Materials and supplies, fuel and natural gas inventories are valued at the lower of average cost and net realizable value. Replacement cost is used as management's best estimate of the net realizable value for materials and supplies and fuel inventory.

Materials, supplies, fuel and natural gas are charged to inventory when purchased and not immediately required for use. These inventories are expensed or capitalized when used. Those materials, supplies and fuel purchased for immediate use are expensed directly.

(g) Property, plant and equipment

Property, plant and equipment (PP&E) is recorded at cost less accumulated depreciation. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, contracted services, direct labour and interest applied at the weighted average cost of debt outstanding during the period. Interest is allocated to construction until a capital project becomes operational or a decision is made to abandon, cancel or indefinitely defer construction. Once the transfer to in-service property, plant and equipment is made, interest allocated to construction ceases and depreciation and interest charged to operations commences.

(in millions of Canadian dollars)

Depreciation is calculated on a straight-line remaining life basis using the ELG procedure. The major components of generating stations are depreciated over the lesser of the remaining life of the major components or the remaining life of the associated generating station.

Generation	4 – 125 years
Transmission lines	10 – 85 years
Substations	15 – 65 years
Distribution systems	10 – 75 years
Other	5 – 100 years

The estimated service lives of the assets are based upon depreciation studies conducted periodically by the corporation. A depreciation study was completed in 2019-20.

The net gain or loss on retirement of these assets is charged to depreciation in the period incurred and then removed through net movement in regulatory balances. When the costs of removing an asset from service are incurred to facilitate the installation of a new asset, the costs to remove the asset from service are added to the costs of the new asset. When an asset is retired from service and not replaced with a similar asset, the costs of removing the asset from service are treated similarly to the net gain or loss on retirement of assets.

A reasonable estimate of the present value of the future cash flows required to retire an asset from service is recorded when the recognition criteria for a provision (Note 3(l) (i)) are met. An equivalent amount is added to the carrying cost of the related asset and is amortized over the asset's remaining service life. The discount rate used to measure the cash flows reflects current market assessments of the time value of money and the risks specific to the obligation.

(h) Goodwill

Goodwill represents the amount of the corporation's investments in Centra and Winnipeg Hydro over and above the fair market value of the identified net assets acquired. The goodwill balance is evaluated annually to determine whether any impairment has occurred.

(i) Intangible assets

Intangible assets include computer application development costs, land easements and transmission rights. Intangible assets are recorded at cost less accumulated amortization. The cost of computer application development includes software, direct charges for labour, materials, contracted services and interest during development applied at the weighted average cost of debt outstanding during the period. The corporation's intangible assets have finite useful lives and are amortized over their useful lives on a straight-line basis with the amortization included in depreciation and amortization expense. The expected useful lives are as follows:

Computer application development	5 – 11 years
Land easements	75 years
Transmission rights	1 – 12 years

Transmission rights are amortized over the contractual period of the right plus a one-term renewal. The estimated service lives of computer application development and land easements are based upon depreciation studies conducted periodically by the corporation. A depreciation study was completed in 2019-20.

(j) Impairment of non-financial assets

Non-financial assets subject to impairment testing include goodwill, intangible assets and property, plant and equipment. The corporation tests goodwill and material intangible assets under construction at least annually for impairment. Assets subject to depreciation and amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment test is performed by comparing the carrying amount of the asset or cash generating unit (CGU) to its recoverable amount. The recoverable amount is calculated as the higher of the fair value less costs to sell and the present value of the future cash flows from an asset or CGU. The corporation has determined its CGUs to be at the segment level. This is the lowest level for which there are separately identifiable cash flows as rates for electricity and natural gas revenue are set by the PUB at the segment level. An impairment would be recognized as a charge against operations in the year of impairment if the carrying amount exceeds the recoverable amount.

(k) Employee future benefits

Manitoba Hydro provides future benefits, including pension and other benefits, to both existing and retired employees.

The costs and obligations of defined benefit pension plans and other benefits are determined by an independent actuary using the accrued benefit actuarial cost method and reflect management's best estimate of future compensation increases, service lives and inflation. Pension expense consists of the cost of pension benefits earned during the year and net interest income or expense. Interest expense on the accrued benefit obligation for the period and interest income on plan assets for the period are determined by applying the discount rate used to measure the accrued benefit obligation at the beginning of the annual reporting period, taking into account any changes during the period as a result of contributions and benefit payments.

Experience gains or losses on the asset and actuarial gains or losses on the obligation are recognized in other comprehensive income (OCI) in the period in which they occur. Past service costs, which arise when a change is made to plan benefits, are recognized immediately in profit or loss.

Other future benefits earned by employees include vacation, vested sick leave, severance and retirement health plans. Where applicable, the future costs of these benefits are determined by an independent actuary and reflect management's best estimates.

(l) Provisions

In accordance with International Accounting Standards (IAS) 37 *Provisions, Contingent Liabilities and Contingent Assets*, a provision is required to be recognized where there is a present legal or constructive obligation as a result of a past event that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation, the timing or amount of which are uncertain.

(i) Asset retirement obligations

Asset retirement obligations are estimated by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as a finance expense.

(ii) Affordable Energy Fund

The Affordable Energy Fund was determined based on Provincial Legislation. The timing of disbursements is uncertain due to the unpredictability of future customer participation.

(iii) Mitigation

Provisions arising from Manitoba Hydro’s mitigation program are recognized when there is an expectation that expenditures will be incurred to address the adverse effects of past hydroelectric development on Indigenous and other communities. These provisions are based on management’s best estimate of the consideration required to settle the obligation. The corporation reviews its estimates of future mitigation expenditures on an ongoing basis.

(iv) Major development

Provisions arising from Manitoba Hydro’s major development projects are recognized when there is an expectation that expenditures will be incurred to address project-related adverse effects on Indigenous and other communities. These provisions are based on management’s best estimate of the consideration required to settle the obligation. The corporation reviews its estimates of future major development expenditures on an ongoing basis.

(v) Other provisions

Other provisions have been established for obligations identified, which require recognition in the financial statements due to the likelihood of settlement and the presence of an obligation, either from past events or constructive in nature.

(m) Government grants

Government grants are recognized when there is reasonable assurance they will be received and the corporation will comply with the conditions associated with the grant. Government grants that compensate the corporation for expenses incurred are recognized in profit or loss in the same period in which the expenses are recognized. Grants that compensate the corporation for the cost of an asset are recorded as deferred revenue and recognized in other revenue over the service life of the related asset.

(n) Non-derivative financial instruments

All financial instruments are measured at fair value on initial recognition as of the trade date. Financial assets are classified into one of the following categories: amortized cost, at fair value through other comprehensive income and at fair value through profit or loss. Financial liabilities are classified at amortized cost or fair value through profit or loss.

Amortized cost

The corporation's cash and cash equivalents, trade accounts receivable and accrued revenue, loans and other receivables are initially recorded at fair value and subsequently measured at amortized cost, if the financial assets are held in order to collect contractual cash flows, and those cash flows are solely payments of principal and interest on the principal outstanding. Interest income is calculated using the effective interest method and is recognized in net income. Changes in fair value are recognized in net income when the asset is derecognized or reclassified. All financial assets measured at amortized cost are subject to impairment measurement at the end of the reporting period as described below.

Long-term debt, trade payables and accrued liabilities, notes payable, accrued interest and other liabilities, except for derivative liabilities classified and measured at fair value through profit or loss, are initially recognized at fair value plus directly attributable transaction costs, and subsequently measured at amortized cost using the effective interest method of amortization.

At fair value through other comprehensive income

Financial assets that are held within a business model for the collection of contractual cash flows and for selling, where cash flows are solely payments of principal and interest, are classified as fair value through other comprehensive income. Financial assets are initially recorded at fair value and are subsequently measured at fair value with unrealized gains and losses recognized in other comprehensive income. Interest income, impairment gains and losses and foreign exchange gains and losses are recognized in net income. Once the financial asset is derecognized or reclassified, fair value losses previously recorded in other comprehensive income, are reclassified to net income. Interest income from these financial assets is recognized as other income using the effective interest method. As of March 31, 2020, the corporation does not have any financial assets classified at fair value through other comprehensive income.

At fair value through profit or loss

Financial instruments classified as fair value through profit or loss are subsequently measured at fair value with changes in fair value recognized in the consolidated statement of income in the period in which they arise.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced with substantially different terms or the terms of an existing liability are substantially modified, such an exchange or modification is treated as derecognition of the original liability and the recognition of a new liability is recorded at fair value. The differences in the respective carrying amounts are recognized as gains or losses in net income.

(o) Derivative financial instruments

The corporation's derivative assets and liabilities are classified and measured at fair value through profit or loss with changes in the fair value of the financial derivative instrument recognized in net income, where hedge accounting is not applied.

Foreign exchange forward contracts are transacted to mitigate annual net income impacts due to foreign exchange rate fluctuations related to a portion of U.S. long-term debt balances, for which hedge accounting is not applied. As well, the corporation mitigates price risk of electricity market sales and purchases through its limited use of derivative financial instruments such as contracts for differences, forward contracts and financial transmission rights.

The change in fair value of derivative financial instruments reflects changes in foreign exchange rates and in electricity prices, with discount rates applied for time value. Changes in fair value of unsettled positions are recognized in net income or in accumulated other comprehensive income if the derivative instruments are accounted for as hedging instruments. The corporation does not engage in derivative trading or speculative activities.

(p) Impairment of financial assets

The corporation uses the expected credit loss (ECL) model for calculating impairment and recognizes ECL as a loss allowance for financial assets measured at amortized cost. ECLs are a probability-weighted estimate of credit losses and measured as the present value of all cash shortfalls and discounted at the effective interest rate of the financial asset. Lifetime ECLs result from all possible default events over the expected life of the financial instrument. 12-month ECLs result from default events that are possible within the 12 months after the reporting date.

For trade receivables, the corporation applies the simplified approach and uses a provision matrix, which is based on the corporation's historical credit loss experience for trade receivables, current market conditions and any insights into future economic conditions to estimate and recognize lifetime ECL. Trade and other receivables are assessed for impairment on a collective basis with special consideration for risk factors associated with each customer group.

Loans and receivables are measured at 12-month ECLs unless there has been a significant increase in credit risks since initial recognition. When determining whether the credit risk has increased significantly since initial recognition, the corporation considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis and includes forward looking information. The corporation assumes that the credit risk on specific loans and receivables has increased significantly if it is more than 30 days past due or pursuant to borrower specific relative criteria as identified by the corporation.

(q) Hedges

The corporation has formally designated and documented cash flow hedges, establishing economic relationships between forecasted transactions and various hedging instruments. To hedge foreign currency risk, long-term cash flow hedges have been established between U.S. long-term debt balances and future U.S. export revenues as well as between U.S. interest payments on dual currency bonds and future U.S. export revenues. Foreign currency gains and losses of U.S. long-term debt balances are recognized in other comprehensive income, with the fair value being recognized in long-term debt on the statement of financial position. Once the U.S. export revenues are recognized in earnings, the accumulated gains and losses recorded in other comprehensive income are reclassified to finance expense. The change in fair value method is used to measure ineffectiveness on a quarterly basis. Any potential source of ineffectiveness would come from the initial difference in the timing of the forecasted hedged item and the timing of the hedging instrument, minimal changes caused by the discounting of rate changes and changes in the timing of the forecasted transaction subsequent to the inception of the hedging relationship. The amount of ineffectiveness, if any, would be recorded in net income and would be equal to the excess of the cumulative change in the discounted cash flows of the hedging instrument over the cumulative change in the discounted cash flows of the hedged item.

On a limited basis, cash flow hedges of electricity price risk have also been established between contracts for differences and future U.S. electricity sales. A hypothetical derivative is used in the hedge effectiveness assessment to match the price, quantity and timing of the future U.S. electricity sales. The effective portion of the change in the fair value of the hedging instruments is initially recognized in other comprehensive income. Once the forecasted transactions are recognized, the accumulated gains and losses recorded in other comprehensive income are reclassified to export revenues. Hedge effectiveness testing is performed at the inception of the hedge and on an ongoing basis. Any ineffective portions of the cash flow hedges are immediately recorded in export revenues. The corporation applies a hedge ratio of 1:1. The sources of hedge ineffectiveness is a result of location difference, the fair value of the hedge item and the hedging instrument are based on forward energy prices however they are priced at different locations. The difference in the energy price of the locations is a result of congestion and transmission losses between the two nodes.

(r) Foreign currency translation

Revenues and expenses resulting from transactions in foreign currencies are translated to Canadian dollar equivalents at exchange rates approximating those in effect at the transaction date.

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the reporting date. Translation gains and losses are credited or charged to finance expense in the current period except for long-term debt obligations in hedging relationships with future export revenues. Translation gains and losses for long-term debt obligations in hedging relationships with future export revenues are recorded in OCI until such time that the hedged export revenues are realized, at which time accumulated exchange gains and losses are credited or charged to finance expense.

(s) Leases

At the inception of a contract the corporation determines whether a contract is or contains a lease. A contract is or contains a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

A lease liability is initially measured at the present value of the future lease payments. The lease payments are discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the corporation's incremental borrowing rate. Generally, the corporation uses its incremental borrowing rate as the discount rate. Lease payments include fixed payments, variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised. The lease liability is measured at amortized cost using the effective interest method. When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Right-of-use assets are recognized for contracts that are, or contain, leases. A right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of restoration costs, less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and their useful lives. The lease term includes consideration of an option to extend or to terminate if the corporation is reasonably certain to exercise that option. Additionally, the right-of-use assets can be reduced by impairment losses if applicable and adjusted for re-measurement of the corresponding lease liability, less any lease incentives received.

(i) Short term and low value leases

The corporation accounts for short-term leases and leases of low-value assets by recording the associated lease payments as an expense on a straight-line basis over the lease term. These payments are included in operating and administrative expenses in the consolidated statement of income.

(ii) Lessor – operating leases

The corporation accounts for leases that do not transfer substantially all the risks and rewards incidental to ownership of the underlying asset as operating leases. The corporation recognizes lease payments received under operating leases as income on a straight-line basis over the lease term as part of other revenue.

(t) Non-controlling interests

Non-controlling interests represent the outstanding ownership interests attributable to third parties in the corporation's limited partnerships. The portion of the equity not owned by the corporation is reflected as non-controlling interests within the equity section of the consolidated statement of financial position. The portion of the net income or net loss attributable to the parent and non-controlling interests is reported on the consolidated statement of income.

NOTE 4 ACCOUNTING CHANGES

(a) Current accounting changes

The corporation adopted a new accounting standard effective April 1, 2019, which resulted in changes to these consolidated financial statements. The changes from adoption of the new standard are summarized below.

IFRS 16 *Leases*

In January 2016, the IASB issued IFRS 16 *Leases* (IFRS 16), which replaced IAS 17 *Leases* (IAS 17) and related interpretations. IFRS 16 introduces a single lessee accounting model eliminating the previous distinction between finance and operating leases. IFRS 16 requires the recognition of lease-related assets and liabilities on the consolidated statement of financial position, except for short-term leases and leases of low value underlying assets. Lessor accounting remained substantially unchanged.

The corporation adopted IFRS 16 using the modified retrospective approach, which does not require restatement of prior year financial information, as it recognizes the cumulative impact on the opening consolidated statement of financial position and applies the standard prospectively. The comparative information in these consolidated financial statements has not been restated.

The adoption of IFRS 16 has resulted in the corporation recognizing a right-of-use asset and related lease liability in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application.

On transition to IFRS 16, the corporation elected not to grandfather the lease assessment of which transactions are leases. The corporation reviewed all contracts and existing lease arrangements in determining the impact of adopting this standard.

Previously, the corporation determined at contract inception whether an arrangement is or contains a lease under International Financial Reporting Interpretations Committee 4 *Determining Whether an Arrangement Contains a Lease*. Under IFRS 16, the corporation assesses whether a contract is or contains a lease based on the definition of lease, as explained in Note 3(s).

(in millions of Canadian dollars)

Effective April 1, 2019, with the adoption of IFRS 16, the corporation elected to use the following practical expedients under the modified retrospective approach:

- Applied a single discount rate to a portfolio of leases with similar characteristics;
- Applied the exemption not to recognize right-of-use assets and liabilities for leases of low-value assets (less than $5 000 CAD);
- Applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term;
- Treat existing operating leases with a remaining term of 12 months as of April 1, 2019 as short-term leases;
- Excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and
- For leases previously classified as operating, right-of-use assets on transition were measured at an amount equal to the lease liabilities at transition, adjusted by the amount of any prepaid or accrued lease payments.

The corporation's consolidated financial statements were not impacted by the adoption of IFRS 16 in relation to lessor accounting. When the corporation acts as a lessor, it will continue with the dual classification model for recognized leases with the resultant accounting remaining unchanged from IAS 17.

The corporation determined the cumulative effect of applying IFRS 16 on April 1, 2019 to have a nil impact on the opening retained earnings and recorded $8 million as right-of-use assets and $8 million as lease liabilities. When measuring lease liabilities, the corporation discounted lease payments using its incremental borrowing rate at April 1, 2019. The weighted-average rate applied was 4%.

The following is a reconciliation of total operating lease commitments as at March 31, 2019 to the lease liabilities recognized at April 1, 2019.

Total operating lease commitments at March 31, 2019*	**29**
Recognition exemptions	
Leases of low-value assets	-
Leases with remaining lease term of less than 12 months	(6)
Variable lease payments not recognized	(13)
	(19)
Operating lease liabilities before discounting	10
Discounted using incremental borrowing rate	(2)
Total lease liabilities recognized under IFRS 16 at April 1, 2019	**8**

*Operating lease commitments of $29 million were included in total commitments and contingencies of $1 946 million (Note 33).

(in millions of Canadian dollars)

(b) Future accounting changes

A number of new interpretations and amendments to existing standards have been issued but are not yet effective for the year ended March 31, 2020 and have not been applied in preparing these consolidated financial statements.

Definition of Material (Amendments to IAS 1 *Presentation of Financial Statements* (IAS 1) and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (IAS 8))

On October 31, 2018, the IASB issued amendments to IAS 1 and IAS 8 - the amendments clarify the definition of 'material' and align the definition used in the *Conceptual Framework for Financial Reporting* and the standards themselves. The amendments are effective for annual reporting periods beginning on or after January 1, 2020. The corporation anticipates that the adoption of these accounting pronouncements will not have a material impact on the corporation's consolidated financial statements.

Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

On January 23, 2020, the IASB issued amendments to IAS 1 relating to the classification of liabilities as current or non-current. Specifically, the amendments clarify one of the criteria in IAS 1 for classifying a liability as non-current - that is, the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period. The amendments are effective for annual reporting periods beginning on or after January 1, 2022, with early adoption permitted. The amendments are to be applied retrospectively.

The corporation is currently assessing the impact of these amendments on the corporation's consolidated financial statements.

(c) Change in classification

For the year ended March 31, 2020 the corporation has presented cash collected for the major capital regulatory deferral as cash provided by operating activities in the consolidated statement of cash flows. The comparative information for the Bipole III regulatory deferral has been reclassified from investing activities for this change in presentation.

NOTE 5 EXTRAPROVINCIAL REVENUE

	2020	2019
Dependable sales	**267**	267
Opportunity sales	**188**	148
Other	**13**	15
	468	430

(in millions of Canadian dollars)

Dependable sales are sourced from Manitoba Hydro's hydraulic energy available during lowest water conditions and typically with duration of greater than six months. Opportunity sales are based on excess energy, are generally over shorter periods and are transacted primarily in markets operated by an independent system operator such as the Midcontinent Independent System Operator.

The majority of extraprovincial revenue is from sales to the U.S. The average effective exchange rate for the year was $1.00 U.S. = $1.33 Canadian (2019 – $1.00 U.S. = $1.31 Canadian).

NOTE 6 OTHER REVENUE

	2020	2019
Consulting, technology and maintenance services	**43**	46
Customer and developer contributions	**13**	13
Miscellaneous revenue	**15**	15
	71	74

Consulting, technology and maintenance services consist of professional consulting, operations, maintenance and project management services provided to energy sectors world-wide.

Customer and developer contributions are the recognition of deferred revenue related to contributions in aid of construction (Note 27) and the recovery of period costs from customers.

The corporation leases out land, buildings and telecommunication apparatus. The corporation has classified these leases as operating leases, as they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets. Included in miscellaneous revenue is operating lease income of $3 million.

The following table provides the maturity analysis of undiscounted lease payments to be received after the reporting date.

	2021	2022	2023	2024	2025 and thereafter	Total
Undiscounted lease payments	1	1	-	-	2	4

(in millions of Canadian dollars)

NOTE 7 FINANCE EXPENSE

	2020	2019
Interest on debt	**861**	813
Provincial debt guarantee fee	**207**	186
Accretion	**33**	33
Interest capitalized	**(299)**	(283)
Foreign exchange loss	**36**	29
	838	778

The Provincial debt guarantee fee during the year was 1.00% of the corporation's total outstanding debt guaranteed by the Province of Manitoba (2019 – 1.00%). Interest was capitalized during the year at a weighted average rate of 4.33% (2019 – 4.47%).

NOTE 8 OPERATING AND ADMINISTRATIVE

	2020	2019
Salaries and benefits	**424**	425
External services	**102**	101
Materials, motor vehicles and supplies	**39**	37
Other	**14**	13
	579	576

Additional salaries and benefits are included in other expenses (Note 12) in the amount of $15 million (2019 – $20 million).

Included in operating and administrative are expenses relating to short-term leases of $3 million, low-value asset leases of less than $1 million and variable lease payments not included in the measurement of lease liabilities of $3 million.

NOTE 9 DEPRECIATION AND AMORTIZATION

	2020	2019
Depreciation of property, plant and equipment (Note 16)	**483**	460
Amortization of intangible assets (Note 18)	**21**	24
Loss on disposal of property, plant and equipment	**8**	12
	512	496

(in millions of Canadian dollars)

NOTE 10 FUEL AND POWER PURCHASED

	2020	2019
Wind purchases	**68**	65
Power purchases	**(1)**	28
Transmission charges	**23**	27
Thermal fuel purchases and write down	**8**	16
	98	136

Included in power purchases above is amortization of transmission rights of less than $1 million (2019 - $2 million) as well as gains or losses on financial transmission rights.

NOTE 11 CAPITAL AND OTHER TAXES

	2020	2019
Corporate capital tax	**112**	103
Property tax and grants in lieu of tax	**39**	40
Payroll tax	**12**	12
	163	155

NOTE 12 OTHER EXPENSES

	2020	2019
Demand side management expenses	**60**	76
Consulting, technology and maintenance expenses	**23**	29
Miscellaneous	**14**	16
Corporate initiatives and restructuring costs	**7**	9
	104	130

Of the total other expenses, $72 million (2019 – $91 million) are subsequently deferred in regulatory deferral balances through net movement in regulatory balances (Note 20).

(in millions of Canadian dollars)

NOTE 13 CASH AND CASH EQUIVALENTS

	2020	2019
Temporary investments	**685**	725
Cash	**233**	172
Restricted cash	**8**	3
	926	900

Temporary investments consist of cash invested with the Province of Manitoba and have a maturity of less than 30 days. Restricted cash consists of deposits held for letters of guarantees for customer contracts, callable at any time.

NOTE 14 ACCOUNTS RECEIVABLE AND ACCRUED REVENUE

	2020	2019
Trade accounts receivable (Note 30(a))	**284**	289
Accrued revenue	**96**	104
Fair value of forward contracts	**41**	9
Current portion of loans and other receivables (Note 19)	**19**	19
Other receivables	**16**	19
Taxes receivable	**12**	18
ECL allowance (Note 30(a))	**(22)**	(20)
	446	438

NOTE 15 INVENTORY

	2020	2019
Materials and supplies	**79**	72
Natural gas	**18**	17
Fuel	**10**	10
	107	99

Inventory recognized as an expense during the year was $41 million (2019 – $49 million). The write-down of inventory during 2020 was $1 million (2019 – $9 million). No reversals of write-downs occurred during the year (2019 – nil)

(in millions of Canadian dollars)

NOTE 16 PROPERTY, PLANT AND EQUIPMENT

	Generation	Transmission lines	Substations	Distribution systems	Other	Construction in progress	Total
Cost or deemed cost							
Balance, April 1, 2018	6 451	829	2 732	3 248	1 081	8 999	23 340
Additions	71	66	168	192	47	1 584	2 128
Disposals and/or retirements	(25)	-	(10)	(21)	(20)	-	(76)
Assets placed in service*	15	1 662	2 436	42	88	(4 243)	-
Transfers to (from) PP&E	4	-	(3)	(1)	-	(5)	(5)
Balance, March 31, 2019	6 516	2 557	5 323	3 460	1 196	6 335	25 387
Additions	62	52	105	252	66	1 527	2 064
Disposals and/or retirements	(18)	(8)	(10)	(25)	(36)	-	(97)
Assets placed in service*	83	11	71	40	5	(210)	-
Transfers to (from) PP&E	(4)	-	2	(2)	(1)	-	(5)
Balance, March 31, 2020	**6 639**	**2 612**	**5 491**	**3 725**	**1 230**	**7 652**	**27 349**
Accumulated depreciation							
Balance, April 1, 2018	489	52	326	304	190	-	1 361
Depreciation expense	135	30	135	97	63	-	460
Disposals and/or retirements	(16)	(1)	(9)	(14)	(21)	-	(61)
Transfers to (from) PP&E	1	-	(1)	-	-	-	-
Balance, March 31, 2019	609	81	451	387	232	-	1 760
Depreciation expense	122	37	153	103	68	-	483
Disposals and/or retirements	(20)	(1)	(10)	(18)	(35)	-	(84)
Transfers to (from) PP&E	(4)	-	4	-	-	-	-
Balance, March 31, 2020	**707**	**117**	**598**	**472**	**265**	**-**	**2 159**
Net book value							
Balance, March 31, 2019	5 907	2 476	4 872	3 073	964	6 335	23 627
Balance, March 31, 2020	**5 932**	**2 495**	**4 893**	**3 253**	**965**	**7 652**	**25 190**

*Represents projects that were in construction in progress at the beginning of the year.

Included in additions is interest capitalized during construction of $275 million (2019 – $269 million).

As at March 31, 2020 “Other” includes right-of-use assets related to leases of land and buildings, information technology equipment and machinery with a cost of $9 million. Additions to right-of-use assets during 2019-20 was $2 million. For the year ended March 31, 2020 the corporation recorded depreciation expense of $1 million related to right-of-use assets.

NOTE 17 SINKING FUND INVESTMENTS

Manitoba Hydro is legislated under *The Manitoba Hydro Act* to make annual sinking fund payments to the Province of Manitoba of not less than 1% of the principal amount of the outstanding debt on the preceding

(in millions of Canadian dollars)

March 31 and 4% of the balance in the sinking fund at such date. Payments to the sinking fund during the year were $225 million (2019 – $193 million). Interest earned on sinking fund investments is recognized in finance expense. As at March 31, 2020 sinking fund investments totaled nil (2019 – nil).

NOTE 18 INTANGIBLE ASSETS

	Computer application development	Land easements	Transmission rights	Under development	Total
Cost or deemed cost					
Balance, April 1, 2018	159	145	165	29	498
Additions	5	8	197	19	229
Retirements	(7)	-	-	-	(7)
Assets placed in service*	3	-	5	(3)	5
Balance, March 31, 2019	160	153	367	45	725
Additions	8	6	152	24	190
Retirements	(11)	-	-	-	(11)
Assets placed in service*	12	1	-	(13)	-
Balance, March 31, 2020	**169**	**160**	**519**	**56**	**904**
Accumulated amortization					
Balance, April 1, 2018	76	6	8	-	90
Amortization	22	2	2	-	26
Retirements	(6)	-	-	-	(6)
Balance, March 31, 2019	92	8	10	-	110
Amortization	19	2	-	-	21
Retirements	(11)	-	-	-	(11)
Balance, March 31, 2020	**100**	**10**	**10**	**-**	**120**
Net book value					
Balance, March 31, 2019	68	145	357	45	615
Balance, March 31, 2020	**69**	**150**	**509**	**56**	**784**

*Represents projects that were in "Under development" at the beginning of the year.

Computer application development is comprised of internally developed and externally acquired intangible assets. Included in additions is interest capitalized during development of $21 million (2019 – $12 million).

Included in transmission rights are payments made for the construction of the Great Northern Transmission Line which will be amortized beginning June 1, 2020 when the transmission line is placed in-service and the transmission service associated with these rights can be utilized by Manitoba Hydro.

(in millions of Canadian dollars)

NOTE 19 LOANS AND OTHER RECEIVABLES

	2020	2019
Loans to Keeyask investment entities (Note 29)	**307**	246
Loan to Wuskwatim investment entity (Note 29)	**158**	150
Contract receivables and other	**102**	103
ECL allowance (Note 30(a))	**(11)**	-
	556	499
Less: current portion (Note 14)	**(19)**	(19)
	537	480

The loans accrue interest at varying rates, a portion of which are fixed and a portion floating. Accrued interest related to loans receivable is included in the loan balances above and is recognized in finance income.

(in millions of Canadian dollars)

NOTE 20 REGULATORY DEFERRAL BALANCES

	March 31, 2019	Balances arising in the year	Recovery / reversal	**March 31, 2020**	Remaining recovery / reversal period *(years)*
Regulatory deferral debit balances					
Electric					
DSM programs[1]	309	53	(40)	**322**	1 - 10
Site restoration	34	9	(5)	**38**	1 - 15
Change in depreciation method	159	40	-	**199**	*
Deferred ineligible overhead	96	20	(3)	**113**	1 - 34
Acquisition costs	8	-	(1)	**7**	11 - 14
Affordable Energy Fund	4	-	-	**4**	**
Loss on disposal of assets	29	7	-	**36**	*
Regulatory costs	12	1	(6)	**7**	1 - 5
Conawapa	367	-	(13)	**354**	28
Gas					
DSM programs[1]	64	-	(10)	**54**	1 - 10
Deferred taxes	18	1	(3)	**16**	9
Site restoration	2	-	-	**2**	1 - 15
Loss on disposal of assets	12	2	(2)	**12**	1 - 5
Change in depreciation method	10	2	-	**12**	*
Regulatory costs	2	2	(2)	**2**	1 - 5
Deferred ineligible overhead	4	(4)	-	**-**	-
Change in depreciation rate - meters	2	-	(1)	**1**	4
	1 132	133	(86)	**1 179**	
Regulatory deferral credit balances					
Electric					
DSM deferral	49	-	-	**49**	*
Bipole III deferral	329	-	(77)	**252**	4
Major capital project deferral	-	33	-	**33**	*
Gas					
DSM deferral	8	(8)	-	**-**	-
PGVA	14	(180)	184	**18**	***
Impact of 2014 depreciation study	5	-	(1)	**4**	4
Meter exchange costs	-	16	(5)	**11**	2
Impact of 2019 depreciation study	-	-	-	**-**	*
	405	(139)	101	**367**	
Net movement in regulatory balances		272	(187)	**85**	

[1] Included in DSM programs is the difference between actual and planned expenditures for electric and gas DSM programs for the fiscal years 2013 to 2017.

(in millions of Canadian dollars)

	March 31, 2018	Reclass	Balances arising in the year	Recovery / reversal	March 31, 2019	Remaining recovery / reversal period *(years)*
Regulatory deferral debit balances						
Electric						
DSM programs[1]	281	-	65	(37)	309	1 - 10
Site restoration	26	-	12	(4)	34	1 - 15
Change in depreciation method	123	-	36	-	159	*
Deferred ineligible overhead	79	-	20	(3)	96	1 - 34
Acquisition costs	9	-	-	(1)	8	12 - 15
Affordable Energy Fund	4	-	-	-	4	**
Loss on disposal of assets	19	-	10	-	29	*
Regulatory costs	14	-	2	(4)	12	1 - 5
Conawapa	379	-	-	(12)	367	29
Gas						
DSM programs[1]	63	-	11	(10)	64	1 - 10
Deferred taxes	20	-	1	(3)	18	10
Site restoration	3	-	-	(1)	2	1 - 15
Loss on disposal of assets	11	-	1	-	12	*
Change in depreciation method	8	-	2	-	10	*
Regulatory costs	1	-	1	-	2	1 - 5
Deferred ineligible overhead	3	-	1	-	4	1 - 34
Change in depreciation rate - meters	1	-	1	-	2	*
	1 044	-	163	(75)	1 132	
Regulatory deferral credit balances						
Electric						
DSM deferral	49	-	-	-	49	*
Bipole III deferral	-	348	39	(58)	329	5
Gas						
DSM deferral	8	-	-	-	8	*
PGVA	15	-	(211)	210	14	***
Impact of 2014 depreciation study	4	-	1	-	5	*
	76	348	(171)	152	405	
Net movement in regulatory balances			334	(227)	107	

[1] Included in DSM programs is the difference between actual and planned expenditures for electric and gas DSM programs for the fiscal years 2013 to 2017.

* These amounts will be recovered in future rates in periods to be determined.
** The Affordable Energy Fund is amortized to the consolidated statement of income at the same rate as the provision (Note 28) is drawn down.
*** The PGVA is recovered or refunded in future rates.

The balances arising in the year consist of additions to regulatory deferral balances. The recovery/reversal consists of amounts recovered from customers in rates through the amortization of existing regulatory balances or rate riders. The net impact of these transactions results in the net movement in regulatory deferral balances on the consolidated statement of income.

Balances arising in the year include $1 million (2019 – $1 million) for carrying costs on deferred taxes, the Affordable Energy Fund and the PGVA.

The regulatory deferral debit balances of the corporation consist of the following:

DSM program expenditures are incurred for energy conservation programs to encourage residential, commercial and industrial customers to use energy more efficiently.

Site restoration expenditures are incurred for the remediation of contaminated corporate facilities and diesel generating sites.

Change in depreciation method represents the cumulative annual difference in depreciation expense between the ASL method of depreciation as applied by Manitoba Hydro prior to its transition to IFRS and the ELG method as applied by Manitoba Hydro under IFRS.

Deferred ineligible overhead is the cumulative annual difference in overhead capitalized for financial reporting purposes under IFRS and overhead capitalized for rate setting purposes. As per PUB Order 152/19 Centra ceased capitalizing ineligible overhead beginning in April 2019 and the balance in the deferral account was recognized as a period cost in fiscal 2019-20.

Acquisition costs relate to costs associated with the acquisition of Centra and Minell (July 1999) and Winnipeg Hydro (September 2002).

The Affordable Energy Fund relates to future DSM expenditures in connection with *The Winter Heating Cost Control Act*. The intent of the Affordable Energy Fund is to provide funding for projects that would not otherwise be funded by DSM programs.

Loss on disposal of assets is the net asset retirement losses for those assets retired prior to or subsequent to reaching their expected service life as determined under the ELG method of depreciation.

Regulatory costs are those incurred as a result of electric and gas regulatory hearings.

Conawapa relates to the one-time transfer of costs incurred to date in relation to the Conawapa Generating Station project which has been discontinued.

Deferred taxes are the taxes paid by Centra (July 1999) as a result of its change to non-taxable status upon acquisition by Manitoba Hydro.

Change in depreciation rate on meters represents the difference between depreciation on gas meters between the 20-year rate used for financial reporting purposes and the 25-year rate used for rate-setting purposes.

The regulatory deferral credit balances of the corporation consist of the following:

DSM deferral – In Orders 43/13 and 85/13, the PUB directed that the differences between actual and planned spending on electric and gas DSM programs for the 2013 and 2014 fiscal years be recognized as a liability. In Order 73/15, the PUB further directed the same treatment for 2015 and 2016 spending as well as for 2017. The cumulative differences have been recorded as a regulatory deferral credit balance with an offsetting balance recorded as a regulatory deferral debit balance. In Order 59/18, the PUB directed Manitoba Hydro to discontinue the deferral of differences between actual and planned DSM spending beginning fiscal 2018. The disposition of the electric balance will be determined at a future regulatory proceeding. Centra's application to discontinue the accounting practice of recognizing a DSM deferral account and to remove the $8 million accrued debit and credit balances was approved per Board Order 161/19 effective March 31, 2020.

Bipole III deferral represents amounts collected from customers set aside to mitigate rate increases when Bipole III comes into service and reflects rate increases of 1.50% approved by the PUB effective May 1, 2013, 0.75% effective May 1, 2014, 2.15% effective August 1, 2015, 3.36% effective August 1, 2016 and 3.36% effective August 1, 2017.

Major capital project deferral represents amounts collected from customers from the June 1, 2019 2.5% rate increase that is set aside to aid in mitigating future rate increases when Keeyask Generating Station and other major capital projects come into service.

Purchased gas variance accounts are maintained to recover/refund differences between the actual cost of gas and the cost of gas incorporated into rates charged to customers as approved by the PUB. Purchased gas variance accounts are reflected as a regulatory debit or credit depending if the amounts represent a recovery from or a refund to the customers, respectively.

Impact of 2014 depreciation study represents the cumulative unamortized difference in depreciation between the ASL method based on the 2010 depreciation study and the ASL method based on the 2014 depreciation study. The annual difference in depreciation for ASL rates based on the 2010 and 2014 depreciation studies from 2014-15 through 2018-19 shall be amortized over 5 years commencing April 1, 2019.

Meter exchange costs represents the liability established in accordance with PUB Order 152/19. Centra Gas was directed to refund $16 million to customers related to expenditures on meter exchange costs which resulted in the establishment of a regulated liability. The cumulative balance in this account will be amortized over three years commencing April 1, 2019.

Impact of 2019 depreciation study represents the cumulative unamortized difference in depreciation between the ASL method based on the 2014 depreciation study and the ASL method based on the 2019 depreciation study. The PUB requires the use of 2014 ASL depreciation rates for Centra for rate-setting purposes pending review at the next gas regulatory proceeding.

(in millions of Canadian dollars)

NOTE 21 LONG-TERM DEBT

	Advances from the Province	Manitoba HydroBonds	Manitoba Hydro-Electric Board Bonds	Other*	Total
Balance, April 1, 2018	19 109	5	125	(39)	19 200
Issues	3 563	-	-	(36)	3 527
Maturities	(1 224)	(5)	(4)	-	(1 233)
Foreign exchange adjustments	53	-	-	1	54
Amortization of net premiums and transaction costs	-	-	-	4	4
Balance, March 31, 2019	21 501	-	121	(70)	21 552
Issues	2 036	-	-	154	2 190
Maturities	(542)	-	-	-	(542)
Foreign exchange adjustments	83	-	-	2	85
Amortization of net premiums and transaction costs	-	-	-	2	2
	23 078	-	121	88	23 287
Less: current portion	(1 337)	-	-	-	(1 337)
Balance, March 31, 2020	**21 741**	**-**	**121**	**88**	**21 950**

*Other includes adjustments to carrying value of dual currency bonds, transaction costs and debt discounts and premiums.

During the year, the corporation issued long-term financing of $2 190 million (2019 – $3 527 million). The current year financing was in the form of provincial advances with the majority at fixed interest rates.

Included in the current portion of long-term debt are $1 337 million (2019 – $249 million) of debt maturities.

Long-term debt is guaranteed by the Province of Manitoba, with the exception of Manitoba Hydro-Electric Board Bonds in the amount of $61 million (2019 – $61 million) issued for mitigation projects.

(in millions of Canadian dollars)

Debt principal amounts (excluding adjustments to the carrying value of dual currency bonds, transaction costs, debt discounts and premiums) and related yields are summarized by fiscal years of maturity in the following table:

Years of maturity	Canadian	Canadian yields	U.S.	U.S. yields	**2020 Total**
2021	982	2.3%	355	7.3%	**1 337**
2022	304	1.7%	922	7.8%	**1 226**
2023	954	1.9%	213	1.8%	**1 167**
2024	590	2.8%	-	-	**590**
2025	878	2.5%	-	-	**878**
	3 708	2.4%	1 490	6.3%	**5 198**
2026-2030	4 956	3.1%	-	-	**4 956**
2031-2035	916	8.1%	-	-	**916**
2036-2040	1 893	4.6%	-	-	**1 893**
2041-2045	1 513	4.0%	-	-	**1 513**
2046-2050	6 027	3.4%	-	-	**6 027**
2051-2068	2 696	3.3%	-	-	**2 696**
	21 709	3.6%	1 490	6.3%	**23 199**

Included in the above Canadian maturity amounts is one (2019 – four) dual currency bond with the principal amount repayable in Canadian currency and interest payments denominated in U.S. currency. The one dual currency bond matures in the 2025-26 fiscal year in the amount of $130 million Canadian (2019 – three dual currency bonds mature in 2019-20 in the amount of $122 million and one dual currency bond matures in 2025-26 in the amount of $130 million). U.S. debt is translated into Canadian dollars at the exchange rate prevailing at the consolidated statement of financial position date, $1.00 U.S. = $1.42 Canadian (2019 – $1.00 U.S. = $1.34 Canadian).

NOTE 22 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2020	2019
Trade and other payables	**421**	423
Employee payroll and benefit accruals	**65**	62
Taxes payable	**43**	39
Water rentals and assessments	**11**	10
	540	534

Included in accounts payable and accrued liabilities are accruals based on an estimated amount of services completed or goods and materials received but not invoiced.

(in millions of Canadian dollars)

NOTE 23 NOTES PAYABLE

	Total
Balance, April 1, 2018	50
Issues	649
Maturities	(699)
Balance, March 31, 2019	-
Issues	-
Maturities	-
Balance, March 31, 2020	**-**

As at March 31, 2020 and March 31, 2019 *The Manitoba Hydro Act* grants the corporation the power to issue short-term promissory notes up to an aggregate amount of $500 million denominated in Canadian and/or U.S. currency which includes access to bank credit facilities that provide for overdrafts and notes payable under certain conditions. As at April 15, 2020 the aggregate amount has been increased to $1.5 billion.

NOTE 24 OTHER LIABILITIES

	2020	2019
Current portion of other non-current liabilities (Note 25)	**84**	94
Current portion of deferred revenue (Note 27)	**18**	17
Current portion of provisions (Note 28)	**1**	1
	103	112

The current portion of other non-current liabilities consists of the current portions of the mitigation liability of $32 million (2019 – $40 million), major development liability of $29 million (2019 – $33 million), perpetual obligation to the City of Winnipeg for the acquisition of Winnipeg Hydro of $16 million (2019 – $16 million), refundable advances from customers of $5 million (2019 – $5 million) and the lease liability of $2 million (2019 – nil).

The current portion of deferred revenue represents customer contributions in aid of construction and advance payments from customers for extraprovincial sales, software maintenance and international consulting work.

The current portion of provisions represents the asset retirement obligation for the removal and disposal of polychlorinated biphenyl (PCB) contaminated fluid in equipment bushings at transmission and distribution stations.

(in millions of Canadian dollars)

NOTE 25 OTHER NON-CURRENT LIABILITIES

	2020	2019
Mitigation liability	**169**	187
Major development liability	**197**	205
Perpetual obligation	**215**	215
Refundable advances from customers	**80**	79
Lease liability (Note 4(a))	**9**	-
Other	**3**	3
	673	689
Less: current portion (Note 24)	**(84)**	(94)
	589	595

Mitigation

Manitoba Hydro's mitigation program addresses past, present and ongoing adverse effects of historical hydroelectric development. The mitigation program, established in the late 1970s to address project impacts through alleviation of adverse effects, remedial works and residual compensation, grew out of the experience of planning and development of the Lake Winnipeg Regulation and Churchill River Diversion Projects. The Northern Flood Agreement, signed December 16, 1977, created a process that addressed ongoing mitigation and compensation for adverse effects of hydroelectric development in five signatory Indigenous communities. The mitigation program was expanded to address impacts arising from all past hydroelectric developments (prior to the Wuskwatim generating station), particularly for Indigenous people residing or engaged in resource harvesting in the project areas, and it is essential for operating and future development purposes. Expenditures recorded or settlements reached to mitigate the impacts of historical hydroelectric development amounted to $7 million during the year (2019 – $10 million). Payments made during the year totaled $41 million (2019 – $36 million).

In recognition of future mitigation payments, the corporation has recorded a liability of $169 million (2019 – $187 million). The net decrease in the liability is primarily the result of the conclusion of an agreement during the year. There are other mitigation issues, the outcomes of which are not determinable at this time.

Included in mitigation liabilities are obligations assumed on behalf of the Province of Manitoba with respect to certain northern development projects. The corporation has assumed obligations totaling $147 million for which water power rental charges were fixed until March 31, 2001. The obligation outstanding as at March 31, 2020 totaled $8 million (2019 – $9 million).

The discount rates used to determine the present value of mitigation obligations range from 2.95% to 8.50%.

Major development

Beginning with the development of the Wuskwatim generating station, project-related adverse effects are identified and addressed during project planning (including the environmental assessment process), which is done in advance of project construction. As such, mitigation measures are built into project design where possible. The costs for these mitigation measures, as well as any residual compensation requirements, are therefore accounted for in the capital cost estimates for each individual project.

Programs and adverse effects agreements have been negotiated to mitigate and compensate for all anticipated project-related impacts for major new generation and transmission development projects including Wuskwatim, Keeyask, Bipole III and the Manitoba-Minnesota transmission line. The corporation has recorded a liability of $197 million (2019 – $205 million) to reflect these agreements. These expenditures are included in the costs of the associated projects and amortized over the life of the assets. Payments made during the year totaled $21 million (2019 – $21 million).

The discount rates used to determine the present value of the major development obligations range from 2.95% to 5.05%.

Perpetual obligation

Effective September 3, 2002, the corporation acquired the net assets of Winnipeg Hydro from the City of Winnipeg. The obligation represents the net present value of payments to the City of Winnipeg of $16 million per annum in perpetuity.

The discount rate used to determine the present value of the perpetual obligation was 7.45%.

Refundable advances from customers

Advances from customers are required whenever the costs of extending service exceed specified construction allowances. Certain of these advances may be refunded over a limited period of time as new customers begin to receive service or other contractual obligations are fulfilled. If contractual obligations are not fulfilled, these advances are reclassified to deferred revenue.

Lease liability

Effective April 1, 2019, the corporation adopted IFRS 16 *Leases* which resulted in the recognition of a right-of-use asset and associated liability of $9 million related primarily to leases for a subsidiary company head office, land, buildings, technology equipment and machinery.

In addition to the $6 million cash outflow recorded in operating and administrative expenses (Note 8), there is a $2 million cash outflow for principal and interest of lease liabilities.

(in millions of Canadian dollars)

NOTE 26 EMPLOYEE FUTURE BENEFITS

	2020	2019
Net pension liability	**745**	751
Other employee future benefits liability	**243**	264
	988	1 015

Pension plans

Manitoba Hydro and its employees are participating members of the Civil Service Superannuation Plan (the Plan) established under *The Civil Service Superannuation Act* (CSSA) of the Province of Manitoba. Manitoba Hydro employees are eligible for pension benefits based on years of service and on the average earnings of the five best years. As a non-matching employer, the provisions of the CSSA require the corporation to contribute approximately 50% of the pension disbursements made to retired employees. Manitoba Hydro provides its portion of pension benefits through a separately administered fund, the Manitoba Hydro Pension Fund (MHPF). Manitoba Hydro and employees make contributions based on a percentage of pensionable earnings in accordance with the CSSA. The corporation expects to pay $35 million in contributions to this defined benefit plan in fiscal 2021.

Manitoba Hydro employees with pensionable service after June 1, 2006 are eligible for an additional pension benefit under the Enhanced Hydro Benefit Plan (EHBP). The EHBP improves the pension formula used to calculate pension benefits. Manitoba Hydro funds the enhanced pension benefit through contributions based on 0.50% of pensionable earnings to a separate trust account that is managed by the Civil Service Superannuation Board (CSSB). The EHBP funds are co-mingled with the Civil Service Superannuation Fund (CSSF) assets for investment purposes. The corporation expects to pay $2 million in contributions to this defined benefit plan in fiscal 2021.

The former employees of Centra are entitled to pension benefits earned under the Centra curtailed pension plans. The Centra curtailed pension plans are Registered Pension Trusts as defined in the *Income Tax Act (Canada)*. The Master Trust is made up of three individual plans including the Centra Gas Manitoba Inc. Pension Plan for Salaried Employees, the Centra Gas Manitoba Inc. Union Employees' Pension Plan and the Centra Gas Manitoba Inc. (Rural) Local 681 Pension Plan. Centra is required to make special payments to the plans at amounts considered necessary to ensure that the benefits will be fully provided for at retirement as determined in the actuarial valuation dated December 31, 2018. The corporation expects to pay $1 million in special payments to these defined benefit plans in fiscal 2021. The plans are registered with the Pension Commission of Manitoba and subject to the rules and regulations of *The Pension Benefits Act* of Manitoba. The Master Trust assets are held in trust with State Street Trust Company of Canada. The CSSB acts as the investment manager.

MHUS employees are eligible for pension benefits under the Plan. As a matching employer under the CSSA, MHUS is required to match employee contributions at a prescribed rate. MHUS' pension expense is recognized at the time contributions are made. Manitoba Hydro does not carry a pension asset or obligation on its consolidated financial statements related to MHUS.

The former employees of Winnipeg Hydro continue to earn benefits under the Winnipeg Civic Employee Benefits Program (WCEBP), which upon the acquisition of Winnipeg Hydro, Manitoba Hydro became a participating employer. The WCEBP is a defined benefit plan that provides pension benefits based on years of service and on the average earnings of the five best years. Manitoba Hydro does not carry a pension asset or obligation on its consolidated financial statements related to the former employees of Winnipeg Hydro. The WCEBP is governed by an independent board of trustees and a trust agreement that limits Manitoba Hydro's contribution rates. The structure of the trust agreement also limits Manitoba Hydro's exposure to future unfunded liabilities. Contributions to the plan are accounted for similar to a defined contribution plan.

MHI sponsors a defined contribution group registered retirement plan. MHI matches 100% of the employee contributions at prescribed contribution rates. The cost of the pension benefits is charged to pension expense as services are rendered. Manitoba Hydro does not carry a pension asset or obligation on its consolidated financial statements for the MHI defined contribution plan.

An independent actuary calculates the liability for pension expense purposes as at December 31 each year with the most recent actuarial valuations being completed as at December 31, 2019. The next actuarial valuations for all plans will occur as at December 2020.

These valuations incorporate management's assumptions and take into consideration the long-term nature of the pension plans. The actuary selects the demographic assumptions. The corporation's management in consultation with the actuary determines the economic assumptions such as discount rate. The accrued benefit actuarial cost method with salary projection is used to determine the pension benefit obligation and current service cost.

(in millions of Canadian dollars)

The following table presents information pertaining to the Manitoba Hydro Plan, the EHBP and the Centra curtailed plans that are recognized in the consolidated financial statements:

	Manitoba Hydro Plan		EHBP		Centra curtailed pension plans		Total	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019
Plan assets at fair value								
Balance at beginning of year	**1 044**	1 044	**32**	31	**132**	134	**1 208**	1 209
Return on assets	**(21)**	52	**3**	-	**(2)**	6	**(20)**	58
Employer contributions	**33**	35	**2**	2	**2**	1	**37**	38
Benefit payments and refunds	**(77)**	(87)	**(1)**	(1)	**(8)**	(9)	**(86)**	(97)
	979	1 044	**36**	32	**124**	132	**1 139**	1 208
Pension obligation								
Balance at beginning of year	**1 783**	1 674	**49**	44	**127**	125	**1 959**	1 843
Interest cost	**61**	60	**1**	1	**4**	4	**66**	65
Current service cost	**53**	52	**3**	3	**-**	-	**56**	55
Benefit payments and refunds	**(78)**	(83)	**(1)**	(1)	**(7)**	(8)	**(86)**	(92)
Actuarial (gains) losses arising from changes in financial assumptions	**(103)**	80	**(3)**	2	**(5)**	6	**(111)**	88
	1 716	1 783	**49**	49	**119**	127	**1 884**	1 959
Net pension (liability) asset	**(737)**	(739)	**(13)**	(17)	**5**	5	**(745)**	(751)

The total net experience losses on all pension fund assets for the fiscal year ended March 31, 2020 was $61 million (2019 - $13 million gain). The loss on pension fund assets for the MHPF for the fiscal year ended March 31, 2020 was 1.6% (2019 – 5.4% return). The loss for the Centra curtailed plan fund assets for the year ended March 31, 2020 was 1.9% (2019 – 5.4% return). The weighted average term to maturity on fixed income investments is 10.8 years (2019 – 10.1 years).

The investment income earned on the EHBP funds is based on the market rate of return that is earned by the CSSF. For the year ended December 31, 2019, the CSSF earned a rate of return of 13.7% (2019 – (0.9)%) on fund assets.

The most recent actuarial valuations for the pension plans for going concern funding purposes were prepared as at December 31, 2019, at which date the Manitoba Hydro Plan was 84% and the EHBP was 99% funded. The Manitoba Hydro Plan is exempt from the funding and solvency test funding requirements of *The Pension Benefits Act*. The Centra curtailed pension plans are subject to a solvency valuation for funding purposes with the latest valuation taking place as at December 31, 2019. The Centra Salaried, Union and Rural plans were 97%, 105% and 102% funded, respectively, at that date.

(in millions of Canadian dollars)

The corporation has recognized experience and actuarial gains and losses on pensions totaling $556 million in AOCI as at March 31, 2020.

The corporation's pension expense related to each of the pension benefit plans is as follows:

	Manitoba Hydro Plan		EHBP		Centra curtailed pension plans	
	2020	2019	**2020**	2019	**2020**	2019
Current service cost	**53**	52	**3**	3	**-**	-
Interest on assets	**(38)**	(40)	**(1)**	(1)	**(5)**	(5)
Interest on obligation	**61**	60	**1**	1	**5**	5
Administrative fees	**4**	4	**-**	-	**1**	1
	80	76	**3**	3	**1**	1

Pension expense for the former Winnipeg Hydro employees is equal to employer contributions to the WCEBP. Total contributions to the WCEBP during the year amounted to $1 million (2019 – $1 million) and reflects a blended pension rate approximating 10.02% of pensionable earnings as of September 1, 2019. Pension expense for MHUS and MHI is equal to the employer contributions and is expensed during the year. The amounts are not material.

Assumptions

The significant actuarial assumptions adopted in measuring the corporation's pension and other employee benefit obligations are as follows:

	2020	2019
Discount rate - pensions	**3.84%**	3.40%
Discount rate - other benefits	**3.84%**	3.40%
Rate of compensation increase, including merit and promotions	**0.00 - 2.00%**	0.00 - 2.00%
Long-term inflation rate	**2.00%**	2.00%

(in millions of Canadian dollars)

Sensitivity of assumptions

The sensitivities of the actuarial assumptions used to measure the defined benefit obligations are set out below:

Assumption	Change in assumption	Impact on Manitoba Hydro Plan	Impact on EHBP	Impact on Centra curtailed pension plans
Discount rate	+ 0.50%	(123)	(5)	(6)
	- 0.50%	140	5	7
Inflation rate	+ 0.10%	(20)	(1)	(1)
	- 0.10%	20	1	1
Wage rate	+ 0.10%	6	1	-
	- 0.10%	(6)	(1)	-

The sensitivity analyses are based on a change in a significant assumption, keeping all other assumptions constant. The sensitivity analyses may not be representative of an actual change in the defined benefit obligation as it is unlikely that the changes in assumptions would occur in isolation of one another.

Benefit plan asset allocation

The following is a summary of the asset mix of the plans' investments at fair value:

	MHPF		Centra curtailed pension plans	
	2020	2019	**2020**	2019
Equities	**54%**	52%	**54%**	52%
Bonds and debentures	**20%**	21%	**20%**	22%
Real estate	**14%**	15%	**14%**	14%
Infrastructure	**7%**	7%	**7%**	7%
Private credit	**4%**	4%	**4%**	4%
Short-term investments	**1%**	1%	**1%**	1%
	100%	100%	**100%**	100%

(in millions of Canadian dollars)

Other employee future benefits

Manitoba Hydro also provides some unfunded non-pension employee future benefits including banked incidental days, vacation days, long-term disability, workers compensation, retiree health spending, sick leave vesting and severance. The following table presents information concerning other employee future benefits:

	2020	2019
Balance at beginning of year	**264**	274
Interest cost	**6**	6
Current service cost	**19**	22
Benefit payments	**(22)**	(36)
Actuarial (gain) loss from changes in financial assumptions	**-**	(2)
Remeasurement gain from changes in financial assumptions	**(24)**	-
Benefits liability	**243**	264

Key management personnel

The key management personnel of the corporation have been defined as members of the Manitoba Hydro-Electric Board and Manitoba Hydro's executives. The directors' fees are authorized by the Lieutenant Governor in Council. Manitoba Hydro's executives receive a base salary, in addition to non-cash benefits, employer contributions to the corporation's post-employment defined pension plan and other post-employment benefits.

Key management personnel compensation is as follows:

	2020	2019
Salaries and other short-term employee benefits	**3**	3
Post-employment benefits*	**-**	-
	3	3

*Amounts round to less than $1 million.

(in millions of Canadian dollars)

NOTE 27 DEFERRED REVENUE

	2020	2019
Contributions in aid of construction	**557**	531
Deferred revenue	**10**	8
	567	539
Less: current portion (Note 24)	**(18)**	(17)
	549	522

Contributions in aid of construction are required from customers and developers whenever the costs of extending service exceed specified construction allowances.

Revenue from contracts with customers and developers expected to be recognized in future periods related to performance obligations that are unsatisfied or partially satisfied at the reporting date are as follows:

	2021	2022	2023	2024	2025	2026 and thereafter	Total
Contributions from customers and developers	18	18	17	17	16	471	557

(in millions of Canadian dollars)

NOTE 28 PROVISIONS

	Mitigation provisions	Major development provisions	Asset retirement obligations	Affordable Energy Fund	Other provisions	Total
Balance, April 1, 2018	45	3	6	4	3	61
Provisions made	(3)	-	-	-	-	(3)
Provisions used	-	-	-	-	(1)	(1)
Accretion	1	-	-	-	-	1
Reversals	-	(3)	-	-	-	(3)
Balance, March 31, 2019	43	-	6	4	2	55
Provisions made	1	-	-	-	10	11
Provisions used	-	-	-	-	(1)	(1)
Accretion	2	-	-	-	-	2
Reversals	(19)	-	-	-	-	(19)
Balance, March 31, 2020	**27**	**-**	**6**	**4**	**11**	**48**

	2020	2019
Analyzed as:		
Current (Note 24)	**1**	1
Non-current	**47**	54
	48	55

Mitigation

A provision has been recognized for certain mitigation related obligations arising from ongoing adverse effects of past hydroelectric development. The amount recognized as a provision is the best estimate of the consideration required to settle the obligation at the reporting date. Once a final settlement is reached, these obligations will be transferred to other long-term liabilities (Note 25).

Discount rates used to determine the present value of mitigation related provisions were 3.45% to 3.65% (2019 - 4.15%).

Major development

A provision has been recognized for certain major development related obligations arising from impacts of current hydroelectric development. The amount recognized as a provision is the best estimate of the consideration required to settle the obligation at the reporting date. Once a final settlement is reached, these obligations will be transferred to other long-term liabilities (Note 25).

Discount rates used to determine the present value of major development related provisions were nil (2019 - nil).

Asset retirement obligations

An asset retirement obligation continues to be recognized for the future decommissioning of the Brandon Thermal Generating Station coal pile. The estimate was adjusted as a result of plans to repurpose parts of the station and only remove the coal pile. The corporation estimates the undiscounted cash flows required to settle the asset retirement obligation are approximately $3 million (2019 – $3 million), which is expected to be incurred in 2022.

The corporation recognizes an asset retirement obligation for the removal and disposal of PCB contaminated fluid in equipment bushings at transmission and distribution stations. The estimated undiscounted cash flows required to settle the asset retirement obligation are approximately $3 million (2019 – $3 million), which is expected to be incurred by 2024.

No funds are being set aside to settle the asset retirement obligations. The discount rates used to determine the fair market value of asset retirement obligations range from 0.44% to 0.58% (2019 - 1.52% to 1.55%).

Affordable Energy Fund

In accordance with the requirements of *The Winter Heating Cost Control Act*, Manitoba Hydro established an Affordable Energy Fund in the initial amount of $35 million for the purpose of providing funding for projects that would not otherwise be funded by DSM programs. Expenditures of less than $1 million (2019 – less than $1 million) during the year were charged to operations with the regulatory deferral balance and the provision reduced accordingly.

Other provisions

Other provisions have been established for obligations discovered, which require recognition in the financial statements due to the likelihood of settlement and the presence of an obligation, either from past events or constructive in nature. During the year a $10 million provision was established for settlements to land owners.

(in millions of Canadian dollars)

NOTE 29 NON-CONTROLLING INTERESTS

	2020	2019
Wuskwatim Power Limited Partnership		
Taskinigahp Power Corporation	**29**	29
Keeyask Hydropower Limited Partnership		
Cree Nation Partners Limited Partnership	**165**	135
Fox Lake Cree Nation Keeyask Investments Inc.	**54**	45
York Factory First Nation Limited Partnership	**54**	45
	273	225
	302	254

Manitoba Hydro has entered into the WPLP with Taskinigahp Power Corporation (TPC) to carry on the business of developing, owning and operating the Wuskwatim Generating Station. TPC is owned beneficially by Nisichawayasihk Cree Nation (NCN). The generating station and associated transmission assets were placed into service during the 2012-13 year.

The 33% ownership interest of TPC in the WPLP of $29 million (2019 – $29 million) is represented as a non-controlling interest within the equity section of the consolidated statement of financial position. TPC's portion of the net income of the WPLP during 2019-20 is less than $1 million (2019 – $3 million loss).

In accordance with the partnership agreements, Manitoba Hydro provides debt financing to TPC for investment in WPLP (Note 19). As at March 31, 2020, Manitoba Hydro has provided advances to TPC of $88 million (2019 – $88 million). In addition, Manitoba Hydro provides advances on future WPLP distributions to NCN. As at March 31, 2020, Manitoba Hydro has provided advances to NCN of $7 million (2019 – $7 million). The advances plus interest are repayable by TPC through distributions from the WPLP. In exchange for forgiveness of the advances and interest, TPC has the option to put all their units back to Manitoba Hydro at any time between June 29, 2037 and June 29, 2062.

Manitoba Hydro has also entered into the KHLP with Tataskweyak Cree Nation (TCN) and War Lake First Nation (War Lake) operating as Cree Nation Partners (CNP), York Factory First Nation (York Factory) and Fox Lake Cree Nation (Fox Lake) to carry on the business of developing, owning and operating the Keeyask Generating Station. Cree Nation Partners Limited Partnership (CNPLP) is owned beneficially by TCN and War Lake through CNP, FLCN Keeyask Investments Inc. (FLCNKII) is owned beneficially by Fox Lake and York Factory First Nation Limited Partnership (YFFNLP) is owned beneficially by York Factory. The generating station is currently under construction and projected to begin being placed into service in 2020-21.

The 15% ownership interest of CNPLP, the 5% ownership interest of FLCNKII and the 5% ownership interest of YFFNLP in the KHLP totaling $273 million (2019 – $225 million) is represented as a non-controlling interest within the equity section of the consolidated statement of financial position.

(in millions of Canadian dollars)

In accordance with the partnership agreements, Manitoba Hydro provides debt financing to CNPLP, FLCNKII and YFFNLP (Note 19). As at March 31, 2020, Manitoba Hydro has provided advances to CNPLP of $162 million (2019 – $134 million), FLCNKII of $54 million (2019 – $45 million) and YFFNLP of $54 million (2019 – $45 million). The advances plus interest are repayable by CNPLP, FLCNKII and YFFNLP through distributions from the KHLP. In exchange for forgiveness of the advances and interest, CNPLP, FLCNKII and YFFNLP have the option at the final closing date (six months after the last unit in-service date of the Keeyask Generating Station) to convert their common units to preferred units based on their invested capital and return their common units to Manitoba Hydro or to put all their units back to Manitoba Hydro.

Summarized financial information before intercompany eliminations for WPLP and KHLP are as follows:

	2020	2019
WPLP		
Current assets	**31**	35
Non-current assets	**1 455**	1 480
Current liabilities	**23**	24
Non-current liabilities	**1 375**	1 403
Revenue	**114**	108
Net income (loss)	**-**	(9)
KHLP		
Current assets	**9**	7
Non-current assets	**6 710**	5 656
Current liabilities	**190**	256
Non-current liabilities	**4 971**	4 120

NOTE 30 FINANCIAL INSTRUMENTS

The carrying amounts of cash and cash equivalents, trade accounts receivable and accrued revenue, trade accounts payable and accrued liabilities, current portions of loans and other receivables and current portions of long-term debt and other non-current liabilities are carried at values that approximate fair value due to the short-term nature of these financial instruments.

(in millions of Canadian dollars)

The carrying amounts and fair values of the corporation's non-derivative financial instruments are as follows:

	2020		2019	
	Carrying value	Fair value	Carrying value	Fair value
Amortized cost				
Cash and cash equivalents	**926**	**926**	900	900
Accounts receivable and accrued revenue	**427**	**427**	419	419
Loans and other receivables (including current portion)	**556**	**595**	499	535
Other financial liabilities				
Accounts payable and accrued liabilities	**540**	**540**	534	534
Note payable	**-**	**-**	-	-
Long-term debt (including current portion)	**23 287**	**26 371**	21 552	24 227
Mitigation liability (including current portion)	**169**	**229**	187	241
Major development liability (including current portion)	**197**	**251**	205	250
Perpetual obligation (including current portion)	**215**	**415**	215	409

The fair value measurement of financial instruments is classified in accordance with a hierarchy of three levels, based on the type of inputs used in making these measurements:

Level 1 - Quoted prices in active markets for identical assets and liabilities;
Level 2 - Inputs other than quoted prices in active markets for identical assets and liabilities that are observable either directly or indirectly; and
Level 3 - Inputs for the asset or liability that are not based on observable market data.

Fair value Level 2 measurements are derived from quoted market yields at the close of business on the consolidated statement of financial position date for similar instruments available in the capital market. There are nominal amounts measured at Level 3 that are based on internally developed valuation models and consistent with valuation models developed by other market participants in the wholesale power markets. The carrying values of all other financial assets and liabilities approximate their fair values.

Financial risks

During the normal course of business, Manitoba Hydro is exposed to a number of financial risks including credit and liquidity risks and market risk resulting from fluctuations in foreign currency, interest rates and commodity prices. Risk management policies, processes and systems have been established to identify and analyze financial risks faced by the corporation and its subsidiaries, to set risk tolerance limits, establish controls and to monitor risk and adherence to policies. An integrated risk management plan has been developed and reviewed by the Manitoba Hydro-Electric Board to ensure the adequacy of the risk management framework in relation to the risks faced by the corporation. The nature of the financial risks and Manitoba Hydro's strategy for managing these risks have not changed significantly from the prior year.

(in millions of Canadian dollars)

(a) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. Manitoba Hydro is exposed to credit risk related to temporary investments and pension fund investments. The corporation limits its exposure to credit risk by only investing in government-guaranteed bonds, highly rated investments and well-diversified investment portfolios.

The corporation is also exposed to credit risk related to domestic and export energy sales. Credit risk related to domestic receivables is mitigated by the large and diversified electric and natural gas customer base. Customers participating in residential financing programs are subject to credit reviews and must meet specific criteria before they are approved for a residential loan or financing. Credit risk in the export power market is mitigated by establishing credit requirements, conducting standard credit reviews of all counterparties and setting and monitoring exposure limits for each of these counterparties. Letters of credit and netting provisions are also in place to further mitigate credit risk. The maximum exposure to credit risk related to domestic and export energy sales is the carrying value of the related receivables.

The values of the corporation's aged trade accounts receivable and related expected credit loss allowance are presented in the following table:

	Manitoba	Extraprovincial	ECL allowance	**2020**	2019
Under 30 days	190	30	-	**220**	226
31 to 60 days	19	-	(1)	**18**	21
61 to 90 days	10	(4)	(1)	**5**	8
Over 90 days	35	4	(20)	**19**	14
Total accounts receivable	254	30	(22)	**262**	269

The ECL allowance is reviewed annually and is based on an amount equal to lifetime expected credit losses.

Reconciliation between the opening and closing ECL allowance balances for trade accounts receivable is as follows:

	2020	2019
Balance, April 1	**20**	19
Loss allowance	**6**	4
Write-offs	**(5)**	(4)
Recoveries	**1**	1
Balance, March 31	**22**	20

(in millions of Canadian dollars)

In accordance with partnership agreements, the corporation has advanced equity loans to Indigenous partners. These loans plus interest are secured by their ownership investment units in the Wuskwatim and Keeyask Generating Stations as described in Note 29.

In 2019-20, the corporation recorded an ECL allowance of $11 million (2019 – nil) related to loans and other receivables (Note 19).

As a result of the COVID-19 pandemic and material disruptions to businesses and the economy, the corporation's credit risk could be increased due to customers inability to pay their energy bills when due. The corporation considers the current economic and credit conditions to determine its expected credit loss. Given the high degree of uncertainty caused by the COVID-19 outbreak, the estimates and judgments in the preparation of the ECL allowance are subject to a high degree of estimation uncertainty. Manitoba Hydro has considered the impact of COVID-19 at March 31, 2020 and believes there has not been a material impact on the expected credit loss at that date. As part of relief to customers during the COVID-19 pandemic, Manitoba Hydro will not be disconnecting service to customers nor charging interest or penalties until October 1, 2020 in the event that customers are unable to pay.

(b) Liquidity risk

Liquidity risk refers to the risk that Manitoba Hydro will not be able to meet its financial obligations as they come due. The corporation meets its financial obligations when due through cash generated from operations, short-term borrowings and long-term borrowings advanced from the Province of Manitoba. Cash receipts and disbursements are closely monitored as well as short-term debt balances and forecasted cash requirements.

The following is an analysis of the contractual undiscounted cash flows payable under financial and other liabilities as at the consolidated statement of financial position date:

	Carrying value	2021	2022	2023	2024	2025	2026 and thereafter	
Financial liabilities								
Accounts payable and accrued liabilities	540	540	-	-	-	-	-	
Long-term debt*	23 427	2 411	2 235	2 112	1 499	1 758	32 238	
Mitigation liability	169	30	22	20	19	19	338	
Major development liability	197	28	15	15	10	10	556	
Perpetual obligation	215	16	16	16	16	16	16	**
Lease liability	9	2	2	1	1	1	4	
	24 557	3 027	2 290	2 164	1 545	1 804	33 152	

*the carrying value includes current portion and accrued interest but excludes the Provincial debt guarantee fee
**per year in perpetuity

(in millions of Canadian dollars)

(c) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Manitoba Hydro is exposed to three types of market risk: foreign exchange risk, interest rate risk and commodity price risk associated with the price of electricity and natural gas. Manitoba Hydro continually monitors its exposure to these risks and may use hedges or derivative contracts to manage these risks.

(i) Foreign exchange risk

Manitoba Hydro has exposure to U.S. dollar foreign exchange rate fluctuations primarily through the sale and purchase of electricity in the U.S. and through borrowing in U.S. markets. This exposure is managed through a long-term natural hedge between U.S. dollar cash inflows from export revenues and U.S. dollar cash outflows for long-term coupon and principal payments.

To mitigate annual net income impacts due to foreign exchange rate fluctuations, long-term cash flow hedges have been established between U.S. long-term debt balances and future U.S. export revenues as well as between U.S. interest payments on dual currency bonds and future U.S. export revenues. Accordingly, translation gains and losses for U.S. long-term debt obligations in effective hedging relationships with future export revenues, are recognized in OCI until future hedged U.S. export revenues are realized, at which time the associated gains or losses in AOCI are recognized in finance expense. For the year ended March 31, 2020, unrealized foreign exchange translation losses of $54 million (2019 – $46 million) were recognized in OCI and net losses of $37 million (2019 – $29 million) were reclassified from OCI into net income.

The following table summarizes the corporation's hedging instruments as at March 31, 2020:

	Nominal amount of the hedging instrument	Carrying amount of the hedging instrument		Line item where the hedging instrument is located	Change in value used for calculating hedge ineffectiveness
		Assets	Liabilities		
Cash flow hedges:					
U.S. debt	918	-	918	Long-term debt	177
Dual currency bond interest payments	56	-	-	-	14

(in millions of Canadian dollars)

The following table summarizes the corporation's hedging instruments as at March 31, 2019:

	Nominal amount of the hedging instrument	Carrying amount of the hedging instrument		Line item where the hedging instrument is located	Change in value used for calculating hedge ineffectiveness
		Assets	Liabilities		
Cash flow hedges:					
U.S. debt	1 122	-	1 122	Long-term debt	161
Dual currency bond interest payments	66	-	-	-	13

The accumulated amount of fair value adjustments on the corporation's hedged item (forecast export revenues) recognized in AOCI as at March 31, 2020 was $191 million (2019 - $174 million).

In addition, the corporation utilizes foreign exchange forward contracts to hedge U.S. long-term debt balances, for which hedge accounting is not applied. The monthly foreign exchange revaluation of these U.S. long-term debt balances and the mark to market of the foreign exchange forward contracts are both recorded in finance expense. The fair value of these forward contracts of $38 million (2019 – $9 million) is included in accounts receivable and accrued revenue and classified as Level 2 fair value measurements. The notional amount related to these forward contracts is $571 million (2019 - $374 million).

In addition to economic hedging relationships, cross currency swap arrangements transacted by the Province of Manitoba on the corporation's behalf are utilized to manage exchange rate exposures and as a means to capitalize on favourable financing terms in either U.S. or Canadian capital markets. Cross currency agreements represent an exchange of principal and/or interest flows denominated in one currency for principal and/or interest flows denominated in another. Such transactions effectively amend the terms of the original debt obligation with the Province of Manitoba with the swapped debt arrangement.

As at March 31, 2020 a change in the Canadian dollar of plus (minus) $0.10 relative to the U.S. dollar would decrease (increase) net income by $5 million (2019 – nominal), while OCI would increase (decrease) by $65 million (2019 – $84 million).

(ii) Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Manitoba Hydro is exposed to interest rate risk associated with temporary investments, floating rate short-term and long-term debt, fixed rate long-term debt maturing within 12 months, offset by the change in interest capitalization.

To mitigate the interest rate risk arising from the significant level of new capital borrowing requirements, the interest rate risk on the existing debt portfolio has been reduced by decreasing the percentage of floating rate debt within the existing debt portfolio and by selecting debt maturities that upon refinancing will not compete with new borrowing requirements.

Interest rate swap agreements transacted by the Province of Manitoba on the corporation's behalf are utilized to manage the fixed and floating interest rate mix of the total debt portfolio, interest rate exposure and related overall cost of borrowing. Interest rate swap agreements represent an agreement between two parties to periodically exchange payments of interest without the exchange of the principal amount upon which payments are based. The Province of Manitoba may also enter into forward start interest rate swap arrangements where the agreement to exchange interest payments commences at some future date. In either swap arrangement, the terms of the debt advanced by the Province of Manitoba to the corporation are amended by the swap.

As at March 31, 2020, an increase or decrease of 1% in the interest rate would reduce or increase net income, respectively, by $7 million (2019 – $2 million), with no impact to OCI.

(iii) Commodity price risk

The corporation is exposed to commodity price risk on market sales and purchases of electricity and delivered natural gas purchases as a result of market price volatility. Long-term contracts are in place to reduce exposure to price variation. The corporation also mitigates electricity price risk with the limited use of derivative financial instruments.

At March 31, 2020, the corporation has unsettled commodity derivative contracts with a fair value of $3 million included in receivables (2019 – nil) and less than $1 million (2019 – $1 million) included in other non-current liabilities. The derivative financial instruments are classified as Level 2 fair value measurements. For the year ended March 31, 2020, unrealized fair market value gains on fixed-price commodity derivatives of $0.5 million (2019 – losses $1 million) were recognized in OCI and $0.5 million (2019 – nil) of hedge ineffectiveness was reclassified from OCI to net income. The corporation has recognized fair market value losses on fixed-price commodity derivatives totaling nil in AOCI as at March 31, 2020.

NOTE 31 CAPITAL MANAGEMENT

Manitoba Hydro manages its capital structure to ensure that there is sufficient equity to absorb the financial effects of adverse circumstances and to ensure continued access to stable low-cost funding for capital projects and ongoing operational requirements.

The corporation monitors its capital structure on the basis of its debt to capitalization ratio.

(in millions of Canadian dollars)

The corporation defines its debt to capitalization ratio as follows:

	2020	2019
Long-term debt (Note 21)	**21 950**	21 303
Current portion of long-term debt (Note 21)	**1 337**	249
Less: Cash and cash equivalents (Note 13)	**(926)**	(900)
Net debt	**22 361**	20 652
Retained earnings	**3 141**	3 042
Accumulated other comprehensive loss	**(747)**	(781)
Contributions in aid of construction (Note 27)	**557**	531
Bipole III deferral (Note 20)	**252**	329
Major capital deferral (Note 20)	**33**	-
Non-controlling interest (Note 29)	**302**	254
Total capitalization	**3 538**	3 375
Debt to capitalization ratio	**86%**	86%

Manitoba Hydro issues debt for its capital requirements under the authority of *The Manitoba Hydro Act*, *The Loan Act* and *The Financial Administration Act*. At March 31, 2020 and March 31, 2019 *The Manitoba Hydro Act* grants the corporation the power to issue up to $500 million of short-term promissory notes. As at April 15, 2020 the aggregate amount has been increased to $1.5 billion. Manitoba Hydro submits annual requests under *The Loan Act* for the necessary borrowing authority for new capital requirements. Authority to refinance any maturing long-term debt is provided through *The Financial Administration Act*. The majority of Manitoba Hydro's long-term debt is obtained through advances from the Province of Manitoba.

NOTE 32 RELATED PARTIES

Manitoba Hydro is a Crown corporation controlled by the Province of Manitoba. As a result, the corporation has a related party relationship with all entities that are controlled, jointly controlled or significantly influenced by the Province of Manitoba. However, as permitted by IAS 24 *Related Party Disclosures*, the corporation is exempt from disclosure requirements relating to transactions with the Province of Manitoba and any other entity that is a related party because the Province of Manitoba has control, joint control or significant influence over both the corporation and the other entity.

Significant transactions with the Province of Manitoba and other related provincial entities consist of:

- Long-term debt – the corporation obtains the majority of its long-term debt through advances from the Province of Manitoba (Note 21);

- Provincial debt guarantee fee – the corporation pays the Province of Manitoba an annual fee on the outstanding debt. The Provincial debt guarantee fee of $207 million (2019 – $186 million) for the year was 1.00% (2019 – 1.00%) of the corporation's total outstanding debt guaranteed by the Province of Manitoba;

- Sale of electricity and natural gas – energy sales to related parties;

- Water rentals – amounts are paid to the Province of Manitoba for the use of water resources in the operation of the corporation's hydroelectric generating stations. Water rental rates during the year were $3.34 per MWh (2019 – $3.34 per MWh) totalling $115 million (2019 – $103 million); and

- Taxes – amounts are paid to the Province of Manitoba for corporate capital tax, payroll tax (Note 11) and provincial sales tax, all of which are incurred in the normal course of business.

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

NOTE 33 COMMITMENTS AND CONTINGENCIES

Manitoba Hydro has energy purchase commitments of $2 534 million (2019 – $2 742 million) that relate to future purchases of wind, natural gas (including transportation and storage contracts) and electricity. Commitments are primarily for transmission right access which expire in 2039, wind and solar purchases which expire in 2038 and natural gas purchases which expire in 2037. In addition, other outstanding commitments principally for construction are approximately $1 737 million (2019 – $1 946 million).

Manitoba Hydro has contracted with an independent third-party pipeline company to increase transportation capacity, which includes a commitment to pay its share of the pre-license development costs associated with the contract, in the event that the federal license is not granted for the project. No obligating events have occurred and so provisions have not been booked.

The corporation will incur future costs associated with the assessment and remediation of contaminated lands and facilities and for the phase-out and destruction of PCB mineral oil from electrical equipment. Although these costs cannot be reasonably determined at this time (except for items already recognized as asset retirement obligations), a contingent liability exists.

Due to the size, complexity and nature of Manitoba Hydro's operations, various legal and operational matters are pending. Management believes that any settlements related to these matters will not have a material adverse effect on Manitoba Hydro's consolidated financial position or results of operations.

With regards to the impact of the global COVID-19 pandemic beginning in mid-March and the related blockades in May 2020 on the Keeyask Project, contractor claims have been received from three key contractors on the project. The claims are for both cost and schedule impacts related to the pandemic, the blockades, as well as the travel restrictions and testing protocols that were implemented by Manitoba Hydro in order to protect the health and safety of the Keeyask Project workforce and the surrounding communities. The quantification of the impact is uncertain as the evaluation and eventual resolution will be achieved in the coming months.

Manitoba Hydro may provide guarantees to counterparties for natural gas purchases. At March 31, 2020, there is an outstanding guarantee totaling $30 million (2019 – $30 million) which matures November 1, 2020. Letters of credit in the amount of $72 million (2019 – $72 million) have been issued for construction and energy related transactions with maturities until 2049.

NOTE 34 SEGMENTED INFORMATION

Operating segments are reported consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of operations, has been identified as the President and Chief Executive Officer. The corporation is managed as three segments, electricity operations, natural gas operations and other, based on how financial information is produced internally for the purposes of making operating decisions.

Segment descriptions

Electric Operations
Electric operations derives its revenue from the sale of electricity in both Manitoba and to the export markets. Manitoba Hydro's electric operations also includes subsidiaries WPLP, KHLP and 6690271 Manitoba Ltd. Electricity is sold in Manitoba to residential, commercial and industrial customers while extraprovincial sales of electricity are to the U.S. and Canadian markets. Domestic electricity sales are regulated by the PUB.

Natural Gas Operations
The operations of Centra make up the entire natural gas operations segment. Centra is regulated by the PUB and generates revenue through the sale and distribution of natural gas to residential, commercial and industrial customers throughout Manitoba.

Other Segment
The other segment includes the operations of all other subsidiaries of the corporation, including MHI, MHUS, Minell and Teshmont.

MHI derives its revenue by providing professional consulting, operations, maintenance and project management services to energy sectors world-wide, either exclusively or through partnerships. MHI also provides research and development services and products to the electrical power system industry.

MHUS generates revenue by providing meter reading, interactive voice response systems and contracted services primarily to Manitoba Hydro and Centra.

Minell operates a pipeline transmission system extending from Moosomin, Saskatchewan to Russell, Manitoba and is regulated by the Canada Energy Regulator. Revenues are derived through the rentals of Minell's gas transmission facilities to Centra as they are used solely for the transportation of natural gas on behalf of Centra.

Teshmont is a holding company established to acquire a 40% ownership of Teshmont Consultants Limited Partnership, which carries on a high voltage engineering and consulting practice.

Segmented results

Results by operating segment for the years ended March 31, 2020 and 2019 are shown below. Intersegment eliminations are presented to reconcile segment results to the corporation's consolidated totals. Eliminations have been made for intersegment transactions and balances.

(in millions of Canadian dollars)

	Electric operations		Natural gas operations		Other segment		Eliminations		Total	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
Revenues										
External revenue	**2 196**	2 163	**390**	367	**43**	46	**-**	-	**2 629**	2 576
Intersegment revenue	**-**	-	**1**	1	**11**	10	**(12)**	(11)	**-**	-
	2 196	2 163	**391**	368	**54**	56	**(12)**	(11)	**2 629**	2 576
Expenses										
Finance expense	**798**	739	**22**	22	**-**	(1)	**18**	18	**838**	778
Operating and administrative	**512**	508	**58**	61	**18**	18	**(9)**	(11)	**579**	576
Depreciation and amortization	**481**	468	**27**	23	**3**	2	**1**	3	**512**	496
Cost of gas sold	**-**	-	**238**	212	**-**	-	**-**	-	**238**	212
Water rentals and assessments	**126**	113	**-**	-	**-**	-	**-**	-	**126**	113
Fuel and power purchased	**98**	136	**-**	-	**-**	-	**-**	-	**98**	136
Capital and other taxes	**146**	138	**17**	17	**-**	-	**-**	-	**163**	155
Other expenses	**70**	88	**(6)**	13	**26**	32	**14**	(3)	**104**	130
Finance income	**(42)**	(30)	**-**	-	**(1)**	(1)	**-**	-	**(43)**	(31)
Corporate allocation	**8**	8	**12**	12	**-**	-	**(20)**	(20)	**-**	-
	2 197	2 168	**368**	360	**46**	50	**4**	(13)	**2 615**	2 565
Net income (loss) before net movement in regulatory deferral balances	**(1)**	(5)	**23**	8	**8**	6	**(16)**	2	**14**	11
Net movement in regulatory deferral balances	**106**	103	**(21)**	4	**-**	-	**-**	-	**85**	107
Net Income (Loss)	**105**	98	**2**	12	**8**	6	**(16)**	2	**99**	118
Net income (loss) attributable to:										
Manitoba Hydro	**105**	101	**2**	12	**8**	6	**(16)**	2	**99**	121
Non-controlling interests	-	(3)	-	-	-	-	-	-	-	(3)
	105	98	**2**	12	**8**	6	**(16)**	2	**99**	118

(in millions of Canadian dollars)

	Electric operations		Natural gas operations		Other segment		Eliminations		Total	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
Total assets before regulatory deferral balances	**27 549**	25 747	**694**	659	**115**	101	**(231)**	(208)	**28 127**	26 299
Total regulatory deferral debit balances	**1 080**	1 018	**99**	114	**-**	-	**-**	-	**1 179**	1 132
Total liabilities	**25 782**	24 061	**549**	537	**21**	15	**(109)**	(102)	**26 243**	24 511
Total regulatory deferral credit balances	**334**	378	**33**	27	**-**	-	**-**	-	**367**	405
Retained earnings	**2 958**	2 853	**90**	88	**93**	85	**-**	16	**3 141**	3 042