

# FRONT AND CENTRE

2015  
ANNUAL  
REPORT



VALENER  
energy company



## HIGHLIGHTS (unaudited)

<b>VALENER INC.</b>	Fiscal years ended September 30	
<i>(in millions of dollars, except for share data, which is in dollars, and unless otherwise indicated)</i>	<b>2015</b>	<b>2014</b>

### INCOME AND CASH FLOWS

Adjusted net income attributable to common shareholders <sup>(1)</sup>	<b>45.3</b>	36.7
Adjusted net income attributable to common shareholders per common share <sup>(1)</sup>	<b>1.19</b>	0.97
Net income attributable to common shareholders	<b>42.8</b>	36.7
Basic and diluted net income per common share	<b>1.12</b>	0.97
Cash flows related to operating activities	<b>62.9</b>	43.1
Normalized operating cash flows per common share <sup>(1) (2)</sup>	<b>1.53</b>	1.02
Dividends declared per common share	<b>1.03</b>	1.00
Basic and diluted weighted average number of common shares outstanding <i>(in millions)</i>	<b>38.2</b>	37.9

### OTHER INFORMATION

Market prices of the common shares on the TSX:

High	<b>\$ 17.84</b>	\$ 16.15
Low	<b>\$ 15.00</b>	\$ 15.17
Close	<b>\$ 16.65</b>	\$ 15.72

### CONSOLIDATED BALANCE SHEETS

	<b>September 30, 2015</b>	September 30, 2014
Total assets	<b>917.7</b>	815.7
Total debt	<b>121.0</b>	66.8
Shareholders' equity	<b>753.7</b>	713.5

<b>GAZ MÉTRO LIMITED PARTNERSHIP</b>	Fiscal years ended September 30	
<i>(in millions of dollars, except for unit data, which is in dollars, and unless otherwise indicated)</i>	<b>2015</b>	<b>2014</b>

### INCOME AND CASH FLOWS

Revenues	<b>2,720.6</b>	2,536.7
Gross margin	<b>1,078.0</b>	1,014.1
Net income attributable to Partners	<b>184.4</b>	174.7
Net income attributable to Partners, excluding non-recurring items <sup>(3)</sup>	<b>192.4</b>	174.7
Cash flows related to operating activities	<b>738.0</b>	605.0
Purchases of property, plant and equipment	<b>398.5</b>	451.5
Basic and diluted net income per unit attributable to Partners	<b>1.19</b>	1.15
Distributions declared per unit to Partners	<b>1.12</b>	1.12
Weighted average number of units outstanding <i>(in millions)</i>	<b>155.3</b>	151.8

### OTHER INFORMATION

Credit ratings

First mortgage bonds (S&P/DBRS) <sup>(4)</sup>

Commercial paper (S&P/DBRS) <sup>(4)</sup>

**A+/A**

**A-1(mid)/  
R-1(low)**

**A+/A**

**A-1(mid)/  
R-1(low)**

### CONSOLIDATED BALANCE SHEETS

	<b>September 30, 2015</b>	September 30, 2014
Total assets	<b>7,218.0</b>	6,144.2
Total debt	<b>3,593.3</b>	3,167.8
Partners' equity attributable to Partners	<b>1,800.5</b>	1,441.6
Partners' equity per unit attributable to Partners	<b>11.59</b>	9.50

<sup>(1)</sup> This measure is a non-Canadian-GAAP financial measure. For additional information, refer to the Non-Canadian-GAAP Financial Measures heading in section A) OVERVIEW OF THE COMPANY AND OTHER.

<sup>(2)</sup> Cash flows related to operating activities less cumulative dividends to preferred shareholders, per common share.

<sup>(3)</sup> This measure is a non-Canadian-GAAP financial measure. For additional information, refer to the Non-Canadian-GAAP Financial Measures and Additional Canadian-GAAP Measures heading in section L) OVERVIEW OF THE PARTNERSHIP AND OTHER.

<sup>(4)</sup> Through its General Partner, GMi.

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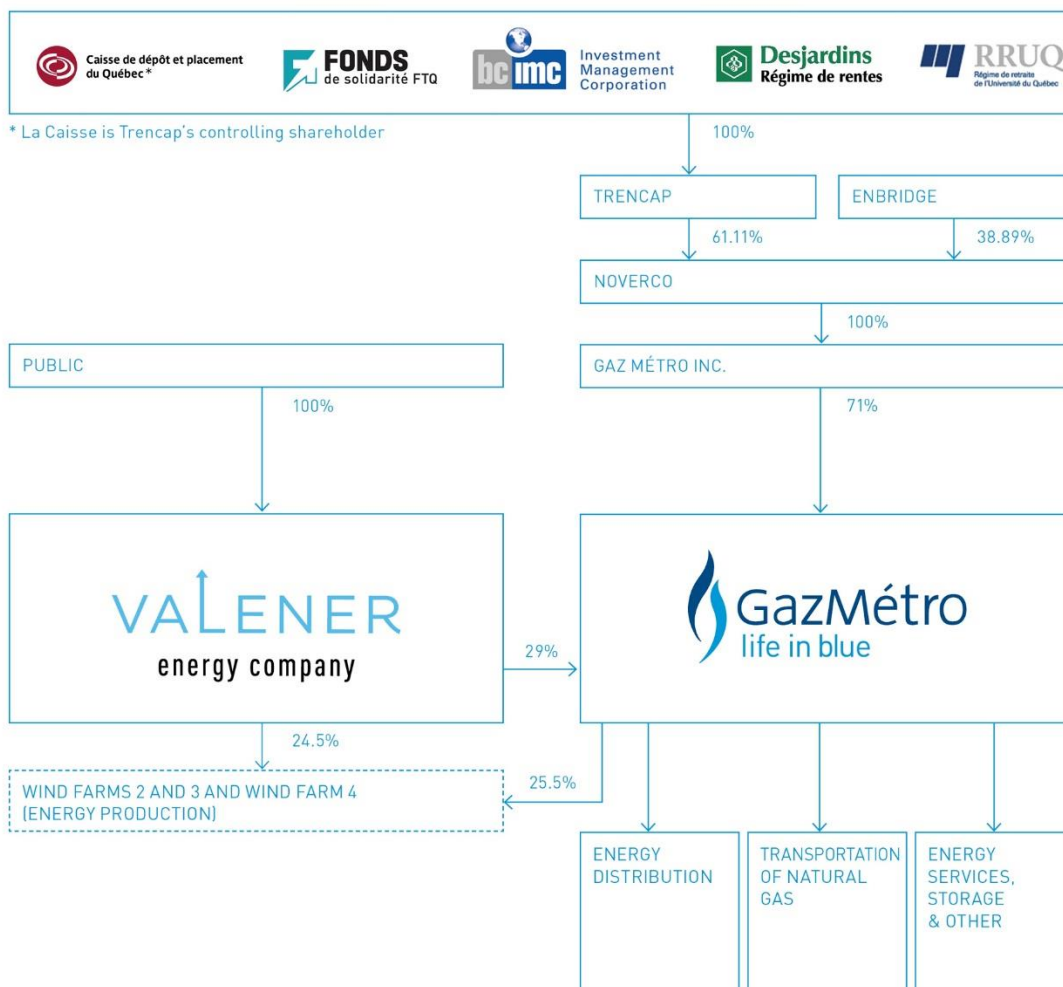
## MANAGEMENT'S DISCUSSION AND ANALYSIS

### VALENER INC. AND GAZ MÉTRO LIMITED PARTNERSHIP

Valener is incorporated under the *Canada Business Corporations Act* (CBCA). Valener's common shares and Series A preferred shares are listed and traded on the TSX under the "VNR" and "VNR.PR.A" trading symbols, respectively. Valener owns a 29% interest in Gaz Métro, whose core business operations are natural gas distribution in Quebec and Vermont as well as electricity distribution in Vermont. The Company also owns indirect interests in Wind Farms 2 and 3 and in Wind Farm 4, whose core business operations consist of owning and operating wind farms.

The following diagram shows the corporate structure of Valener and of Gaz Métro as at September 30, 2015.

#### CORPORATE STRUCTURE



The financial statements of Valener Éole and Valener Éole 4 are consolidated in the financial statements of Valener. The Company recognizes its other investments using the equity method and therefore does not consolidate the financial results of Gaz Métro, Beupré Éole and Beupré Éole 4. To help the Company's shareholders better understand the results of its operations, Valener's annual report includes both the audited consolidated financial statements of Valener and those of Gaz Métro. This Management's Discussion and Analysis (MD&A) reports on the developments that have significantly affected the financial performance of the Company and Gaz Métro for the fiscal year ended September 30, 2015. This MD&A should be read in conjunction with the audited consolidated financial statements of both Valener and Gaz Métro for the fiscal years ended September 30, 2015 and 2014. These audited consolidated financial statements have been prepared in accordance with Canadian GAAP, and the reporting currency is the Canadian dollar. All amounts in this report are in millions of Canadian dollars, unless otherwise indicated. Variances may exist as numbers have been rounded. "Gaz Métro" and "the Partnership" refer to the consolidated activities, whereas "Gaz Métro-QDA" refers specifically to Gaz Métro's natural gas distribution activity in Quebec.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

To help investors better understand the future outlook of the Company and Gaz Métro and thereby make more informed investment decisions, certain statements in this MD&A may be forward-looking, in particular statements that describe actions, activities, events, results or developments that the Company or Gaz Métro expect or anticipate will or may occur in the future as well as other statements that are not historical facts. Such forward-looking information reflects the intentions, plans, expectations and opinions of the management of the manager regarding the future growth, operating results, performance and business prospects and opportunities of the Company or Gaz Métro. Forward-looking statements are often identified by words and expressions such as “plans,” “expects,” “is expected,” “budgeted,” “scheduled,” “estimated,” “seeks,” “aims,” “forecasts,” “intends,” “anticipates,” “believes,” or by statements that certain actions, events or results “may,” “could,” “would,” “might,” or “will” be taken, occur, or be achieved and other variants and similar expressions as well as the negative or conjugated forms, as they relate to the Company or Gaz Métro. The forward-looking statements in this MD&A include, in particular, statements on (i) the general development of the business, including but not limited to the development, production and commercialization of LNG and CNG, particularly in the transport industry, (ii) growth or profitability outlooks, (iii) decisions made by regulatory agencies, in particular decisions made by the Régie as well as the nature and timing of these decisions, (iv) the competitive landscape, including the impact of the sharp drop in global oil prices, (v) anticipated distribution payments by Wind Farms 2 and 3 and Wind Farm 4, (vi) the potential distribution of biomethane through the Gaz Métro-QDA system, (vii) the consequences of the change in accounting framework, (viii) the liquidity position and financing capability of the Company and Gaz Métro, (ix) the post-merger integration of CVPS's operations into GMP's operations and the resulting synergies, (x) VGS's system development projects, and (xi) Gaz Métro's anticipated distribution payments and Valener's anticipated dividend payments and the related growth. Such forward-looking statements reflect the current opinions of the management of the manager and are based on information currently available to the management of the manager.

Forward-looking statements involve known and unknown risks and uncertainties and other factors outside the control of the management of the manager. A number of factors could cause the actual results of the Company or of Gaz Métro to differ significantly from historical results or current expectations, as described in the forward-looking statements, including but not limited to the general nature of the aforementioned: terms of decisions rendered by regulatory agencies, uncertainty that approvals will be obtained by Gaz Métro from regulatory agencies and interested parties to carry out all of its activities and the socio-economic risks associated with such activities, the competitiveness of natural gas in relation to other energy sources in the context of falling global oil prices, the reliability or costs of natural gas and electricity supply, the integrity of the natural gas and electricity distribution systems, the evolution and profitability of Wind Farms 2 and 3 and Wind Farm 4 and other development projects, Valener's ability to generate sufficient cash to support its anticipated target annual dividend growth rate on its common shares, the ability to complete attractive acquisitions and the related financing and integration aspects, the ability to complete new development projects, the ability to secure future financing, general economic conditions, exchange rate and interest rate fluctuations, weather conditions and other factors described in section E) RISK FACTORS RELATING TO VALENER and in section R) RISK FACTORS RELATING TO GAZ MÉTRO of this MD&A and in subsequent quarterly MD&As that could report on changes in these risk factors. Although the forward-looking statements contained herein are based on what the management of the manager believes to be reasonable assumptions, the management of the manager cannot assure investors that actual results will be consistent with these forward-looking statements. Assumptions underlying the forward-looking statements contained in this MD&A include, among others, assumptions that no unforeseen changes in the legislative and regulatory framework of energy markets in Quebec and in the New England states will occur; that the applications filed with various regulatory agencies will be approved as submitted; that natural gas prices will remain competitive; that the supply of natural gas and electricity will be maintained or will be available at competitive costs; that no significant event occurring outside the ordinary course of business, such as a natural disaster or other calamity, or threat to cybersecurity (or cyberattack), will occur; that Gaz Métro can continue to distribute substantially all of its net income (excluding non-recurring items); that Wind Farms 2 and 3 and Wind Farm 4 will be able to make distribution payments to their Partners; that Valener will be able to generate sufficient cash to support its anticipated target annual dividend growth rate on its common shares; that GMP will be able to continue to quickly and effectively integrate CVPS's operations; that liquidity needs for Gaz Métro's development projects will be obtained through a combination of operating cash flows, borrowings on credit facilities, capital injections from Partners, and issuances of debt securities; and that the subsidiaries will obtain the required authorizations and funds needed to finance their development projects; in addition to the other assumptions described in this MD&A. These forward-looking statements are made as of the date of this MD&A, and the management of the manager assumes no obligation to update or revise them to reflect new events or circumstances, except as required under applicable securities laws. These statements do not reflect the potential impact of any unusual item or any business combination or other transaction that may be announced or that may occur after the date hereof. All forward-looking statements in this MD&A are qualified by these cautionary statements. Readers are cautioned to not place undue reliance on these forward-looking statements.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

The President and Chief Executive Officer and the Executive Vice-President, Corporate Affairs and Chief Financial Officer of GMi, in its capacity as General Partner of Gaz Métro, acting as manager of Valener, are responsible for establishing and maintaining disclosure controls and procedures. The Company's disclosure controls and procedures have been designed to provide reasonable assurance that the information required to be disclosed by the Company is recorded, processed, summarized and reported within the time periods specified under Canadian provincial and territorial securities laws and that the controls and procedures are designed to ensure that this information is gathered and communicated to the management of the manager, including the President and Chief Executive Officer and the Executive Vice-President, Corporate Affairs and Chief Financial Officer of GMi, in its capacity as General Partner of Gaz Métro, acting as manager of Valener, to allow for timely decisions regarding disclosures. Based on its evaluation in accordance with *Regulation 52-109 respecting Certification of Disclosure in Issuers' Annual and Interim Filings*, the management of the manager has concluded that, at the end of the fiscal year ended September 30, 2015, the disclosure controls and procedures are suitably designed, operating effectively, and ensure that required financial disclosures are complete and reliable.

The President and Chief Executive Officer and the Executive Vice-President, Corporate Affairs and Chief Financial Officer of GMi, in its capacity as General Partner of Gaz Métro, acting as manager of Valener, are also responsible for establishing and maintaining adequate internal control over financial reporting in order to provide reasonable assurance that the financial information is reliable and that the consolidated financial statements have been prepared, for reporting purposes, in accordance with Canadian GAAP. The President and Chief Executive Officer and the Executive Vice-President, Corporate Affairs and Chief Financial Officer of GMi, in its capacity as General Partner of Gaz Métro, acting as manager of Valener, supervised the evaluation of the design and effectiveness of the Company's internal control over financial reporting using the criteria set out in the integrated internal control framework issued by the Committee of Sponsoring Organizations of the Treadway Commission "COSO" (2013 COSO Framework). Relying on this evaluation, they concluded that the Company's internal control over financial reporting is suitably designed and operating effectively as at September 30, 2015.

The President and Chief Executive Officer and the Executive Vice-President, Corporate Affairs and Chief Financial Officer of GMi, in its capacity as General Partner of Gaz Métro, acting as manager of Valener, have also evaluated whether, during the fiscal year ended September 30, 2015, the Company made changes to its internal control over financial reporting that would have a significant impact or that would be reasonably likely to have a significant impact on its internal control over financial reporting. Their evaluation uncovered no such changes.

## MANAGEMENT'S DISCUSSION AND ANALYSIS


### WIND FARMS IN QUEBEC

Wind power is one of the cleanest forms of energy as it produces no air emissions. It is sought after for its benefits, and is also complementary to hydroelectricity, because it serves as a back-up energy source that often reaches its maximum potential during periods of extreme cold and high winds.

To promote energies that reduce environmental footprints, while also encouraging regional economic development, Valener and Gaz Métro decided to invest in wind power production through the deployment of multiple wind farms, particularly wind parks 2 and 3 and wind park 4.

WIND FARMS LOCATED ON THE PRIVATE LANDS OF SEIGNEURIE DE BEAUPRÉ OUR PARTNER: BORALEX	
<b>WIND FARMS 2 AND 3</b> <ul style="list-style-type: none"> <li>COMMERCIAL IN-SERVICE DATES: <ul style="list-style-type: none"> <li>WIND FARM 2: <b>NOVEMBER 2013</b></li> <li>WIND FARM 3: <b>DECEMBER 2013</b></li> </ul> </li> <li>TOTAL INVESTMENT OF APPROXIMATELY <b>\$750M</b> (INCLUDING FINANCING COSTS)</li> </ul>	<b>WIND FARM 4</b> <ul style="list-style-type: none"> <li>COMMERCIAL IN-SERVICE DATE: <b>DECEMBER 2014</b></li> <li>TOTAL INVESTMENT OF APPROXIMATELY <b>\$190M</b> (INCLUDING FINANCING COSTS)</li> </ul>
<b>126 WIND TURBINES</b> <b>272 MW</b> INSTALLED CAPACITY	<b>28 WIND TURBINES</b> <b>68 MW</b> INSTALLED CAPACITY

The following table summarizes the performance of the wind farms during fiscal years 2015 and 2014, regardless of the ownership percentages of the partners.

		Fiscal years ended September 30		
		2015	2014	Change
	<b>WIND FARMS 2 AND 3</b>			
	Actual output (MWh)	<b>903,431</b>	645,143	258,288
	Average price (\$/MWh) <sup>(2)</sup>	<b>108.73</b>	108.01	0.72
	Cash flows related to operating activities (in millions of \$)	<b>60.0</b>	112.1 <sup>(1)</sup>	(52.1)
	Utilization factor (%) <sup>(3)</sup>	<b>37.9</b>	32.9	5.0
	<b>WIND FARM 4</b>			
	Actual output (MWh)	<b>180,214</b>	-	180,214
	Average price (\$/MWh) <sup>(2)</sup>	<b>102.34</b>	-	102.34
	Cash flows related to operating activities (in millions of \$)	<b>5.4</b>	0.2	5.2
	Utilization factor (%) <sup>(3)</sup>	<b>36.3</b>	-	36.3

<sup>(1)</sup> Includes a \$38.3 million refund related to an amount of tax receivable incurred primarily in fiscal 2013 and a \$51.6 million payment received from Hydro-Québec related to a note receivable for the reimbursement of certain construction costs.

<sup>(2)</sup> These prices are indexed over the term of the contracts on January 1 of each year.

<sup>(3)</sup> The utilization factor is actual output divided by installed capacity (in MWh).

For fiscal 2015, the year-over-year increases in the wind power generated by Wind Farms 2 and 3 and by Wind Farm 4 came mainly from favourable wind conditions during the fiscal period and from the fact that wind parks 2 and 3 were operational throughout fiscal 2015 whereas they had come into commercial service only in November and December of 2013, respectively, and from the fact that wind park 4 came into commercial service in December 2014.

The commercial operation of these wind farms is proceeding as planned, and favourable wind conditions have enabled Wind Farms 2 and 3 to generate operating cash flows of \$60.0 million for fiscal 2015. Wind Farms 2 and 3 used a portion of these cash flows, and those accumulated last year, to pay to its partners, including Valener and Gaz Métro, a first distribution of \$19.1 million in February 2015 and another distribution of \$21.5 million in August 2015. As for Wind Farm 4, it generated operating cash flows of \$5.4 million in fiscal 2015, and the specific conditions attached to its financing enabled it to pay a first distribution of \$17.6 million in September 2015.

#### FIRST DISTRIBUTIONS EXCEED EXPECTATIONS:

- WIND FARMS 2 AND 3:  
**\$19.1M (FEBRUARY 2015)**  
**\$21.5M (AUGUST 2015)**
- WIND FARM 4:  
**\$17.6M (SEPTEMBER 2015)**



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Also in fiscal 2015, Gaz Métro and its partners participated in a call for tenders from Hydro-Québec, to purchase a block of wind farm power equal to 450 megawatts of installed capacity (300 megawatts in the Bas-Saint-Laurent and Gaspésie-Îles-de-la-Madeleine regions and 150 megawatts from projects across Quebec). In December 2014, the results of the call for tenders were announced, and the bids submitted by Gaz Métro and its partners were not selected by Hydro-Québec.

### **Outlook**

Valener and Gaz Métro remain apprised of potential opportunities to invest in other wind power projects. Given that Gaz Métro concluded a development agreement with Séminaire de Québec and Boralex, finding opportunities to develop the wind power potential of Seigneurie de Beaupré remains a priority for Valener and Gaz Métro.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### VALENER INC.

#### A) OVERVIEW OF THE COMPANY AND OTHER

##### STRATEGY

"Valener's mission is to ensure the sound management of its investment in Gaz Métro, to participate in the full development of the latter and to consider opportunities for growth and value creation for its shareholders." Such opportunities must create value and have a risk profile deemed relatively similar to the Company's current profile, all in accordance with the Non-Competition Agreement described in section 1) ADDITIONAL INFORMATION and the applicable limitations of its credit facility.

##### NON-CANADIAN-GAAP FINANCIAL MEASURES

The financial information has been prepared in accordance with Canadian GAAP. In the opinion of the management of the manager, certain financial measures provide readers with information considered useful for analyzing Valener's financial performance. However, certain financial measures are not defined by Canadian GAAP and should not be considered in isolation or as substitutes for other financial measures that are in accordance with Canadian GAAP. The results obtained might not be comparable with similar measures used by other issuers and should therefore be considered only as complementary information.

In fiscal 2015, a change in the future income tax liability related to the outside-basis temporary difference on the interest in Gaz Métro <sup>(1)</sup> had a significant impact on Valener's net income. The management of the manager reviewed the key indicators used in analyzing the Company's financial performance, seeking to exclude items that could alter analyses of business performance trends. As a result, the management of the manager now uses adjusted net income (loss) attributable to common shareholders and adjusted net income (loss) attributable to common shareholders per common share. It no longer uses consolidated net income (loss) attributable to common shareholders, excluding the non-recurring items of Valener and the share in the non-recurring items of Gaz Métro, net of income taxes, nor does it use consolidated net income (loss) attributable to common shareholders, excluding the non-recurring items of Valener and the share in the non-recurring items of Gaz Métro, net of income taxes, per common share.

NON-CANADIAN-GAAP FINANCIAL MEASURES	
Adjusted net income (loss) attributable to common shareholders <sup>(2)</sup>	<p>The net income (loss) attributable to common shareholders, net of (i) the non-recurring items of Valener, (ii) the share in the non-recurring items of Gaz Métro, (iii) Valener's income taxes related to those non-recurring items and (iv) the future income tax expense (recovery) related to the outside-basis temporary difference on its interest in Gaz Métro. Non-recurring items are those that are unlikely to recur in the next two fiscal years or did not occur in the two fiscal years preceding the fiscal year during which they were realized. The future income tax expense (benefit) related to the outside-basis temporary difference is the excess of the tax basis of its interest in Gaz Métro over the carrying amount and assuming an eventual disposal of the investment. The management of the manager believes this assumption is not reflective of Valener's mission, given the lasting nature of its investment in Gaz Métro.</p> <p>This measure is used by the management of the manager to measure Valener's profitability on a recurring basis and exclude the items that could alter analyses of business performance trends.</p>
Adjusted net income (loss) attributable to common shareholders, per common share <sup>(2)</sup>	<p>The adjusted net income (loss) attributable to common shareholders, divided by the basic and diluted weighted average number of common shares outstanding of Valener. This measure is used by the management of the manager to measure Valener's profitability on a recurring basis and exclude the items that could alter analyses of business performance trends.</p>
Debt / total capitalization ratio <sup>(3)</sup>	<p>The total amount of long-term debt, net of financing costs, divided by capitalization. Capitalization is equal to the total amount of long-term debt, net of financing costs, and shareholders' equity. The management of the manager uses this ratio to measure Valener's accessibility to debt financing for purposes of participating in Gaz Métro's development and seizing future growth opportunities.</p>
Normalized operating cash flows <sup>(3)</sup>	<p>Normalized operating cash flows corresponds to cash flows related to operating activities less cumulative dividends paid to preferred shareholders. This measure is used by the management of the manager to evaluate the Company's financial performance and ability to pay dividends to common shareholders.</p>

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Normalized operating cash flows per common share <sup>(3)</sup>	Normalized operating cash flows per common share corresponds to normalized operating cash flows divided by the weighted average number of common shares outstanding of Valener. This measure is used by the management of the manager to evaluate the Company's financial performance and ability to pay dividends to common shareholders.
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<sup>(1)</sup> Corresponds to the excess of the tax basis of Valener's interest in Gaz Métro over the carrying amount, as explained in Note 8 to the audited consolidated financial statements of Valener for the fiscal years ended September 30, 2015 and 2014.

<sup>(2)</sup> Section B) CONSOLIDATED ANNUAL FINANCIAL PERFORMANCE SUMMARY provides a quantitative reconciliation of these measures with those established in accordance with Canadian GAAP.

<sup>(3)</sup> Section D) CASH AND CAPITAL MANAGEMENT provides a quantitative reconciliation of these measures with Canadian-GAAP-compliant measures.

The management of the manager considers these non-Canadian-GAAP financial measures to be indicators of the Company's financial performance that can be used to measure and compare, among periods, the financial performance generated by the normal operations of Valener and Gaz Métro. The management of the manager also believes that it is useful for investors and other users of this MD&A to be informed of specific non-recurring items or other items that had a positive or negative impact on the net income or net loss attributable to the Company's common shareholders, as defined in Canadian GAAP.

### PERFORMANCE INDICATORS

The Company has developed indicators for measuring its performance against objectives set at the start of the fiscal year. In addition to the Gaz Métro performance indicators described in section L) OVERVIEW OF THE PARTNERSHIP AND OTHER of this MD&A, Valener uses the following financial indicators:

Cash flows related to operating activities	Cash flows related to operating activities is used to measure the Company's financial capacity to honour obligations and pay dividends.
Adjusted net income (loss) attributable to common shareholders and adjusted net income (loss) attributable to common shareholders per common share	The adjusted net income (loss) attributable to common shareholders and the adjusted net income (loss) attributable to common shareholders per common share are used by the Company to measure Valener's profitability.

Given the changes described in the Non-Canadian-GAAP Financial Measures heading of this section, the management of the manager no longer uses net income attributable to common shareholders and basic and diluted net income per common share as performance indicators but rather adjusted net income (loss) attributable to common shareholders and adjusted net income (loss) attributable to common shareholders per common share to measure Valener's profitability.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### B) CONSOLIDATED ANNUAL FINANCIAL PERFORMANCE SUMMARY

#### 1. ADJUSTED NET INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS AND ADJUSTED NET INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS PER COMMON SHARE

For the fiscal years ended September 30

<i>(in millions of dollars, unless otherwise indicated)</i>	2015	2014	2013
<b>Net income</b>	<b>47.1</b>	<b>41.0</b>	<b>41.5</b>
Non-recurring items of Valener <sup>(1)</sup>	<b>4.0</b>	-	-
Share in the non-recurring items of Gaz Métro <sup>(2)</sup>	<b>2.3</b>	-	(4.3)
Income taxes on the non-recurring items of Valener and on the share in the non-recurring items of Gaz Métro	<b>(1.1)</b>	-	1.1
Future income taxes related to the outside-basis temporary difference on the interest in Gaz Métro	<b>(2.7)</b>	-	-
<b>Net income, excluding the non-recurring items of Valener, the share in the non-recurring items of Gaz Métro, net of income taxes, and the future income taxes related to the outside-basis temporary difference on the interest in Gaz Métro</b>	<b>49.6</b>	<b>41.0</b>	<b>38.3</b>
Less: Cumulative dividends on Series A preferred shares	<b>4.3</b>	<b>4.3</b>	<b>4.3</b>
<b>Adjusted net income attributable to common shareholders <sup>(3)</sup></b>	<b>45.3</b>	<b>36.7</b>	<b>34.0</b>
Basic and diluted weighted average number of common shares outstanding <i>(in millions of common shares)</i>	<b>38.2</b>	<b>37.9</b>	<b>37.7</b>
<b>Adjusted net income attributable to common shareholders, per common share <i>(in \$)</i> <sup>(3)</sup></b>	<b>1.19</b>	<b>0.97</b>	<b>0.90</b>

<sup>(1)</sup> Unrealized loss related to swaps, entered into in October 2014, resulting from a change in interest rates. It should be noted that hedge accounting cannot be applied to these derivative financial instruments, as described in section G) FINANCIAL INSTRUMENTS of this MD&A.

<sup>(2)</sup> Section O) SEGMENT RESULTS of Gaz Métro provides information on the non-recurring items of Gaz Métro.

<sup>(3)</sup> These measures are non-Canadian-GAAP financial measures. For additional information, refer to the Non-Canadian-GAAP Financial Measures heading in section A) OVERVIEW OF THE COMPANY AND OTHER.

#### 2. HIGHLIGHTS

For the fiscal years ended September 30

<i>(in millions of dollars, unless otherwise indicated)</i>	2015	2014	2013	Change 2015 vs 2014	Change 2014 vs 2013
Share in the net income of Gaz Métro	<b>53.5</b>	50.4	52.3	3.1	(1.9)
Share in the net income (loss) of Beauré Éole	<b>3.5</b>	(0.7)	(1.2)	4.2	0.5
Adjusted net income attributable to common shareholders <sup>(1)</sup>	<b>45.3</b>	36.7	34.0	8.6	2.7
Adjusted net income attributable to common shareholders per common share <sup>(1)</sup>	<b>1.19</b>	0.97	0.90	0.22	0.07
Net income attributable to common shareholders	<b>42.8</b>	36.7	37.1	6.1	(0.4)
Basic and diluted net income per common share <i>(in \$)</i>	<b>1.12</b>	0.97	0.99	0.15	(0.02)
Cash flows related to operating activities	<b>62.9</b>	43.1	45.2	19.8	(2.1)
Normalized operating cash flows per common share <i>(in \$)</i> <sup>(1) (2)</sup>	<b>1.53</b>	1.02	1.07	0.51	(0.05)
Dividends declared per common share <i>(in \$)</i>	<b>1.03</b>	1.00	1.00	0.03	-
Dividends declared per preferred share <i>(in \$)</i>	<b>1.09</b>	1.09	1.09	-	-
Interests in entities subject to significant influence	<b>901.6</b>	797.1	783.2	104.5	13.9
Total assets	<b>917.7</b>	815.7	802.0	102.0	13.7
Total debt	<b>121.0</b>	66.8	67.6	54.2	(0.8)
Debt / total capitalization ratio <i>(in %)</i> <sup>(1)</sup>	<b>13.8</b>	8.6	8.8	5.2	(0.2)

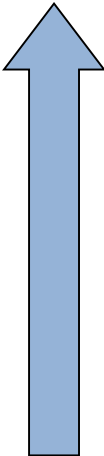
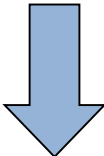
<sup>(1)</sup> These measures are non-Canadian-GAAP financial measures. For additional information, refer to the Non-Canadian-GAAP Financial Measures heading in section A) OVERVIEW OF THE COMPANY AND OTHER.

<sup>(2)</sup> The changes in normalized operating cash flows per common share are explained in section D) CASH AND CAPITAL MANAGEMENT.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### 3. ANALYSIS OF RESULTS

The changes in net income attributable to common shareholders between fiscal 2015 and 2014 and between fiscal 2014 and 2013 were mainly due to:

2015 vs 2014		2014 vs 2013	
Up \$6.1 million or 16.6%		Down \$0.4 million or 1.1%	
	<ul style="list-style-type: none"><li>a \$4.2 million increase in the share in the net income of Beaupré Éole, mainly due to:<ul style="list-style-type: none"><li>the fact that wind parks 2 and 3 were in operation throughout fiscal 2015, whereas in fiscal 2014, they had come into commercial service only in November and December of 2013, respectively; and</li><li>favourable winds observed during the period;</li></ul></li><li>a \$3.1 million increase in the share in the net income of Gaz Métro, which represents 29% of Gaz Métro's net income, as described in section N) CONSOLIDATED ANNUAL FINANCIAL PERFORMANCE SUMMARY OF GAZ MÉTRO; and</li><li>a \$2.5 million decrease in income tax expense mainly due to a favourable impact of the change in the outside-basis temporary difference on the interest in Gaz Métro;</li></ul>	<ul style="list-style-type: none"><li>a \$2.3 million lower income tax expense due, among other factors, to the fact that Valener no longer benefits from the increase in Gaz Métro distributions otherwise payable, as had been planned during the September 2010 reorganization of Gaz Métro, offset by the net impact of Gaz Métro's sale of its interest in HydroSolution during the first quarter of fiscal 2013;</li></ul>	
	<ul style="list-style-type: none"><li>a \$4.0 million unrealized loss related to swaps, entered into in October 2014, resulting from a decrease in interest rates during fiscal 2015. It should be noted that hedge accounting is not applied to these financial instruments, as described in section G) FINANCIAL INSTRUMENTS of this MD&amp;A.</li></ul>	<ul style="list-style-type: none"><li>a \$1.9 million decrease in the share in the net income of Gaz Métro, which represents 29% of Gaz Métro's net income, as described in section N) CONSOLIDATED ANNUAL FINANCIAL PERFORMANCE SUMMARY of Gaz Métro; and</li><li>a \$1.1 million increase in interest on long-term debt due to a higher average level of term loans.</li></ul>	

FAVOURABLE WIND CONDITIONS THAT BOLSTERED WIND POWER PRODUCTION AND SOUND PERFORMANCE BY GAZ MÉTRO CONTRIBUTED TO A **23.4%** INCREASE IN ADJUSTED NET INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS <sup>(1)</sup>

<sup>(1)</sup> This measure is a non-Canadian-GAAP financial measure. For additional information, refer to the Non-Canadian-GAAP Financial Measures heading in section A) OVERVIEW OF THE COMPANY AND OTHER.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### C) CONSOLIDATED FINANCIAL POSITION

The following table compares the main consolidated balance sheet items as at September 30, 2015 with those of September 30, 2014.

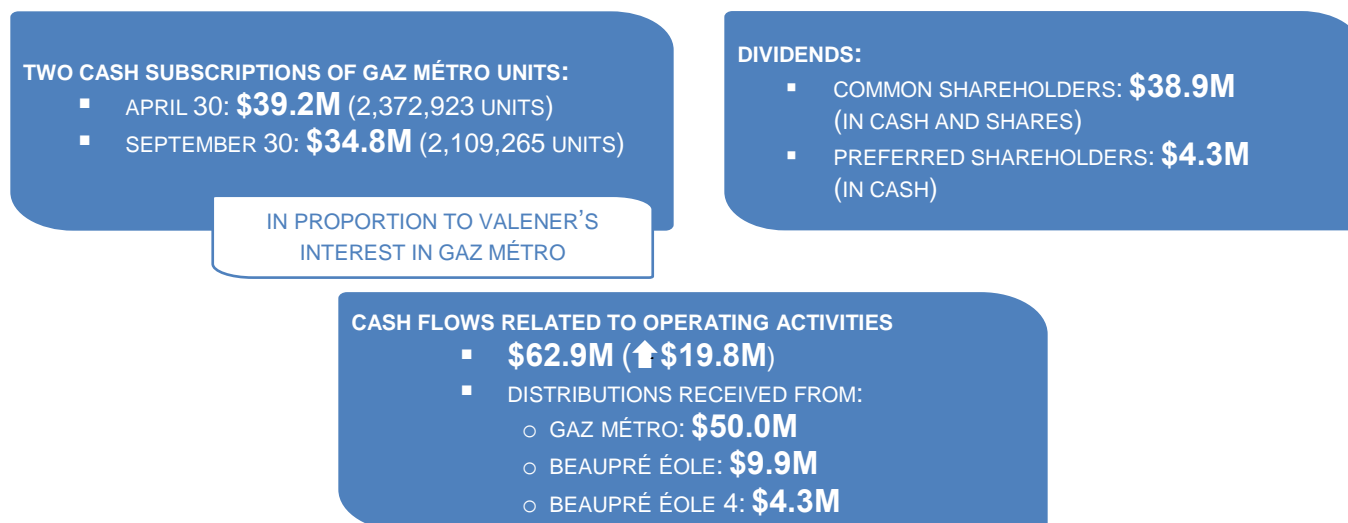
<b>Balance sheet items</b> <i>(in millions of dollars)</i>	<b>September 30</b>		<b>Increase (Decrease)</b>	<b>Explanation</b>
	<b>2015</b>	<b>2014</b>		
Distributions receivable from Gaz Métro	<b>13.0</b>	12.3	0.7	Increase due to the units subscribed by Valener, in proportion to its interest in Gaz Métro, during the third quarter of fiscal 2015
Interests in entities subject to significant influence	<b>901.6</b>	797.1	104.5	Increase comes mainly from (i) the shares in the net income and other comprehensive income of Gaz Métro and (ii) investments of \$74.0 million and \$3.8 million in Gaz Métro and Beaupré Éole 4, respectively, partly mitigated by (iii) the distributions received from Gaz Métro, Beaupré Éole and Beaupré Éole 4
Long-term debt	<b>121.0</b>	66.8	54.2	Increase comes mainly from (i) the investment of \$74.0 million in Gaz Métro, mitigated by (ii) the fact that operating cash flows were more than sufficient to cover the Company's other needs
Net future income tax liability, including current portion	<b>26.5</b>	21.9	4.6	Increase comes mainly from (i) the change in the temporary differences of Beaupré Éole and (ii) the change in the outside-basis temporary differences on the investment in Gaz Métro, partly mitigated by (iii) an increase in Valener Éole's future income tax assets related to non-capital loss carryforwards
Derivative financial instruments liability	<b>4.0</b>	-	4.0	Increase comes from the impact of lower interest rates on the fair value of swaps concluded during the first quarter of fiscal 2015
Share capital	<b>742.2</b>	737.1	5.1	Increase comes from the common shares issued under the DRIP
Accumulated other comprehensive income (loss)	<b>26.5</b>	(5.2)	31.7	Change comes mainly from the shares in the other comprehensive income of Gaz Métro and other comprehensive loss of Beaupré Éole, mitigated by an unfavourable impact of future income taxes related to the change in the outside-basis temporary difference on the interest in Gaz Métro

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### D) CASH AND CAPITAL MANAGEMENT

This section discusses the Company's financial position, cash flows and liquidity.

#### HIGHLIGHTS FOR FISCAL 2015



#### CASH FLOW SUMMARY

For the fiscal years ended September 30

<i>(in millions of dollars)</i>		2015	2014	Change
Cash flows related to operating activities	<b>a</b>	<b>62.9</b>	43.1	19.8
Cash flows related to investing activities	<b>b</b>	<b>(78.1)</b>	(3.9)	(74.2)
Cash flows related to financing activities	<b>c</b>	<b>15.9</b>	(38.9)	54.8

##### a) Cash flows related to operating activities

Cash flows related to operating activities increased by \$19.8 million, due to, among other factors:

- distributions of \$4.7 million and \$5.2 million received from Beupré Éole in February 2015 and August 2015, respectively, following distribution payments of \$19.1 million and \$21.5 million by Wind Farms 2 and 3 to its partners;
- a \$4.3 million distribution received from Beupré Éole 4 in September 2015 following a \$17.6 million distribution made by Wind Farm 4 to its partners; and
- a tax advantage arising from an accelerated depreciation of wind power assets given that wind park 4 was put into service in the first quarter of 2015 and that it was the first full year of operations for Wind Farms 2 and 3.

##### b) Cash flows related to investing activities

The \$74.2 million change in cash flows related to investing activities is detailed in the following table:

For the fiscal years ended September 30

		2015	2014	Change
Purchases of units in entities subject to significant influence and other				
Gaz Métro	Amount <i>(in millions of dollars)</i>	<b>74.0</b>	-	74.0
	Number of units	<b>4,482,188</b>	-	
Beupré Éole	Amount <i>(in millions of dollars)</i>	<b>0.3</b>	2.3	(2.0)
	Number of units	<b>308,700</b>	2,268,728	
Beupré Éole 4	Amount <i>(in millions of dollars)</i>	<b>3.8</b>	1.4	2.4
	Number of units	<b>3,768,399</b>	1,362,607	
Other	Amount <i>(in millions of dollars)</i>	-	0.2	(0.2)
Total <i>(in millions of dollars)</i>		<b>78.1</b>	3.9	74.2

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### c) Cash flows related to financing activities

The \$54.8 million change in cash flows related to financing activities is detailed in the following table:

For the fiscal years ended September 30

<i>(in millions of dollars)</i>	2015	2014	Change
Net increase (decrease) of the credit facility	54.0	(1.1)	55.1
Dividends to common shareholders	(33.8)	(33.5)	(0.3)
Dividends to preferred shareholders	(4.3)	(4.3)	-
Total	15.9	(38.9)	54.8

#### Net increase (decrease) of the credit facility

During fiscal 2015, the net increase of \$54.0 million mainly reflects the fact that Valener drew on its credit facility to finance, in April and September 2015, two capital contributions to Gaz Métro totalling \$74.0 million. With these contributions, Gaz Métro covered its general needs, particularly the purchase of GHG emission allowances under the C&T Regulation, financed its various development projects, and restored its capital structure. Note that Valener's operating cash flows covered the cash dividend payments to common and preferred shareholders and a portion of the subscriptions of Gaz Métro units.

During fiscal 2014, the net decrease of \$1.1 million had mainly reflected the fact that operating cash flows were more than sufficient to finance investing activities and the dividends to common and preferred shareholders.

#### Dividends to common shareholders

The following table shows the dividends paid to common shareholders in fiscal 2015:

Dividend payment date	Dividend declaration date	Dividend amount per common share <i>(in \$)</i>	Cash amount <i>(in millions of \$)</i>
October 15, 2014	August 8, 2014	0.25	8.3
January 15, 2015	November 27, 2014	0.25	8.3
April 15, 2015	February 12, 2015	0.26	8.7
July 15, 2015	May 14, 2015	0.26	8.5

Given the sustained performance by wind parks 2 and 3 since they came into commercial service in November and December 2013, respectively, given the commercial coming into service of wind park 4 in December 2014, and given the distributions received from these assets in fiscal 2015 and those expected in the future, Valener's board of directors approved, on February 12, 2015, a 4.0% increase in its annualized dividend from \$1.00 to \$1.04 per common share and set an annual dividend growth target of about 4% for the next three fiscal years. As such, on November 27, 2015, the board of directors approved an increase in the annualized dividend from \$1.04 to \$1.08 per common share and declared a quarterly dividend of \$0.27 per common share, payable on January 15, 2016 to common shareholders of record at the close of business on December 31, 2015. This increase is further supported by an increase in Gaz Métro's quarterly distribution from \$0.28 to \$0.29 per unit, i.e., a 3.6% increase as of its next distribution on January 4, 2016, as explained in Distributions Paid per Unit heading of section N) CONSOLIDATED ANNUAL PERFORMANCE SUMMARY.

INCREASE OF ABOUT 4% IN 2015  
AND 2016 AND APPROXIMATELY 4%  
ANNUAL DIVIDEND GROWTH TARGET  
FOR THE NEXT TWO FISCAL YEARS

#### Dividends to preferred shareholders

The following table shows the dividends paid to preferred shareholders in fiscal 2015:

Dividend payment date	Dividend declaration date	Period covered	Dividend amount per Series A preferred share <i>(in \$)</i>	Cash amount <i>(in millions of \$)</i>
October 15, 2014	August 8, 2014	July 16, 2014 to October 15, 2014	0.271875	1.1
January 15, 2015	November 27, 2014	October 16, 2014 to January 15, 2015	0.271875	1.1
April 15, 2015	February 12, 2015	January 16, 2015 to April 15, 2015	0.271875	1.1
July 15, 2015	May 14, 2015	April 16, 2015 to July 15, 2015	0.271875	1.1



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Share capital

As at September 30, 2015, Valener's share capital consisted of:

- 38,359,969 issued and outstanding common shares totalling \$644.8 million, including the 322,683 common shares issued for an amount of \$5.1 million under the DRIP during fiscal 2015; and
- 4,000,000 issued and outstanding Series A preferred shares totalling \$97.5 million.

### CAPITAL STRUCTURE AND DEBT RATIO

Valener manages its capital to ensure that its shareholders earn a stable and foreseeable return and to create wealth for them over time. To achieve this, Valener is involved in Gaz Métro's development and considers growth and value creation opportunities such as the wind parks of Wind Farms 2 and 3 and Wind Farm 4. Valener considers the nature of its assets, its anticipated cash needs and the financial ratios to be met in managing its capital structure.

As at September 30

<i>(in millions of dollars, unless otherwise indicated)</i>	2015	2014
Long-term debt, net of financing costs <sup>(1)</sup>	121.0	66.8
Shareholders' equity <sup>(2)</sup>	753.7	713.5
Total capitalization	874.7	780.3
Debt / total capitalization ratio <sup>(3)</sup>	13.8%	8.6%

<sup>(1)</sup> The change in long-term debt, net of financing costs, is explained above in heading c) Cash flows related to financing activities.

<sup>(2)</sup> For additional information on the composition of shareholders' equity, refer to the consolidated statements of shareholders' equity of the Company's audited consolidated financial statements for the fiscal years ended September 30, 2015 and 2014.

<sup>(3)</sup> This measure is a non-Canadian-GAAP financial measure. For additional information, refer to the Non-Canadian-GAAP Financial Measures heading in section A) OVERVIEW OF THE COMPANY AND OTHER.

The higher debt / total capitalization ratio stems mainly from the fact that Valener drew on its credit facility to finance its subscriptions of Gaz Métro units, as previously explained. Despite the increase, the ratio remains low, enabling Valener to turn to debt financing in order to participate in Gaz Métro's development and seize any future growth opportunities that might arise.

### Credit facility and financing outlook

In September 2015, Valener's guaranteed credit facility with a maximum authorized amount of \$200.0 million was renewed; it will mature in September 2020 and now contains an annual extension clause. This credit facility is secured by Valener's units in Gaz Métro and its shares in Valener Éole and bears interest at floating rates based on bankers' acceptance rates or the prime rate, increased according to the terms of this credit facility. Under these terms, the Company is subject to restrictive covenants requiring it to satisfy certain financial ratios or conditions at all times. As at September 30, 2015, Valener was in compliance with all of the conditions of its credit facility. Given all amounts borrowed and letters of credit issued, the unused credit facility as at September 30, 2015 was \$77.7 million.

During fiscal 2016, the Company expects to be able to generate the cash needed to meet its financing needs, which will consist mainly of quarterly dividend payments to common and preferred shareholders. Should additional cash be required, the available sources of financing are:

- the unused balance of the credit facility; and
- if necessary, new financings through issuances of debt, common shares or preferred shares.

The amount of financing needs during a fiscal year is subject to volatility, which is likely to be greater given:

- the amount of distributions received from Gaz Métro, Beupré Éole, and Beupré Éole 4; and
- the amount of investment required in its entities subject to significant influence, particularly the capital required for growth initiatives.

The Company must therefore:

- remain vigilant in establishing appropriate dividend levels to common shareholders so as to not unduly pass on this volatility; and
- maintain a sufficient level of unused credit facilities such that it may respond to any eventuality.

### Credit ratings

The S&P and DBRS credit ratings were as follows:

As at September 30

	2015	2014
Series A preferred shares (S&P/DBRS)	P-2(low)/Pfd-2(low)	P-2(low)/Pfd-2(low)

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### NORMALIZED OPERATING CASH FLOWS PER COMMON SHARE

The following table presents the calculation of normalized operating cash flows per common share:

For the fiscal years ended September 30

<i>(in millions of dollars, unless otherwise indicated)</i>	2015	2014	2013
Cash flows related to operating activities	62.9	43.1	45.2
Dividends to preferred shareholders	(4.3)	(4.3)	(4.8)
Normalized operating cash flows <sup>(1)</sup>	58.6	38.8	40.4
Weighted average number of common shares outstanding	38.2	37.9	37.7
Normalized operating cash flows per common share <i>(in \$)</i> <sup>(1)</sup>	1.53	1.02	1.07

<sup>(1)</sup> These measures are non-Canadian-GAAP financial measures. For additional information, refer to the Non-Canadian-GAAP Financial Measures heading in section A) OVERVIEW OF THE COMPANY AND OTHER.

For fiscal 2015, normalized operating cash flows per common share increased by \$0.51 year over year, mainly due to the higher cash flows related to operating activities, as explained in heading a) Cash flows related to operating activities of this section. The normalized operating cash flows were more than sufficient to cover the dividend payments to common shareholders.

For fiscal 2014, normalized operating cash flows per common share decreased \$0.05 year over year, mainly due a \$5.5 million decrease in distributions received from Gaz Métro as they had included, in fiscal 2013, an increase of \$6.7 million in the Gaz Métro distributions otherwise payable to Valener, as planned at the time of the September 2010 reorganization of Gaz Métro, partly offset by the effect of the distributions received on the units subscribed by Valener, in proportion to its interest in Gaz Métro, during the fourth quarter of fiscal 2013, and a tax advantage arising from the accelerated amortization of wind power assets.

### CONTRACTUAL OBLIGATIONS

The following table presents the payments to be made under contractual obligations over the next five years and thereafter:

<i>(in millions of dollars)</i>	Total	Less than one year	1 year to 3 years	3 years to 5 years	Thereafter
<b>Financial liabilities</b>					
Accounts payable and accrued liabilities	0.5	0.5	-	-	-
Dividends payable to common shareholders	10.0	10.0	-	-	-
Dividends payable to preferred shareholders	1.1	1.1	-	-	-
Long-term debt	121.0	-	-	121.0	-
Derivative financial instruments	4.0	-	4.0	-	-
Interests related to financial liabilities <sup>(1)</sup>	10.7	2.1	6.5	2.1	-
<b>Total contractual obligations</b>	<b>147.3</b>	<b>13.7</b>	<b>10.5</b>	<b>123.1</b>	<b>-</b>

<sup>(1)</sup> Interest is presented based on contractual maturity and using the rates in effect as at September 30, 2015.

### E) RISK FACTORS RELATING TO VALENER

The risks presented below are related to the Company. Risks are classified by risk category and, within each category, according to severity and likelihood. For risk factors related to Gaz Métro, refer to section R) RISK FACTORS RELATING TO GAZ MÉTRO in this Management's Discussion and Analysis.

### UNCERTAINTY OF DIVIDEND PAYMENTS

There is uncertainty surrounding future dividend payments by Valener on the common shares, on the Series A preferred shares and, possibly, on the Series B preferred shares and the amount of the dividends, as Valener's dividend policy and the funds available for dividend payments from time to time will depend, among other factors, on (i) the distributions that Valener receives from Gaz Métro, (ii) the distributions that Valener will receive indirectly from Wind Farms 2 and 3 and Wind Farm 4, (iii) Valener's operating cash flows, (iv) the funds required to make principal repayments or interest payments under its credit facility, and (v) the satisfaction of the solvency tests set out in the CBCA for the declaration and payment of dividends.

The credit facility imposes certain operating and financial restrictions through covenants, including restrictions on Valener's ability to contract additional debt, to grant security or pay dividends if an event of default has occurred or as a result thereof, to guarantee the obligations of a third party, or to amend any of its major contracts other than the credit facility, subject to certain exceptions. These restrictions may limit Valener's ability to declare dividends on the Series A preferred shares and, if any, on the Series B preferred shares and the common shares. Valener is also required to maintain a minimum level of ownership in Gaz Métro and

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

in Beaupré Éole, to meet certain financial ratios and to not consent to, or take any action in respect of, a limitation of Gaz Métro's ability to make distributions to its partners that would not already be provided for in the Gaz Métro Limited Partnership Agreement.

The market price of the common shares could decline substantially if Valener is unable to reach its dividend targets in the future.

As for the market prices of the Series A preferred shares and, eventually, the Series B preferred shares, they could decline substantially if Valener is unable to pay dividends on these series of preferred shares due, among other factors, to the above-mentioned circumstances.

### **DEPENDENCE ON GAZ MÉTRO AND MINORITY INTEREST**

As long as Valener's interest in Gaz Métro remains its most significant investment, Valener's results will depend on Gaz Métro's profitability, which is tied to Gaz Métro's ability to invest mainly in the development of its various networks and to the rates of return on deemed common equity authorized by the various regulatory agencies. Moreover, as a special partner of Gaz Métro with only 29% of its capital units, Valener does not control Gaz Métro's strategic direction or projects.

### **RISK OF DILUTION IN GAZ MÉTRO**

Should Valener not have access to capital or should capital not be available on terms it deems sufficiently attractive at the relevant time, Valener may not be able to subscribe, in whole or in part, its share pursuant to its pre-emptive right under the Gaz Métro Limited Partnership Agreement, and its future proportionate share in the consolidated income of Gaz Métro would therefore be diluted.

### **ABILITY TO MANAGE GROWTH**

Valener's risk profile could change over time should Valener pursue growth opportunities in activities with a risk profile different from that of activities currently pursued by Gaz Métro, within the limits of the Non-Competition Agreement, as described in section 1) ADDITIONAL INFORMATION, and the applicable limits of its credit facility. These potential changes to Valener's risk profile may impact Valener's results as well as its ability to obtain financing in the future.

In addition, Gaz Métro, either directly or through its General Partner GMi, provides Valener and its subsidiaries with certain administration and management support services solely in respect of Valener's interest in Gaz Métro and related public corporation matters, its financing needs, its indirect interest in the Seigneurie projects and, in certain circumstances, certain additional services as described in section 1) ADDITIONAL INFORMATION. However, Gaz Métro will have no obligation to provide any services beyond the services described above, as provided under the Administration and Management Support Agreement, the First Additional Services Agreement for the Management of Debt, and the Second Additional Services Agreement for the Seigneurie Project. Valener may need to appoint its own management team and hire employees or consultants to support any development activities at its own expense, unless otherwise agreed between Valener and Gaz Métro.

### **PERFORMANCE OF THE WIND FARMS**

Because it holds an indirect interest in Wind Farms 2 and 3 and Wind Farm 4, Valener is exposed to the wind farm operational risks to which Gaz Métro is also exposed. If they were to materialize, these risks could adversely affect the financial performance of Wind Farms 2 and 3 and Wind Farm 4. The above-described risks could result in Valener receiving smaller-than-anticipated cash distributions or none at all from Wind Farms 2 and 3 and Wind Farm 4, which could have a significant unfavourable impact on Valener's results and ability to maintain its projected dividend payouts.

### **ABILITY TO OBTAIN ADDITIONAL FINANCING**

If sources of outside capital, including the issuance of additional Valener securities, were to become limited or unavailable, Valener's ability to make the investments needed to maintain its proportionate interest in Gaz Métro or to seize business opportunities, could be compromised. There is no guarantee that it would be possible to obtain sufficient capital at acceptable terms to finance those investments. In addition, Valener's level of indebtedness from time to time could impair its ability to obtain additional financing on a timely basis and at satisfactory terms to fund those investments or seize business opportunities.

Valener's capital sources may include the issuance of additional common shares, Series A preferred shares or Series B preferred shares or an additional series of preferred shares convertible into common shares or debt instruments convertible into common shares that could, depending on the price at which they are issued or converted, have a significant dilutive effect for holders of Valener common shares and an unfavourable impact on the price of Valener common shares.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### MAINTENANCE OF CREDIT RATINGS

The corporate credit rating attributed to Valener by S&P and the credit ratings attributed to the Series A preferred shares by S&P and DBRS represent an assessment, by the credit rating agencies, of Valener's ability to meet its financial commitments. The ratings are based on certain assumptions that include assumptions on Valener's future capital structure and performance that may or may not be realized.

Changes in the corporate credit rating attributed to Valener and in the ratings attributed to the Series A preferred shares or in any future rating of the Series B preferred shares may affect Valener's financing costs, impair its ability to attract capital, have an adverse effect on its cash flows and constrain its ability to conduct its operations, all of which could have significant adverse repercussions on the Company and its financial position. There is no assurance that the corporate credit rating or any rating attributed to the Series A preferred shares or potentially to the Series B preferred shares will remain in effect for a specified period or that the rating will not be lowered or completely withdrawn by the rating agency.

### MARKET VOLATILITY

The market price of Valener's common shares, Series A preferred shares and, potentially, Series B preferred shares may be volatile and undergo substantial fluctuations due to numerous factors, many of which are beyond Valener's control.

### LIQUIDITY RISK

To meet its financial needs, Valener relies particularly on the distributions received from Gaz Métro and indirectly from Wind Farms 2 and 3 and Wind Farm 4. Liquidity risk is the risk that Valener would be unable to pay its financial commitments as they become due. Valener manages liquidity risk by forecasting its cash flows in order to determine its financing needs and by ensuring that it has sufficient cash and credit facilities to fulfill its needs and meet its obligations as they become due. The committed credit facility and access to capital markets allow it to meet its needs. However, any significant reduction in Valener's ability to access capital markets by reason, for example, of a significant deterioration in economic conditions, the general state of financial markets, or a negative financial market perception of Valener's financial position or outlook, could have an unfavourable impact on Valener's activities, financial position or consolidated net income.

### RISK OF INTEREST RATE FLUCTUATIONS

Valener is exposed to interest rate fluctuation risk on its long-term debt, which bears interest at floating rates. Canadian and world economic conditions that are beyond Valener's control have an influence on interest rates. In order to limit the impact of interest rate fluctuations, the Company concluded interest rate swaps and ensures it maintains an appropriate capital structure.

In terms of market risk relating to interest rate risk, refer to Note 13 of Valener's September 30, 2015 and 2014 audited consolidated financial statements, which discusses this risk and is included by reference in this management discussion and analysis report.

## **F) RECENT ACCOUNTING CHANGES**

### **FUTURE ACCOUNTING CHANGES**

#### **Change in accounting framework**

Valener has chosen to use the exemption set out in the Introduction to Part I of the Handbook, *International Financial Reporting Standards*, under which qualifying entities with RRA may defer application of Part I to fiscal periods beginning on or after January 1, 2015 (deferral period). Consequently, for fiscal 2015, Valener is presenting its consolidated financial statements in accordance with Canadian GAAP.

In 2014, Valener had announced its intention to adopt IFRS and apply IFRS 14, *Regulatory Deferral Accounts*, as of fiscal 2016. Before the publication of IFRS 14, the conversion to IFRS had represented a major challenge for Valener since, unlike Canadian and U.S. GAAP, IFRS did not include a specific standard for RRA.

As explained in section S) RECENT ACCOUNTING CHANGES of this MD&A, in May 2015, Valener obtained a new three-year exemption from the Canadian Securities Administrators allowing it to prepare its consolidated financial statements in accordance with U.S. GAAP in order to meet its continuous disclosure requirements in Canada. This exemption is valid until the first of the following dates: (i) January 1, 2019; (ii) the first day of the fiscal year following the cessation of Valener's RRA, if applicable; (iii) the effective date prescribed by the IASB for mandatory application of a permanent and specific IFRS standard for entities engaged in RRA. Valener will therefore use U.S. GAAP to prepare its annual and interim consolidated financial statements for fiscal years 2016 to 2018, inclusively.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This new exemption follows the one obtained in July 2011 that allowed Valener to use U.S. GAAP for fiscal years 2013 to 2015, inclusively. That exemption was not used because of the deferral period granted by the AcSB after a comprehensive RRA project and development of an interim standard were added to the IASB's agenda in December 2012.

Detailed information about Gaz Métro's U.S. GAAP conversion project is provided in section S) RECENT ACCOUNTING CHANGES in this MD&A. The detailed information on governance, the conversion plan, information systems, and internal control over financial reporting apply to both Valener's conversion project and Gaz Métro's conversion project.

Aside from the differences identified for Gaz Métro, the analyses conducted to date have identified a difference specific to Valener. Under Canadian GAAP, the impact of reversing a valuation allowance related to future income tax assets must be recognized in net income, regardless of the classification of the item that gave rise to the future income tax asset provisioned in the previous periods. Under U.S. GAAP, the impact of this reversal must be recognized using the same classification as the items that gave rise to the change in the assessment of the likelihood of realizing the future income tax assets.

As of October 1, 2015, Valener must comply with these requirements, with restatement of the opening balance sheet as at October 1, 2014 and the fiscal 2015 comparative year. Therefore, the impact of reversing a portion of a valuation allowance for future income tax assets related to other comprehensive income, will be adjusted as follows:

- Opening balance sheet as at October 1, 2014: No impact
- Consolidated financial statements for fiscal 2015: Reclassification to other comprehensive income of future income tax savings recognized in net income. The deficit and accumulated other comprehensive income will be adjusted upward accordingly.

### **G) FINANCIAL INSTRUMENTS**

The Company's consolidated balance sheet contains financial instruments. The Company's financial assets include cash, the amount receivable from Gaz Métro, and distributions receivable from Gaz Métro. The Company's financial liabilities include accounts payable and accrued liabilities, dividends payable to common and preferred shareholders, long-term debt and a liability related to derivative financial instruments liability. The classifications of the Company's financial instruments and quantitative information about their accounting treatment are provided in Notes 2 and 12 of the Company's audited consolidated financial statements for the fiscal years ended September 30, 2015 and 2014, and financial instrument risk management is discussed in Note 13.

### **FAIR VALUE OF FINANCIAL INSTRUMENTS**

As at September 30, 2015, the Company has held-for-trading financial assets that are measured at fair value. The Company also has loans and receivables and financial liabilities not held for trading, which are measured at amortized cost. However, the carrying amounts of these items approximate their fair values given the short periods to maturity or, since their terms and conditions are comparable, to those of the current market for similar instruments.

### **DERIVATIVE FINANCIAL INSTRUMENTS**

During fiscal 2015, Valener entered into swaps for a total nominal value of \$44.8 million with a mandatory early termination date of October 31, 2016 to cover the risk of interest rate fluctuations on an initially planned debt issuance. These derivative financial instruments were classified as held for trading. Since these swaps do not meet the conditions for hedge accounting, changes in fair value are therefore recognized in income. The swaps are recognized at fair value, which is determined using the interest rates at the close of markets on the balance sheet date. The fair value of these swaps was calculated using the discounted future cash flows method.

### **RISKS RELATED TO DERIVATIVE FINANCIAL INSTRUMENTS**

Having signed these swap agreements, Valener is exposed to market and liquidity risks, as changes in interest rates have an impact on the fair value of financial assets and liabilities. For a description of these risks, refer to the Liquidity Risk heading in section E) RISK FACTORS RELATING TO VALENER of this MD&A.

### **H) SIGNIFICANT ACCOUNTING ESTIMATES**

In preparing the Company's consolidated financial statements in accordance with Canadian GAAP, the management of the manager must make assumptions and exercise its judgment in order to establish estimates. Those estimates, which are based on past experience and present conditions, might differ significantly from actual results. Valener's significant accounting estimates are described in the following sections. Valener's results are also influenced by Gaz Métro's significant accounting estimates. For additional information on Gaz Métro's significant accounting estimates, refer to section U) SIGNIFICANT ACCOUNTING ESTIMATES of this MD&A.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### INCOME TAXES

Valener is taxable on all its income as determined by enacted tax laws, including the earnings from its interests in entities subject to significant influence formed as limited partnerships. These limited partnerships do not present income tax expense, since, under existing tax legislation, their income is taxable at the partners' level.

The Company uses the liability method to account for income taxes. Under this method, future income tax assets and liabilities are determined according to temporary differences between the carrying amounts and the tax bases of the assets and liabilities of the Company and its share in the temporary differences of the entities subject to significant influence formed as limited partnerships. They are measured using enacted or substantively enacted tax rates and laws at the date of the consolidated financial statements for the fiscal years in which the temporary differences are expected to reverse. The impact of a change in income tax rates on future income tax assets and liabilities is included in the income of the period during which the change was enacted or substantively enacted. In all cases, future income tax assets are recognized only if they are more likely than not to be realized. The offsetting entry for future income taxes related to rate-regulated activities is reflected in the interest in Gaz Métro.

This method requires significant judgment in determining whether or not the Company's future tax assets are more likely than not to be recovered from future taxable income and therefore whether they can be recognized in the Company's consolidated financial statements. It also requires judgment in determining the expected timing when tax assets will be realized and tax liabilities settled and in determining the tax rates that will be enacted or substantively enacted at that time.

### I) ADDITIONAL INFORMATION

#### SHARES OUTSTANDING

As at November 25, 2015, the number of common shares and Series A preferred shares outstanding totalled 38,438,087 (including the 78,118 common shares issued on October 15, 2015 under the DRIP) and 4,000,000, respectively. Only the Company's common shares are voting shares.

#### RELATED PARTY TRANSACTIONS

The following related party transactions are carried out in the normal course of operations and, unless otherwise indicated, are measured at the exchange amount, i.e., the amount of consideration established and agreed to by the related parties.

##### **a) Administration and Management Support Agreement**

Gaz Métro and Valener entered into an Administration and Management Support Agreement (the Administration Agreement), maturing in 2025, under which (i) Gaz Métro, either directly or through its General Partner GMi, provides Valener with certain administration and management support services solely in respect of Valener's interest in Gaz Métro and related public company matters and, in certain circumstances, certain additional services and (ii) Gaz Métro reimburses Valener for all general and administrative expenses that it incurs (including costs related to public company matters), subject to certain limitations. Under this Administration Agreement, Valener charged Gaz Métro an amount of \$1.7 million for fiscal 2015 (\$1.8 million for fiscal 2014).

##### **b) Non-Competition Agreement**

On September 30, 2010, Gaz Métro and Valener entered into a non-competition agreement that dictates the parameters within which Valener may pursue its own development projects and acquisition strategies.

Under the provisions of the Non-Competition Agreement and subject to certain conditions, Valener may not, in any manner whatsoever, directly or indirectly, and will cause its affiliates within the meaning of the *Securities Act* (Quebec) not to, carry on, engage in, or be concerned with or interested in an entity engaged in "Restricted Activities" or advise, invest, lend money to, guarantee the debts or obligations of, or permit its name or any part of its name to be used or employed by any person engaged in or concerned with or interested in an entity engaged in "Restricted Activities," without the prior written consent of GMi's board of directors. For the purposes of the Non-Competition Agreement, "Restricted Activities" refers to (i) regulated or non-regulated gas-related activities in the Province of Quebec of any nature whatsoever, including, without limitations, the transportation, distribution and storage of natural gas, the transportation and gathering of shale gas, geothermal activities and natural gas for transportation, (ii) the transportation or distribution of natural gas in the State of Vermont, and (iii) the generation, transmission or distribution of electricity in the State of Vermont.

### J) QUARTERLY RESULTS

As Valener owns an economic interest in Gaz Métro and indirectly in Wind Farms 2 and 3 and Wind Farm 4, its interim period operating results reflect the seasonal nature of the interim results of these economic interests. As such, Valener's interim period operating results are not necessarily representative of the results to be expected for the fiscal year, as seasonal temperature and

## MANAGEMENT'S DISCUSSION AND ANALYSIS

wind fluctuations influence the energy consumption levels of customers and energy production levels of the wind farms, which in turn influence Valener's interim consolidated financial results, as shown in the table below. Historically, Valener's revenues and profitability are higher in the first two quarters of a fiscal year than in the last two quarters.

<i>(in millions of dollars, unless otherwise indicated)</i>	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>	Fiscal 2015
Revenues	\$ 22.6	\$ 44.6	\$ 0.5	\$ (9.0)	\$ 58.7
Net income (loss) attributable to common shareholders	\$ 15.3	\$ 32.2	\$ 1.4	\$ (6.1)	\$ 42.8
Basic and diluted net income (loss) per common share <i>(in \$)</i>	\$ 0.40	\$ 0.84	\$ 0.04	\$ (0.16)	\$ 1.12

<i>(in millions of dollars, unless otherwise indicated)</i>	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>	Fiscal 2014
Revenues	\$ 21.8	\$ 39.3	\$ (1.2)	\$ (8.7)	\$ 51.2
Net income (loss) attributable to common shareholders	\$ 15.8	\$ 29.1	\$ (1.7)	\$ (6.5)	\$ 36.7
Basic and diluted net income (loss) per common share <i>(in \$)</i>	\$ 0.42	\$ 0.77	\$ (0.04)	\$ (0.17)	\$ 0.97

## SUMMARY OF QUARTERLY RESULTS

In the fourth quarter of fiscal 2015, the net loss attributable to common shareholders was \$6.1 million compared to a net loss of \$6.5 million in the fourth quarter of fiscal 2014. This \$0.4 million favourable change was mainly due to (i) a favourable impact of the future income tax expense attributable to the change in the outside-basis temporary difference on the interest in Gaz Métro and (ii) a \$0.5 million decrease in the share in the net loss of Gaz Métro, which represented 29% of Gaz Métro's net income, as described in section N) CONSOLIDATED ANNUAL FINANCIAL PERFORMANCE SUMMARY of Gaz Métro, mitigated by (iii) a \$2.1 million unrealized loss related to swaps following a decrease in interest rates.

The change in net income (loss) attributable to common shareholders for each of the three other quarters is mainly due to its share in the change of Gaz Métro's net income (loss), as described in section W) QUARTERLY RESULTS of Gaz Métro, and to a change in the fair value of the swaps entered into in October 2014 resulting from a change in interest rates, partly offset by changes in the income tax expense on these items.

## K) SUBSEQUENT EVENTS

### DECLARATION OF A DIVIDEND TO COMMON SHAREHOLDERS

On November 27, 2015, the board of directors declared a quarterly dividend of \$0.27 per common share for the quarter ending December 31, 2015, payable on January 15, 2016 to common shareholders of record at the close of business on December 31, 2015. The board of directors also approved the reinvestment of dividends into additional common shares, for the dividend payable on January 15, 2016, by way of an issuance of new common shares of the Company, at a 2% discount, in accordance with the terms and conditions of the DRIP.

### DECLARATION OF A DIVIDEND TO PREFERRED SHAREHOLDERS

On November 27, 2015, the board of directors also declared a dividend of \$0.271875 per Series A preferred share for the period of October 16, 2015 to January 15, 2016, payable on January 15, 2016 to the preferred shareholders of record at the close of business on January 11, 2016.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### GAZ MÉTRO LIMITED PARTNERSHIP

#### L) OVERVIEW OF THE PARTNERSHIP AND OTHER

With more than \$6 billion in assets, Gaz Métro is a leading energy provider. It is the largest natural gas distribution company in Quebec, where its network of over 10,000 km of underground pipelines serves more than 300 municipalities and more than 195,000 customers. Gaz Métro is also present in Vermont, producing electricity and distributing electricity and natural gas to meet the needs of more than 310,000 customers. Gaz Métro is actively involved in the development and operation of innovative, promising energy projects, including natural gas as fuel and liquefied natural gas as a replacement to higher emission-producing energies, the production of wind power, and the development of biomethane. Gaz Métro is a major energy sector player that takes the lead in responding to the needs of its customers, regions and municipalities, local organizations, and communities while also satisfying the expectations of its Partners (GMI and Valener) and employees.

GAZ MÉTRO IS FULLY COMMITTED TO A MORE  
ENERGY-EFFICIENT FUTURE THROUGH ITS INVOLVEMENT WITH  
VARIOUS INNOVATIVE PROJECTS SUCH AS SOLAR AND WIND  
POWER PRODUCTION, BIOMETHANE, NATURAL GAS AS FUEL, AND  
LNG

#### MISSION, VISION AND VALUES

"Gaz Métro's main mission is to distribute natural gas in Quebec. The company also provides other energy services, including the distribution of natural gas and electricity in Vermont, and invests with business partners in energy projects that will generate growth.

Gaz Métro aims to be an avant-garde enterprise in the energy field. In carrying out this mission, Gaz Métro relies on the values of responsibility, performance and respect.

As a responsible enterprise, Gaz Métro particularly intends to respond to the needs of present generations without compromising the ability of future generations to respond to theirs.

As a performing enterprise, Gaz Métro cultivates excellence and endeavours to achieve the best results for itself and for its business partners.

As a respectful enterprise, Gaz Métro fully considers the interests and expectations of its customers, its investors, its employees and communities.

Committed to sustainable development, Gaz Métro thinks energy in an overall perspective to better supply its services at the local level."

#### STRATEGY

The Partnership remains convinced that the success of businesses of tomorrow, as is the case today, will depend on their ability to strike a balance between the interests and expectations of their customers, investors and employees, all while respecting the community and ensuring sustainable development.

Gaz Métro's **financial objective** continues to be to provide its Partners with a stable and sound return accompanied by growth in value over the years. While achieving this objective depends largely on the performance of energy distribution activities in Quebec and Vermont, it also depends on its ability to profitably develop its other operations while maintaining relatively the same overall business risk profile.

From a **business perspective**, the Partnership intends to continue to grow its clientele and provide customers with high-quality energy services at the lowest possible cost, achieving this through policies and programs that motivate employees and business partners.

From a **regulatory perspective**, virtually all of the Partnership's activities are regulated. Consequently, its profitability goes hand in hand with its ability to invest in the development of its networks and with the rates of return on deemed equity authorized by

## MANAGEMENT'S DISCUSSION AND ANALYSIS

the regulatory agencies. It is therefore important for the Partnership to remain apprised of additional investment opportunities in its various networks and to ensure that the authorized rates of return on deemed equity are fair and reasonable.

### OVERVIEW OF THE BUSINESS SEGMENTS

#### 1. ENERGY DISTRIBUTION SEGMENT

The Energy Distribution segment consists of natural gas distribution activities in Quebec and Vermont as well as electricity distribution activities in Vermont.

This segment's activities are subject to rate regulation by regulatory agencies in Quebec and Vermont. Rates for natural gas and electricity distribution are established primarily using a cost-of-service method, under which applicable entities may fix their revenues each year to recover the costs they expect to incur to serve their customers and earn a reasonable base return on the equity allocated to this activity.

##### 1.1 NATURAL GAS DISTRIBUTION ACTIVITIES

###### Gaz Métro-QDA

Gaz Métro-QDA, one of Gaz Métro's core businesses, distributes approximately 97% of the natural gas consumed in Quebec. In order to supply its customers, Gaz Métro-QDA relies on a varied portfolio of transportation and storage capacity tools that expire at different times. Gaz Métro-QDA has transportation capacity on the TCPL and Union Gas networks that it uses to deliver natural gas to its exclusive service area from Western Canada or from Dawn in Ontario. The storage capacities contracted or owned by Gaz Métro-QDA allow it to meet changing consumption patterns among its customers. Gaz Métro-QDA has contracted storage capacity in Quebec and at Dawn in Ontario. Gaz Métro-QDA buys the natural gas required to supply its customers or receives natural gas from customers who have decided to contract their own supply of natural gas. Gaz Métro-QDA's supply plan is submitted to the Régie once a year for approval.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

Gaz Métro-QDA is regulated by the Régie, which sets transportation, load-balancing and distribution rates each year and sets supply, C&T and compression rates each month. Since November 1, 2015, the costs of the compression service, which has been abolished, have been charged to the transportation service. The Régie also oversees the operating and development activities of Gaz Métro-QDA's natural gas distribution systems. As part of Gaz Métro-QDA's annual rate-setting process, the Régie sets an authorized rate of return on deemed common equity.

Gaz Métro-QDA has more than 1,400 employees. In its pursuit of excellence with suppliers, partners and customers, Gaz Métro-QDA has developed a system of indicators to measure its organizational, operational and financial performance against objectives set at the beginning of the fiscal year. Part of this system focuses specifically on measuring Gaz Métro-QDA's performance, within the current regulatory framework, in the following areas:

- the quality of service received by Gaz Métro-QDA's customers and their satisfaction;
- safe management of the system (preventive maintenance program and response times);
- reduction of GHG emissions;
- compliance with service interruption and recovery procedures; and
- environmental management (ISO 14001).

These performance indicators also influence how Gaz Métro-QDA's distribution service overearnings are shared. For instance, should Gaz Métro-QDA fail to meet its performance indicator thresholds on an annual basis, the portion of overearnings attributable to Partners would be reduced.

In addition to the indicators related to its regulatory framework, in 2013 Gaz Métro-QDA created a system of social responsibility indicators based on the fourth-generation *Global Reporting Initiative* (GRI-G4) guidelines. These financial and extra-financial indicators address the priority economic, social, environmental and governance issues identified by Gaz Métro-QDA's internal and external stakeholders. Relevant information is therefore measured and published in a sustainability report every two years. Examples of the issues and indicators presented include:

- economic performance: Direct economic value generated and distributed;
- procurement practices: Proportion of spending on local suppliers;
- energy: Energy consumption within the organization;
- occupational health and safety: Rate and type of occupational injury; and
- employment: Number of new hires and employee turnover.

In March 2014, Gaz Métro-QDA published a fully transparent first sustainability report based on the GRI-G4 guidelines. It is one of the first reports in Quebec to meet the requirements of these guidelines and the first to obtain *Materiality Matters* validation in Canada. Gaz Métro-QDA's second sustainability report will be published in spring 2016.

### VGS

VGS, a subsidiary of Gaz Métro, owns and operates a natural gas transportation and distribution system of over 1,300 km in Vermont in the United States. VGS is the sole gas distributor in Vermont, serving close to 50,000 mainly residential and commercial customers. VGS procures its natural gas from Western Canada and from Dawn, Ontario. The natural gas is transported and delivered to its main pipeline, at the Canada/Vermont border, through the TCPL system. VGS is regulated by the VPSB, which annually approves its base rates, while supply rates are adjusted each quarter using the current rate adjustment mechanism.

Furthermore, under the current regulatory framework, VGS must also meet certain service quality performance indicators on a calendar-year basis. These indicators mainly address:

- efficiency of service provided to customers;
- customer satisfaction; and
- workplace safety.

If VGS were to fail to meet its performance indicator thresholds on an annual basis, it could face a penalty from the VPSB that could affect its return.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### 1.2 ELECTRICITY DISTRIBUTION ACTIVITIES

#### GMP

GMP, a subsidiary of Gaz Métro, is Vermont's largest electricity distributor, serving more than 70% of the market and over 260,000 customers. Its main operations include the distribution, transportation, production, purchase and sale of electricity in Vermont and, to a lesser extent, electricity transmission in the State of New Hampshire and electricity production in the States of New York, Maine and Connecticut. GMP's system consists of over 1,500 km of overhead transmission lines, 18,000 km of overhead distribution lines and 1,600 km of underground distribution lines, mostly located in Vermont but also extending into New Hampshire and New York. Although it produces part of the electricity it distributes, most of the electricity is purchased from various producers. Its supply portfolio consists of multiple generation sources, the main one being hydroelectricity and, to a lesser degree, nuclear, wind and solar power. GMP also owns 32 hydroelectric generating stations, all in the State of Vermont, which account for approximately 8% of its supply portfolio. Moreover, as the only Vermont electric utility that owns and operates commercial-scale wind farms (through its KCW wind farm with an installed capacity of 63 megawatts located in Lowell and the Searsburg facility with an installed capacity of six megawatts) and given its installed capacity of 7.9 megawatts of solar power production, GMP is the largest wind and solar power producer in the state. GMP is also actively developing other renewable energy projects, such as cow power, which converts manure from dairy cows into clean electric power.

GMP is regulated by the VPSB, as is VGS. Every year, the VPSB sets electricity rates on a cost-of-service basis. However, a quarterly adjustment mechanism is in place to ensure that any additional electricity supply and transmission costs or savings not anticipated during the rate-setting process are recovered from or returned to customers. In addition, according to the current regulatory framework, GMP must also meet certain service quality performance indicators on a calendar-year basis. These indicators mainly address:

- quality of service provided to customers and customer satisfaction;
- workplace safety; and
- system reliability.

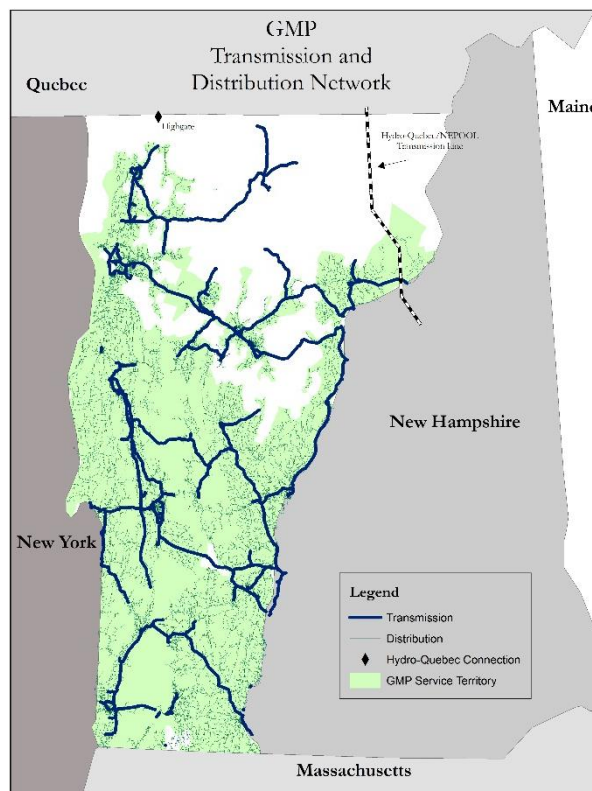
If GMP were to fail to meet its performance indicator thresholds on an annual basis, it could face a penalty from the VPSB that could affect its return.

#### Velco and Transco

GMP owns a significant interest in Transco and in Velco. Transco's main activities are planning, building, operating and maintaining an electricity transmission system in Vermont. Transco owns and operates a high-voltage electricity transmission system enabling it to offer electricity transmission services to over 17 electricity distributors in Vermont and two in New Hampshire. It also supplies electricity to New England through ISO-NE, which manages power generation and transmission operations in that region. Velco operates a transmission line used to transmit the electricity that New England electricity distributors purchase from Hydro-Québec. Velco also acts as manager of Transco, giving it the power to manage, at its discretion, Transco's day-to-day operations. Velco and Transco are regulated by the FERC when it comes to rate-setting and financing and by other Vermont regulatory agencies for such matters as the construction of electricity transmission-related assets.

#### VYNPC

VYNPC is a wholly owned subsidiary of Gaz Métro. VYNPC's core business is managing its investment fund, the amounts of which will be used to settle its obligations with the United States Department of Energy (DOE) to eliminate spent nuclear fuel. VYNPC is regulated by the FERC and the VPSB.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### 2. NATURAL GAS TRANSPORTATION SEGMENT

Gaz Métro owns financial interests in three natural gas transportation enterprises, namely, TQM, Champion and PNGTS.

#### TQM

The Partnership owns a 50% interest in TQM, which operates a gas pipeline in Quebec that connects upstream with that of TCPL and downstream with that of PNGTS and the Gaz Métro-QDA network. Its activities are regulated by the NEB.

#### Champion

Champion, a wholly owned subsidiary of Gaz Métro, operates two pipelines that cross the Ontario border and supply Gaz Métro-QDA's distribution network in northwest Quebec. Champion's activities are regulated by the NEB with respect to revenue determination, tolls, construction and the operation of its network.

#### PNGTS

Gaz Métro also owns a 38.3% interest in the PNGTS pipeline, which starts at the Quebec border and extends to the suburbs of Boston. PNGTS's activities are regulated by the FERC.

### 3. ENERGY PRODUCTION SEGMENT

This segment consists of the non-regulated energy production activities related to Wind Farms 2 and 3 and Wind Farm 4.

#### Wind Farms 2 and 3

Wind Farms 2 and 3 is an equal-share joint venture of Boralex and Beaupré Éole, which is, in turn, 51%-owned by Gaz Métro and 49%-owned by Valener. This joint venture's core business consists of owning and operating two wind farms with an installed capacity of 272 megawatts on the private lands of Seigneurie de Beaupré. These wind farms were put into commercial service in the first quarter of fiscal 2014, and all the electricity they generate is sold to Hydro-Québec under 20-year contracts.

#### Wind Farm 4

Wind Farm 4 is an equal-share joint venture of Boralex and Beaupré Éole 4, which is, in turn, 51%-owned by Gaz Métro and 49%-owned by Valener. This joint venture's core business consists of owning and operating a wind farm with an installed capacity of 68 megawatts on the private lands of Seigneurie de Beaupré. This wind farm was put into commercial service on December 1, 2014, and all the electricity it generates is sold to Hydro-Québec under a 20-year contract.

### 4. ENERGY SERVICES, STORAGE AND OTHER SEGMENT

#### 4.1 ENERGY SERVICES

Energy service activities are not regulated and are provided by the following subsidiaries and joint ventures:

- **Gaz Métro LNG**, a subsidiary of Gaz Métro, was created to respond to the current and expected growth in demand in the LNG market. Its role is to structure the supply of LNG and to ensure the liquefaction capacity of Gaz Métro-QDA's LSR plant, located in Montreal's east end, and of the plant to be built by Gaz Métro LNG for markets using natural gas as fuel instead of petroleum. Through LNG, it will also meet the natural gas demand of industries in regions that are distant from Gaz Métro-QDA's gas network, depending on their needs and distance from the network, and also offer LNG supply solutions by truck or ship.
- **Gaz Métro Energy Solutions**, a subsidiary of Gaz Métro, was created during the third quarter of fiscal 2015 to ensure, among other things, LNG storage, treatment and regasification to meet the peak energy needs of the TransCanada Energy power plant in Bécancour and similar projects.
- **Transport Solutions**, a subsidiary of Gaz Métro, is Quebec's leader in alternative fuel, in both an advisory role to companies and with respect to its deployment of refuelling stations. Transport Solutions was created to develop the market for natural gas (both compressed and liquefied) as a fuel in the heavy transport market and as a cleaner alternative to diesel fuel. Transport Solutions provides turnkey solutions to owners of vehicle fleets and guides them through their initiatives to transition to natural gas as a fuel. To further develop the market for natural gas as fuel, Transport Solutions has also developed the Blue Road, a natural gas refuelling network for heavy transportation vehicles in Quebec and Ontario.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

- **Gaz Métro Plus**, a subsidiary of Gaz Métro, is a leader in supplying energy products and services. Its range of products satisfy customer needs with respect to the installation, sale, rental, maintenance and repair of natural gas equipment. This subsidiary is also active in the residential, commercial and institutional markets.
- **CCUM**, an equal-share joint venture between Gaz Métro and Dalkia Canada Inc., owns and operates three distinct steam, hot water and cold water networks used to heat and cool commercial buildings. Its 3-kilometre network serves 1.8 million square metres of varied facilities and meets the energy needs of one-third of the commercial space in downtown Montreal.

### 4.2 STORAGE

Gaz Métro owns an interest in **Intragaz**, whose main activity is underground natural gas storage. This activity fits within Gaz Métro's overall mission, as natural gas storage is an integral part of its supply chain. The respective ownership interests of Gaz Métro and ENGIE (formerly GDF SUEZ), the other co-owner of Intragaz, range from 40% to 60% depending on the entities that make up Intragaz.

Intragaz, whose rates are approved by the Régie, operates the only two underground natural gas storage facilities in Quebec in Gaz Métro-QDA's service area; Gaz Métro-QDA is Intragaz's only customer. Intragaz sets its rates using the cost-of-service method.

## 5. CORPORATE AFFAIRS SEGMENT

This segment encompasses all of the Partnership's other activities that are not directly attributable to the other segments, including the development costs of various projects.

### POTENTIAL ACQUISITIONS

The Partnership continues to stay apprised of potential opportunities but remains consistent with the approach of considering only those projects that are in line with its mission, that would create value, that have a risk profile similar to Gaz Métro's current profile and, in the case of development projects, that include long-term agreements with solid counterparties.

## NON-CANADIAN-GAAP FINANCIAL MEASURES AND ADDITIONAL CANADIAN-GAAP MEASURE

The financial information has been prepared in accordance with Canadian GAAP. In management's opinion, certain non-Canadian-GAAP financial measures provide readers with information considered useful for analyzing Gaz Métro's financial performance. However, certain financial measures are not defined by Canadian GAAP and should not be considered in isolation or as substitutes for other financial measures that are in accordance with Canadian GAAP. The results obtained might not be comparable with similar financial measures used by other issuers and should therefore be considered only as complementary information.

NON-CANADIAN-GAAP FINANCIAL MEASURES	
Standardized distributable cash (deficiency) <sup>(1) (2)</sup>	It corresponds to cash flows related to operating activities less purchases of property, plant and equipment. The purpose of this measure is to present the cash flows generated by the Partnership's operations over a given period that could be available for distributions to Partners.
Net income (loss) attributable to Partners, excluding non-recurring items <sup>(3)</sup>	It is the net income (loss) attributable to Partners, net of items that management considers non-recurring, i.e., that are unlikely to recur in the next two fiscal years or did not occur in the two fiscal years preceding the fiscal year during which they were realized. The Partnership uses this measure to compare, between periods, net income or net loss generated from ongoing operations.
Debt / total capitalization ratio <sup>(1)</sup>	This ratio consists of total debt divided by capitalization. Total debt is the sum of bank loans, the current portion of long-term debt, and long-term debt net of financing costs. Capitalization is the sum of total debt and Partners' equity. The Partnership uses this ratio to measure its accessibility to debt financing that enables it to seize future growth opportunities.

<sup>(1)</sup> Section Q) CASH AND CAPITAL MANAGEMENT provides a quantitative reconciliation of these measures with Canadian-GAAP-compliant measures.

<sup>(2)</sup> This MD&A complies, in all material respects, with the recommendations in CICA publication, *Standardized Distributable Cash in Income Trusts and Other Flow-Through Entities – Guidance on Preparation and Disclosure*. While the computation of this measure is standard and comparable for all enterprises, in management's opinion, it is not the most accurate reflection of the Partnership's economic reality because it does not take into account certain factors that are specific to its operations.

<sup>(3)</sup> Section O) SEGMENT RESULTS provides a quantitative reconciliation of this measure with the Canadian-GAAP-compliant measure.

To assess financial performance, management also uses another financial measure that is not one of the minimum items to be included in Canadian GAAP financial statements but that is nonetheless compliant with Canadian GAAP, namely, IBIT.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

Management considers IBIT to be a useful indicator for measuring the financial performance of the Partnership and its business segments.

### M) CONDITIONS IN THE ENERGY MARKET AND FOR GAZ MÉTRO

#### NATURAL GAS IN NORTH AMERICA

##### Environment and competition

The environmental benefits of natural gas offer a compelling argument in its favour and are helping to drive the growing demand in North America. Gaz Métro believes that prioritizing natural gas over more polluting forms of energy makes sense for the environment and for helping to reach Quebec's GHG emission reduction targets. In fact, favouring natural gas over other, more polluting forms of energy such as diesel, oil and coal immediately reduces GHG emissions by approximately 25%, 31 % and 42%, respectively. When it comes to cutting air pollutant emissions, natural gas delivers remarkable performance compared to other more polluting energy sources and is clearly a central part of the solution for reducing smog and acid rain.

FAVOURING NATURAL GAS OVER OTHER, MORE POLLUTING FORMS OF ENERGY IMMEDIATELY REDUCES GHG EMISSIONS BY 25% TO 42%

INDUSTRY AND TRANSPORTATION ARE THE LARGEST PRODUCERS OF GHG IN QUEBEC. A GREATER USE OF NATURAL GAS BY THESE ECONOMIC SECTORS COULD REDUCE GHG EMISSIONS BY UP TO 32%

Moreover, in Quebec, natural gas is currently the most competitive form of energy among all those distributed in most market segments even with certain types of fuel oil becoming more competitive given the fiscal 2015 drop in oil prices. For instance, an industrial customer that converts from heavy oil (n° 6) to natural gas can cut annual energy costs by nearly 35% <sup>(1)</sup>, and a commercial and residential customer switching from light oil (n° 2) to natural gas can enjoy energy savings of approximately 23% to 53% annually <sup>(1)</sup>. A residential customer opting to heat with natural gas instead of electricity can reduce energy costs by 9% to 25% <sup>(1)</sup>, depending on the type of home. For the commercial and industrial market, the savings can range from 27% to 59% <sup>(1)</sup>.

This favourable competitive position was maintained despite the start, on January 1, 2015, of the second three-year compliance period of the C&T Regulation, which replaces the Green Fund Regulation. Fossil fuel distributors must now cover, through the carbon market, their own GHG emissions as well as those of customers not already subject to the C&T Regulation. Gaz Métro-QDA has therefore introduced a new C&T service that it bills to customers who are subject to this Regulation. It is important to note that this public awareness initiative, undertaken by the Government of Quebec, is part of the government's strategy to fight climate change and reduce Quebec's GHG emissions. The initial target was to reduce GHG emissions by 20% (from 1990 levels) by 2020. The government is currently holding a consultation to set a new target for 2030 that proposes to reduce emissions by 37.5% (from 1990 levels). For additional information on the impacts of the C&T Regulation, refer to the Energy Distribution Segment heading in section O) SEGMENT RESULTS.

In Vermont, natural gas also benefits from a significant competitive advantage over other energy sources in the air and water heating markets, as electricity is primarily used for generating and lighting purposes in the territories served by VGS. Natural gas used for heating is more than 13% and 39% less expensive <sup>(2)</sup> than oil and propane, respectively.

##### Prices

This economic advantage of natural gas over other energy sources has grown out of abundant continental supply that has lowered natural gas prices. This abundant North American supply has been driven by greater gas production in the United States, in particular shale gas production.

As seen in the natural gas prices at Empress (Alberta), averaging \$3.14/GJ in fiscal 2015, the downward price trend that began in summer 2014 gradually continued during fiscal 2015 given the abundant supply in the North American market. In fact, the colder-than-normal winter in eastern North America in 2015 had little impact on prices compared to the previous year, since the high inventory levels covered demand until the end of the season. Remember that, in winter 2014, the natural gas market had experienced its first period of volatility since 2008, as much of North America was hit by extended periods of intense cold. The higher winter demand in 2014 had significantly reduced storage levels across North America. However, a summer free of

<sup>(1)</sup> Based on data from fiscal 2015.

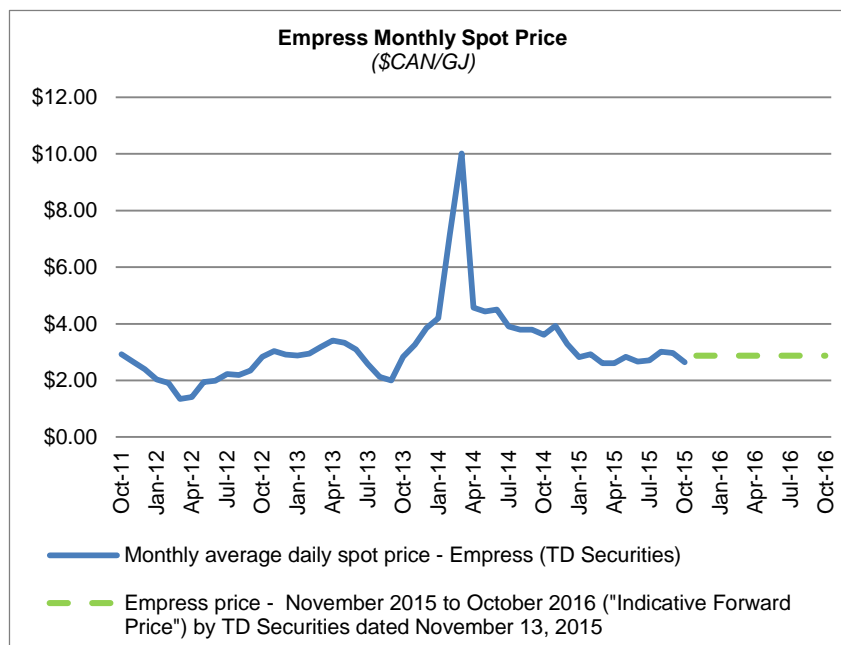
<sup>(2)</sup> Based on data published by the VDPS for September 2015.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

prolonged heat waves in 2014, combined with a record 6% increase in U.S. natural gas production, quickly restored inventories and triggered a downward trend in prices during summer 2014.

The following graph shows the monthly natural gas price at Empress since October 2011 and the projected trend to October 2016:



Over the longer term, experts predict that natural gas supply will remain abundant in North America and will easily meet rising demand in both Canada and the United States. The financial markets also envision such a situation, as reflected in the curve for forward contracts for the coming years. The consensus among financial analysts is that the average annual price of natural gas in Alberta should not exceed \$3.35/GJ between 2015 and 2020.

### Natural gas in all its forms

The environmental benefits and competitiveness of natural gas versus other forms of energy are helping to drive up overall demand in all sectors and contributing to the development of other forms of natural gas such as LNG and CNG. Therefore, the heavy transport and maritime transport industries now have an alternative to diesel for fuelling vehicles, and remote region businesses not served by pipelines can now have natural gas shipped in by truck or boat. Over the long term, this situation could stimulate other projects such as the development of independent LNG networks. Gaz Métro, having listened to its current and future customers, is actively developing these new markets. The \$118 million investment, by Gaz Métro and Investissement Québec, to triple the liquefaction capacity of the LSR plant by November 2016 is also in line with this perspective.

### Supply dynamics

Although experts are expecting the continental supply of natural gas to exceed demand over the long term, North American gas supply dynamics still affect the price and competitive advantage of natural gas in certain regions, including Quebec. The North American natural gas market has three major trading hubs: Henry Hub in Louisiana, AECO in Alberta, and Dawn in Ontario. At each hub, the price of natural gas largely reflects the balance of continental supply and demand, just as it is influenced by regional market conditions.

Currently, Gaz Métro-QDA's gas supply comes largely from Western Canada, specifically from the Empress hub in Alberta, where natural gas is purchased and then transported to Quebec through TCPL's transportation system. Gaz Métro-QDA is also supplied by the Dawn hub in Ontario, which offers a reliable, diversified supply at competitive prices thanks to abundant natural gas supply. Since the Dawn hub is geographically closer to Quebec, supplying the Quebec marketplace from there rather than from Empress helps reduce transportation costs, among other advantages. Seeking to pass on the potential savings of replacing long-distance with short-distance transportation to its customers, in 2012 Gaz Métro-QDA filed an application for Régie approval to move its supply receipt point from Empress to Dawn. The Régie recognized the benefits of this proposal and therefore approved the move, which is currently scheduled to take effect as of November 1, 2016.

However, Quebec's access to competitively priced natural gas supply has been limited given the saturation of TCPL's transportation system between Dawn and Quebec, specifically the segment between Parkway and Maple. As such, Gaz Métro

## MANAGEMENT'S DISCUSSION AND ANALYSIS

and the Ontario gas distributors signed an agreement with TCPL to ensure access to the diverse, affordable sources of natural gas from the Dawn hub. For additional information on the agreement, refer to the Energy Distribution Segment heading of section O) SEGMENT RESULTS.

In October 2014, TCPL filed, with the NEB, an application for its Energy East project, which is proposing the construction and operation of a pipeline system to carry oil from Western Canada to Eastern Canada refineries and new marine terminals with the objective of exporting oil to global markets. The project seeks to convert a portion of the natural gas transportation assets (also called the "Mainline") between Alberta and Quebec to transport oil to Eastern Canada. In October 2015, Gaz Métro and the Ontario gas distributors signed an agreement with TCPL with respect, among other things, to the Energy East project. This agreement dispels some of the uncertainties regarding the project's inherent effects on the gas market and on consumers in Quebec. Under the agreement, TCPL will amend its application with the NEB regarding the Energy East and Eastern Mainline projects to reflect the terms of this agreement. For additional information on these projects, refer to the Energy Distribution Segment heading of section O) SEGMENT RESULTS.

### ELECTRICITY IN NEW ENGLAND

The New England electric power market continues to have adequate supply to meet the region's demand. However, the high prices that characterized this market in fiscal 2014 have continued into fiscal 2015 given the limited pipeline capacity in the winter months and cold temperatures, even though the cold was not as extreme as it had been in 2014. Remember that the price of electricity in New England is highly correlated to that of natural gas, which is widely used for electric power generation.

These high prices directly affect the rates that regional electricity distributors charge to customers. GMP has not yet been negatively affected by the higher electricity prices because its needs are primarily satisfied through short- and long-term contracts and through non-natural-gas generation sources owned by GMP. Should the situation persist, there will be greater pressure on rates as the short-term contracts expire. However, the recent decline in oil prices, and a possibility of added capacity on the New England pipeline network, have helped limit increases in electricity forward prices for the coming years, which could help maintain GMP's future supply costs.

It should be noted that, in fiscal 2015, GMP experienced strong electricity demand in Vermont, primarily due to colder-than-normal winter temperatures. However, aside from the demand fluctuations driven by weather conditions and pipeline capacity, GMP expects sales to decline somewhat in the medium term as energy efficiency measures continue to improve across the state and as self-generation systems grow in the residential and commercial markets. To offset such a decline, GMP plans to offer its customers the opportunity to buy or lease various energy-efficient appliances that will help them achieve energy cost savings over the years. GMP expects that these energy efficiency measures, which will translate into lower energy consumption, will help customers realize savings that will exceed its rate increases that will result from this lower consumption and from the investments required to implement these measures.

### INTEREST RATES AND IMPACT ON THE RATE OF RETURN

Under the current regulatory framework, Gaz Métro-QDA's authorized rate of return on deemed common equity is set using an automatic adjustment formula based on interest rate forecasts on 30-year Canada bonds. However, given the unfavourable impact of a low interest rate environment over the last few years, the Régie authorized a suspension of the automatic adjustment formula for fiscal years 2013, 2014 and 2015 and set an authorized rate of return on deemed common equity of 8.90%; this rate has been renewed for fiscal years 2016 and 2017.

**GAZ MÉTRO-QDA: RENEWAL OF THE 8.90% AUTHORIZED RATE OF RETURN ON  
DEEMED COMMON EQUITY FOR FISCAL YEARS 2016 AND 2017**

Gaz Métro was also able to benefit from favourable market conditions and low interest rates during issuances by GMi, in its capacity as General Partner of Gaz Métro, of senior notes totalling \$114.4 million (US\$100.0 million) in December 2014 and of Series R first mortgage bonds totalling \$100.0 million in March 2015. Both issuances were guaranteed by Gaz Métro. The proceeds of these issuances were loaned to Gaz Métro at similar conditions.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### N) CONSOLIDATED ANNUAL FINANCIAL PERFORMANCE SUMMARY

#### 1. HIGHLIGHTS

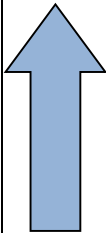
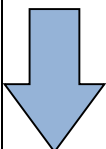
For the fiscal years ended September 30

<i>(in millions of dollars, unless otherwise indicated)</i>	2015	2014	2013	Change 2015 vs 2014	Change 2014 vs 2013
Revenues	2,720.6	2,536.7	2,217.4	183.9	319.3
Gross margin	1,078.0	1,014.1	934.1	63.9	80.0
IBIT	238.2	221.7	209.5	16.5	12.2
Net income	188.0	173.8	178.9	14.2	(5.1)
Net income (loss) attributable to:					
Non-controlling interests	3.6	(0.9)	(1.5)	4.5	0.6
Partners	184.4	174.7	180.4	9.7	(5.7)
Basic and diluted net income per unit attributable to Partners <i>(in \$)</i>	1.19	1.15	1.21	0.04	(0.06)
Net income attributable to Partners, excluding non-recurring items <sup>(1)</sup>	192.4	174.7	165.7	17.7	9.0
Distributions declared per unit to Partners <i>(in \$)</i>	1.12	1.12	1.12	-	-
Total assets	7,218.0	6,144.2	5,582.8	1,073.8	561.4
Total debt	3,593.3	3,167.8	2,801.7	425.5	366.1
Debt / total capitalization ratio <sup>(1)</sup> <i>(in %)</i>	66.3	68.1	66.0	(1.8)	2.1

<sup>(1)</sup> This measure is a non-Canadian-GAAP financial measure. For additional information, refer to the Non-Canadian-GAAP Financial Measures and Additional Canadian-GAAP Measure heading in section L) OVERVIEW OF THE PARTNERSHIP AND OTHER.

#### 2. REVENUES

The revenue changes between fiscal years 2015 and 2014 and between fiscal years 2014 and 2013 were mainly due to:

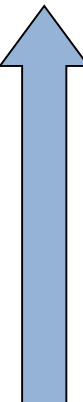
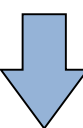
2015 vs 2014		2014 vs 2013	
Up \$183.9 million or 7.2%		Up \$319.3 million or 14.4%	
	<ul style="list-style-type: none"> <li>a \$112.0 million favourable exchange rate impact on the revenues generated by Vermont energy distribution activities;</li> <li>a \$72.7 million increase in Gaz Métro-QDA's revenues, mainly due to: <ul style="list-style-type: none"> <li>the revenues generated by the new C&amp;T service (no impact on gross margin); and</li> <li>the impact of its rate case parameters; and</li> </ul> </li> <li>a \$23.5 million increase in the revenues generated by energy production activities given favourable winds and because wind parks 2 and 3 came into service in November and December 2013, respectively, while wind park 4 came into service in December 2014;</li> </ul>		<ul style="list-style-type: none"> <li>a \$194.7 million increase in Gaz Métro-QDA's revenues, mainly due to higher average rates for the distribution, supply, and transportation services and to a favourable impact of colder temperatures on delivery volumes;</li> <li>a \$55.0 million favourable exchange rate impact from revenues generated by Vermont distribution activities;</li> <li>\$34.8 million in revenues generated by Wind Farms 2 and 3 as wind parks 2 and 3 came into service in November and December 2013, respectively; and</li> <li>a \$30.6 million increase in GMP's revenues, excluding the impact of exchange rate changes, mainly due to a 2.46% increase in its electricity rates and to a favourable impact of colder temperatures on delivery volumes.</li> </ul>
	<ul style="list-style-type: none"> <li>a \$32.3 million decrease in GMP's revenues (excluding the impact of exchange rate changes) stemming mainly from the electricity resale business, as less excess capacity was sold in the winter of fiscal 2015, than in the same period last year, during which market prices were also slightly higher (no impact on gross margin) and also from the impact of the rate case parameters.</li> </ul>		

It should be noted that, in accordance with the regulatory mechanisms currently in effect, the sale of the natural gas commodity to Gaz Métro-QDA's and VGS's customers has an insignificant impact on gross margin and, in turn, on the Partnership's net income, as explained in greater detail in the Energy Distribution Segment heading of section O) SEGMENT RESULTS.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### 3. IBIT

IBIT changes between fiscal years 2015 and 2014 and between fiscal years 2014 and 2013 were mainly due to:

2015 vs 2014 Up \$16.5 million or 7.4%		2014 vs 2013 Up \$12.2 million or 5.8%	
	<ul style="list-style-type: none"> <li>a \$10.9 million favourable exchange rate impact on the IBIT generated by Vermont energy distribution activities;</li> <li>a \$7.9 million increase in the IBIT generated by energy production activities, mainly associated with the above-explained revenue increase;</li> <li>a \$4.6 million increase in the IBIT generated by the Energy Services, Storage and Other segment, mainly due to Gaz Métro LNG's performance of short-term LNG supply contracts; and</li> <li>a \$4.5 million increase in Gaz Métro-QDA's IBIT, mainly due to: <ul style="list-style-type: none"> <li>an increase in its rate base; and</li> <li>higher capitalized interest on non-rate-base investments;</li> </ul> </li> </ul>		<ul style="list-style-type: none"> <li>a \$17.9 million increase in GMP's IBIT (excluding the impact of exchange rate changes), mainly because of a favourable impact of colder temperatures, particularly in the first six months of fiscal 2014, compared to the same period in fiscal 2013, an increase in the rate base and lower operating and maintenance expenses owing to the synergies generated by the integration of GMP's and CVPS's operations;</li> <li>a \$7.2 million favourable exchange rate impact on the IBIT generated by the Vermont distribution activities; and</li> <li>a \$5.1 million increase in Gaz Métro-QDA's IBIT, mainly due to: <ul style="list-style-type: none"> <li>a favourable impact from recognizing a share of the distribution service overearnings resulting primarily from a favourable impact of considerably colder-than-normal temperatures in fiscal 2014; and</li> <li>an increase in its rate base;</li> </ul> </li> </ul>
	<ul style="list-style-type: none"> <li>a \$13.3 million decrease in the IBIT generated by energy distribution in Vermont (excluding the impact of exchange rate changes), mainly because VGS recorded a before-tax US\$10.3 million allowance related to the Phase I costs of the Addison project following the agreement reached with the VDPS.</li> </ul>		<ul style="list-style-type: none"> <li>a \$14.7 million net gain realized in the first quarter of fiscal 2013 on the sale of the interest in HydroSolution.</li> </ul>

FAVOURABLE EXCHANGE RATE IMPACT RELATED TO VERMONT ENERGY DISTRIBUTION ACTIVITIES, AND FAVOURABLE WINDS AT THE WIND FARMS HAD A POSITIVE IMPACT ON REVENUES AND NET INCOME

### 4. INCOME TAXES

For fiscal 2015, income taxes stood at \$50.2 million, up \$2.3 million from \$47.9 million in fiscal 2014. This increase was mainly due to the unfavourable impact of the appreciation of the U.S. dollar against the Canadian dollar, partly mitigated by lower IBIT from energy distribution activities in Vermont.

For fiscal 2014, income taxes had stood at \$47.9 million, up \$17.3 million from \$30.6 million in fiscal 2013. This increase was mainly due to higher IBIT generated by the U.S. subsidiaries and to an unfavourable impact of the appreciation of the U.S. dollar against the Canadian dollar.

### 5. NET INCOME (LOSS) ATTRIBUTABLE TO NON-CONTROLLING INTERESTS

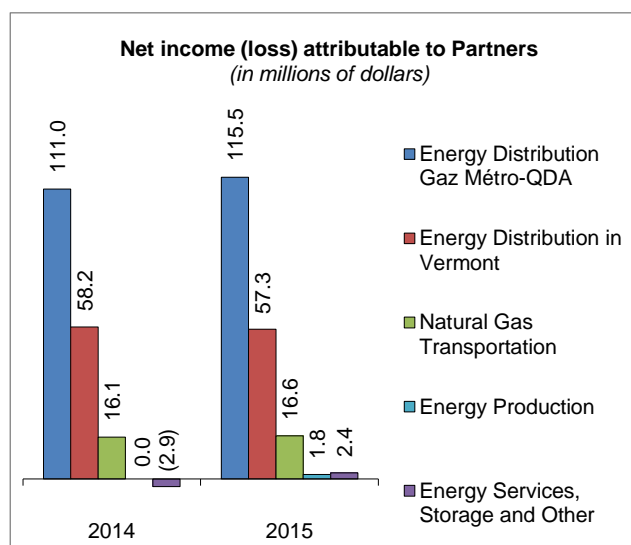
For fiscal 2015, net income attributable to non-controlling interests increased \$4.5 million year over year, mainly due to the results generated by the Energy Production segment. For fiscal 2014, a net loss attributable to non-controlling interests decreased by \$0.6 million year over year, mainly due to the same reason.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### 6. NET INCOME AND BASIC AND DILUTED NET INCOME PER UNIT ATTRIBUTABLE TO PARTNERS

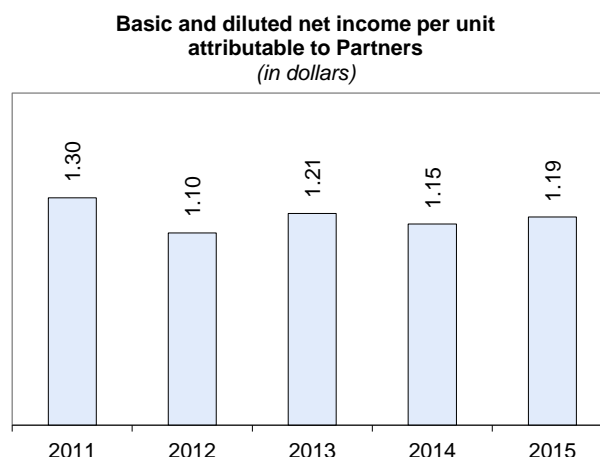
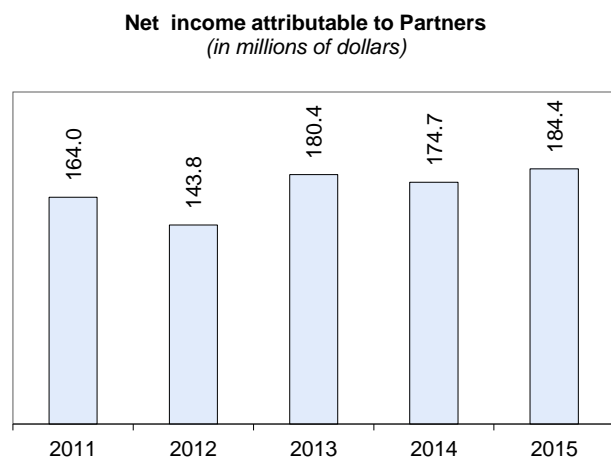
#### 6.1 NET INCOME (LOSS) ATTRIBUTABLE TO PARTNERS BY SEGMENT

The net income generated by Gaz Métro-QDA, which is significantly influenced by the rate of return authorized by the Régie on deemed common equity, represents close to 63% of the net income attributable to Partners for fiscal 2015. If not for the after-tax \$8.0 million allowance recorded by VGS related to the total Phase I costs of the Addison project, the net income generated by Gaz Métro-QDA would have represented approximately 60% of net income attributable to Partners, compared to over 63% in fiscal 2014. This decrease was mainly due to the favourable impact of the appreciation of the U.S. dollar against the Canadian dollar on the results of the U.S. subsidiaries and U.S. entities subject to significant influence.



#### 6.2 CHANGE IN NET INCOME AND BASIC AND DILUTED NET INCOME PER UNIT ATTRIBUTABLE TO PARTNERS

For fiscal 2015, the net income attributable to Partners totalled \$184.4 million, up \$9.7 million or 5.6% from fiscal 2014. This increase was mainly due to the reasons discussed above.



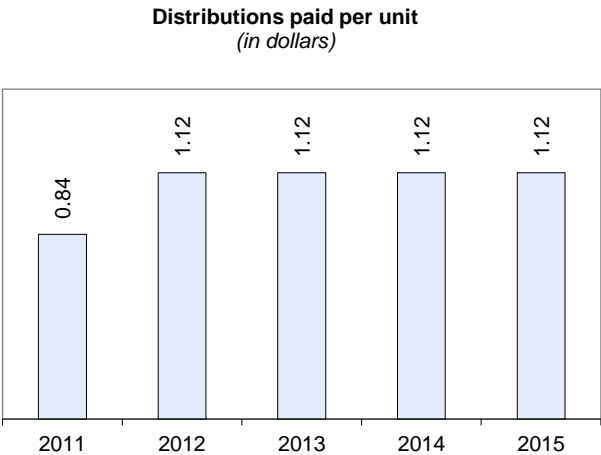
### 7. LIQUIDITY

Gaz Métro has a strong financial position, which helped it to maintain an S&P corporate credit rating of A (stable) during fiscal 2015. As for the ratings on GMI's first mortgage bonds and commercial paper, S&P kept them at A+ and A-1 (mid), respectively. The credit ratings of the DBRS rating agency were also maintained.

MANAGEMENT’S DISCUSSION AND ANALYSIS

7.1 DISTRIBUTIONS PAID PER UNIT

Given its favourable financial position, Gaz Métro was able to pay total distributions of \$1.12 per unit during fiscal 2015, the same level as in fiscal 2014. Specifically, and in keeping with its practice of distributing virtually all its earnings, the Partnership paid four quarterly distributions of \$0.28 per unit to its Partners from fiscal years 2012 to 2015. In fiscal 2011, three quarterly distributions of \$0.28 per unit each were paid, given that an additional distribution of \$0.31 per unit had been made in fiscal 2010 during the Partnership's reorganization. If not for the context of the reorganization, that distribution would have been paid during fiscal 2011.



Increase in distributions for fiscal 2016

Based on the earnings that have resulted from its strategic plan, on the sustained growth of its regulated activities, and on the excellent performance of its wind farms, Gaz Métro is announcing that it is raising its quarterly distribution, from \$0.28 per unit to \$0.29 per unit, beginning with its next distribution to be made on January 5, 2016. This represents an increase of 3.6%.

INCREASE IN THE QUARTERLY  
DISTRIBUTION TO **\$0.29 PER UNIT**  
IN 2016

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### O) SEGMENT RESULTS

#### NET INCOME ATTRIBUTABLE TO PARTNERS EXCLUDING NON-RECURRING ITEMS

For the fiscal years ended September 30

<i>(in millions of dollars)</i>	2015	2014	Change
<b>Energy Distribution</b>			
Gaz Métro-QDA	115.5	111.0	4.5
GMP and VGS	86.1	81.2	4.9
Financing costs of investments in this segment <sup>(1)</sup>	(28.8)	(23.0)	(5.8)
Allowance related to the costs of the Addison project	8.0	-	8.0
	180.8	169.2	11.6
<b>Natural Gas Transportation</b>			
TQM, PNGTS and Champion	18.9	17.9	1.0
Financing costs of investments in this segment <sup>(1)</sup>	(2.3)	(1.8)	(0.5)
	16.6	16.1	0.5
<b>Energy Production</b>			
Gaz Métro Éole and Gaz Métro Éole 4	2.4	0.4	2.0
Financing costs of investments in this segment <sup>(1)</sup>	(0.6)	(0.4)	(0.2)
	1.8	-	1.8
<b>Energy Services, Storage and Other</b>			
Energy and storage	3.6	(2.0)	5.6
Financing costs of investments in this segment <sup>(1)</sup>	(1.2)	(0.9)	(0.3)
	2.4	(2.9)	5.3
<b>Corporate Affairs</b>			
Corporate affairs	(9.2)	(7.7)	(1.5)
	(9.2)	(7.7)	(1.5)
<b>Net income attributable to Partners, excluding non-recurring items <sup>(2)</sup></b>	<b>192.4</b>	<b>174.7</b>	<b>17.7</b>
Non-recurring items	(8.0)	-	(8.0)
<b>Net income attributable to Partners</b>	<b>184.4</b>	<b>174.7</b>	<b>9.7</b>

<sup>(1)</sup> These costs consist of the interest on the long-term debt incurred by the Partnership to finance investments in the subsidiaries, joint ventures and entities subject to significant influence of each segment.

<sup>(2)</sup> This measure is a non-Canadian-GAAP financial measure. For additional information, refer to the Non-Canadian-GAAP Financial Measures and Additional Canadian-GAAP Measure heading in section L) OVERVIEW OF THE PARTNERSHIP AND OTHER.

**\$17.7M INCREASE IN NET INCOME  
ATTRIBUTABLE TO PARTNERS, EXCLUDING  
NON-RECURRING ITEMS**



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### 1. ENERGY DISTRIBUTION SEGMENT

#### HIGHLIGHTS

- Gaz Métro-QDA: Renewal of the 8.90% authorized rate of return for fiscal years 2016 and 2017
- Gaz Métro-QDA: C&T Regulation came into effect on January 1, 2015
- GMP: Distinguished itself through new energy initiatives such as solar power
- VGS: After-tax \$8.0M allowance related to the Phase I costs of the Addison project following an agreement reached with the VDPS

#### 1.1 GAZ MÉTRO-QDA

<b>Gaz Métro-QDA</b>			
Fiscal years ended September 30			
<i>(in millions of dollars)</i>	<b>2015</b>	<b>2014</b>	<b>Change</b>
<b>Revenues</b>	<b>1,634.4</b>	1 561.7	72.7
<b>Gross margin</b>	<b>575.0</b>	570.6	4.4
<b>IBIT</b>	<b>115.5</b>	111.0	4.5
<b>Net income attributable to Partners</b>	<b>115.5</b>	111.0	4.5

#### Revenues

In December 2014, the Régie approved fiscal 2015 interim rates starting January 1, 2015. For the period of October 1, 2014 to December 31, 2014, the Régie had maintained the rates in effect as at September 30, 2014 on an interim basis. In November 2015, the Régie approved the final rates. Gaz Métro-QDA accounted for its fiscal 2015 distribution revenues using these rates. The difference between the distribution revenues billed to customers during the fiscal year and those that would have been generated using the final rates approved by the Régie in November 2015 has been recognized in a deferred charges account.

The following table highlights Gaz Métro-QDA's results for fiscal 2015, in terms of volume and revenue changes, compared with the fiscal 2014 results:

<b>Fiscal 2015</b>			
	<b>Volume change</b>		<b>Revenue change</b>
	<b>(10<sup>6</sup> m<sup>3</sup>)</b>	<b>(%)</b>	<b>(millions of \$)</b>
Distribution:			
Residential and commercial	(41.6)	(1.8)	(40.3)
Industrial	53.3	1.6	(7.3)
Total distribution	11.7	0.2	(47.6)
Supply and compression	(4.4)	(0.1)	(69.9)
Transportation	158.3	2.8	89.4
Load-balancing	1.4	-	0.4
C&T	2,429.8	100.0	71.1
Other revenues			29.3
<b>Total</b>			<b>72.7</b>

Gaz Métro-QDA's revenues are divided into six service categories, namely, distribution, supply, compression <sup>(1)</sup>, transportation, load-balancing, and C&T. The C&T service is a new service that has been in effect since January 1, 2015. Revenues from this new service will be used to recover the costs of purchasing emission allowances to cover the GHG emissions of Gaz Métro-QDA and those of its customers that are subject to the C&T Regulation. The Régie authorizes a specific rate for each service and, for certain services, for each category of customer.

For fiscal 2015, Gaz Métro-QDA's revenues increased \$72.7 million year over year, mainly due to:

- an \$89.4 million increase in transportation revenues owing mainly to a 30.0% increase in average transportation rates, particularly because of higher TCPL rates as of January 1, 2015, coupled with a 2.8% increase in transported volumes driven by, among other factors, a return of customers to the transportation service during fiscal 2015;
- \$71.1 million in C&T revenues generated since this new service was introduced on January 1, 2015; and

<sup>(1)</sup> Since November 1, 2015, the costs of the compression service, which has been abolished, have been charged to the transportation service.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

- a \$29.3 million increase in other revenues, mainly because a higher amount of distribution service overearnings had been attributed to customers in fiscal 2014. Remember that these overearnings had essentially resulted from an increase in deliveries compared to what had been anticipated in the rate case. The remaining difference results from the fact that a larger shortfall from transportation and load balancing services was attributed to customers in fiscal 2015. This shortfall results from (i) higher billing differences in fiscal 2015 compared to fiscal 2014 stemming from the late application of rates during each of these fiscal years, partly offset by (ii) lower supply costs compared to fiscal 2014; partly mitigated by:
  - a \$69.9 million decrease in supply and compression revenues, mainly due to a 15.7% decrease in the average supply rate;
  - a \$40.3 million decrease in distribution revenues from the residential and commercial markets, mainly due to a 5.0% decrease in the average distribution rates authorized by the Régie, combined with a 1.8% decrease in normalized natural gas deliveries to these markets; and
  - a \$7.3 million decrease in distribution revenues from the industrial market, mainly due to a 5.1% decrease in the average distribution rates authorized by the Régie, partly offset by a 1.6% increase in normalized natural gas deliveries to these markets.

The above-described changes in distribution revenues account for the effects of normalization. Gaz Métro-QDA applies a revenue normalization mechanism to its natural gas distribution revenues, based on normal temperature and normal wind velocity. Gaz Métro-QDA normalizes natural gas deliveries and then reflects the resulting adjustment in its revenues using rate stabilization accounts, which are later recovered from or returned to customers over a five-year period as of the second subsequent fiscal year. In fiscal 2015, revenues were adjusted downward by \$23.0 million compared to a \$24.8 million downward adjustment in fiscal 2014 given the considerably colder-than-normal temperatures during those two fiscal years. It is important to note that the fundamentals on which application of the normalization mechanism is based are such that, given extreme temperature changes, a certain degree of inaccuracy could occur and not entirely neutralize the impacts on Gaz Métro-QDA's results.

Up until January 1, 2015, distribution revenues had included the annual Green Fund duty amounts. The costs of this duty, which were \$6.5 million for fiscal 2015 and \$24.2 million for fiscal 2014, are determined in accordance with the Green Fund Regulation and are included in Gaz Métro-QDA's operating and maintenance expenses. The amounts collected from customers cover the payments made by Gaz Métro-QDA to settle this duty. The distribution revenues from the annual Green Fund duty therefore have no impact on the net income attributable to Partners.

Since January 1, 2015, the annual Green Fund duty has been replaced by the C&T service. The cost of complying with the C&T Regulation for fiscal 2015 had a net impact of approximately \$53.4 million on Gaz Métro-QDA's customers when compared to the cost of the Green Fund Regulation in fiscal 2014. It should be noted that this cost will be subject to exchange rate fluctuations, since, by and large, GHG emission allowances are purchased in Canadian dollars price-indexed to U.S. dollars. Revenues from this new C&T service will be used to recover the cost of purchasing emission allowances to cover the GHG emissions of Gaz Métro-QDA and those of its customers that are not themselves subject.

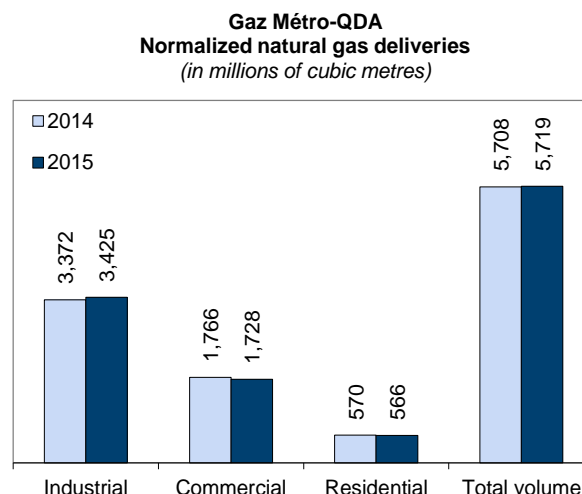
Supply revenues come from the sale of the natural gas commodity to Gaz Métro-QDA customers who subscribe to this service. These revenues have no impact on gross margin since Gaz Métro-QDA is not authorized to generate any profit from the sale of natural gas. As for revenues from compression, transportation, load-balancing and C&T activities, they generate very low margins. Consequently, distribution revenues are the main source of gross margin, since there are practically no direct costs associated with these revenues.

### Normalized deliveries

For fiscal 2015, Gaz Métro-QDA's normalized natural gas deliveries totalled 5,719 million cubic metres, up 0.2% from 5,708 million cubic metres in fiscal 2014.

Gaz Métro-QDA's fiscal 2015 deliveries to the industrial market grew 1.6% year over year due to greater consumption, primarily in the pulp and paper and metallurgy sectors.

Gaz Métro-QDA's fiscal 2015 deliveries to the residential and commercial markets were down 1.8% year over year, mainly due to lower consumption in the institutional sector of the commercial market.



MANAGEMENT’S DISCUSSION AND ANALYSIS

IBIT

For fiscal 2015, IBIT increased \$4.5 million year over year due to several factors. For one, the various parameters in the 2015 rate case, as filed with the Régie, had anticipated a \$2.5 million higher IBIT than in fiscal 2014. The anticipated increase in IBIT came from:

- an increase in the average rate base; and
- higher capitalized interest on non-rate-base investments;

mitigated by:

- the fact that no overearnings were projected in the 2015 rate case, whereas a \$2.5 million share was realized for the distribution service in fiscal 2014; and
- the fact that no revenues related to the GEEP performance incentive were projected in the 2015 rate case, whereas \$1.0 million in revenues were realized in fiscal 2014.

In addition to that \$2.5 million anticipated increase, the following items contributed to the other \$2.0 million increase in Gaz Métro-QDA’s IBIT:

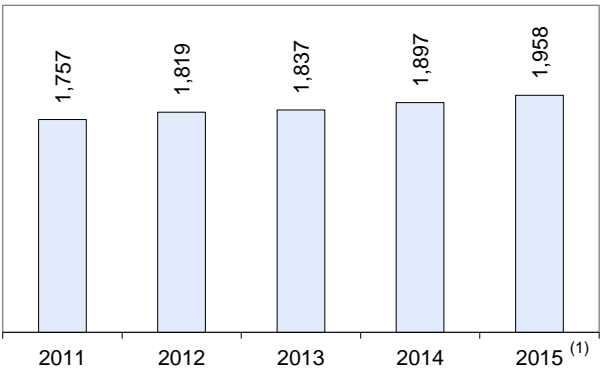
- achievement of the annual energy savings goal, which allowed Gaz Métro-QDA to obtain the \$1.0 million GEEP performance incentive; and
- a \$1.0 million favourable impact arising essentially from the recognition of a share in the distribution service overearnings for fiscal 2015.

It should be noted that, because Gaz Métro-QDA met all the performance indicators set by the Régie in fiscal 2015, it did not incur any penalties that would have reduced its IBIT in fiscal 2015.

Return on deemed common equity

In 2015, the actual average rate base was \$61 million higher than that of fiscal 2014. This increase stems mainly from increased investments in property, plant and equipment.

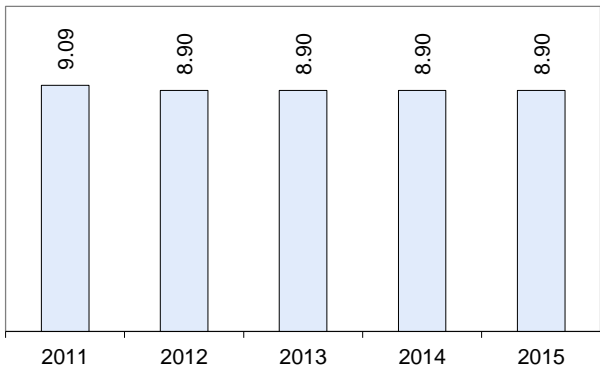
Average rate base evolution  
(in millions of dollars)



(1) Subject to the Régie’s approval

At 8.90%, Gaz Métro-QDA’s authorized base rate of return on deemed common equity for fiscal 2015 is the same as the rate authorized for fiscal 2014.

Authorized base rate of return on deemed common equity  
(%)

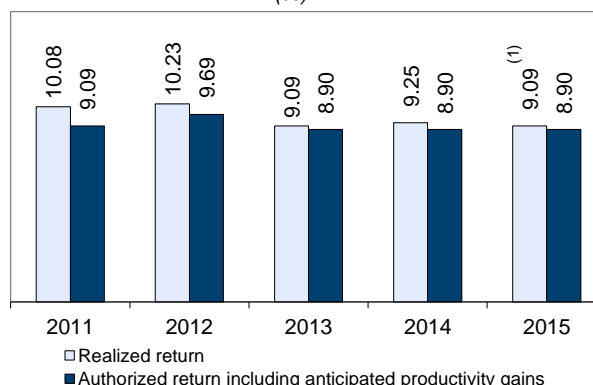


## MANAGEMENT'S DISCUSSION AND ANALYSIS

At 9.09%, the realized rate of return on deemed common equity for fiscal 2015 was down 0.16% from the fiscal 2014 realized rate of return, as the distribution service realized less overearnings in 2015 than in 2014.

**GAZ MÉTRO-QDA:**  
**9.09% REALIZED RATE OF RETURN**  
**ON DEEMED COMMON EQUITY**  
**ATTRIBUTABLE TO OVEREARNINGS**  
**REALIZED BY THE DISTRIBUTION SERVICE**

**Realized and authorized rates of return on deemed common equity (%)**



<sup>(1)</sup> Subject to the Régie's approval

### Regulatory matters

#### Summary of Gaz Métro-QDA's regulatory framework

Fiscal years ended September 30	2015	2014	2013
Rate case period	2014-10-01 to 2015-09-30	2013-10-01 to 2014-09-30	2012-10-01 to 2013-09-30
Authorized rate of return on deemed common equity	8.90%	8.90%	8.90%
Capital structure (Debt; Equity) <sup>(1)</sup>	54%; 46%	54%; 46%	54%; 46%
Average rate base in rate case	\$1,937 million <sup>(2)</sup>	\$1,902 million	\$1,836 million

<sup>(1)</sup> Deemed equity is divided as follows: 7.5% preferred equity and 38.5% common equity.

<sup>(2)</sup> The average rate base projected in Gaz Métro-QDA's 2015 rate case is \$35 million higher than that presented in the 2014 rate case. This increase stems mainly from increased investments in property, plant and equipment.

#### Regulatory filings

Fiscal 2013	
<b>2013 annual regulatory report</b>	In September 2014, the Régie issued its final decision on the 2013 annual regulatory report. While this decision had no significant impact on its net income, Gaz Métro-QDA filed a request with the Régie to have the decision reviewed, contesting the legality of several conclusions that could have had major impacts in the future for both Gaz Métro-QDA and its customers. In June 2015, the Régie issued a decision in which it agreed to revoke the conclusions contested by Gaz Métro-QDA.
Fiscal 2014	
<b>2014 annual regulatory report</b>	Gaz Métro-QDA's annual regulatory report for the fiscal year ended September 30, 2014 was filed with the Régie in December 2014, and a final decision was issued in July 2015, confirming Gaz Métro-QDA's financial results, except for certain items related to the transportation and load-balancing services. In October 2015, the Régie issued its final decision regarding those items, which had no impact on Gaz Métro's net income.
Fiscal 2015	
<b>2015 rate case</b>	<p><u>Phase I</u></p> <p>In March 2014, Gaz Métro-QDA filed Phase I of its 2015 rate case with the Régie. It contained a rate of return application for fiscal 2015, evidence supporting its C&amp;T Regulation strategy, and a regulatory relief proposal that included a mechanism for sharing overearnings and shortfalls.</p> <p><i>Setting of rate of return</i></p> <p>As had been proposed by Gaz Métro-QDA, in May 2014 the Régie approved the renewal, for fiscal 2015, of the 8.90% rate of return it had previously authorized for fiscal years 2013 and 2014, since the financial and economic criteria on which that rate is based had remained the same.</p> <p><i>C&amp;T Regulation</i></p> <p>As a gas distributor, Gaz Métro-QDA is subject to the C&amp;T Regulation since January 1, 2015. In September 2014, the Régie approved the creation of a new C&amp;T service as well as the rate-and</p>

## MANAGEMENT'S DISCUSSION AND ANALYSIS

	<p>accounting-related treatments for meeting its obligations under the regulation, which replaced the annual Green Fund duty.</p> <p><i>Regulatory relief</i></p> <p>Seeking regulatory relief, Gaz Métro-QDA proposed a simplified and equitable regulatory environment to the Régie for fiscal years 2015 to 2017, the aim being to fix operating expenditure increases to inflation and to equitably share potential deviations. Such an environment would be transitional until the implementation of a future incentive mechanism, which could be applicable as of the 2018 rate case. After a number of discussions on this matter, in February 2015, Gaz Métro-QDA filed an update to its proposed regulatory relief and sharing mechanism. In April 2015, the Régie authorized a sharing mechanism for the 2015, 2016 and 2017 rate cases that is similar to the one already authorized for Hydro-Québec. As a result, for these periods, the first 100 basis points related to realized overearnings will be shared equally between Gaz Métro-QDA and its customers. Over and above these 100 basis points, 75% of the overearnings will be returned to the customers. As for the shortfalls, they will be fully borne by Gaz Métro-QDA. Finally, the Régie ordered that the 2015 and 2016 rate reviews be carried out concurrently in a streamlined and temporary manner. Thus, the proposed terms of the regulatory relief and the 2015 and 2016 rate cases were treated simultaneously as part of Phase III of the 2015 rate case. A hearing on these matters took place in September 2015. In November 2015, the Régie issued a decision approving the terms of Gaz Métro's proposal on regulatory relief.</p> <p><u>Phase II</u></p> <p>In June 2014, Gaz Métro-QDA submitted evidence to the Régie relating, in particular, to gas supply, to follow-up information on the saturation rates of certain sections of the system, to the sale of LNG, and to the GEEP. With respect to the evidence supporting the 2015-2018 gas supply plan, Gaz Métro-QDA announced that the relocation of supply to Dawn for direct-purchase customers would be postponed to November 1, 2016. The Régie approved this postponement in July 2014.</p> <p>In December 2014, after the Phase II hearings, the Régie approved the 2015-2018 supply plan, subject to certain modifications. The Régie also acknowledged the evidence on the saturation of certain sections of the system and approved, subject to certain modifications, the GEEP budget. In addition, in January and February 2015, the Régie approved the transportation capacity to be bid on with TCPL and Union Gas for 2017-2018, the method for calculating the reliability maintenance tool, the proposed additional short-term LNG sales, and the renewal of storage capacity agreements with Union Gas.</p> <p><u>Phase III</u></p> <p><i>Interim rates</i></p> <p>In September 2014, the Régie approved a temporary renewal of the fiscal 2014 rates for all services. These interim rates were in effect from October 1 to December 31, 2014. Moreover, pending a decision on the final rates for the distribution service for fiscal 2015, the Régie approved interim distribution rates based on a 1.8% inflation rate. These rates took effect on January 1, 2015 and were maintained until September 30, 2015, as the final decision on Phase III of the 2015 rate case was issued in November 2015. The final transportation and load-balancing rates came into effect on January 1, 2015.</p> <p><i>Final rates</i></p> <p>Pending a new incentive mechanism and given that the Régie denied the initial regulatory relief proposal, Gaz Métro-QDA's 2015 rate case was prepared on a cost-of-service basis. In October 2014, Gaz Métro-QDA filed its cost of service and the rate impact. In December 2014, Gaz Métro-QDA filed a first update to this phase to reflect the decisions issued by the Régie since October 2014. As mentioned previously, the hearing was held in September 2015, and the Régie issued its decision on the final rates in November 2015. This decision authorizes a 5.0% decrease in distribution service rates based on the regulatory relief model, compared to fiscal 2014. This decrease is more than offset by an increase in TCPL's transportation rates, resulting in an average 2.6% increase in rates compared to fiscal 2014.</p> <p>The difference between the distribution revenues billed to customers during the fiscal year and those that would have been generated using the final rates has been recognized in a deferred charges account.</p>
<b>Investment project - Connection for the injection of renewable natural gas (biomethane)</b>	<p>In October 2014, an investment application addressing a connection to the city of Saint-Hyacinthe and the receipt tariff was submitted to the Régie. In its November 2014 procedural decision, the Régie requested additional evidence to determine whether the gas produced by the city constituted natural gas as defined in the Act. In February 2015, the Régie ruled favourably that it was indeed natural gas and that the application was within its jurisdiction. In July 2015, the Régie authorized Gaz Métro-QDA to carry out the investment project to connect the city of Saint-Hyacinthe to its network for injection purposes, set the applicable rates, for the first year, to the point where natural gas is received, and</p>

## MANAGEMENT'S DISCUSSION AND ANALYSIS

	approved the formula for establishing the purchase price of the renewable natural gas produced by the city of Saint-Hyacinthe.
<b>Investment project - Improving and strengthening the transmission systems</b>	In July 2015, the Régie authorized Gaz Métro-QDA to proceed with its project to improve and strengthen its Saguenay region transmission system following its January 2015 investment application to ensure reliable gas supply for customers on this section of the system. Work is expected to begin in June 2016 for an expected in-service date of November 2017. The project is valued at \$80 million.
<b>Fiscal 2016</b>	
<b>2016 rate case</b>	<p>In May 2015, Gaz Métro-QDA filed a complete 2016 rate case in a streamlined format, as had been requested by the Régie. For the distribution service, the rate case presents an average 2.5% decrease in rates compared to the 2015 rate case. However, this decrease for the distribution service is more than offset by TCPL's higher transportation rates and by a recovery of the shortfall realized in the transportation and load balancing services in fiscal 2014, such that rates increase by an average of 8.7%.</p> <p>A decision on the complete 2016 rate case was issued in November 2015. Applying the various parameters of the decision should not, however, have any significant impacts in terms of rate changes compared with the rate case filed with the Régie in May 2015.</p> <p>The final rates will therefore take effect starting January 1, 2016. Pending a decision on the final rates for fiscal 2016, the Régie renewed, on an interim basis, the transportation and load-balancing rates authorized for fiscal 2015 until December 31, 2015 as well as the interim rates for the distribution service.</p> <p><i>Setting of rate of return</i></p> <p>In May 2015, the Régie approved the renewal, for fiscal years 2016 and 2017, of the 8.90% rate of return on deemed common equity, i.e., the same rate it had authorized for fiscal years 2013 to 2015.</p>
<b>Deferred charges account for the feasibility studies and preparatory work to serve the Côte-Nord region with natural gas</b>	In 2012, the Régie had authorized Gaz Métro-QDA to create a deferred charges account for a potential extension of its gas network to the Côte-Nord region in order to account for amounts spent on preparatory studies and work related to this project. In March 2013, Gaz Métro announced that it was postponing all activities related to this project. Therefore, in its 2016 rate case, Gaz Métro-QDA included the amortization of the entire deferred charges account of \$5.1 million related to this project, and the Régie approved that treatment in November 2015. It should be noted that this amount represents only 25% of the total expenses that it supported, as the Government of Quebec had agreed to assume 75% of the first \$40.0 million spent, up to a maximum amount of \$30.0 million. In fiscal 2015, Gaz Métro-QDA received \$14.7 million, representing the total amount due by the government for this commitment.
<b>Regulatory outlook</b>	
<b>Request for accounting policy changes</b>	In September 2015, Gaz Métro-QDA asked the Régie to approve, for rate-setting purposes, certain accounting policy changes related essentially to the treatment of post-employment benefits and to the rate stabilization accounts used for temperature and wind-velocity variances. The main reason for these changes is to harmonize the rate-setting regulatory treatments with U.S. GAAP. A decision is expected during the first quarter of fiscal 2016. For additional information on this matter, refer to section S) RECENT ACCOUNTING CHANGES.
<b>Incentive mechanism</b>	<p>The Gaz Métro-QDA incentive mechanism, in effect since October 1, 2007, expired on September 30, 2012. Following an evaluation of this mechanism and negotiation meetings held with intervenors, Gaz Métro-QDA filed two incentive mechanism proposals with the Régie over time that were supported by a majority of the intervenors.</p> <p>In April 2013, the Régie issued a decision to stop reviewing this application and asked Gaz Métro-QDA to file a new incentive mechanism proposal that would incorporate the Régie's directives and the coming changes in rate structures. In the meantime, the Régie decided that Gaz Métro-QDA will be regulated on a cost-of-service basis.</p> <p>In November 2013, Gaz Métro submitted a generic application to the Régie, together with expert evidence on cost allocation and reflection to come regarding rate structures. In December 2013, the Régie authorized work sessions to address the cost allocation and other important matters related to the rate structure such as the structure for firm and interruptible services. Hearings on certain matters were held in April 2015 while other work sessions and rate proceedings are planned for 2015 and 2016.</p>

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Outlook

For next year and future years, Gaz Métro plans on pursuing the profitable development of Gaz Métro-QDA mainly by achieving greater penetration across all markets while also carefully controlling costs and ensuring that its system remains safe, reliable and sustainable.

#### Transportation rates

##### *Agreement-in-principle concluded with TCPL in 2013*

As previously mentioned in section M) CONDITIONS IN THE ENERGY MARKET AND FOR GAZ MÉTRO, in September 2013 Gaz Métro and the Ontario gas distributors concluded an agreement-in-principle with TCPL to ensure access to the diverse and affordable sources of natural gas from the Dawn hub. This agreement reconciles the interests of all the parties, since it should give distributors in the east more long-term certainty regarding transportation availability and rates, while supporting the financial viability of TCPL, which, among other things, will be able to recover the costs of building the infrastructure needed to move supply from Empress to Dawn. In December 2014, the NEB issued a favourable decision on this agreement, making the new TCPL rates applicable as of January 1, 2015. The agreement had the effect of increasing TCPL's rates without having a significant impact on the competitive position of natural gas. In addition, given the planned November 1, 2016 move from Empress to Dawn, the overall supply costs of Gaz Métro-QDA's customers should decrease in a long-lasting way should market conditions remain the same.

In addition, this agreement also calls for infrastructure work that will provide greater access to the Dawn hub by way of, among other means, TCPL's King's North project, which intends to increase the transportation capacity between Dawn and Maple, Ontario. Gaz Métro-QDA, which was recognized as an intervenor by the NEB for this application, filed evidence in support of the project in February 2015. In June 2015, the NEB approved the King's North project. The infrastructure construction is expected to begin before the end of 2015 so that it can be in service by the end of 2016.

##### *Energy East and Eastern Mainline projects*

As mentioned in section M) CONDITIONS IN THE ENERGY MARKET AND FOR GAZ MÉTRO, in October 2014, TCPL filed an application with the NEB to carry out the Energy East and Eastern Mainline projects. The Energy East project is proposing the construction and operation of an oil pipeline system that would carry oil from Western Canada to Eastern Canada refineries and new marine terminals. As presented, the project would convert a portion of TCPL's natural gas transportation assets between Alberta and Quebec to the benefit of oil transportation. This asset conversion would involve a pipeline between North Bay and Ottawa, a section that is critical to reliable gas supply in Quebec. TCPL has therefore planned another project, Eastern Mainline, for the construction of a new natural gas pipeline between Markham and Iroquois, Ontario, to partly mitigate the loss of natural gas transportation capacity that would result from the Energy East project. However, this partial replacement of capacity raised concerns about supply security and particularly costs, that consumers in Quebec and Eastern Ontario will have to assume.

After these concerns were raised, Quebec's ministry of energy and natural resources (Ministère de l'Énergie et des Ressources naturelles du Québec) mandated the Régie to prepare an information notice addressing gas supply and the capacity required by Quebec natural gas consumers in the medium and long terms. In January 2015, the Régie stated in its public notice that the Energy East project had to be reviewed to ensure that natural gas consumers would not be financing the oil component of the project and that they will not be required to assume more risk.

In February and March 2015, the NEB held the application-to-participate process for both projects, during which over 2,000 applications were received. In April 2015, TCPL announced certain changes to its projects. First, in the case of Energy East, it decided not to build a marine terminal at Cacouna, Quebec, and it postponed the in-service date of the project to 2020. Following this announcement, TCPL advised the NEB that it was intending to modify its initial application and submit, in autumn 2015, its new plans and the choice of an alternative marine terminal site to the one initially planned at Cacouna. In June 2015, the NEB informed stakeholders that it would continue reviewing the project following TCPL's confirmation that more than 90% of the initial application would not be amended. The NEB will issue a procedural ruling once TCPL has filed all the necessary changes to its initial application.

With regard to Eastern Mainline project, TCPL also informed the NEB of potential future amendments to the project following recent applications concerning pipeline capacity to supply Eastern Canada. However, TCPL has not made any official announcement to postpone the project. Since the amendments to the Energy East project could have a direct impact on the initial application for the Eastern Mainline project, the NEB will issue a procedural decision only once TCPL has filed all the necessary changes to its initial application for this project.

In October 2015, in light of the Régie's notice, Gaz Métro and the Ontario distributors, Union Gas and Enbridge, concluded an agreement with TCPL regarding the Energy East and Eastern Mainline projects. This agreement, which clears up a number of uncertainties caused by these projects, provides that TCPL will assume the construction risks related to the Energy East project and that the transportation capacity will, on one hand, be based on a call for tenders for new capacity issued in 2015



## MANAGEMENT'S DISCUSSION AND ANALYSIS

and, on the other, include excess capacity of 50,000 GJ/day for the Eastern Canada market. This agreement could represent a benefit valued at \$100 million between now and 2050 for consumers in Eastern Canada.

In November 2015, TCPL publicly confirmed its intention not to build a marine terminal in Quebec. As a result, TCPL should amend its applications related to the Energy East and Eastern Mainline projects with the NEB by the end of December 2015 in order to reflect, among other things, this change as well as the parameters set out in the agreement. Subject to the required regulatory approvals and permits, these projects are expected to be put into service by TCPL in 2020.

### Biomethanation

Gaz Métro believes that waste reclamation is a smart way to meet Quebec's energy requirements while helping to reduce GHG emissions. Gaz Métro is therefore very receptive to the Government of Quebec's program to process organic matter using biomethanation and composting, a program that aims to divert organic waste from landfills for reclamation purposes.

Since Gaz Métro has attached great importance to the biomethanation project, Gaz Métro-QDA worked on developing a new business model that, while adhering to the Régie's March 2013 decision, will allow renewable natural gas to be purchased and injected into its gas network.

A new agreement was signed with the city of Saint-Hyacinthe in October 2014. Pursuant to this agreement, Gaz Métro-QDA agreed to buy approximately 13 million cubic metres of renewable natural gas per year over a 20-year period. The city of Saint-Hyacinthe agreed to inject this natural gas into the Gaz Métro-QDA network over the same period using infrastructures to be built by Gaz Métro-QDA. As discussed in the Regulatory Filings heading of this section, the Régie authorized Gaz Métro-QDA to proceed with the investment project to connect the city of Saint-Hyacinthe to the natural gas network. It is expected that the renewable natural gas produced by the city of Saint-Hyacinthe will be purchased and injected into Gaz Métro-QDA's network starting in 2017.

GENERATING ENERGY  
LOCALLY BY USING ORGANIC  
MATTER TO HEAT HOMES AND  
POWER VEHICLES IS ONE OF  
THE SOLUTIONS FOR REDUCING  
GHG EMISSIONS

Gaz Métro is actively working to reach agreements with other partners in order to continue developing the biomethanation process.

### Investment project to extend the network to the Bellechasse region

In June 2015, Gaz Métro announced a project to extend Gaz Métro-QDA's system in the Bellechasse region, between the municipalities of Lévis and Sainte-Claire, over a distance of approximately 71 km. This project could bring service to close to a hundred customers and, when complete, could also reduce GHG emissions by close to 6,000 tons and the region's energy bill by approximately \$2.5 million a year. Subject to Régie approval, the work is expected to start in spring 2016 so that natural gas would be available in December 2016. Gaz Métro-QDA submitted an investment application in August 2015, and a decision is expected in November 2015.

The federal and Quebec governments have agreed to make a \$33 million joint investment in this project, which is now valued at \$40 million. For its part, Gaz Métro will inject \$7 million. This announcement followed on the Government of Quebec's 2015-2016 budget announcement to invest \$38 million to make natural gas accessible in regions such as Bellechasse.

## 1.2 ENERGY DISTRIBUTION IN VERMONT

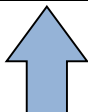
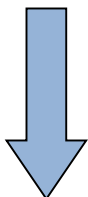

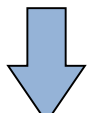
Energy Distribution in Vermont				
Fiscal years ended September 30				
(in millions of dollars)	2015	2014	Impact of exchange rate changes	Change, excluding the impact of exchange rate changes
<b>Revenues</b>	<b>953.1</b>	866.9	112.0	(25.8)
<b>Gross margin</b>	<b>366.8</b>	338.6	43.4	(15.2)
<b>Share in earnings of entities subject to significant influence</b>	<b>74.7</b>	61.7	7.4	5.6
<b>IBIT</b>	<b>92.1</b>	94.5	10.9	(13.3)
<b>Net income attributable to Partners</b>	<b>57.3</b>	58.2	7.0	(7.9)
Allowance related to the costs of the Addison project	8.0	-	1.3	6.7
<b>Net income attributable to Partners, excluding non- recurring items <sup>(1)</sup></b>	<b>65.3</b>	58.2	8.3	(1.2)

<sup>(1)</sup> This measure is a non-Canadian-GAAP financial measure. For additional information, refer to the Non-Canadian-GAAP Financial Measures and Additional Canadian-GAAP Measure heading in section L) OVERVIEW OF THE PARTNERSHIP AND OTHER.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

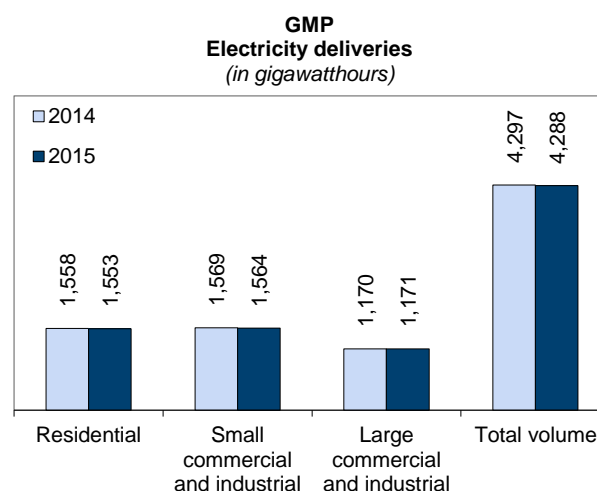
### Revenues

Excluding the impact of exchange rate changes, the year-over-year changes in this segment's revenues were mainly due to:

GMP – Down \$32.3 million	
	<ul style="list-style-type: none"> <li>a net increase in the number of customers in the residential market and in the small commercial and industrial market;</li> </ul>
	<ul style="list-style-type: none"> <li>lower revenues from electricity resale activity, as less excess capacity was sold in the 2015 winter season than in winter 2014, when market prices were also higher (no impact on gross margin);</li> <li>a 1.46% decrease in the overall rates since October 1, 2014 stemming from the 2015 rate case parameters;</li> <li>lower consumption from customers in the residential and small commercial and industrial markets, mainly due to the adoption of energy efficiency measures, including solar power; and</li> <li>an unfavourable impact related to consumption variances between peak and off-peak periods.</li> </ul>
VGS – Up \$6.5 million	
	<ul style="list-style-type: none"> <li>an increase in interruptible service deliveries, mainly due to greater demand from a specific customer; and</li> <li>an increase in the revenues related to natural gas supply costs, mainly due to a higher cost for the natural gas commodity and to higher deliveries;</li> </ul>
	<ul style="list-style-type: none"> <li>a decrease in the rates billed to interruptible service customers, as customers choosing not to be interrupted had paid higher market prices during fiscal 2014.</li> </ul>

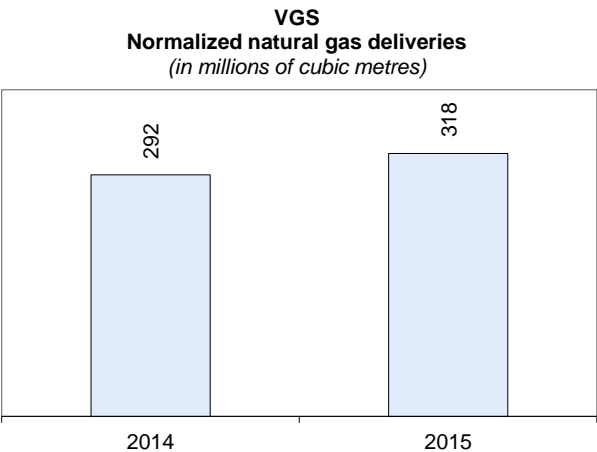
### Deliveries

**GMP** - The electricity distributed by GMP is mainly used for generating purposes, heating, air conditioning and lighting. As such, demand is influenced by economic ups and downs, customer efforts to conserve energy, and temperature fluctuations. For fiscal 2015, GMP's electricity deliveries totalled 4,288 gigawatthours, down 0.2% from last year. Essentially, the decline in deliveries came from decreases of 0.3% in the residential and small commercial and industrial markets, as customers are implementing energy efficiency measures such as solar power. These decreases were partly offset by a net increase in the number of customers in these markets. In the large commercial and industrial market, deliveries were up 0.1%, remaining essentially the same as last year.



MANAGEMENT’S DISCUSSION AND ANALYSIS

**VGS** - For fiscal 2015, VGS’s normalized natural gas deliveries totalled 318 million cubic metres, up 8.9% from fiscal 2014. This increase was primarily due to the addition of a major interruptible service customer. It should be recalled that VGS applies a normalization mechanism to its natural gas deliveries and, in accordance with the regulatory mechanism in effect, the sale of the natural gas commodity to its customers has a negligible impact on gross margin.



**Share in earnings of entities subject to significant influence**

The share in earnings of entities subject to significant influence is Gaz Métro’s share, through GMP, in the earnings of Velco and Transco. These shares in earnings are returned to customers through rates and therefore have a negligible impact on GMP’s net income.

On December 23, 2014 and September 30, 2015, GMP invested amounts of \$26.6 million (US\$23.4 million) and of \$5.0 million (US\$3.8 million), respectively, in Transco, one of its entities subject to significant influence, raising its ownership interest from 70.0% to 71.5%, given that some of Transco’s other partners invested less and thereby reduced their ownership stake in the company. These funds are intended to finance capital investments in electricity transmission activities.


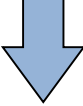


By investing \$26.6 million in December 2014 and \$24.4 million in December 2013, GMP was able to increase its rate base and, in turn, generate additional net income for fiscal 2015 compared to fiscal 2014, as its investments in entities subject to significant influence are included in its rate base.

For fiscal 2015, GMP’s share in the earnings of entities subject to significant influence, excluding the impact of exchange rate changes, was up \$5.6 million year over year. This increase is mainly due to the greater ownership in these entities subject to significant influence, as explained above.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### IBIT

Excluding the impact of exchange rate changes, this segment's fiscal 2015 IBIT decreased by \$13.3 million year over year, mainly due to:

GMP – Up \$0.1 million <sup>(1)</sup>	
	<ul style="list-style-type: none"> <li>a decrease in certain operating and maintenance expenses owing to the synergies generated by the integration of GMP's and CVPS's operations;</li> </ul>
	<ul style="list-style-type: none"> <li>a decrease in revenues, as explained above.</li> </ul>
VGS – Down \$10.2 million <sup>(1)</sup>	
	<ul style="list-style-type: none"> <li>the impact of an increase in the average balance of investments in the VGS system development projects not included in the rate base but that generate a return;</li> </ul>
	<ul style="list-style-type: none"> <li>a before-tax US\$10.3 million (C\$8.0 million after tax) allowance related to the Phase I costs of the Addison project was recognized following an agreement concluded with the VDPS, as explained in the Regulatory Filings heading of this section.</li> </ul>

<sup>(1)</sup> Excluding the impact of exchange rate changes, the financing costs of GMP's and VGS's investments increased by \$3.4 million, mainly due to a US\$100.0 million debt issued during the first quarter of fiscal 2015, as described in section Q) CASH AND CAPITAL MANAGEMENT.

It should be noted that, because GMP and VGS met all of the service quality performance indicators set by the VPSB during the 2014 calendar year and during the first nine months of the 2015 calendar year, they have not incurred penalties that would have reduced their IBIT in fiscal 2015.

### Regulatory matters

#### Summary of the regulatory framework for GMP and VGS

Fiscal years ended September 30	2015		2014		2013	
	GMP	VGS	GMP	VGS	GMP	VGS
Rate case period	2014-10-01 to 2015-09-30	2014-10-01 to 2015-09-30	2013-10-01 to 2014-09-30	2013-10-01 to 2014-09-30	2012-10-01 to 2013-09-30	2012-10-01 to 2013-09-30
Authorized rate of return on common equity	9.60%	10.20%	9.58%	10.26%	8.84%	9.75%
Capital structure (Debt; Equity)	50%; 50%	45%; 55%	50.4%; 49.6%	45%; 55%	48.4%; 51.6%	45%; 55%
Average rate base in rate case (US\$)	\$1,165 million <sup>(1)</sup>	\$193 million <sup>(2)</sup>	\$1,159 million	\$144 million <sup>(2)</sup>	\$1,093 million	\$107 million <sup>(2)</sup>

<sup>(1)</sup> The projected average rate base in GMP's 2015 rate case is US\$6 million higher than that of fiscal 2014, mainly due to an increase in property, plant and equipment investment and to the additional investment in Transco.

<sup>(2)</sup> Includes US\$66 million (US\$33 million in 2014 and US\$5 million in 2013) related to the projected return-generating investments of the Addison County system development project. The remaining increase in the average rate base stems mainly from other system development projects brought into service towards the end of fiscal 2014. Note that the amounts related to the Addison project were revised downward during fiscal 2015 because of delays encountered in this project, as discussed in greater detail in the Regulatory Filings heading.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Regulatory filings

Fiscal 2015	
<b>GMP - 2015 rate case and Alternative Regulation Plan</b>	<p>In December 2013, GMP filed its 2015 rate case, which was prepared on a cost-of-service basis and covered the period of October 1, 2014 to September 30, 2015. The application included a 10.0% rate of return on common equity and a 0.03% rate reduction. The application also included a provision whereby US\$8.0 million in synergy savings (resulting from the CVPS merger and guaranteed by the merged entity for the third year following the merger) would be returned to GMP's customers. In May and June 2014, following various exchanges, the VDPS, GMP and all other intervenors in the rate case finally signed memorandums of understanding and agreed on a rate decrease of 1.46%, a rate of return on common equity of 9.60%, and a deemed common equity ratio of 50%. In August 2014, the VPSB issued a decision approving the request. The new rates took effect on October 1, 2014.</p> <p>In December 2013, GMP also filed an application seeking VPSB approval to renew its Alternative Regulation Plan for the four-year period beginning October 1, 2014. The application had sought to maintain several existing features, including the power supply adjustment mechanism, the adjustment for annual base rates, and a formula to determine the authorized rate of return on deemed common equity. Addressing customer concerns, GMP proposed that these adjustments be made on an annual basis so as to avoid repeated billing changes. This annual filing would happen at the same time as the filing of the rate case.</p> <p>In May and June 2014, the VDPS, GMP and the other intervenors in the proceedings signed memorandums of understanding to revise certain parameters of the Alternative Regulation Plan submitted by GMP. These revisions include a change in the calculation of the profit and loss sharing mechanism and in the calculation of the power supply adjustment mechanism, the setting of rates to be charged to GMP's largest customer for a three-year period, and a reduction to the Alternative Regulation Plan period from four to three years. The VPSB issued a decision in August 2014, approving the memorandum of understanding. The new Alternative Regulation Plan took effect on October 1, 2014.</p>
<b>VGS - 2015 rate case</b>	<p>In June 2014, VGS filed a preliminary version of its 2015 rate case with the VDPS and VPSB. The final 2015 rate case was filed in August 2014 and approved by the VPSB in October 2014. VPSB authorized a fiscal 2015 rate of return on deemed common equity of 10.20% and a deemed common equity ratio of 55%. The new rates in effect since November 1, 2014 reflect an overall decrease of 1.3%, consisting of a 3.0% decrease in base rates and a 0.6% increase in natural-gas-cost-related rates.</p>
Fiscal 2016	
<b>GMP - 2016 rate case</b>	<p>In September 2015, the VPSB approved the rate case filed by GMP in July 2015. The new rates took effect on October 1, 2015. This rate case, prepared on a cost-of-service basis, covers the period of October 1, 2015 to September 30, 2016 and seeks a 9.44% rate of return on deemed common equity and a deemed common equity ratio of 49.6%. The application also includes a provision whereby 50% of the synergy savings resulting from the CVPS merger will be returned to GMP's customers; an amount of US\$13.2 million has therefore been included in the rate case, in accordance with the agreement concluded with the VPSB upon the acquisition of CVPS by GMP. Following the filing of an agreement letter between GMP and the VDPS in September 2015, the VDPS approved a rate case agreed on a rate decrease of 0.76% for fiscal 2016.</p>
<b>VGS - 2016 rate case</b>	<p>In November 2015, the VPSB approved the rate case filed by VGS in August 2015. The new rates took effect on November 1, 2015. This rate case reflects an overall rate reduction of 3.0%, which is composed of an 8.1% reduction in natural-gas-cost-related rates, partly offset by a 1.5% increase in base rates. In addition, this application seeks a 10.09% rate of return on deemed common equity and a deemed common equity ratio of 55%. It should be noted that this rate case excludes the impact of bringing into service the first section of Phase I of the system development project, given that VGS is still waiting for its CPG to be reconfirmed.</p>
Regulatory outlook	
<b>GMP - Restructuring of rates</b>	<p>To satisfy a VPSB condition related to the CVPS acquisition, GMP was required to file a new rate structure for all customers, including a proposal to allocate costs among all categories of customer. In November 2014, GMP submitted a detailed breakdown of actual operating and maintenance costs for fiscal years 2013 and 2014, as required by the VPSB. After these costs had been examined and approved by the VPSB, GMP filed, in May 2015, its new proposal for rates and for the allocation of costs among all categories of customer. In November 2015, GMP entered into a Memorandum of Understanding with all parties to the proceeding, including the VDPS, with regards to this filing. This Memorandum of Understanding is subject to review and regulatory approval by the VPSB. GMP and the VDPS will make reasonable efforts to complete the work and hold the hearings over a period not</p>

## MANAGEMENT'S DISCUSSION AND ANALYSIS

	<p>exceeding nine months. According to the procedure set up by the VPSB, a decision will be issued in spring 2016. As of the date of this report, the process has been taking its course, and no major issues have been encountered.</p>
<b>VGS - System development project</b>	<p><u>Phase I</u></p> <p>In December 2013, the VPSB issued a CPG, enabling VGS, subject to various permits being obtained, to begin construction of Phase I of its system development project, which consists of extending its natural gas distribution system to serve the communities of Vergennes and Middlebury in Addison County. After obtaining all the necessary construction and environmental permits in June 2014, VGS began pre-construction work on the extension and started installing the pipelines at the end of June 2014.</p> <p>In July 2014, VGS filed an initial application with the VPSB to update Phase I of its project so as to raise the project budget from US\$86.6 million to US\$121.6 million. This increase in the initially projected costs were mainly due to (i) higher construction cost estimates given strong demand for the specialized skills needed for this type of project in the United States and (ii) engineering and pipeline route changes following consultation with residents and other stakeholders. Following this filing, in October 2014 the VPSB ruled that there was no need to review the granting of the CPG.</p> <p>However, in December 2014, VGS submitted a letter to the VPSB presenting a second update to the costs of Phase I of the project, indicating that the projected costs had increased from US\$121.6 million to US\$153.6 million. This round of updated costs had included adjustments to the estimated construction and project management costs, VGS's indirect costs (including the allowance for funds used during construction) and right-of-way costs, taking into account the costs of construction work completed to date. In January 2015, the VPSB initiated procedures to reconfirm the CPG related to the project and review the cost estimate. Hearings were held in June 2015 and it is hoped that a decision will be made by January 2016. As at September 30, 2015, US\$80.9 million had been invested in the project.</p> <p>In October 2015, VGS and the VDPS signed a memorandum of understanding under which VGS agreed to set a US\$134.0 million cap on the amount of the Phase I costs that could be recovered through rates, barring circumstances beyond its control or not set out in the memorandum such as vandalism, protests, other events unreasonably interfering with construction, significant delays in obtaining right-of-ways, or acts of god. Following this memorandum, VGS recorded a US\$10.3 million allowance as at September 30, 2015 to recognize the uncertainty surrounding project costs that could eventually be disallowed. The memorandum is subject to a reconfirmation of the CPG by the VPSB by January 8, 2016, the deadline that would allow VGS to meet its project budget and schedule. Consequently, in the coming months, VGS will focus on obtaining the CPG and on reducing the project costs to minimize any costs above the US\$134.0 million cap that will be disallowed.</p> <p>Although much of the construction work is expected to be done during fiscal 2016, VGS plans to complete the first 17 km of Phase I, from a total of 66 km, by the end of December 2015. To date, the project continues to be viewed as a beneficial solution for the State of Vermont. Aside from the environmental advantages, natural gas remains a competitive energy source compared to the other sources of fossil fuel.</p> <p>In recent months, the project has been contested by citizens and various interest groups, but it has broad support from industry, industry-related groups, government agencies, including the VDPS, and the public in general. Although Phase I of the project has received VPSB approval and while VGS has begun the Phase I construction work, a limited number of agreements still need to be signed with citizen land owners. Although VGS is confident it will be able to reach agreements with these parties, the possibility remains that some work could be delayed.</p> <p><u>Phase II</u></p> <p>In December 2014, in the letter addressing Phase I submitted to the VPSB, VGS also asked the VPSB to indefinitely postpone the technical hearings on Phase II of the project aimed at extending the natural gas distribution service to International Paper Company (IP), in New York State, to update the budget. However, in February 2015, IP notified VGS of its decision to exercise its rights to terminate the contract, after VGS had revised the schedule and costs to complete Phase II under the then-prevailing current business conditions, resulting in Phase II being no longer commercially practical for IP. Therefore, VGS asked the VPSB to dismiss the pending petition for approval of Phase II, which the VPSB agreed to in June 2015. Note that, in accordance with the contract, IP reimbursed VGS for certain expenses.</p>

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Major snow storm in Vermont

In December 2014, a major snow storm hit the State of Vermont, dumping huge amounts of wet, heavy snow on the entire area for 24 hours. In many areas, eight to 15 centimetres of snow accumulated on electrical cables. Many large tree branches snapped under the weight of this snow, and there were damages to GMP's entire network. The total storm-related costs for GMP are estimated to be US\$16 million. This storm caused the most damage to GMP's network in close to 20 years. According to the regulatory mechanisms in effect, substantially all of these costs can be recovered through rates. Therefore, in April 2015, GMP submitted an application to the VPSB seeking to recover these costs; the application was approved in September 2015.

### Operational integration of GMP and CVPS

In 2012, GMP developed a three-year plan for merging the operational processes of the two entities. The plan had covered the merger of information technology systems, work procedures, safety programs, financial controls and reporting, labour agreements and other operational facets of GMP and CVPS. As at September 30, 2015, GMP has substantially completed its three-year plan and is now concentrating on finding new efficiencies and more potential synergies following the integration of the two entities.

Pursuant to a memorandum of understanding that was entered into upon the CVPS acquisition, GMP must generate at least US\$144 million in synergy savings for its customers over a 10-year period. These savings must be returned to GMP's customers according to a VPSB-approved schedule and the following terms:

- fixed amounts for fiscal years 2013 to 2015;
- 50% for fiscal years 2016 to 2020; and
- 100% for fiscal years 2021 and 2022.

SYNERGIES ACHIEVED BY  
GMP FROM THE CVPS MERGER  
EXCEEDED EXPECTATIONS IN  
2015 AND 2014

For fiscal years 2015 and 2014, amounts of US\$8.0 million and of US\$5.0 million, respectively, were included in GMP's rate cases such that the synergy savings could be returned to customers as per the required terms. For fiscal 2015, as was the case in fiscal 2014, GMP was able to achieve greater-than-anticipated synergies. Under the memorandum of understanding entered into upon the CVPS acquisition, these additional savings are retained by GMP and have therefore had a favourable impact on its net income for the 2015 and 2014 fiscal years.

During fiscal 2016, synergies will be shared equally between GMP and its customers. Consequently, GMP's 2016 rate filing includes an amount of US\$13.2 million to be returned to customers as a result of synergies.

### GMP: Certified B Corporation

In October 2014, GMP obtained "Certified B Corporation" status in accordance with the requirements and performance standards of B Lab, a non-profit organization that certifies businesses that voluntarily meet high standards of transparency, accountability and performance. To become a Certified B Corporation, businesses must meet requirements in four areas: (i) governance, (ii) community, (iii) employees and (iv) environment. B Corporation certification is granted to companies that incorporate the interests of the various stakeholders into their decision-making process. GMP's "Certified B Corporation" status demonstrates its commitment to sustainable development.

### Site restoration

VGS and GMP, jointly with other companies, have been cited as potentially responsible for polluting land on which a manufactured gas plant that ceased operations in 1966 was located. In 1999, a settlement protocol was signed by the U.S. Environmental Protection Agency (EPA) and the enterprises involved. It included an action plan to restore the site and a cost-sharing method. This action plan was approved by the VPSB in 2001 and has generally proven effective. The VPSB has made agreements wherein the costs incurred to date by VGS and GMP can be recovered through rates over a period of 10 to 20 years. If future outlays exceed the provisions already recorded, new requests to recover such amounts through rates will be submitted to the VPSB.

## **Outlook**

### Other energies

#### *Solar power*

Aiming to be a leader in new energies, GMP is pursuing its commercial efforts to form strategic partnerships for new energy development. These efforts fit within GMP's commercial goal of providing Vermont residents with the cleanest forms of energy production, something the company already does by, among other things, operating two wind farms that can power more than 24,000 homes with electricity.

In summer 2015, GMP entered into a partnership with Tesla Motors Inc. in order to offer customers the possibility to use Powerwall, a home battery that charges using electricity generated from solar panels. GMP is the first energy service company



## MANAGEMENT'S DISCUSSION AND ANALYSIS

in the United States to conclude such a partnership. With this system, GMP can better manage energy demand during peak periods and its customers benefit from a back-up energy source.



In addition, in March 2015, GMP completed an innovative solar power generation and storage project, the Stafford Hill Solar Farm, located in Rutland, Vermont, for which it won the 2015 Project of Distinction Award. Consisting of 7,700 solar panels, this farm can generate two megawatts of electricity and can power up to 2,000 homes at full sunlight and 365 homes year-round. The project also has a storage component whereby 3.4 megawatthours can be stored in a battery system. This energy can then be used during peak periods and serve as back-up power for an emergency shelter should a crisis situation affect the electrical grid. After completing this project, amongst others, in 2015 GMP announced that the city of Rutland had become the solar capital of New England, as it generates the most solar power per capita in the region.

In addition to these projects, GMP is actively pursuing its solar power development initiatives. In fact, several multi-megawatt solar projects have been approved with construction scheduled for calendar year 2016. During the coming years, GMP plans on continuing its solar power development initiatives.

WITH THE STAFFORD HILL SOLAR FARM, GMP CAN POWER UP TO 2,000 HOMES WITH SOLAR POWER

### Cow power

During fiscal 2016, GMP plans to further develop its cow power program. The cow power program converts manure from dairy cows into clean energy through the use of digesters at dairy farms. This program is of great benefit to the entire State of Vermont, since, in addition to generating renewable energy, it also improves water quality by reducing the amount of phosphorus running off into lakes and streams in the Champlain Lake area, a constant challenge for the region. The system could also be used to process food waste, which will no longer be allowed in Vermont landfills following recent legislative changes. At present, 13 farms are taking part in the project.

IN VERMONT, WE TURN COW MANURE INTO NATURAL GAS, A SMART WAY TO PROVIDE POWER TO HOMES AND BUSINESSES

## 2. NATURAL GAS TRANSPORTATION SEGMENT

### HIGHLIGHTS

- PNGTS: Higher transported volumes resulting from colder temperatures and new short-term contracts
- PNGTS: Decision by the FERC, in February 2015, to set the rates at US\$0.8543/DTH

Transportation			
Fiscal years ended September 30			
(in millions of dollars)	2015	2014	Change
<b>Revenues</b>	<b>46.1</b>	42.8	3.3
<b>Gross margin</b>	<b>46.1</b>	42.8	3.3
<b>Share in earnings of an entity subject to significant influence</b>	<b>17.4</b>	15.2	2.2
<b>IBIT</b>	<b>27.9</b>	26.5	1.4
<b>Net income attributable to Partners</b>	<b>16.6</b>	16.1	0.5

### Revenues

For fiscal 2015, the segment's revenues, which are also equal to the segment's gross margin, increased \$3.3 million year over year. Note that TQM recovers a portion of the anticipated operating expense increase through its rates.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Share in earnings of an entity subject to significant influence

For this segment, Gaz Métro's share in earnings of an entity subject to significant influence is its share in PNGTS's income. The \$2.2 million increase in this share was mainly due to:

- an increase in short-term and interruptible service revenues resulting from higher transported volumes related to the signing of new short-term contracts and increased demand resulting from colder temperatures; and
- the favourable impact of the appreciation of the U.S. dollar versus the Canadian dollar;

partly mitigated by:

- an unfavourable impact of the FERC's February 2015 decision, as explained in greater detail in the Regulatory Filings heading of this section.

### IBIT

For fiscal 2015, this segment's IBIT increased \$1.4 million year over year, mainly due to the \$2.2 million increase in the share of PNGTS's IBIT, as explained above.

### Regulatory matters

#### Summary of TQM's regulatory framework

Rate case period	2015-01-01 to 2015-12-31	2014-01-01 to 2014-12-31	2013-01-01 to 2013-12-31
Rate principles	<b>Final rates based on the multiyear plan (2014-2016) negotiated with interested parties</b>	Final rates based on the multiyear plan (2014-2016) negotiated with interested parties	Final rates based on the annual plan (2013) negotiated with interested parties
Decision issued by the NEB	<b>April 2015</b>	April 2014	May 2013
Average rate base in rate case	<b>\$340 million</b>	\$353 million	\$363 million

#### Regulatory filings

Fiscal 2014	
<b>TQM - 2014-2016 negotiated multiyear agreement</b>	<p>In November 2013, TQM reached a multiyear settlement agreement with its interested parties, establishing the mechanisms for determining TQM's revenue requirements for 2014-2016 based on fixed and flow-through components. This multiyear agreement received NEB approval in February 2014.</p> <p>In November 2013, based on this settlement, TQM filed an application with the NEB for approval of its fiscal 2014 interim rates. The application was approved in December 2013, and the interim rates took effect on January 1, 2014 and remained in effect until final rates, submitted in March 2014 by TQM, were approved by the NEB in April 2014.</p>
Fiscal 2015	
<b>TQM - 2015 rate case</b>	In November 2014, TQM filed an application with the NEB seeking approval of its fiscal 2015 interim rates. These rates, approved in December 2014, took effect on January 1, 2015 and remained in effect until the NEB approved the final rates in April 2015.
<b>TQM - Future pipeline abandonment costs</b>	<p>The NEB's Land Matters Consultation Initiative addresses the issue of future pipeline abandonment and related financial matters. The goal of this initiative is to have all pipeline companies regulated under the <i>National Energy Board Act</i> (Canada) implement a process for collecting and setting aside funds to cover future abandonment costs.</p> <p>In May 2014, the NEB approved TQM's proposed processes for:</p> <ul style="list-style-type: none"> <li>▪ estimating abandonment costs;</li> <li>▪ establishing the annual amounts to be collected and the mechanism for collecting funds through a surcharge on transportation services; and</li> <li>▪ establishing a trust in accordance with the qualifying environmental trust rules within the meaning of the <i>Income Tax Act</i> to hold the collected amounts in order to finance future abandonment costs.</li> </ul> <p>In its decision, the NEB also directed pipeline companies to begin collecting, as of 2015, the amounts to be used to finance future pipeline abandonment costs.</p> <p>In September 2014, TQM submitted, for NEB approval, the trust agreement that would permit TQM to retain amounts collected from customers for future pipeline abandonment costs. In December 2014, the NEB issued a decision and asked TQM and the other pipeline companies proposing to use a trust</p>

## MANAGEMENT'S DISCUSSION AND ANALYSIS

	<p>mechanism to make certain amendments to those proposed trust agreements. The trust agreement was amended in January 2015 and approved by the NEB in February 2015. All actions required to establish a trust and begin collecting funds are in place, including the creation of a trust agreement.</p> <p>In November 2014, TQM also submitted a request seeking NEB approval for the surcharges to be collected from customers during fiscal 2015 to finance future pipeline abandonment costs. The request also contained a revised estimate of abandonment costs. In December 2014, the NEB approved the request; the interim surcharges took effect on January 1, 2015 and were confirmed in the NEB's final decision issued in March 2015.</p>
<b>PNGTS - Rate cases</b>	<p>In May 2010, PNGTS filed a rate case with the FERC to have its rate increase recognized, and a decision on this application was issued in March 2013. In April 2013, PNGTS filed a request asking the FERC to review this decision and seeking to have certain specific aspects re-examined.</p> <p>In February 2015, the FERC issued a decision rejecting PNGTS's request and setting the rate at US\$0.8543/DTH compared to US\$0.8685/DTH, which was the rate set by the FERC in its March 2013 decision. Consequently, in March 2015, PNGTS recorded an additional provision of US\$2.3 million (Gaz Métro's share: US\$0.9 million) to reflect this rate discrepancy. In April 2015, PNGTS reimbursed all amounts owed to its customers, including the interest prescribed by the FERC. Note that, since 2010, PNGTS had been billing its customers at US\$1.32/DTH and that the difference between the rates billed and those approved by the FERC was recorded as a liability.</p>
<b>Fiscal 2016</b>	
<b>TQM - 2016 rate case</b>	<p>TQM intends to file an application with the NEB by December 1, 2015 seeking approval of interim rates for fiscal 2016. Upon approval, interim rates will take effect on January 1, 2016 and remain in effect until final rates are approved. Final rates are expected to be submitted in the second quarter of fiscal 2016, and NEB approval of the final rates is expected in the third quarter of fiscal 2016.</p>

### 3. ENERGY PRODUCTION SEGMENT

#### HIGHLIGHTS

- Wind Farm 4: In service as of December 2014
- Wind Farms 2 and 3 and Wind Farm 4: Favourable winds increased production in fiscal 2015

<b>Energy Production</b>			
Fiscal years ended September 30			
<i>(in millions of dollars)</i>	<b>2015</b>	<b>2014</b>	<b>Change</b>
<b>Revenues</b>	<b>58.3</b>	34.8	23.5
<b>Gross margin</b>	<b>58.3</b>	34.8	23.5
<b>IBIT (loss before income taxes)</b>	<b>6.5</b>	(1.4)	7.9
<b>Net income (loss):</b>	<b>5.4</b>	(0.9)	6.3
<b>Attributable to non-controlling interests</b>	<b>3.6</b>	(0.9)	4.5
<b>Attributable to the Partners of Gaz Métro</b>	<b>1.8</b>	-	1.8

#### Revenues

The Energy Production segment consists of the non-regulated energy production activities of Wind Farms 2 and 3 and Wind Farm 4. For fiscal 2015, the Energy Production segment's revenues consisted of 50% of the revenues generated by Wind Farms 2 and 3 and by Wind Farm 4, the latter having come into commercial service in December 2014. As indicated in the Wind Farms in Quebec heading of the VALENER INC. AND GAZ MÉTRO LIMITED PARTNERSHIP section of this MD&A, the \$23.5 million increase in revenues and the 438,502 MWh increase in production during fiscal 2015 were mainly due to:

- the fact that wind parks 2 and 3 were in operation for the 12 months of fiscal 2015, whereas in fiscal 2014, they had come into commercial service only in November and December of 2013, respectively;
- the fact that wind park 4 came into service in December 2014; and
- favourable winds during the period.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### IBIT

In fiscal 2015, the segment's IBIT increased \$7.9 million year over year mainly due to:

- an increase in the IBIT generated by Wind Farms 2 and 3 due primarily to the above-indicated revenue increase. Given this level of IBIT, Wind Farms 2 and 3 generated operating cash flows totalling \$60.0 million during fiscal 2015; and
- the fact that wind park 4 came into service in December 2014;

mitigated by:

- an unfavourable net impact of changes in the ineffective portion of the Wind Farms 2 and 3 swaps.

The changes in the ineffectiveness related to the swaps are explained by the application of the accounting standard for measuring ineffectiveness, which can sometimes produce unexpected results, among other reasons, through the incorporation of counterparty credit risk. Under Canadian GAAP, the ineffective portion of financial instruments designated for hedge accounting is recorded in the statement of income.

#### Wind power projects

As explained in greater detail in the Wind Farms in Quebec section under the heading VALENER INC. AND GAZ MÉTRO PARTNERSHIP in this MD&A, the results of Hydro-Québec's call for tenders, in which Gaz Métro and its Partners participated, were announced in December 2014; the bids submitted by the latter were not selected by Hydro-Québec. Gaz Métro and its Partners remain on the lookout for opportunities to invest in other wind power projects.

## 4. ENERGY SERVICES, STORAGE AND OTHER SEGMENT

### HIGHLIGHTS

- Start of work at the LSR plant for the construction of a second natural gas liquefaction train
- Agreement-in-principle between Gaz Métro and Hydro-Québec to build a natural gas storage, treatment and regasification plant in Bécancour
- STQ put into service a first LNG-fuelled ferry, which is supplied by Gaz Métro

Energy Services, Storage and Other			
Fiscal years ended September 30			
(in millions of dollars)	2015	2014	Change
Revenues	55.8	54.3	1.5
Gross margin	32.6	28.0	4.6
IBIT (loss before income taxes)	3.9	(0.7)	4.6
Net income (loss) attributable to Partners	2.4	(2.9)	5.3

### Revenues

In fiscal 2015, the segment's revenues increased \$1.5 million or 2.8% year over year, mainly due to a \$2.8 million increase in Gaz Métro LNG's revenues owing to the performance of short-term LNG supply contracts related to growing demand and to meeting the peak and preventive storage needs in New England. During fiscal 2015, Gaz Métro LNG delivered 23.9 million cubic metres compared with 17.1 million cubic metres in 2014. The segment's other business activities remained relatively stable during fiscal 2015.

### IBIT

In fiscal 2015, the segment's IBIT increased \$4.6 million year over year, mainly due to:

- an increase in Gaz Métro LNG's IBIT upon the performance of short-term LNG supply contracts, as explained above;
- an increase in the overall profitability of Gaz Métro Plus; and
- an increase in CCUM's IBIT due to lower supply costs;

partly mitigated by:

- a decline in the general profitability of Transport Solutions arising mainly from supplier delays regarding the commercialization of new engines for LNG-fuelled trucks.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Regulatory matters

#### Regulatory filings

Fiscal 2015	
<b>Intragaz - 2015 rate case</b>	In May 2013, the Régie issued a decision approving an average capital structure of 46% deemed equity starting May 1, 2013 for a 10-year period. In addition, the decision set the standard revenue requirement for the Pointe-du-Lac and Saint-Flavien sites combined, providing Intragaz with a rate of return on shareholder's equity of 8.50% for the same period.

### Outlook

#### LNG

Gaz Métro, through its Gaz Métro LNG subsidiary, is active in LNG production and commercialization activities. During the first quarter of fiscal 2015, Gaz Métro LNG signed a cooperation agreement with Fluxys, a Belgian group also active in the LNG sector, to provide mutual assistance in developing strategies to promote and market this product.

GAZ MÉTRO AND THE  
GOVERNMENT OF QUEBEC  
INVESTED **\$118M** TO TRIPLE THE  
NATURAL GAS LIQUEFACTION  
CAPACITY AT THE LSR PLANT

In October 2014, Gaz Métro and the Government of Quebec, through Investissement Québec (IQ), entered into a partnership on a project to increase the liquefaction capacity of Gaz Métro's LSR plant. The proposed expansion, which will triple the LSR plant's liquefaction capacity, represents an estimated total investment of \$118 million. Since the production and commercialization of LNG are not regulated activities, this project will be handled through the Gaz Métro LNG subsidiary. The Government of Quebec's economic interest in the project will be a maximum \$50 million investment in Gaz Métro LNG. As at September 30, 2015, Gaz Métro and IQ invested \$31.1 million and \$22.5 million, respectively, in the project.

Expansion of the LSR plant began in June 2015, and the work is expected to continue until November 2016 such that LNG can be made available to customers as of autumn 2016. The additional LNG volumes generated by the project will be used to meet growing demand in the road and marine transport markets and in areas remote from Gaz Métro-QDA's gas system, particularly Nord-du-Québec and Côte-Nord. Discussions are underway with several prospective customers, some of which have already confirmed their intention to procure LNG from Gaz Métro LNG. These include Stornoway Diamonds Corporation, which will be the first mining company in Quebec to use LNG.

IN 2015, THE FIRST LNG-  
FUELLED FERRY IN NORTH  
AMERICA WAS PUT INTO SERVICE  
IN MATANE, ANOTHER SOLUTION  
FOR REDUCING GHG EMISSIONS IN  
QUEBEC

In addition, in September 2013, Gaz Métro LNG concluded an agreement with the STQ for the purchase of fuel to supply three ferries with LNG. The F.-A. Gauthier, North America's very first LNG ferry, arrived in Quebec on April 18, 2015. It is currently serving the Matane/Baie-Comeau crossing and will eventually serve the Baie-Comeau/Godbout crossing. It was put into service in July 2015. STQ will take possession of two more LNG ferries in 2016. These two other ferries, also to be supplied by Gaz Métro LNG, will serve the Tadoussac/Baie-Ste-Catherine crossing. The three new ferries will produce 25% less GHG emissions than comparable ships using marine diesel.

Gaz Métro LNG is also continuing to market the LNG produced by the LSR plant's current and future capacity, both inside and outside Quebec. Short- and medium-term contracts have also been signed with various LNG wholesalers and natural gas distributors.

#### LNG storage and regasification site in Bécancour

Gaz Métro and its subsidiaries, Gaz Métro LNG and Gaz Métro Energy Solutions, have entered into an agreement-in-principle with Hydro-Québec Distribution to build, supply and operate an LNG storage, treatment and regasification site near the TransCanada Energy Ltd. (TCE) power plant in Bécancour, the goal being to support the electric power generation required in peak winter periods. In June 2015, the project notice was submitted to Quebec's ministry of sustainable development, environment and the fight against climate change (Ministère du Développement durable de l'Environnement et de la Lutte contre les changements climatiques), and the environmental assessment and review process will proceed in the coming months such that the required authorization certificate is obtained. It has to be noted that Gaz Métro remains in mediation with various stakeholders regarding the overall scope of the project.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

In May 2015, Hydro-Québec Distribution filed an application with the Régie seeking approval to use LNG from the LSR plant to meet peak demand for electricity starting in winter 2018. This innovative solution involves allowing the TCE power plant in Bécancour, which has not produced electricity for many years now, to become a strategic tool for meeting the needs of Quebecers during very cold spells, by supplying it with LNG for the equivalent of approximately 100 hours a year. In October 2015, the Régie authorized Hydro-Québec Distribution to use the TCE power plant in peak periods.

### Natural gas for the road transportation industry

Introduced by Transport Solutions and inaugurated in 2011 with Transport Robert 1973 Ltée (Robert Transport), the Blue Road is the first public network of natural gas refuelling stations for the Canadian heavy transportation industry. The Blue Road currently has five natural gas refuelling stations, including three public stations located in Lévis, Cornwall (Ontario) and Sainte-Julie. Transport Solutions is continuing to deploy the "Blue Road" development strategy, which involves adding natural gas fuelling stations in a way that is strategic, flexible and in line with market demand.

It should be noted that, as the Blue Road develops, private CNG refuelling sites are appearing concurrently given the growing market popularity of CNG as a fuel. Transport Solutions is playing a key role in stimulating this market by offering compression station rental services.

## 5. CORPORATE AFFAIRS SEGMENT

<b>Corporate Affairs</b>			
Fiscal years ended September 30			
<i>(in millions of dollars)</i>	<b>2015</b>	<b>2014</b>	<b>Change</b>
<b>Revenues</b>	<b>(27.1)</b>	<b>(23.8)</b>	<b>(3.3)</b>
<b>Gross margin</b>	<b>(0.9)</b>	<b>(0.9)</b>	<b>-</b>
<b>Loss before income taxes</b>	<b>(7.7)</b>	<b>(8.3)</b>	<b>0.6</b>
<b>Net loss attributable to Partners</b>	<b>(9.2)</b>	<b>(7.7)</b>	<b>(1.5)</b>

### **Loss before income taxes**

This segment's gross margin reflects the elimination of intersegment revenues and direct costs. The segment's loss before income taxes reflects, among other items, the development expenses incurred for various projects as well as corporate expenses and revenues not allocated to other segments of the Partnership.

### **Outlook**

Overall, Gaz Métro will continue to expand by seeking investment opportunities in the energy sector that will improve its profitability while maintaining a similar risk profile.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### P) CONSOLIDATED FINANCIAL POSITION

The following table compares the main consolidated balance sheet items as at September 30, 2015 with those of September 30, 2014.

Balance sheet item (in millions of dollars)	September 30		Increase (Decrease)	Explanation
	2015	2014 <sup>(1)</sup>		
Trade and other receivables	222.7	211.9	10.8	Increase comes from (i) the appreciation of the U.S. dollar against the Canadian dollar and (ii) introduction of the C&T service, mitigated by (iii) a decrease in natural gas volumes and price
Inventories	117.7	114.9	2.8	Increase comes from (i) a higher natural gas transportation rate and (ii) the appreciation of the U.S. dollar against the Canadian dollar, mitigated by (iii) a lower natural gas price
Property, plant and equipment	4,439.7	3,970.9	468.8	Increase comes from the appreciation of the U.S. dollar against the Canadian dollar and from investments in (i) Gaz Métro-QDA's natural gas distribution system, (ii) GMP's electricity distribution system, (iii) the LSR plant expansion project, (iv) VGS's system development projects (including the Addison project), and (v) wind park 4
Intangible assets	390.9	81.1	309.8	Increase comes mainly from (i) Gaz Métro-QDA's purchase of GHG emission allowances under the C&T Regulation and (ii) the appreciation of the U.S. dollar against the Canadian dollar
Deferred charges and credits	31.5	90.0	(58.5)	Decrease comes from (i) an increase in the deferred credits related to Gaz Métro-QDA's rate stabilization accounts given colder-than-normal temperatures, (ii) a decrease in the deferred charges accounts related to the cost of natural gas for Gaz Métro-QDA given the late application of rates, and (iii) an increase in the deferred credits related to future retirement costs for Gaz Métro-QDA, offset by (iv) an increase in the deferred charges related to the transportation and load-balancing shortfall arising from colder-than-normal temperatures
Investments and other	948.1	736.8	211.3	Increase comes mainly from the appreciation of the U.S. dollar against the Canadian dollar and from GMP's investment in Transco
Goodwill	414.1	349.0	65.1	Increase comes from the appreciation of the U.S. dollar against the Canadian dollar
Other long-term assets	70.2	74.6	(4.4)	Decrease comes mainly from (i) an amount receivable received from the provincial government for the feasibility study costs incurred on the project to serve the Côte-Nord, offset by (ii) an increase in the accrued benefit asset of Gaz Métro-QDA's pension plans
Bank loans	29.0	-	29.0	Increase comes from a reclassification of VGS's term loan maturing in 2016
Accounts payable and accrued liabilities	355.5	341.1	14.4	Increase comes from (i) higher supply costs for Gaz Métro-QDA, (ii) the appreciation of the U.S. dollar against the Canadian dollar and (iii) higher investments relating to the LSR plant expansion project, mitigated by (iv) lower investments for the construction of wind parks 2 and 3 as well as wind park 4 since these projects were put into service
Long-term debt, including current portion	3,564.3	3,167.8	396.5	Increase comes mainly from (i) the appreciation of the U.S. dollar against the Canadian dollar, (ii) Gaz Métro-QDA's financing of GHG emission allowances purchased in accordance with the C&T Regulation and (iii) the financing of investments to develop Gaz Métro-QDA's and GMP's systems
Net future income tax liability, including current portion	485.4	374.3	111.1	Increase comes mainly from the appreciation of the U.S. dollar against the Canadian dollar and from the change in the temporary differences of U.S. companies
Other long-term liabilities	434.8	359.5	75.3	Increase comes mainly from (i) the appreciation of the U.S. dollar against the Canadian dollar and (ii) the subscription of Gaz Métro LNG units by Investissement Québec
Capital	1,751.8	1,496.8	255.0	Units issued to Partners in April 2015 and September 2015 to finance the general requirements of Gaz Métro-QDA, including the purchase of GHG emission allowances under the C&T Regulation, its various development projects, and the restoration of its capital structure

<sup>(1)</sup> Certain figures as at September 30, 2014 have been adjusted to reflect the presentation adopted for the current fiscal year.



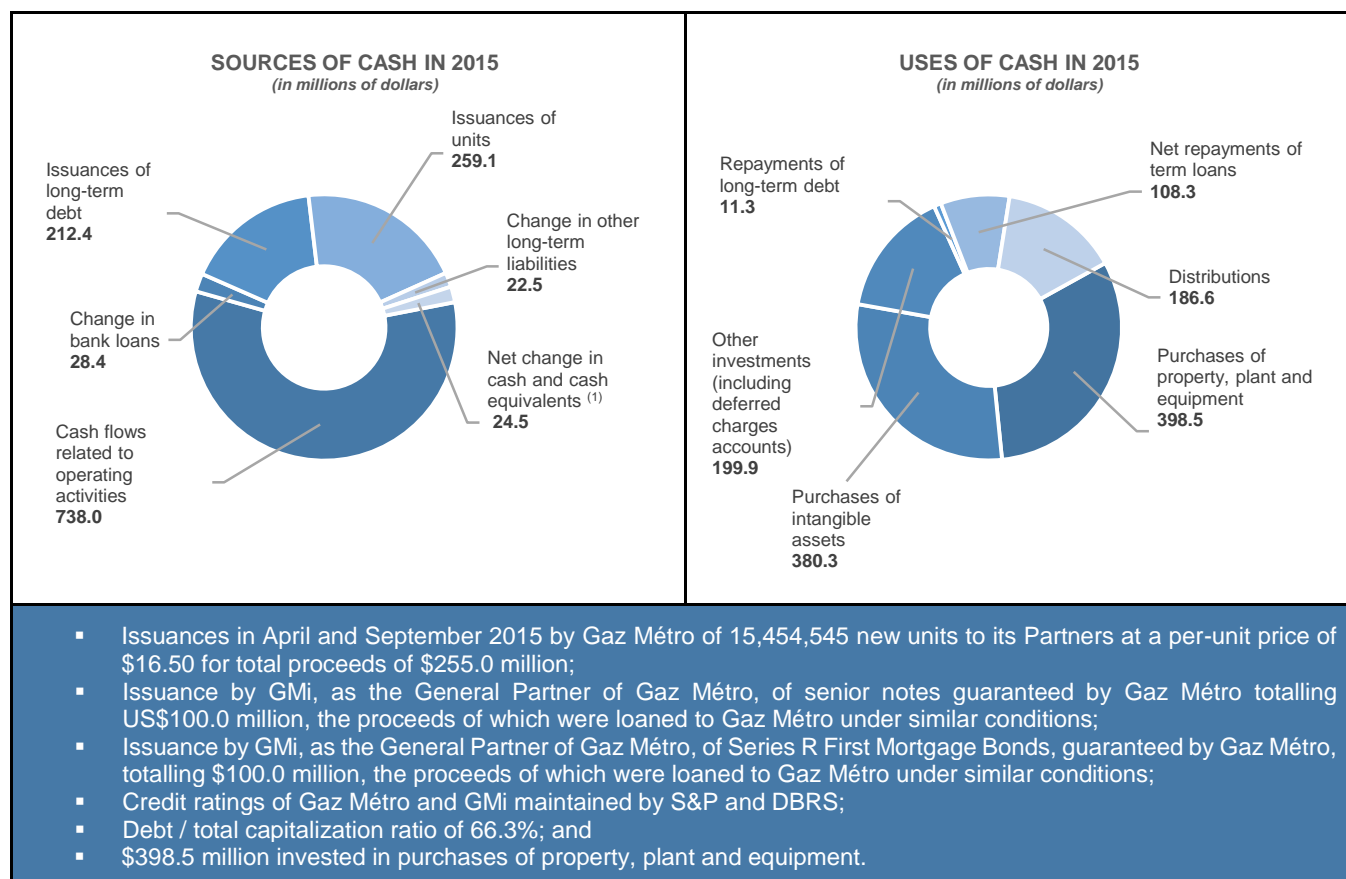
## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Q) CASH AND CAPITAL MANAGEMENT

Gaz Métro's cash and capital management strategy focuses on maintaining a strong financial profile and making sure its liquidity requirements are met. In so doing, Gaz Métro can meet its financial obligations, reinvest in existing assets to sustain its income-generating capacity in accordance with rate regulation, and carry out the projects underpinning its growth strategy.

This section discusses the Partnership's financial position, cash flows and liquidity.

#### 1. HIGHLIGHTS FOR FISCAL 2015



<sup>(1)</sup> Equals the net change in cash and cash equivalents net of the bank overdraft and excluding the impact of exchange rate fluctuations on cash and cash equivalents and bank overdraft.

#### 2. CASH FLOW SUMMARY

For the fiscal years ended September 30 <sup>(1)</sup>

(in millions of dollars)		2015	2014	Change
Cash flows related to operating activities	<b>a</b>	<b>738.0</b>	605.0	133.0
Cash flows related to investing activities	<b>b</b>	<b>(978.6)</b>	(641.3)	(337.3)
Cash flows related to financing activities	<b>c</b>	<b>216.2</b>	75.3	140.9

<sup>(1)</sup> The standardized distributable cash was \$339.5 million for fiscal 2015 compared to \$153.5 million for fiscal 2014. This is a non-Canadian-GAAP financial measure that is included in the recommendations made by the CICA in *Standardized Distributable Cash in Income Trusts and Other Flow-Through Entities – MD&A Guidance on Preparation and Disclosure*. The purpose of this measure is to present the cash flows generated by the Partnership's operations over a given period that could be available for distributions to Partners. It corresponds to cash flows related to operating activities less purchases of property, plant and equipment. While the computation of this measure is standard and comparable for all enterprises, in management's opinion, it is not the most accurate reflection of the Partnership's economic reality because it does not take into account certain factors that are specific to its operations.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### a) Cash flows related to operating activities

Cash flows related to operating activities increased by \$133.0 million, in part due to:

- an increase in cash inflows generated by the Energy Distribution segment due mainly to additional Gaz Métro-QDA revenues attributable to the C&T Regulation;
- an increase in cash inflows generated by the Energy Production segment, as explained in the Wind Farms in Quebec heading of the VALENER INC. AND GAZ MÉTRO LIMITED PARTNERSHIP section of this MD&A; and
- a \$19.8 million favourable change in non-cash working capital items, mainly due to:
  - a \$50.7 million net favourable impact on Gaz Métro-QDA's non-cash working capital items resulting mainly from a lower natural gas price, as well as to a favourable impact on accounts payable and accrued liabilities of higher supply costs in fiscal 2015 than in fiscal 2014;
 partly mitigated by:
  - a \$39.9 million unfavourable impact on the trade and other receivables of Wind Farms 2 and 3, which is attributable to Hydro-Québec's fiscal 2014 payment of a note receivable in connection with certain wind parks 2 and 3 construction costs, as well as to the receipt of sales taxes receivable during the previous fiscal year.

### b) Cash flows related to investing activities

For the fiscal years ended September 30

<i>(in millions of dollars)</i>	2015	2014	Change
Change in restricted cash	21.2	(29.9)	51.1
Purchases of property, plant and equipment	(398.5)	(451.5)	53.0
Change in deferred charges and credits	(198.7)	(116.5)	(82.2)
Purchases of intangible assets	(380.3)	(19.6)	(360.7)
Net change in investment fund units	(3.0)	(0.4)	(2.6)
Change in an interest in an entity subject to significant influence and other investments	(32.6)	(25.2)	(7.4)
Other	13.3	1.8	11.5
<b>Total</b>	<b>(978.6)</b>	<b>(641.3)</b>	<b>(337.3)</b>

#### Change in restricted cash

Restricted cash consists primarily of amounts earmarked for construction projects. The change is affected by the financing and stage of completion of the work. Specifically, for fiscal 2015, the change in restricted cash was driven mainly by the progress made on wind parks 2 and 3 and wind park 4.

#### Purchases of property, plant and equipment

The \$53.0 million year-over-year decrease in purchases of property, plant and equipment was mainly due to:

- a decrease of \$78.8 million in investments by the Energy Production segment given less investment in wind parks 2 and 3 and wind park 4, as they were completed, as scheduled, in the first quarters of fiscal years 2014 and 2015, respectively; and
- a \$26.3 million decrease (excluding a \$19.9 million favourable exchange rate impact from Energy Distribution activities in Vermont) in investments made by the Energy Distribution segment, mainly because of less investment by Gaz Métro-QDA and GMP in system development projects;

partly offset by:

- a \$42.5 million increase in Gaz Métro LNG's investments in the LSR plant expansion project.

#### Change in deferred charges and credits

Invested funds increased \$82.2 million compared to fiscal 2014, partly due to:

- a \$45.9 million increase in Gaz Métro-QDA's investments explained by higher supply costs during fiscal 2015 compared to fiscal 2014 and by the higher overearnings attributed to customers during fiscal 2014 for the distribution service, partly mitigated by the impact of a late application of the 2014 and 2015 rates; and
- a \$34.8 million increase in investments made by GMP, mainly reflecting the recognition, during fiscal 2015, of a deferred charges account related to the December 2014 snow storm, as described in section o) SEGMENT RESULTS under the Regulatory Matters heading for GMP and VGS, and the increase in power supply costs compared to fiscal 2014.

#### Purchases of intangible assets

An increase of \$360.7 million comes mainly from Gaz Métro-QDA's purchase of GHG emission allowances under the C&T Regulation, as explained in section m) CONDITIONS IN THE ENERGY MARKET AND FOR GAZ MÉTRO.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Change in an interest in an entity subject to significant influence and other investments

The \$7.4 million net change for fiscal 2015 stems mainly from investments totalling \$31.6 million (US\$27.2 million) made by GMP in Transco during fiscal 2015, which were \$7.2 million (US\$3.9 million) higher than in fiscal 2014, as explained in section O) SEGMENT RESULTS.

### Other

The \$11.5 million increase from fiscal 2014 was mainly due to the receipt, during fiscal 2015, of an amount receivable from the provincial government for costs incurred to conduct feasibility studies for the project to provide service to the Côte-Nord.

### **c) Cash flows related to financing activities**

For the fiscal years ended September 30

<i>(in millions of dollars)</i>	<b>2015</b>	2014	Change
Issuances of units	<b>259.1</b>	3.6	255.5
Distributions	<b>(186.6)</b>	(169.1)	(17.5)
Change in other long-term liabilities	<b>22.5</b>	-	22.5
Other financing activities	<b>121.2</b>	240.8	(119.6)
<b>Total</b>	<b>216.2</b>	75.3	140.9

### Issuances of units

The \$255.5 million increase stems mainly from Gaz Métro's unit issuances, by way of private placement, as described in the following table:

<b>Issuance date</b>	<b>Number of new units issued</b>	<b>Per-unit price (in \$)</b>	<b>Total proceeds (in millions of \$)</b>
April 30, 2015	8,181,818	16.50	135.0
September 30, 2015	7,272,727	16.50	120.0

### Distributions

The following table shows the distributions paid to Partners during fiscal 2015:

<b>Distribution payment date</b>	<b>Distribution declaration date</b>	<b>Per-unit distribution amount (in \$)</b>	<b>Cash amount (in millions of \$)</b>
October 1, 2014	August 7, 2014	0.28	42.5
January 5, 2015	November 26, 2014	0.28	42.5
April 1, 2015	February 11, 2015	0.28	42.5
July 2, 2015	May 13, 2015	0.28	44.8

During fiscal 2015, Beupré Éole and Beupré Éole 4 paid distributions totalling \$9.9 million and \$4.3 million, respectively, to non-controlling shareholders.

With the quarterly distributions of \$0.28 per unit paid during fiscal 2015, Gaz Métro kept with its practice of distributing virtually all of its income, since, as at September 30, 2015, it had distributed 98.3% of the net income it has earned since 1993, the year in which it went public. Note that Gaz Métro's units were traded on the TSX from 1993 to 2010.

As indicated in section N) CONSOLIDATED ANNUAL FINANCIAL PERFORMANCE SUMMARY, Gaz Métro will increase the quarterly distribution to \$0.29 per unit as of the second quarter of fiscal 2016. On November 26, 2015, GMI's board of directors, acting in its capacity as General Partner of Gaz Métro, declared a quarterly distribution of \$0.29 per unit, totalling \$48.5 million, payable to its Partners on January 5, 2016.

### Change in other long-term liabilities

During fiscal 2015, Investissement Québec subscribed 22,541,680 units of Gaz Métro LNG for a total cash consideration of \$22.5 million. The equity instruments issued to Investissement Québec are considered long-term liabilities because they are redeemable at the option of the holder as of the 15<sup>th</sup> year following start-up of the LSR plant expansion project. For additional information on these equity instruments, refer to Notes 2 and 15 to the audited consolidated financial statements of Gaz Métro for the fiscal years ended September 30, 2015 and 2014.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Other financing activities

Other financing activities resulted in net issuances of \$121.2 million (excluding a \$300.3 million exchange rate impact) for fiscal 2015 and were essentially due to:

- the issuance by GMI, as General Partner of Gaz Métro, of senior notes, guaranteed by Gaz Métro, in an amount of \$114.4 million (US\$100.0 million). These notes bear interest at an annual rate of 3.22% and will mature on December 9, 2024. The proceeds of the issuance were loaned to Gaz Métro at similar conditions and were used to refinance existing debt and for general business purposes;
- the issuance by GMI, as General Partner of Gaz Métro, of Series R First Mortgage Bonds, guaranteed by Gaz Métro, in an amount of \$100.0 million. These bonds bear interest at an annual rate of 3.30% and will mature on March 31, 2045. The proceeds of the issuance were loaned to Gaz Métro at similar conditions and were used to refinance existing debt and for general business purposes;
- a \$34.6 million increase in the term loans of GMP, which contracted a new credit facility that was \$46.6 million (US\$40.0 million) higher than the former, cancelled credit facility in order to finance, among other things, the additional investments in Transco; and
- a \$28.4 million increase in VGS's bank loans related to the costs incurred for the Addison project;

partly mitigated by:

- a \$126.3 million decrease in Gaz Métro-QDA's term loans, as Gaz Métro turned to other sources of financing such as the previously described long-term debt and unit issuances; and
- a decrease in the term loans for Wind Farms 2 and 3 related to the repayments totalling \$21.0 million (Gaz Métro's share: \$10.5 million).

### 3. CAPITAL STRUCTURE AND DEBT RATIO

As at September 30

<i>(in millions of dollars, unless otherwise indicated)</i>	<b>2015</b>	<b>2014</b>
Bank loans	<b>29.0</b>	-
Current portion of long-term debt	<b>33.3</b>	27.0
Long-term debt, net of financing costs	<b>3,531.0</b>	3,140.8
Total debt <sup>(1)</sup>	<b>3,593.3</b>	3,167.8
Partners' equity <sup>(2)</sup>	<b>1,829.6</b>	1,482.4
Total capitalization	<b>5,422.9</b>	4,650.2
Debt / total capitalization ratio <sup>(3)</sup>	<b>66.3%</b>	68.1%

<sup>(1)</sup> The change in long-term debt, net of financing costs, is explained above in the Other Financing Activities heading.

<sup>(2)</sup> For additional information on the composition of Partners' equity, refer to the consolidated statements of Partners' equity in Gaz Métro's audited consolidated financial statements for the fiscal years ended September 30, 2015 and 2014.

<sup>(3)</sup> This measure is a non-Canadian-GAAP financial measure. For additional information, refer to the Non-Canadian-GAAP Financial Measures and Additional Canadian-GAAP Measure heading in section L) OVERVIEW OF THE PARTNERSHIP AND OTHER.

At 66.3%, the debt / total capitalization ratio decreased by 1.8%, mainly because of the increase in Partners' equity resulting, among other factors, from Gaz Métro's unit issuances in fiscal 2015. This debt ratio falls within Gaz Métro's targeted range.

### Impacts of exchange rate fluctuations on the capital structure

The Partnership, which owns investments in U.S. companies, is exposed to the risk of a fluctuating U.S. dollar in relation to the Canadian dollar, since it has to revalue the assets and liabilities (net assets) of its U.S. subsidiaries and entities subject to significant influence at the exchange rate prevailing at the end of each period and record the impact of this revaluation on Partners' equity.

During fiscal 2015, the Partnership increased the value of its U.S.-dollar assets by \$103.5 million, net of translation adjustments related to hedging activities, due to the appreciation of the U.S. dollar versus the Canadian dollar.

The value of the Partnership's U.S.-dollar net assets exposed to exchange risk after hedging stood at \$681.5 million (US\$510.7 million) as at September 30, 2015 compared with \$503.8 million (US\$449.9 million) as at September 30, 2014.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following end-of-period exchange rates were used to translate U.S.-dollar-denominated assets and liabilities into Canadian dollars for the fiscal years ended:

	<b>September 30, 2015</b>	September 30, 2014	Increase
U.S. dollar	<b>\$1.3345</b>	\$1.1200	19.2%

The following average exchange rates were used to translate U.S.-dollar-denominated revenues and expenses into Canadian dollars for the fiscal years ended:

	<b>September 30, 2015</b>	September 30, 2014	Increase
U.S. dollar	<b>\$1.2228</b>	\$1.0831	12.9%

### Unused credit facilities and financing outlook

As at September 30, 2015, the Partnership, in part through its General Partner GMi, had term credit facilities totalling \$1,448.7 million and an operating credit facility totalling \$50.0 million, which can be used to finance current operations and various development activities. Given the amounts borrowed and the letters of credit issued by Gaz Métro and its subsidiaries and joint ventures, the unused credit facilities stood at \$670.6 million as at September 30, 2015.

On January 28 and February 1, 2015, Gaz Métro, through its General Partner GMi, amended its credit facility in particular to raise the maximum authorized amount from \$600.0 million to \$800.0 million and to extend its maturity to March 2020. The terms and conditions of the original credit agreement remain unchanged.

On June 27, 2014, TQM amended its credit facility, which now includes a term loan portion of \$75.0 million (Gaz Métro's share: \$37.5 million) and a credit line portion of \$60.0 million (Gaz Métro's share: \$30.0 million). The first \$35.0 million tranche of the term loan (Gaz Métro's share: \$17.5 million) was contracted on July 2, 2014 and bears interest at an annual rate of 2.79%, and the second \$40.0 million tranche (Gaz Métro's share: \$20.0 million) was contracted on September 15, 2014 and bears interest at an annual rate of 2.82%. These borrowings were used to reimburse a portion of the Series K bonds, which matured on September 15, 2014. The credit line portion continues to bear interest at a floating rate. The amended credit facility will mature on August 19, 2018.

During fiscal 2016, the Partnership expects to require funds to finance:

- its investments in property, plant and equipment that could amount to approximately \$485 million and related mainly to extensions and improvements to be made to the energy distribution systems in Quebec and Vermont (approximately \$454 million) and to the LSR plant expansion project (approximately \$31 million);
- investment opportunities;
- capital contributions needed for Gaz Métro's subsidiaries, joint ventures and entities subject to significant influence;
- the potential purchase of GHG emission allowances by Gaz Métro-QDA under the C&T Regulation;
- the refinancing or repayment of \$33.3 million in long-term debt coming due in fiscal 2016; and
- distributions to Partners.

The available sources of internal and external financing are:

- cash flows related to operating activities;
- available term credit facilities and operating credit lines; and
- if necessary, new financings in the form of debt or unit issuances.

In terms of financing, since Gaz Métro's practice is to distribute substantially all of its net income, it must turn to capital markets and its Partners to finance major investment projects that are not part of routine operations. The Partnership usually meets its needs for Gaz Métro-QDA by issuing debt or units to Partners in order to maintain an average capital structure, as authorized by the Régie, of 54% debt and 46% Partners' equity.

The Partnership believes that it will be able to refinance or reimburse the \$33.3 million in long-term debt coming due during fiscal 2016, as it has never experienced a significant reduction in its ability to access capital markets, even during the past periods of economic instability. GMi's issuances of US\$100.0 million in secured senior notes and of \$100.0 million in first mortgage bonds, and the maintenance of the S&P and DBRS credit ratings attributed to Gaz Métro and GMi for fiscal 2015, are tangible evidence of the financial markets' confidence in Gaz Métro and its Partners. For Gaz Métro, this confidence reflects the following factors:

- its capital management approach, which reflects the capital structures stipulated by the various regulatory agencies and complies with the restrictive covenants in the credit agreements and in the trust deeds and other agreements governing its long-term debt;
- its internal policy to fix the interest rates on about 75% of its debt, which reduces its exposure to interest rate fluctuations; and
- its prudent and targeted growth strategy.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Restrictive covenants

The long-term debt trust deeds and other agreements stipulate that Gaz Métro will not issue any new long-term debt if, given such an issuance, Gaz Métro's long-term debt to total capitalization ratio exceeds 65% and its long-term debt interest coverage ratio is less than 1.5 on a non-consolidated financial statements basis. It should be noted that total capitalization corresponds to the sum of total long-term debt and Partners' equity. The trust deeds and other agreements on long-term debt also stipulate that Gaz Métro will not make a distribution to its Partners if, given such a distribution, the Partnership's long-term debt to total capitalization ratio exceeds 75% on a non-consolidated financial statements basis.

The long-term debt interest coverage ratio is obtained by dividing total interest on long-term debt by net income before interest on long-term debt and income taxes.

The following table shows these ratios based on Gaz Métro's non-consolidated financial statements as at September 30, 2015 and 2014.

	2015	2014
Long-term debt / total capitalization ratio	52.8%	55.6%
Long-term debt interest coverage ratio	2.94 times	3.01 times

The long-term debt trust deeds and other agreements stipulate that all of Gaz Métro's interests in non-regulated energy-related activities and in non-energy-related activities must not represent more than 10% of its total non-consolidated assets. As at September 30, 2015 and 2014, Gaz Métro's assets used for such activities accounted for 3.17% and 2.95%, respectively, of its total non-consolidated assets. As for non-energy-related activities, Gaz Métro's interests in such activities may not exceed 5% of its total non-consolidated assets. As at September 30, 2015 and 2014, Gaz Métro has no interests in such activities.

As at September 30, 2015 and 2014, GMI and Gaz Métro and its subsidiaries and joint ventures were in compliance with all of the requirements of the various trust deeds and other term loan agreements governing long-term debt. Subject to the usual restrictions in the credit facilities of the Partnership's subsidiaries, joint ventures and entities subject to significant influence, there are no legal or practical restrictions on the ability of the subsidiaries, joint ventures and entities subject to significant influence to transfer funds to Gaz Métro.

### Internal policy for the fixing of interest rates

As at September 30, 2015, 89.7% of the long-term debt was at fixed rates compared to 86.0% as at September 30, 2014. Although the Partnership's internal policy is to fix the interest rate of approximately 75% of its debt, Gaz Métro took advantage of the lower long-term interest rates in recent fiscal years to fix its long-term financing cost.

### Credit ratings

During fiscal 2015, Gaz Métro's and GMI's S&P and DBRS credit ratings were maintained.

For the fiscal years ended September 30

	2015	2014
First mortgage bonds (S&P/DBRS) <sup>(1)</sup>	A+/A	A+/A
Commercial paper (S&P/DBRS) <sup>(1)</sup>	A-1(mid)/R-1(low)	A-1(mid)/R-1(low)

<sup>(1)</sup> Through its General Partner, GMI.

In December 2014, S&P revised GMP's BBB+ corporate credit rating outlook from stable to positive.

## 4. OFF-BALANCE-SHEET ARRANGEMENTS

### Securitization program

On March 27, 2015, Gaz Métro terminated the receivables purchase agreement (also called the "securitization agreement") under which it could assign receivables to a securitization trust, with limited recourse, on a monthly basis. During the first quarter of fiscal 2015, the Partnership had transferred and derecognized receivables totalling \$59.0 million (nil as at September 30, 2014), net of the subordinated interests retained by Gaz Métro. As at September 30, 2015, the Partnership no longer had any obligations under this agreement, and it had not negotiated a new receivables purchase agreement.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Guarantees

In the normal course of business and during construction of its various projects, Gaz Métro and GMi, as General Partner, provide or may provide various guarantees in the form of letters of credit, performance bonds or bid bonds, collateral warranties or other. For additional information on the guarantees issued by Gaz Métro, refer to Note 26 to Gaz Métro's audited consolidated financial statements for the fiscal years ended September 30, 2015 and 2014.

### 5. CONTRACTUAL OBLIGATIONS

The following table presents the payments to be made under contractual obligations over the next five years and thereafter:

<i>(in millions of dollars)</i>	Total	Less than 1 year	1 to 3 years	4 to 5 years	Thereafter
<b>Financial liabilities</b>					
Bank overdraft	6.4	6.4	-	-	-
Bank loans	29.0	29.0	-	-	-
Accounts payable and accrued liabilities	355.5	355.5	-	-	-
Distributions payable	44.8	44.8	-	-	-
Derivative financial liabilities	37.4	5.1	4.7	0.2	27.4
Long-term debt	3,597.6	33.3	356.4	615.6	2,592.3
Interest <sup>(1)</sup>	2,289.1	162.3	292.2	261.4	1,573.2
Total	6,359.8	636.4	653.3	877.2	4,192.9
<b>Supply contracts <sup>(2)</sup></b>					
Energy supply	3,954.9	241.4	514.0	457.7	2,741.8
Transportation	2,219.5	523.7	630.2	445.0	620.6
Storage	74.7	18.3	23.5	13.7	19.2
Total	6,249.1	783.4	1,167.7	916.4	3,381.6
<b>Service and maintenance contracts <sup>(3)</sup></b>	39.6	1.4	21.0	2.3	14.9
<b>Construction contracts <sup>(4)</sup></b>	44.4	18.9	25.5	-	-
<b>Leases <sup>(5)</sup></b>	24.3	2.6	3.0	2.4	16.3
<b>Total contractual obligations</b>	<b>12,717.2</b>	<b>1,442.7</b>	<b>1,870.5</b>	<b>1,798.3</b>	<b>7,605.7</b>

<sup>(1)</sup> Interest is presented based on contractual maturity and using the rates in effect as at September 30, 2015.

<sup>(2)</sup> Supply contracts are shown according to the prices and rates prevailing on the balance sheet date, except for fixed-price contracts. The costs relating to these contracts will be recovered from customers in the corresponding periods.

<sup>(3)</sup> Service and maintenance contracts for the wind turbines of Wind Farms 2 and 3 and Wind Farm 4.

<sup>(4)</sup> The contract to raise the liquefaction capacity of the LSR plant.

<sup>(5)</sup> Gaz Métro and its subsidiaries and joint ventures are committed under operating leases to rent commercial premises and other assets used in the normal course of their operations.

In 2015 and 2014, as part of the measures implemented to ensure the security and diversity of gas supply, Gaz Métro-QDA and VGS signed transportation capacity precedent agreements and, should these agreements be cancelled, financial backstopping agreements in order to increase natural gas transportation capacity from the Dawn hub in Ontario. The transportation agreements will have a 15-year term and should take effect in November 2016 for Gaz Métro-QDA and in November 2017 for VGS. These agreements are required to meet gas supply needs in Quebec and Vermont and will ensure access to the affordable, diverse sources of natural gas from the Dawn hub.

For additional information on commitments, refer to Note 26 to Gaz Métro's audited consolidated financial statements for the fiscal years ended September 30, 2015 and 2014.

### **R) RISK FACTORS RELATING TO GAZ MÉTRO**

For the purposes of this section, the term "Gaz Métro" means Gaz Métro, Gaz Métro-QDA and the subsidiaries and joint ventures of Gaz Métro.

This section describes the principal risk factors that could have a significant impact on the activities, financial position and consolidated net income of Gaz Métro and, by extension, on the financial position and consolidated net income of Valener. Risks are classified by risk category and, within each category, by severity. Other risks not currently known to Gaz Métro, or that it

## MANAGEMENT'S DISCUSSION AND ANALYSIS

believes to be immaterial at this time, may also adversely affect its activities. Gaz Métro has developed and applied practices for identifying, assessing and managing risks in order to reduce the nature and scope of these risks as much as possible.

### REGULATORY AND POLITICAL RISK

Gaz Métro's activities are extensively regulated by various government agencies in both Canada and the United States. As such, changes to government policies and laws always pose a risk that could have an unfavourable impact on the activities, financial position and consolidated net income of Gaz Métro.

#### Utility-related regulation

Decisions issued by regulatory agencies, particularly decisions by the Régie and the NEB in Canada and decisions by the VPSB and the FERC in the United States, on, among other matters (i) natural gas distribution, transportation and storage rates, (ii) electricity distribution and transmission rates, (iii) the authorized rate of return on deemed equity of these activities, and (iv) investments to develop and maintain assets related to these activities, could have a significant impact on Gaz Métro's financial results and could have an unfavourable impact on the value of investments in some of Gaz Métro's subsidiaries or joint ventures subject to such decisions. Substantially all of Gaz Métro's fiscal 2015 consolidated revenues were generated by regulated activities and are therefore subject to such decisions.

These regulatory agencies set rates, usually on an annual basis, using data projections provided by Gaz Métro-QDA and certain Gaz Métro subsidiaries and joint ventures. Any discrepancy between these projections and actual data, particularly data on a given fiscal year's deliveries, could, depending on its nature, have a favourable or unfavourable impact on Gaz Métro's consolidated net income for that particular fiscal year. In addition, if one or more decisions made by a regulatory agency during rate setting had, or potentially had, a material unfavourable impact on Gaz Métro's consolidated net income and financial position, this could ultimately have an unfavourable impact on the credit ratings of Gaz Métro and GMi or, in some cases, on the credit ratings of the subsidiaries or joint ventures of Gaz Métro.

Gaz Métro-QDA and some of Gaz Métro's rate-regulated subsidiaries and joint ventures undertake investment programs and assess the current and future operating and maintenance expenses that will be incurred for the ongoing operation of their energy distribution or transportation systems. Management's analysis is based on assumptions regarding cost of service, capital expenditures, regulatory requirements, revenue requirement approvals and other matters involving uncertainty. If actual costs exceed the assumptions submitted to and approved by regulatory agencies, there is no assurance that the regulatory agencies will approve a recovery of such additional costs in future rates billed to customers. Historically, however, reasonably incurred costs have been recovered in the rates billed to customers and this practice is likely to continue. Nonetheless, an inability of Gaz Métro-QDA and some of Gaz Métro's rate-regulated subsidiaries and joint ventures to recover additional costs could have an unfavourable impact on the financial position and net income of Gaz Métro-QDA and of certain Gaz Métro rate-regulated subsidiaries and joint ventures and, consequently, on Gaz Métro's consolidated net income.

Failure to obtain rates in accordance with a submitted rate case or failure to obtain approval to invest in asset maintenance or development could have an unfavourable impact on the activities of Gaz Métro-QDA or of certain Gaz Métro subsidiaries or joint ventures with rate-regulated activities, on the start-up or scheduling of proposed investment projects, on Gaz Métro's and GMi's credit ratings or those of the rate-regulated subsidiaries or joint ventures, and on the issuance of long-term debt securities; consequently, it could have a significant unfavourable impact on Gaz Métro's consolidated net income.

In September 2012, Gaz Métro-QDA's performance incentive mechanism expired. Since then, Gaz Métro-QDA's rates have been set using the cost-of-service method. Under this method, the projected cost of delivering Gaz Métro-QDA's services is used to determine its rates. At year-end, a positive difference between Gaz Métro-QDA's permitted net income and earned net income will be fully or partially designated as overearnings to be shared with customers according to the Régie-approved parameters; a negative difference will be designated as a shortfall charged solely to Gaz Métro-QDA. Consequently, there is no assurance that Gaz Métro-QDA will be able to recover all actually incurred costs and thereby achieve the authorized rates of return.

Gaz Métro is very vigilant with respect to regulatory risk and attaches great importance to maintaining good relations with the various regulatory agencies and intervenors recognized by these agencies.

#### Political risk

Changes to government policies or adoptions of new government initiatives, particularly energy and environmental initiatives, could affect the regulatory framework governing Gaz Métro's activities. Therefore, changes to government policies or adoptions of new government initiatives, whether national or local, could have an unfavourable impact on the activities, competitive position, financial position and consolidated net income of Gaz Métro.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Changes in accounting standards

As explained in greater detail in section S) RECENT ACCOUNTING CHANGES, Gaz Métro and its partners will use U.S. GAAP to prepare their annual and interim consolidated financial statements for fiscal years 2016 to 2018 inclusively.

In September 2015, Gaz Métro filed a request with the Régie to change the rate-setting regulatory treatments such that they are aligned with U.S. GAAP. Should the Régie deny the requested changes, some RALs currently recognized under Part V of the Handbook might no longer be so recognized for purposes of preparing the consolidated financial statements under U.S. GAAP. In such a situation, Gaz Métro's consolidated net income would not be representative of its actual financial performance in the applicable reporting period, which would not be the case if Part V of the Handbook were to continue to be used.

In addition, such reporting volatility and the resulting consequences would also exist if Gaz Métro were to convert to IFRS and the future final IFRS standard on RRAs not adequately present the economic reality of RRAs in the consolidated financial statements.

### RISKS RELATED TO ECONOMIC CONDITIONS

Gaz Métro's sales and, consequently, its financial position and consolidated net income are affected by general economic conditions, competition, the cost of energy and the loss of major customers.

#### Economy

The economy in general influences the business activities of Gaz Métro. Generally speaking, poor economic conditions have a negative impact on the business activities of the industrial and commercial customers served by Gaz Métro and, in turn, on the demand for natural gas or electricity and related services.

However, since many distribution customers must sign a contract for natural gas supply to their facilities, and since many of these customers guarantee payment of a substantial portion of the distribution service, regardless of whether or not they consume the gas, the resulting risk from any such decline in demand is mitigated. GMP's Regulation plan has also reduced this risk on the electricity side. The plan allows for deferral of lost revenue impacts from the loss of customer consumption and includes protection in the event of unexpected cost increase. Furthermore, for several years now, Gaz Métro-QDA has been working to raise the market share of natural gas in the residential market, thereby reducing its vulnerability to the industrial and commercial markets. The increase in the number of residential customers, which is closely tied to the number of new housing starts and to natural gas prices, is, consequently, also dependent on general economic conditions.

#### Competition

##### Gaz Métro-QDA

In Quebec, natural gas competes with other available energy sources such as fuel oil and electricity. Gaz Métro-QDA's ability to achieve sound financial results therefore depends, among other factors, on the competitiveness of natural gas in relation to these other available energy sources.

Electricity has the largest share of the residential energy market in Quebec for historical reasons. Given this position held by electricity in Quebec, and despite successive increases in electricity rates since 2004, natural gas constantly faces strong competition in the residential market. Although natural gas is currently cheaper than electricity, the cost gap between these two energy sources is narrower for customers using standard natural gas furnaces compared to high-efficiency electric heating systems.

In the commercial market, the competitive position of natural gas is generally favourable compared to electricity.

As the price of n° 2 fuel oil is currently higher than the price of natural gas, natural gas is in a favourable competitive position vis-à-vis n° 2 fuel oil in the residential and commercial markets, despite the recent decline in oil prices. A deterioration in Gaz Métro's competitive position could have an unfavourable impact on its financial position or consolidated net income.

In the industrial market, the competitiveness of natural gas can fluctuate considerably, as it is closely tied to fluctuations in natural gas prices relative to heavy fuel oil prices. Most industrial customers can use more than one energy source to cover their energy needs. The low distribution rate charged to these customers, on a volume basis, has a positive impact on the competitive position of natural gas, but the impact of natural gas commodity price fluctuations is more significant to customers in this market than for residential or commercial customers given the large volumes they consume. Gaz Métro-QDA could offer industrial customers a rate discount based on the price of fuel oil, for periods ranging from a few days to almost a year, should its competitive position become unfavourable. Lastly, the recent decline in oil prices is adding pressure to the competitiveness of natural gas in the industrial market. However, this effect was offset by the drop in the Canadian dollar in 2015, which is driving up the Canadian

## MANAGEMENT'S DISCUSSION AND ANALYSIS

dollar price of oil products that trade globally in U.S. dollars. In short, despite these recent impacts, the competitiveness of natural gas in the industrial market remains favourable overall.

In addition, natural gas competitiveness also depends on transportation rates, since natural gas comes from outside Quebec and Gaz Métro-QDA's customers must bear the cost of transportation. Any significant increase in transportation rates could therefore affect Gaz Métro-QDA's ability to compete with other energy sources. For more details, refer to the Energy Supply heading in this section.

Moreover, since the implementation of the *C&T Regulation*, Gaz Métro-QDA, like fossil fuel distributors, must cover the emissions created by its distribution network and the natural gas combustion emissions of its customers (excluding those generated by customers emitting 25,000 tonnes or more of GHG annually, who must cover their own emissions). To cover emissions, emission allowances must be purchased at auctions organized by the governments of Quebec and California or obtained through mutual agreement transactions for valid emission allowances or for offset credits recognized by the *C&T Regulation*. Since the costs of purchasing emissions allowances are charged to Gaz Métro-QDA customers who are subject to C&T service rates or are assumed directly by customers emitting 25,000 tonnes of GHG or more annually, this requirement has an unfavourable impact on the competitiveness of natural gas relative to electricity, which is only very marginally subject to such a requirement, but a favourable impact compared to fuel oil, which emits more GHG than natural gas.

### Natural gas distribution in Vermont, U.S.A.

In Vermont, natural gas generally enjoys a substantial competitive advantage over other energy sources in the residential, commercial and industrial air and water heating markets. However, a significant increase in natural gas prices combined with a decrease in the prices of competitive fuels could reduce this competitive advantage.

### Electricity distribution in Vermont, U.S.A.

In addition to electricity, GMP's customers can opt to use propane, natural gas or fuel oil to meet their space heating and water heating needs. There is also a potential for municipalities located within GMP's service territory to form and operate, with citizen approval, municipally-owned utilities. In addition, self-generation, demand-side electricity management programs, and cogeneration are potential competitive threats to network electricity sales by displacing electricity demand within GMP's service territory and potentially reducing the customer base over which GMP costs are spread.

### Energy cost

Gaz Métro-QDA is exposed to the risk of fluctuating natural gas commodity prices only in terms of the resulting impact on its competitive position, since Gaz Métro-QDA is required to sell natural gas to customers at cost, thereby eliminating the possibility of realizing a gain or loss on natural gas sales. All natural gas price fluctuations are accounted for in deferred charge and deferred credit accounts so that they can be reflected in future rates, as authorized by the Régie.

For electricity and natural gas distribution activities in Vermont, VGS and GMP are also at-cost providers and use derivative financial instruments related to natural gas and electricity, respectively, to manage their customers' exposure to price volatility for these types of energy. VGS and GMP also benefit from regulatory adjustment mechanisms that minimize the risks associated with short-term price fluctuations for these types of energy.

### Loss of major customers

In Quebec, Gaz Métro-QDA's major customers (about 400 customer accounts) consumed just over 55% of Gaz Métro-QDA's natural gas deliveries in fiscal 2015, which corresponds to slightly more than 19% of its total revenues. Some of these customer accounts can individually represent 5% to 10% of Gaz Métro-QDA's natural gas deliveries but between 0% and 2% of distribution revenues. Natural gas deliveries to major customers have depended, and will continue to depend, on the ability of these customers to continue doing business in spite of difficult economic conditions as well as on the competitiveness of natural gas relative to other sources of energy, particularly oil products. A significant reduction in the demand for natural gas from such customers could have an unfavourable impact on Gaz Métro's financial position or consolidated net income. However, since many of these customers must sign a contract for natural gas supply to their facilities and since many of them guarantee payment of a substantial portion of the distribution service, regardless of whether or not they consume the gas, the resulting risk from any such reduction in demand is mitigated. Some customers also provide a security deposit, which mitigates the risk of payment defaults. Furthermore, pursuant to a regulatory provision, the effects of major bad debts in one fiscal year can be deferred and included in the rates of a future fiscal year. In addition, while unfavourable impacts on Gaz Métro's consolidated net income can be the object of a distribution rate adjustment in the following fiscal year, such upward pressure on distribution rates could affect the competitive position of natural gas relative to other energy sources.

In the Natural Gas Transportation segment, Gaz Métro's subsidiaries and joint ventures depend on a limited number of customers. Should one of these customers fail to satisfy its obligations, there could be an unfavourable impact on Gaz Métro's financial position or consolidated net income.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### OPERATIONAL RISKS

#### Volume risk

The ability to increase natural gas deliveries presents several challenges. Specifically, for Gaz Métro-QDA, the industrial market has reached a certain level of maturity due to moderate economic growth. In addition, delivery volume is affected by a greater use of high-efficiency equipment and other technologies and by energy efficiency initiatives undertaken by customers, which put downward pressure on consumption. Any stagnation or decline in natural gas deliveries could create upward pressure on distribution rates, which could affect Gaz Métro-QDA's ability to compete with other energy sources. For several years, Gaz Métro-QDA has been working to raise the market share of natural gas in the residential market, thereby reducing its vulnerability to the industrial and commercial markets. The increase in the number of residential customers, which is closely tied to the number of new housing starts and the price of natural gas, is, however, dependent on general economic conditions.

#### Weather and seasonality risk

The energy distribution business is seasonal. Most natural gas and electricity demand occurs during the winter heating season and the summer air conditioning season, the length of which varies in each jurisdiction. Given climate change, there can be no assurance that long-term historical weather patterns will remain unchanged.

Gaz Métro-QDA and VGS apply a revenue normalization mechanism that is related mainly to temperature fluctuations. Using this mechanism, they normalize natural gas deliveries and reflect the adjustment in their revenues using rate stabilization accounts. However, the effects of unusual or extreme temperatures might not be sufficiently reflected by the revenue normalization mechanism and, therefore, might have an unfavourable impact on financial position and consolidated net income.

As for GMP, electricity deliveries can vary significantly in response to seasonal changes in weather and unusual or severe temperatures. GMP has a Regulation Plan that mitigates how certain cost and volume variations associated with the sale of electricity, and that result from weather and temperature conditions, impact earnings. Significant, sustained fluctuations could, however, have an unfavourable impact on GMP's financial position and net income and, in turn, on the consolidated net income of Gaz Métro.

#### Energy supply

Gaz Métro-QDA and VGS depend on various suppliers, carriers and storage operators for their supply of natural gas, which comes from outside of Quebec and Vermont. The failure of one of these parties to deliver the natural gas or provide related services, as well as a major disruption in the supply chain with no possible recourse to alternative supply sources, could have an unfavourable impact on Gaz Métro-QDA and its ability, or VGS's ability, to distribute natural gas to its customers.

#### Continuity of activities

The energy distribution and transportation networks operated by Gaz Métro-QDA and by some of Gaz Métro's subsidiaries and joint ventures require ongoing maintenance, improvements and replacements. These distribution and transportation networks are exposed to operational risks, such as accidental pipeline damage, fracturing and corrosion, equipment or computer system breakdown, failure, fires, explosions, natural disasters, power failures, acts of war or terrorism, cyber-attacks and other similar occurrences. Distribution and transportation network leaks are inherent risks to Gaz Métro's activities and to those of certain subsidiaries and joint ventures.

Certain portions of the Gaz Métro-QDA and VGS networks have reached a high level of saturation. A shortage of network capacity for timely servicing of existing or potential customers could have impacts on customers and on operating results.

The operating efficiency of Gaz Métro depends on the development, management and maintenance of complex information systems and a complex IT infrastructure that is designed to (i) support the operations of transportation and distribution facilities, (ii) provide customers with billing and consumption information, and (iii) support the financial and general aspects of the operating activities of Gaz Métro. As a result, any security breach or breakdown in information systems or IT infrastructure could disrupt operating functions, damage assets, have an impact on the safety of customers or facilities and cause a competitive disadvantage.

Gaz Métro's activities are directly affected by severe weather conditions such as ice and snow storms, high winds and natural disasters that may cause outages and property damage and, thus, create additional costs that might not be fully insured and require specific regulatory approvals to be recovered from customers. While Gaz Métro-QDA and some of Gaz Métro's subsidiaries and joint ventures have generally received such cost-recovery approval, there are no guarantees that such recoveries will be sufficient or timely. A failure by Gaz Métro-QDA or by some of Gaz Métro's subsidiaries and joint ventures to operate as expected under these conditions would be especially burdensome during a peak demand period.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Gaz Métro could also be affected by public health issues, including a regional, national or global epidemic. A pandemic could adversely affect its ability to maintain sufficient staffing and cause a sudden interruption of operations for an extended period of time. Gaz Métro and GMP have implemented a business continuity plan to mitigate the impacts of a pandemic and maintain critical operations. In addition, the operations of contracting partners of Gaz Métro and GMP could be interrupted and the price of products and services they provide could rise.

Any of these occurrences could result in service interruptions affecting customers and operating results, thereby having an unfavourable impact on Gaz Métro's consolidated net income. They could also have an impact on the environment or on the health and safety of employees, business partners, customers and the community and have an unfavourable impact on the reputation and goodwill of Gaz Métro and its subsidiaries and joint ventures. Delays in work on energy distribution and transportation networks in Quebec and Vermont could also have an unfavourable impact on Gaz Métro's reputation and goodwill.

Moreover, the anticipated intensification of infrastructure work by municipalities and governments in Quebec could increase the risks of third-party accidental damage to Gaz Métro-QDA's pipelines.

Gaz Métro and its subsidiaries and joint ventures have adopted reasonable measures to minimize such risks. Gaz Métro-QDA has implemented an asset management program to improve and replace aging pipelines. In addition, Gaz Métro and its subsidiaries and joint ventures have implemented, and rigorously follow, very strict policies for safeguarding assets and data (including a maintenance and surveillance program). They also encourage their contractors to adopt industry best practices to minimize the risk of incidents. Gaz Métro and its subsidiaries and joint ventures have also implemented an emergency measures management system that comes into effect during natural or technological events or events resulting from human intervention as well as during situations such as pandemics.

Gaz Métro and some of its subsidiaries and joint ventures must anticipate asset retirement costs of certain assets during their useful life. When a legal obligation exists, Gaz Métro and its subsidiaries and joint ventures account for the fair value of property, plant and equipment asset retirement obligations as liabilities in the period during which the obligation is incurred, provided that a reasonable estimate of the fair value can be made.

Since, for certain rate-regulated activities, it is impossible to determine the precise scope of legal obligations or when costs would have to be incurred to meet those obligations, Gaz Métro is unable to establish a reasonable estimate of the fair value of the related liability. However, if the costs of retiring such property, plant and equipment were incurred, the applicable regulatory framework for such rate-regulated activities should permit the recovery of those costs in the rates of future fiscal years. While Gaz Métro-QDA and some of Gaz Métro's subsidiaries and joint ventures generally receive approval to recover these costs, there is no guarantee that such decisions will be made on a timely basis or permit full recovery of the costs.

### Insurance risk

Gaz Métro carries insurance coverage with reputable insurers for amounts and under conditions deemed acceptable given all relevant factors, including the nature and scope of its business operations.

Insurance coverage is regularly reviewed by the insurers, and there is no assurance that Gaz Métro will be able to obtain or maintain adequate insurance coverage at economically acceptable and reasonable terms, nor that the insurance will cover all incidents that could occur as part of the business operations of Gaz Métro and lead to a loss or potential claim.

Significant uninsured claims or claims exceeding policy limits, or an inability to renew the insurance policies at acceptable and reasonable terms, could have an unfavourable impact on Gaz Métro's financial position and consolidated net income.

### Cybersecurity risk

Gaz Métro uses information technology systems, including systems supplied by third parties, and an integrated network infrastructure to manage its activities in the ordinary course of business, including the processing, transmission and storage of electronic information, particularly information used to operate assets. These IT systems include controls associated with the interconnected systems of Gaz Métro's generation, distribution and transmission activities, which are sometimes shared with third parties for operational purposes. Gaz Métro is therefore exposed to risks of cyberattacks and unauthorized attempts to access its or its customers', suppliers', counterparties' and employees' sensitive or confidential information (particularly personally identifiable information and credit information) through hacking, viruses, malware, denial-of-service attacks (attacks designed to render computer services inaccessible in order to harm Gaz Métro or convey messages), vandalism, theft, alteration, destruction and otherwise (collectively "cybersecurity threats").

Cybersecurity threats are constantly growing and changing, requiring Gaz Métro to continually adapt in order to monitor and detect them. Gaz Métro has a comprehensive cybersecurity strategy that includes a policy and guidelines, control and governance measures, layered access control measures, surveillance measures, infrastructure and network security measures,

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and a cyber-risk management methodology; and it is working actively with the industry and the government to ensure improved protection. Despite these measures, Gaz Métro's systems, assets and information are not invulnerable to cyberattacks and other data security breaches that could cause a systems failure, disrupt or shut down key areas of activities, result in loss of service to customers, and cause the release of sensitive or confidential information.

Should cybersecurity threats materialize, they could result in unexpected costs, expenses, losses and damages for Gaz Métro, costs that it might not be able to quantify in advance or recover in full or in part.

### Environment, health and safety

The activities and facilities of Gaz Métro are subject to extensive environmental, health and safety laws and regulations that govern, among other things, emissions of contaminants, transportation and storage of hazardous material, waste disposal, and decontamination of contaminated sites. To continue its operations, Gaz Métro must maintain a number of environmental authorizations or other permits issued by competent authorities. Any breach of these obligations could result in fines or civil or criminal penalties or the application of coercive measures, including regulatory or court orders ordering or suspending certain activities or requiring that coercive measures be taken, which could entail significant costs for Gaz Métro and some of its subsidiaries and joint ventures.

Gaz Métro could discover currently unknown environmental problems relating to its past or present operations or may face unforeseen environmental liabilities in the future. The cost impact of any such future legislation and regulations would depend on the specific requirements adopted and cannot be determined at this time.

In addition, some of Gaz Métro's networks are located close to densely populated areas, and a serious accident could cause injury. An accident jeopardizing public safety could harm Gaz Métro's reputation and incur significant repair costs and higher asset insurance and operating costs. Furthermore, given the natural hazards inherent in Gaz Métro's activities, workers and contractors are exposed to worker safety risks. Steps taken by Gaz Métro to reduce the likelihood and severity of an accident jeopardizing public safety are implemented through an asset management and emergency response plan. Gaz Métro also informs project stakeholders of implemented measures and is attentive to their questions and concerns.

Gaz Métro believes that employees and contractors must adhere to a zero-tolerance culture for accidents that jeopardize safety, and it has set a target of zero accidents. For employees, safety objectives have been incorporated into every level of Gaz Métro as part of employee compensation measures. Contractors are selected through a strict screening process that includes complete adherence to the Gaz Métro's culture of safety.

### Environmental regulation

Gaz Métro's operations and facilities are subject to national, regional and local laws and regulations on environmental protection, including the following:

#### In Quebec

- The *C&T Regulation* came into force on January 1, 2012. As of January 1, 2015, under the *C&T Regulation*, Gaz Métro-QDA must cover: (i) its own GHG emissions, (ii) emissions from its network and from third-party damage, (iii) emissions by customers (excluding emissions by customers who themselves are defined as emitters in the *C&T Regulation*) caused by the use or combustion of natural gas for their establishments covered by the *C&T Regulation* in Quebec. To meet its obligations, Gaz Métro-QDA must purchase GHG emission allowances or reduce its GHG emissions. Gaz Métro-QDA has taken the necessary measures to purchase GHG emission allowances when required in order to comply with the *C&T Regulation*. This regulation will create upward pressure on rates and therefore affect Gaz Métro-QDA's ability to compete with other energy sources. The monetary impact will depend mainly on the trading prices of emission allowances. In preparation for its required GHG emission allowance purchases, Gaz Métro-QDA is monitoring the GHG emission allowance market and adjusting its purchasing strategy as necessary.
- In June 2012, the Government of Quebec released its *2013-2020 Climate Change Action Plan* (CCAP 2020). For the Government of Quebec, the climate change challenge is an opportunity to reduce Quebecers' reliance on fossil fuels. Government actions under the CCAP 2020 will focus on transportation, industry and buildings. Gaz Métro-QDA is also closely monitoring the implementation of priorities defined in the CCAP 2020 to determine how they will influence its growth outlook and competitive position.

#### In Vermont:

- **GMP** is subject to a state policy that encourages the development of renewable energy resources in Vermont as well as the purchase or sale of renewable power by the state's electricity distributors. Notably, in June 2015, Vermont passed a new renewable energy law (H.40 or RES) that established a mandatory renewable energy standard for Vermont utilities. This law repeals Vermont's Sustainably Priced Energy Development (SPEED) Program from 2005 and specifically requires that retail electricity providers (i) have a minimum amount of renewable electricity in their

## MANAGEMENT'S DISCUSSION AND ANALYSIS

supply portfolios; (ii) support relatively small ( $\leq 5$  MW) renewable energy projects connected to the Vermont grid (known as distributed renewable generation projects); and (iii) invest in projects to reduce fossil fuel use for heating and transportation (known as energy transformation projects). The resource requirements under the new law will begin in 2017 and escalate in quantity each year until 2032. GMP will closely monitor the program's impact in terms of its costs and competitive position as it begins purchasing renewable attributes in 2015 and 2016 to comply with the new law. However, GMP expects to continue selling attributes not required for the new program from their renewable energy sources into the New England market. GMP's revenue from the sale of attributes from its renewable energy sources is in the range of US\$25.0 to US\$30.0 million annually and offsets rate needs, although the new law is expected to reduce this net benefit in future periods.

- **GMP** participates in the Regional Greenhouse Gas Initiative (RGGI), a cooperative effort among U.S. Northeastern and Mid-Atlantic states to reduce carbon dioxide (CO<sub>2</sub>) emissions that uses a multi-state cap-and-trade program with a market-based emissions trading system. The oil-fired turbine located in Berlin, Vermont, is GMP's only electric power generating facility currently subject to RGGI compliance. GMP must purchase CO<sub>2</sub> emission allowances to offset the total CO<sub>2</sub> emissions generated by this facility. At present, the cost of participating in the program is low, and GMP does not expect the cost to vary significantly during fiscal 2016. Compliance with the RGGI is subject to three-year compliance periods. At the end of each compliance period, each regulated power plant must submit one RGGI CO<sub>2</sub> emission allowance for each ton of CO<sub>2</sub> emitted over the preceding three years. The third, and final, compliance period began on January 1, 2015 and will end on December 31, 2017.
- **VGS** is subject to Vermont legislation that encourages GHG-emission reduction. At present, the legislation does not impose any specific reduction targets but it may become more stringent with time; this could require VGS to incur additional costs, which would affect its competitive position.

During fiscal 2015, environmental protection requirements had no significant financial or operational impacts for Gaz Métro in terms of (i) purchases of property, plant and equipment, (ii) consolidated net income, and (iii) competitive position, except for the impact of the *C&T Regulation*. However, the costs of environmental protection requirements are difficult to identify separately since they are incorporated into the system maintenance and development programs.

Subject to the impacts of the *C&T Regulation*, management believes that the current environmental protection requirements will not have any significant financial or operational impacts over the coming fiscal years. Should new practices be proposed or required under a law or regulation applicable to a rate-regulated entity, Gaz Métro-QDA or the affected Gaz Métro subsidiaries or joint ventures would seek to recover the costs of such practices in future rates. However, there is no guarantee that regulatory agencies would accept such requests; consequently, unrecovered costs, if significant, could have an unfavourable impact on the financial position and consolidated net income of Gaz Métro.

### Seigneurie de Beupré wind farms

Electricity generation by Wind Farms 2 and 3 and by Wind Farm 4 depends mainly on fluctuations in wind intensity and on a number of other factors, including (i) the impact of climatic factors, notably the build-up of ice and grime on turbine blades, (ii) site access, (iii) losses due to wake effect, transmission losses and wind shear, (iv) the impact of topographical variations, (v) the possibility of electrical losses before delivery, and (vi) the possibility that facilities do not operate as expected, notably due to usage, latent defects or a design flaw. Wind strength and the above-listed factors will therefore have a direct impact on the operating revenues and profitability of Wind Farms 2 and 3 and Wind Farm 4 and, consequently, could have an unfavourable impact on Gaz Métro's financial position and consolidated net income.

### Human resources

Gaz Métro employs both union and non-union personnel. If Gaz Métro is unable to negotiate a renewal of collective agreements upon expiry, this could result in labour disputes or work stoppages, which in turn could have an unfavourable impact on ongoing operations. Gaz Métro maintains good relations with the various unions and union representatives. However, there is no assurance that current relations will continue during future negotiations, nor that the terms of current collective agreements will be renewed on terms deemed acceptable by Gaz Métro without a work stoppage.

The key to the success of Gaz Métro lies partly in the specialized skills and knowledge required to carry out all of its activities and more particularly to operate and maintain the natural gas and electricity distribution systems. Such skills and knowledge are currently available; however, to protect themselves against the risk of future shortages in such specialized job positions, due mainly to the increasing rate of planned retirements, Gaz Métro is offering competitive compensation programs and the training needed to maintain skills. Gaz Métro has also developed a succession plan to ensure the transfer of skills as employees retire.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **Business partners**

For certain projects, Gaz Métro enters into joint venture agreements with various partners. The success of these projects rests largely on a satisfactory performance of obligations. A failure of one of the partners to perform its obligations could impose additional financial and performance obligations on Gaz Métro, which could result in higher costs for such projects or have an adverse effect on its reputation and goodwill.

### **Reliance on certain service providers**

Gaz Métro maintains contractual arrangements with a few businesses, general contractors and other service providers for the development, maintenance and improvement of its energy distribution and transmission system. The risk of non-performance by a service provider can be assessed and, if possible, limited, but not completely eliminated. Service providers may be unable to discharge their obligations, which would result in additional financial obligations for Gaz Métro, which would put upward pressure on costs and possibly on distribution and transportation rates and could affect its ability to compete with other energy sources. In addition, the non-performance or lack of availability of a service provider could have an adverse effect on Gaz Métro's development projects.

### **Terrorist attack**

Given the importance of the natural gas and electricity industries in Canada and the United States, Gaz Métro may face terrorist threats. The implementation of additional security measures in response to such threats could cause the capital and operating costs of Gaz Métro-and some of its subsidiaries and joint ventures to rise. In addition, any damage to or loss of facilities due to an act of terrorism may not always be covered by insurance. Gaz Métro could therefore be obliged to invest substantial sums to repair any loss or damage, which could adversely affect its consolidated net income and business.

## **RISKS RELATED TO THE DEVELOPMENT OF NEW PROJECTS**

### **Construction and development in the energy production and distribution activities**

The development, construction and future operation of production facilities and of the natural gas or energy distribution systems can be affected by changes in government policy and in laws and regulations, by delays in obtaining permits, by environmental matters, by increases in capital expenditures and construction costs, by construction delays, by unfavourable weather conditions, and by an increase in interest rates or other factors that could be significant and over which Gaz Métro has little or no control. Should any of these factors emerge, actual results could differ significantly from projections, including projections of costs, future revenues and earnings. Furthermore, failure to obtain social acceptance for a project could slow or even prevent development, construction and future operation of the project and lead to a write-off of the amounts invested therein.

Furthermore, the new facilities may fail to produce the projected return, which would have an impact on Gaz Métro's financial position and consolidated net income.

### **REPUTATION RISK**

Public opinion or reputation risk is the risk that changes affecting Gaz Métro's reputation in the eyes of stakeholders, interest groups, political leaders, the media or other entities may have unfavourable impacts on Gaz Métro's commercial activities, operations, development projects and, consequently, on its financial position.

Any of Gaz Métro's business decisions could harm its reputation, and every kind of risk could also affect its reputation and thereby hinder activities. Reputation risk cannot be managed independently of other kinds of risk. The adverse effects of a tarnished reputation may include lost revenues, a shrinking customer base, a deteriorating financial position, and lower consolidated net income.

### **ACQUISITION AND DEVELOPMENT RISKS**

From time to time, Gaz Métro selectively seeks strategic acquisition and expansion opportunities. Gaz Métro's ability to carry out future acquisitions and significant development projects and to effectively integrate them under favourable conditions may be limited by the number of attractive acquisition targets, internal demands on Gaz Métro's resources and, if necessary, Gaz Métro's ability to obtain financing at satisfactory terms. Acquisitions and development projects may expose Gaz Métro to additional risks, including (i) difficulties in integrating administrative, financial reporting, operational and information systems, (ii) difficulties in managing newly acquired or newly developed operations and, if necessary, improving their operating efficiency, (iii) difficulties in maintaining adequate and effective standards, controls, procedures and policies in order to mitigate the risks across all of Gaz Métro's operations, (iv) barriers to entry into markets in which Gaz Métro has little direct experience or barriers to obtaining or maintaining authorizations required by government authorities, (v) difficulties in retaining key employees of the acquired



## MANAGEMENT'S DISCUSSION AND ANALYSIS

operations, and (vi) disruptions to Gaz Métro's ongoing business. In addition, future acquisitions or expansion to current activities could require Gaz Métro to contract additional debt, costs and contingent liabilities. Gaz Métro may also incur costs for and divert management attention to potential acquisitions or expansion projects that are never consummated. For acquisitions that are consummated, expected synergies may not materialize. Gaz Métro's inability to appropriately respond to the above-mentioned risks and issues could have an unfavourable impact on its activities, financial position and consolidated net income.

### Acquisition of CVPS

#### Realization of CVPS acquisition benefits

There is a risk that the benefits expected from the CVPS acquisition may fail to fully materialize or may not occur within the time periods anticipated by Gaz Métro. The realization of such benefits may be affected by a number of factors, many of which are beyond Gaz Métro's control. One of the conditions for the approval of the GMP-CVPS merger was that the customers of the resulting entity would benefit from at least US\$144 million in savings during the decade following said merger. Achieving such savings depends on the creation of operational synergies that may not materialize or may only partially materialize and, consequently, could have an unfavourable impact on GMP's future financial results.

## FINANCIAL RISKS

### Uncertainty regarding distribution payments

There is uncertainty surrounding future distribution payments made by Gaz Métro to its Partners and the amount of such distributions, as the decision to make distributions to the Partners of Gaz Métro and the funds available for distribution payments from time to time will depend on (i) the distributions that Gaz Métro will receive from its subsidiaries, joint ventures and entities subject to significant influence, (ii) Gaz Métro's operating cash flows, (iii) the funds required to make interest and principal payments under the financing agreements binding Gaz Métro, and (iv) compliance with the conditions provided in the Gaz Métro Limited Partnership Agreement and in the financing agreements binding Gaz Métro and related to distributions to partners.

### Employee future benefits

Gaz Métro-QDA and some of Gaz Métro's subsidiaries and joint ventures offer their employees defined benefit and defined contribution pension plans and other postretirement benefits. In Gaz Métro's audited consolidated financial statements as at September 30, 2015, the financial information reported for the defined benefit pension plans and other postretirement benefits was determined using actuarial estimates based on demographic and financial assumptions, including, in particular, the expected return on plan assets, discount rates on anticipated cash flows, future trends in wage levels and in the cost of supplemental health care and life insurance coverage, employee retirement age, and the life expectancy of plan participants. Funding of defined benefit pension plans and certain other postretirement benefits is also based on actuarial assumptions and compliance with any applicable laws and regulations.

While Gaz Métro and the affected subsidiaries and joint ventures believe that these assumptions are reasonable, differences with respect to actual results and changing markets that have an impact on these assumptions could result in significant changes in contributions payable and to the financial information presented in the consolidated financial statements, both for defined benefit pension plans and other postretirement benefits. Accordingly, any significant deterioration in the financial position of these plans could result in an increase in the cost of the required contributions.

Interest rate changes and volatility in capital markets could have an impact on the market values of the assets held, as the case may be, and the valuation of accrued benefit obligations, both for pension plans and other postretirement benefits. These changes in the value of the assets and the valuation of obligations could, consequently, affect the portion of operating expenses related to pension and other postretirement benefit plans as well as the ability of Gaz Métro and some of its subsidiaries and joint ventures to meet their future pension and other postretirement benefit obligations.

Currently, according to a regulatory treatment, Gaz Métro-QDA recognizes in income and recovers, through distribution rates, the costs related to the defined benefit pension plans and to the other postretirement benefit plans of its employees when these amounts are disbursed. A change in contributions payable could result in some volatility, even an increase, in the operating expenses shown in the consolidated financial statements. However, considering this regulatory treatment, such a change would not have a significant impact on Gaz Métro's consolidated net income, since, under the disbursement method, distribution rates would vary in the same proportions as the changes in operating expense. On the other hand, it could create upward pressure on distribution rates, which could affect Gaz Métro-QDA's ability to compete with other energy sources.

### Exchange rate fluctuations

A portion of Gaz Métro's consolidated net income from the Energy Distribution and Natural Gas Transportation segments is denominated in U.S. dollars. Consequently, Gaz Métro's operating results are affected by fluctuations in the U.S. dollar in relation

## MANAGEMENT'S DISCUSSION AND ANALYSIS

to the Canadian dollar. Any substantial change in the U.S. dollar in relation to the Canadian dollar would have an impact on Gaz Métro's consolidated net income.

In addition, to offset the exchange risk related to its net investment in self-sustaining foreign operations, Gaz Métro designates certain U.S.-dollar-denominated debts as a hedge of an equivalent portion of this net investment. Consequently, any substantial change in the U.S. dollar relative to the Canadian dollar would, considering this hedging relationship, have a lesser impact on Gaz Métro's Partners' equity.

### Interest rate fluctuations

Gaz Métro and its subsidiaries and joint ventures are exposed to the risk of interest rate fluctuations. Gaz Métro manages such risk mainly through an interest-rate-setting policy that lets it maintain a significant portion of its long-term debt at a fixed rate.

However, Gaz Métro and its subsidiaries and joint ventures are exposed to interest rate risk on their floating rate bank borrowings and the floating rate portion of their long-term debt. Some of Gaz Métro's subsidiaries and joint ventures use interest rate swaps to fix interest rates on a portion of their floating rate long-term debt. For Gaz Métro-QDA, by virtue of regulatory treatment, the financial impact of differences between actual interest rates and those used for determining distribution rates during a given fiscal year are reflected in the distribution rates of a future fiscal year.

### LIQUIDITY AND FINANCING RISK

To satisfy their financial needs, Gaz Métro and its subsidiaries and joint ventures rely, among other things, on cash generated by their activities. Liquidity risk is the risk that they would be unable to meet their financial obligations as they become due. They manage liquidity risk by forecasting their cash flows in order to determine their financing needs and by ensuring that they have sufficient cash and credit facilities to fulfill their needs and to meet their financial obligations as they become due. Therefore, Gaz Métro or some of its subsidiaries and joint ventures, directly or through GMi or Valener, use a combination of committed and demand credit facilities as well as access to capital markets to meet its needs. However, any significant reduction in the ability of GMi, Valener, or Gaz Métro or some of Gaz Métro's subsidiaries or joint ventures to access capital markets at acceptable conditions and appropriate financing costs, or any significant increase in their financing cost, by reason of, for example, significant deterioration in economic conditions, the general condition of financial markets, a negative financial market perception of their financial position or outlook, or a significant downgrade to their credit ratings, could have an unfavourable impact on Gaz Métro's activities, financial position or consolidated net income.

### CREDIT RISK RELATED TO COUNTERPARTIES

Counterparty credit risk is the risk that a counterparty to a financial instrument entered into with Gaz Métro does not perform its obligations pursuant to the related agreements. As at the balance sheet date, Gaz Métro's maximum risk related to counterparties with respect to financial instruments, not including collateral held, corresponds to trade and other receivables, the investment fund, and derivative financial assets. Any breach of the obligations by their counterparties could result in a financial loss for Gaz Métro.

This risk is mitigated by using credit risk management techniques that involve an assessment of a counterparty's creditworthiness and monitoring of its evolution; entering into agreements with several counterparties; setting risk limits; monitoring risks related to such limits; establishing credit support agreements; and obtaining financial guarantees and security deposits where warranted. Gaz Métro closely monitors and manages counterparty credit risk concentration.

## **S) RECENT ACCOUNTING CHANGES**

### **FUTURE ACCOUNTING CHANGES**

#### **Change in accounting framework**

Gaz Métro has chosen to use the exemption set out in the Introduction to Part I of the Handbook, *International Financial Reporting Standards*, under which qualifying entities with RRA may defer application of Part I to fiscal periods beginning on or after January 1, 2015 (deferral period). Consequently, for fiscal 2015, Gaz Métro is presenting its consolidated financial statements in accordance with Canadian GAAP.

In 2014, the Partnership had announced its intention to adopt IFRS and to apply IFRS 14, *Regulatory Deferral Accounts*, as of fiscal 2016. Before the publication of IFRS 14, the conversion to IFRS had represented a major challenge for Gaz Métro since, unlike Canadian GAAP and U.S. GAAP, IFRS did not include a specific standard for RRA.

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Although this standard allows entities to continue applying the RRA-related accounting policies of their current accounting framework until a final standard is published, detailed analyses performed during the first half of fiscal 2015 as part of the IFRS conversion project have identified significant impacts that would result from the application of IFRS 14. Specifically, this interim standard requires that the effects of RRA on all financial statement items be grouped and presented separately by means of subtotals. The other IFRS standards are to be applied to regulatory deferral account balances (RAL) in the same way as they are applied to entities without RRA, except for certain exceptions and exemptions set out in IFRS 14. Meaning, amounts that must be recognized using another IFRS standard are excluded from regulatory deferral accounts. These requirements for separate disclosure apply to the statement of income, the statement of comprehensive income and the balance sheet. IFRS 14 also requires disclosures on changes during the period, risks, and the anticipated recovery or amortization period of the separate regulatory deferral accounts.

IFRS 14, in addition to having very significant impacts on the disclosure of financial information, is a provisional standard. It is an interim standard published by the IASB as it awaits the draft final standard set out in its work schedule to be completed. This process could take several years. In September 2014, the IASB issued a discussion paper exploring what information on RRA is most useful to financial statement users as well as the possible approaches for reporting the financial effects of rate regulation. The stakeholders had until January 15, 2015 to submit comments directly to the IASB. Gaz Métro joined a group of companies in the Canadian natural gas distribution industry to submit a letter supporting the project. After receiving the responses, the IASB decided to work on a second discussion paper that should be issued for comment in the coming months. This new discussion paper is meant to propose a solution consistent with the reality of entities with RRA. The final outcome of the IASB's work is crucial for Gaz Métro, since the conclusion of this project could have major impacts on the financial information presented in its consolidated financial statements.

This uncertainty surrounding RRA recognition under IFRS and the substantial impacts of applying IFRS 14 have led Gaz Métro and its Partners to reconsider the adoption of U.S. GAAP, which would allow it to continue recognizing RAL, control the volatility affecting the consolidated financial results, and limit presentation and disclosure changes.

Gaz Métro and its Partners believe that adopting U.S. GAAP would result in financial information that better reflects the economic reality of Gaz Métro's RRA. In addition, the financial information would be more comparable to the consolidated financial statements published in previous fiscal years, since U.S. GAAP would mean that RAL could continue to be recognized. Moreover, given that several Canadian businesses with RRA have opted to apply U.S. GAAP, the use of this accounting framework would allow Gaz Métro to issue financial statements that are comparable to those of its industry peers.

Consequently, in May 2015, Gaz Métro's Partners, GMi and Valener, obtained new three-year exemptions from the Canadian Securities Administrators, allowing them to prepare their consolidated financial statements in accordance with U.S. GAAP in order to meet their continuous disclosure requirements in Canada. This exemption is valid until the first of the following dates: (i) January 1, 2019; (ii) the first day of the fiscal year following the cessation of Gaz Métro's RRA, if applicable; or (iii) the effective date prescribed by the IASB for mandatory application of a permanent and specific IFRS standard for entities engaged in RRA. GMi and Valener will therefore use U.S. GAAP to prepare their annual and interim consolidated financial statements for fiscal years 2016 to 2018, inclusively. Gaz Métro, which is not a publicly accountable enterprise within the meaning of the Handbook, will adopt the strategy recommended by its Partners.

These new exemptions follow those that were previously obtained in July 2011 and that had permitted GMi and Valener to use U.S. GAAP for fiscal years 2013 to 2015, inclusively. These exemptions were not used because of the deferral period granted by the AcSB after a comprehensive RRA project and development of an interim standard were added to the IASB's agenda in December 2012.

### **Project to convert to U.S. GAAP**

An initial U.S. GAAP conversion project had been launched in 2011 (initial project) but was suspended in March 2013 when the IASB reactivated its project to create a final RRA standard and the AcSB extended the deferral period. Given the above-explained developments, the U.S. GAAP conversion project resumed in May 2015.

The Partnership re-established a formal governance structure for the U.S. GAAP conversion project in fiscal 2016 (Project 2016), and presentations were made to GMi's management committee and audit committee. To ensure the success of Project 2016, the team responsible for the IFRS project is now completely dedicated to the U.S. GAAP conversion. The professionals on this team have the necessary expertise to guide and actively participate in the transition. The external auditors are also being kept informed and consulted about Project 2016.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Project 2016 comprises the following steps:

Steps	Description of activities	Period
<b>Step 1 – Initial and detailed assessment</b>	Identify the differences resulting from the conversion to U.S. GAAP.  Identify the impacts of U.S. GAAP on accounting and financial reporting matters, including the choice of accounting policies, as well as the impacts on systems and processes, business, employees, and other matters.	2 <sup>nd</sup> half of fiscal 2015
<b>Step 2 – Design</b>	Review the accounting processes and information systems that will be affected by the conclusions and accounting policy choices made during the detailed assessment step.	2 <sup>nd</sup> half of fiscal 2015
<b>Step 3 – Implementation</b>	Implement the changes applicable to policies, procedures, practices and information systems.  Perform parallel testing on the fiscal 2015 figures, i.e., the fiscal year preceding the first year of U.S. GAAP adoption.	4 <sup>th</sup> quarter of fiscal 2015 and 1 <sup>st</sup> quarter of fiscal 2016

Since May 2015, the Partnership reviewed the differences that had been identified during the Initial Project, updates made to U.S. GAAP since the Initial Project was terminated, and differences identified by industry peers during their conversion to U.S. GAAP. This review has allowed Gaz Métro to prioritize the Step 1 analysis work according to potential impacts on the consolidated financial statements.

In addition, the planning activities and analyses to identify differences between Canadian and U.S. GAAP for the conversion of subsidiaries, joint ventures and entities subject to significant influence have been finalized. A communication and conversion plan for the subsidiaries, joint ventures and entities subject to significant influence has been developed, and the entities concerned were informed of it during the third quarter of fiscal 2015. Most of the activities planned for step 2 are completed and those for step 3 are ongoing, as set out in the work schedule.

### Significant accounting impacts

The following table presents a summary of the main differences identified to date and that may have a significant impact on Gaz Métro's consolidated financial statements:

Topic	Canadian GAAP	U.S. GAAP	Anticipated impacts for Gaz Métro
<b>Preparation of opening balance sheet</b>	Unlike IFRS 1, which is applicable upon first-time adoption of IFRS, U.S. GAAP does not provide specific guidance on first-time adoption. Consequently, all standards provided under U.S. GAAP must be applied retroactively to the transition date.		Gaz Métro's transition date is October 1, 2014, the first day of the 2015 comparative year. The October 1, 2014 balances of the consolidated financial statements will therefore be restated as though Gaz Métro had always applied U.S. GAAP. The net impact of the restatements will be recognized as an adjustment to the deficit or to accumulated other comprehensive income (loss).
<b>Interests in joint ventures</b>	Interests in joint ventures are accounted for using the proportionate consolidation method.	Interests in joint ventures are accounted for using the equity method.	As of October 1, 2015, Gaz Métro will have to account for interests in joint ventures using the equity method. This change is not expected to have any impact on the deficit or net income.
<b>Employee future benefits – Unamortized balances</b>	Unamortized actuarial gains and losses and unamortized past service costs (unamortized balances) are disclosed in a note to the financial statements and are not recognized in the accrued benefit asset or liability (ABAL).	Unamortized balances are fully recognized in ABAL with an offsetting adjustment to accumulated other comprehensive income (loss).	As of October 1, 2015, Gaz Métro will have to recognize unamortized balances in ABAL with restatement of the opening balance sheet as at October 1, 2014 and the 2015 comparative year, and, as offsets, the following items will be adjusted: <ul style="list-style-type: none"> <li>▪ Pension plans related to RRA: Regulatory deferral accounts</li> <li>▪ Pension plans related to non-RRA and other postretirement benefits (OPRB): Accumulated other comprehensive income (loss)</li> </ul> This change is not expected to have any impact on the deficit or net income of the comparative year. Refer to the Communication Plan With the Régie section below for additional

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Topic	Canadian GAAP	U.S. GAAP	Anticipated impacts for Gaz Métro
			information and for the anticipated impacts in fiscal 2016 and subsequent fiscal years of the regulatory treatment change request filed in August 2015.
<b>RAL – Other postretirement benefits</b>	Gaz Métro-QDA's OPRB costs (group insurance plan for retirees) are recognized in the statement of income using the disbursement method, as approved by the regulatory agency. The difference between this cost and the actuarially determined cost using the projected benefit method prorated on eligible years of service (actuarial cost method) is recognized on the consolidated balance sheet as RAL.	OPRB costs must be recognized in the statement of income using the actuarial cost method, and the difference between this cost and the cost determined based on the disbursement method, as authorized by the regulatory agency, cannot be recognized as RAL.	<p>As of October 1, 2015, Gaz Métro will have to recognize OPRB costs using the actuarial cost method, with restatement of the opening balance sheet as at October 1, 2014 and the 2015 comparative year.</p> <p>During the preparation of the opening balance sheet and the restatement of the fiscal 2015 financial statements under U.S. GAAP, the following adjustments will be required since the regulatory treatment in force on these dates for the costs related to OPRB is the disbursement method:</p> <ul style="list-style-type: none"> <li>Opening balance sheet as at October 1, 2014: Write-off of RAL and offsetting adjustment to the deficit</li> <li>Quarterly and annual statements of income for fiscal 2015: Upward adjustment to direct costs in order to include the charge related to OPRB based on the actuarial cost method and offsetting write-off of RAL</li> </ul> <p>Refer to the Communication Plan With the Régie section below for additional information and for the anticipated impacts in fiscal 2016 and subsequent fiscal years of the regulatory treatment change request filed in August 2015.</p>
<b>Employee future benefits – Measurement date</b>	The measurement date of plan assets and of the accrued benefit obligation must correspond to the date of the annual financial statements or to a date not more than three months before the date of the annual financial statements, provided that this method is adopted consistently from year to year.	The measurement date must be the same as the financial statement date.	<p>The measurement date used for some of Gaz Métro's plans is June 30 of each year, i.e., three months before year-end. Under U.S. GAAP, as of October 1, 2015, Gaz Métro will have to use September 30 as the measurement date for all plans, with restatement of the opening balance sheet as at October 1, 2014 and the 2015 comparative year. The effect of revaluing ABAL in the opening balance sheet as at October 1, 2014 due to this change will be recognized as follows:</p> <ul style="list-style-type: none"> <li>Pension plans related to RRA: Regulatory deferral accounts</li> <li>Pension plans related to non-RRA and other postretirement benefits (OPRB): Adjustment to the deficit and to accumulated other comprehensive income (loss)</li> </ul>
<b>RAL – Rate stabilization accounts related to temperature and wind velocity</b>	Gaz Métro-QDA's rate stabilization accounts related to temperature and wind velocity are amortized over a five-year period as of the second fiscal year following initial recognition.	<p>For recognition purposes, RAL from "Alternative Revenue Programs," as defined under U.S. GAAP, must be recovered within 24 months of the end of the fiscal year in which they were recognized.</p> <p>Any RAL recoverable beyond 24 months cannot be recognized under U.S. GAAP.</p>	<p>Since Gaz Métro-QDA's rate stabilization accounts related to temperature and wind velocity are amortized over five years, a portion thereof might not be recognized under U.S. GAAP if the current treatment were maintained.</p> <p>Given the regulatory treatment change request filed with the Régie in August 2015, Gaz Métro expects to be able to continue recognizing the RAL related to the stabilization accounts. Refer to the Communication Plan With the Régie section below for additional information and for the anticipated impacts in fiscal 2016 and subsequent fiscal years.</p>
<b>Investment tax credits</b>	Investment tax credits are recorded using the cost reduction method. Under this	Investment tax credits are recorded using either (i) the cost reduction method or (ii) as a	As of October 1, 2015, Gaz Métro has chosen to present investment tax credits as

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Topic	Canadian GAAP	U.S. GAAP	Anticipated impacts for Gaz Métro
	method, investment tax credits are applied against the related expenses (as the expenses are incurred).	reduction to income tax expense.	a reduction to income tax expense, with a restatement of the comparative year.  This change is not expected to have an impact on the opening balance sheet as at October 1, 2014 or on net income for fiscal 2015.

In addition to the changes presented in the table above, Gaz Métro will amend the following accounting methods upon the conversion to U.S. GAAP.

With respect to the cash flow statement presentation of changes in RAL, Gaz Métro is currently using a Canadian GAAP method whereby these changes are presented in operating and investing activities, depending on their nature. As of October 1, 2015 under U.S. GAAP, Gaz Métro will use a method whereby all of the changes in RAL will be presented in the cash flow statement's operating activities, regardless of their nature. It is expected that, given this change, RAL changes will be reclassified from investing activities to operating activities in the fiscal 2015 statement of cash flows, with no impact on the October 1, 2014 opening balance sheet or on the fiscal 2015 net income.

Gaz Métro also uses a Canadian GAAP method whereby the quarterly amortization of RAL is determined on a straight-line basis, at 25% per quarter. As of October 1, 2015 under U.S. GAAP, Gaz Métro will use a method whereby the quarterly amortization of RAL will be recognized as they are collected through rates, i.e., according to customer consumption. It is expected that this change will create changes in quarterly net income but no changes in annual net income and that it will have no impact on the October 1, 2014 opening balance sheet or on the fiscal 2015 net income.

### Regulatory matters

After analyses conducted as part of the U.S. GAAP conversion project, in August 2015 Gaz Métro submitted an application to the Régie seeking to align, as of October 1, 2016, the regulatory treatments applied to employee future benefits and to the temperature and wind-velocity rate stabilization accounts with the expected requirements under U.S. GAAP. A technical meeting on this matter was held in October 2015, and Gaz Métro answered requests for information from the Régie and the intervenor in November 2015. A decision is expected in December 2015.

With respect to employee future benefits, Gaz Métro asked the Régie if it could use the actuarial method, as required under U.S. GAAP, to determine the expense to be included in rates. The application also included, among other things, a request for the following RAL to be included in the rate base as of October 1, 2016: (i) RAL related to unamortized actuarial gains and losses to be amortized using the corridor method; (ii) RAL related to unamortized past service costs to be amortized on a straight-line basis over the estimated average service life of the employees; and (iii) RAL related to the transition year to be amortized on a straight-line basis over 20 years.

If the Régie accepts Gaz Métro's change requests regarding employee future benefits, the unamortized balances related to OPRB would be recognized as RAL rather than being recognized in accumulated other comprehensive income (loss). Then, the RAL related to the transition year would again be recognized on the consolidated balance sheet, resulting in a single upward adjustment to the Partnership's net income for the period when the decision is issued. Thereafter, the expenses included in rates would be equal to those established under U.S. GAAP, without an impact on net income.

With respect to the rate stabilization accounts related to temperature and wind velocity, Gaz Métro has asked the Régie if it could amortize these accounts over 24 months as of the fiscal year following initial recognition rather than over a five-year period as of the second fiscal year following initial recognition. Since Gaz Métro considers it will likely be able to subsequently recover or return, through rates, the amounts in the temperature and wind velocity rate stabilization accounts while respecting U.S. GAAP requirements, it is anticipated that the RAL related to these accounts will continue to be recognized on the consolidated balance sheet.

To date, these are the only identified change requests, and management does not anticipate any other changes to current regulatory treatments. Additional information will be disclosed as the application submitted to the Régie advances.

### Information systems and internal control over financial reporting

The Partnership does not foresee any significant impacts on its information systems and on its internal control over financial reporting resulting from the conversion to U.S. GAAP.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### **T) FINANCIAL INSTRUMENTS**

A significant portion of the Partnership's consolidated balance sheet contains financial instruments. The Partnership's financial assets include cash and cash equivalents, restricted cash, trade and other receivables, notes receivable, investment funds and derivative financial instruments with a positive fair value. The Partnership's financial liabilities include the bank overdraft, bank loans, accounts payable and accrued liabilities, distributions payable, derivative financial instruments with a negative fair value, long-term debt, the liability related to the elimination of spent nuclear fuel and IQ's interest in Gaz Métro LNG. The classifications of the financial instruments and quantitative information on their accounting treatment are provided in Notes 2 and 24 to the Partnership's audited consolidated financial statements for the years ended September 30, 2015 and 2014, and financial instrument risk management is described in Note 25 to the Partnership's audited consolidated financial statements for the years ended September 30, 2015 and 2014.

Derivative financial instruments are used to reduce or eliminate the inherent risks in certain transactions and identifiable balances that arise in the normal course of operations. The inherent risks related to those transactions and identifiable balances arise from fluctuations in natural gas and electricity prices, in interest rates and in foreign exchange rates. Derivative financial instruments are therefore used to ensure that fluctuations in the cash flows from these transactions and balances are offset by changes in the cash flows from the derivative financial instruments. No derivative financial instruments are held or have been issued for speculative purposes.

#### **Derivative financial instruments related to regulated activities**

Derivative financial instruments related to the cost of energy are used to manage exposure to the volatility of natural gas and electricity prices. The prices paid are based on indices and are therefore variable. These tools make it possible to either fix prices or to contain them in accordance with temporal, volumetric and financial limits approved by the Régie for Gaz Métro-QDA's activities or by management in the case of VGS. In 2014, however, the Régie ended this program, and Gaz Métro-QDA may no longer contract new derivative financial instruments related to the cost of energy. The last derivatives acquired by Gaz Métro-QDA before this date matured in October 2015. Forward exchange contracts are also used to manage the exchange risk exposure related to a significant portion of VGS's Canadian-dollar natural gas purchases and to certain Gaz Métro expenses denominated in U.S. dollars.

The derivative financial instruments related to regulated activities are not designated as hedging instruments eligible for hedge accounting. Gains and losses arising from changes in the fair value of these financial instruments are recognized as adjustments to deferred charges or credits, as approved by the Régie and the VPSB, since they will be reimbursed or recovered through future rates.

#### **Derivative financial instruments designated as hedging instruments**

Hedge accounting is applied to eligible transactions, which include cash flow hedges and hedging of the net investment in self-sustaining foreign operations. To offset the exchange risk on the net investment in self-sustaining foreign operations, certain U.S.-dollar-denominated debts are designated as hedges of an equivalent portion of the net investment in self-sustaining foreign operations whose functional currency is the U.S. dollar.

All relationships between hedging instruments and hedged items are formally documented, as are the risk management objectives and strategy behind the hedging activities. In addition, the effectiveness of the hedge is assessed when it is implemented, on each balance sheet date, and upon expiry of the hedge designation. Hedge accounting is discontinued prospectively when the hedging relationship is no longer effective or when the hedging or hedged items cease to exist because they have been sold off or liquidated or if the hedge designation ceases.

In the case of a cash flow hedge, the effective portion of changes in the fair value of a derivative financial instrument designated as a hedging item is recognized in *Other comprehensive income*, and the ineffective portion is immediately recognized in income. Amounts previously recognized in *Accumulated other comprehensive income (loss)* are reclassified to income in the periods during which the changes in cash flow of the hedged item affect income or when the hedged item is settled.

Forward-starting interest rate swaps are used to set a specific interest rate on a Gaz Métro fixed-rate loan that is expected to be issued by the end of fiscal 2017. These derivative financial instruments are designated as hedging instruments eligible for cash flow hedge accounting.

Interest rate swaps are used to fix the interest rate on a portion of the floating rate borrowings, and forward exchange contracts were used until October 2013 to manage exchange risk exposure related to a significant portion of equipment purchases in euros for wind parks 2 and 3. These derivative financial instruments are designated as hedging instruments eligible for cash flow hedge accounting.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

An interest rate swap is used to fix the interest rate on a floating rate loan of Intragaz. This derivative financial instrument is designated as a hedging instrument eligible for cash flow hedge accounting.

Forward exchange contracts are used to manage the exchange risk exposure related to U.S.-dollar-denominated revenues in some Gaz Métro LNG contracts. These derivative financial instruments are designated as hedging instruments eligible for cash flow hedge accounting.

In the case of a hedge of the net investment in self-sustaining foreign operations, the effective portion of translation exchange gains and losses on debts designated as hedging items is included in *Other comprehensive income*, and the ineffective portion is immediately recognized in income. The unrealized exchange gains or losses on these hedging items recognized in *Accumulated other comprehensive income (loss)* are reclassified to income when the corresponding net investment is reduced, i.e., at the same time as the corresponding unrealized exchange gains or losses on translation of the financial statements of self-sustaining foreign operations are recognized in income.

A cash balance in euros was partially used to manage the exchange risk exposure related to a significant portion of euro-denominated equipment purchases for wind park 4. This financial instrument was designated as a hedging instrument eligible for cash flow hedge accounting. This hedging relationship ended in fiscal 2015 when Wind Farm 4 was put in service.

### Hedge of net investment in self-sustaining foreign operations

The U.S.-dollar-denominated secured senior notes and a portion of Gaz Métro's U.S.-dollar-denominated term loans are designated as a hedge of the net investment in self-sustaining foreign operations that use the U.S. dollar as their functional currency. As at September 30, 2015, the carrying amount of these financial liabilities designated as hedges totalled \$771.5 million (US\$578.1 million) (as at September 30, 2014: \$644.3 million (US\$575.3 million)). The Partnership applied hedge accounting to these designations. The effective portion of the unrealized exchange losses on the hedge of the net investment in self-sustaining foreign operations was \$124.0 million for the year ended September 30, 2015 (losses of \$51.7 million in 2014) and was recognized in *Other comprehensive income*.

### Risks related to derivative financial instruments

Although Gaz Métro does not hold or issue derivative financial instruments for speculative purposes, it is exposed to market, credit and liquidity risks. As at September 30, 2015, the credit risk relating to counterparties of derivative financial instruments was low, as the Partnership is in a liability position with substantially all of its counterparties. The Partnership may therefore be exposed to liquidity risk if an event resulting in cancellation occurred, forcing Gaz Métro and its subsidiaries and joint ventures to settle the derivative financial instrument liability balance prior to maturity. However, most of these counterparties have a high credit rating at least equal to that of Gaz Métro, which significantly reduces this risk. No changes have been made to the methods used to manage credit risk related to counterparties to derivative financial instruments since September 30, 2014. The Partnership is therefore continuing to carefully monitor and manage the credit risk relating to these counterparties.

### Fair value of derivative financial instruments

All of the derivative financial instruments reported on the Partnership's consolidated balance sheet as at September 30, 2015 reflect the financial market situation at that date since they are accounted for at fair value.

The fair value of derivative financial instruments reflects the amounts the Partnership estimates it would receive on settlement of favourable contracts or would be obliged to pay to terminate unfavourable contracts at the balance sheet date. This fair value for derivative financial instruments is estimated using spot rates or forward rates or prices at the close of markets at the balance sheet date. In the absence of such information for a given instrument, the Partnership uses the forward rate or price of a similar instrument. A risk premium is added to the risk-free interest rate in estimating fair value to reflect the credit risk of both the Partnership and its subsidiaries and joint ventures and the credit risk of each counterparty.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table presents the main assumptions underlying the fair value calculation of derivative financial instruments as at September 30, 2015:

	Valuation model	Discount rate	Implicit price volatility	Forward price
Swaps	(1)	2.80%	N/A	N/A
Forward exchange contracts	(1)	1.96%	N/A	N/A
Instruments related to natural gas:				
Fixed-price swaps	(1)	1.38%	N/A	\$2.52/GJ to \$2.84/GJ
Collars	Black-Scholes	1.31%	- (2)	\$2.72/GJ
Instruments related to electricity:				
Fixed-price capacity swaps	(1)	1.90%	N/A	US\$9.55/kW

(1) The fair value of these derivative financial instruments was calculated using discounted future cash flows on the basis of the assumptions indicated in this table.

(2) The volatility was nil as at September 30, 2015 given that the underlying of the financial instrument was known at that date.

For the Partnership's derivative financial instruments related to rate-regulated activities, any change in fair value affects the deferred charges or deferred credit accounts pursuant to a regulatory mechanism. Derivative financial instruments that do not relate to regulated activities are recognized using cash flow hedge accounting, as previously described.

### U) SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of the Partnership's consolidated financial statements in accordance with Canadian GAAP requires management to make assumptions and exercise its judgment in order to establish estimates. Those estimates, which are based on past experience and present conditions, might differ significantly from actual results. The significant accounting estimates are described below.

#### Regulation

Gaz Métro-QDA as well as certain subsidiaries, joint ventures and entities subject to significant influence of Gaz Métro have business activities that are rate regulated. Regulatory agencies exercise their authority over these entities and issue decisions on, among other matters, system development, rate-setting and the use of certain accounting policies that differ from those applied by non-regulated enterprises.

Accounting estimates are sometimes required because the regulatory frameworks in which the Partnership's regulated public utilities carry out their activities often require that amounts be recorded at an estimated value until they are definitively established in accordance with regulatory decisions or other regulatory processes.

The definitive amounts approved by the regulatory agencies for treatment as regulatory assets and liabilities may sometimes differ from initial expectations. Any adjustment to the initial estimates is presented in the income of the period during which it is confirmed. The nature of the regulatory assets and liabilities is described in Note 4 to the Partnership's audited consolidated financial statements for the fiscal years ended September 30, 2015 and 2014.

#### Amortization of property, plant and equipment

Amortization is an estimate based mainly on the useful life of the assets. The useful-life estimate is based on actual facts and historical information and takes into account the expected life of the assets. Given the size of this asset category for the Partnership, changes in amortization rates may have a significant impact on amortization expense.

In connection with the process for establishing the rates for the Partnership's regulated public utilities, appropriate amortization rates are approved by the regulatory agencies. The amortization rates applied to assets used in rate-regulated activities are periodically reviewed and approved by regulatory agencies and, in certain cases, reflect estimates of future retirement costs. Periodically, third parties perform amortization studies on the property, plant and equipment of regulated public utilities and, based on the results of those studies, the impact of any amortization or under-amortization attributable to a difference between forecasted and actual information is reflected in future amortization rates and expense. The corresponding amounts are either returned to or recovered from customers through rates.

#### Goodwill valuation

Goodwill is the excess of the purchase price over the net values assigned to assets acquired and liabilities assumed when a business is acquired. Goodwill, which is not amortized, is tested for impairment annually or more frequently if events or changes in circumstances indicate that goodwill might not be recoverable.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Goodwill is tested for impairment on April 1 or July 1 of each year, depending on the reporting unit tested, to determine if there is a possible impairment using current information and fair market value measurements of the reporting units being tested. The fair value of a reporting unit is calculated based on the discounted future cash flow method or using external valuations. No impairment was recorded during fiscal years 2015 and 2014 following these impairment tests.

### Employee future benefits

The Partnership actuarially determines the cost of defined benefit plans and other postretirement benefit plans using the projected benefit method prorated on eligible years of service. These actuarial calculations are based on key assumptions, which are based on management's best estimates concerning (i) the discount rate, (ii) the expected return on plan assets, (iii) future changes in salary levels and the costs of supplemental health care and life insurance coverage, and (iv) the retirement age of employees. By making these assumptions, management must take into account current market conditions and demographic information. The costs of defined benefit plans and other postretirement benefit plans could fluctuate if there are changes in these assumptions. Refer to Note 19 to the Partnership's audited consolidated financial statements for the fiscal years ended September 30, 2015 and 2014 for the assumptions used to perform the actuarial calculation and a sensitivity analysis for some of these assumptions.

It is important to remember that Gaz Métro applies regulatory treatments to account for defined benefit plan and other postretirement benefit plan expenses. These regulatory treatments mitigate the impact of fluctuations in the assumptions on the expense recognized in Gaz Métro's consolidated statement of income. For additional information about these regulatory treatments, refer to Note 4 of the Partnership's audited consolidated financial statements for the fiscal years ended September 30, 2015 and 2014.

### Income taxes

Gaz Métro and its subsidiaries and joint ventures formed as limited partnerships do not present income tax expense, since, under existing tax legislation, their income is taxable at the Partners' level. Subsidiaries and joint ventures formed as corporations use the liability method to account for income taxes.

Under this method, future income tax assets and liabilities are determined according to differences between the carrying amounts and the tax bases of assets and liabilities. They are measured using enacted or substantively enacted tax rates and laws at the date of the consolidated financial statements for the fiscal years in which the temporary differences are expected to reverse. The impact of a change in income tax rates on future income tax assets and liabilities is included in the income of the period during which the change was enacted or substantively enacted. This method therefore requires the use of management's judgment to determine when the temporary differences are expected to be realized and to determine the enacted or substantively enacted tax rates at this time. In all cases, future income tax assets are recognized only if they are more likely than not to be realized.

Thus, accounting for future income tax assets requires management to make an important judgment as to whether the deductible temporary differences are more likely than not to reverse and whether the unused tax losses will be recovered from future taxable income before they expire.

## V) ADDITIONAL INFORMATION

### Units outstanding

As at November 25, 2015, a total of 167,250,908 units were outstanding.

### Related party transactions

The following related party transactions are carried out in the normal course of operations and, unless otherwise indicated, are measured at the exchange amount, i.e., the amount of consideration established and agreed to by the related parties.

Gaz Métro-QDA incurred natural gas storage costs of \$16.8 million during fiscal 2015 (\$16.8 million in 2014) with Intragaz, one of its joint ventures owned in partnership with GDF Québec Inc. The Partnership's share in Intragaz's revenues, which is eliminated upon proportionate consolidation, was \$10.1 million in 2015 (\$10.1 million in 2014). The non-eliminated portion of these natural gas storage costs is presented as *Direct costs* in the consolidated statement of income.

In fiscal 2015, Transco provided GMP with electricity transmission services totalling \$34.2 million (\$22.7 million in 2014), presented as *Direct costs* in the consolidated statement of income.

For fiscal 2015, as per the Administration and Management Support Agreement entered into with Valener, expiring in 2025, Valener charged Gaz Métro an amount of \$1.7 million (\$1.8 million in 2014) for administrative expenses (including costs related

## MANAGEMENT'S DISCUSSION AND ANALYSIS

to public company matters). These expenses are presented as *Operating and maintenance expenses* in the consolidated statement of income.

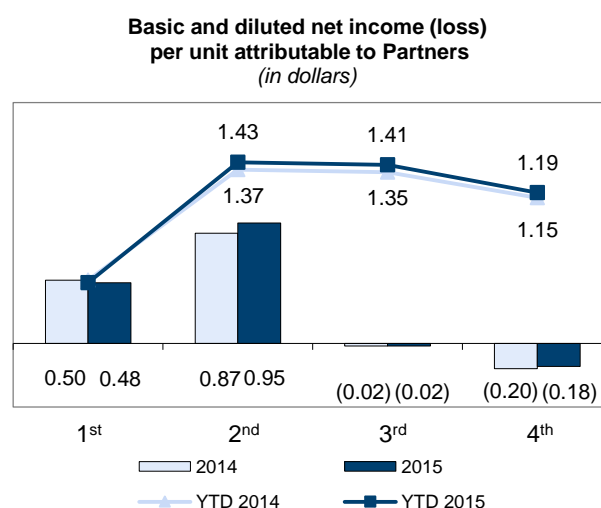
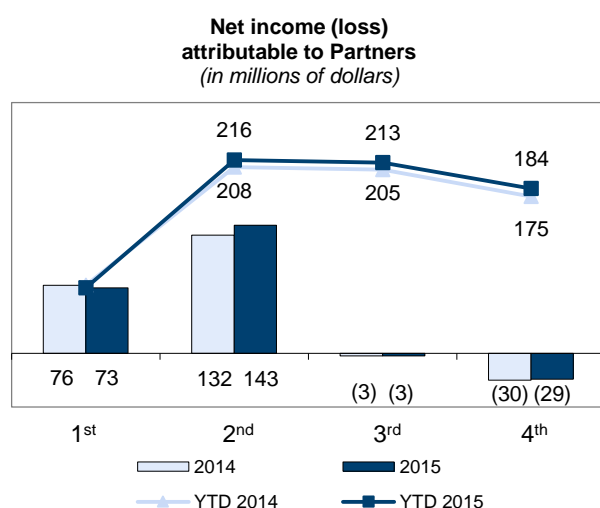
### Litigation

The Partnership is cited in claims and lawsuits in the normal course of its operations, including for environmental matters. In management's opinion, these claims and lawsuits are, for the most part, covered by appropriate insurance coverage, and the outcome of these claims and lawsuits is not expected to have a significant impact on the Partnership's net income or financial position.

### W) QUARTERLY RESULTS

<i>(in millions of dollars, unless otherwise indicated)</i>	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>	Fiscal 2015
Revenues	696.0	1,014.6	520.1	489.9	2,720.6
Net income (loss) attributable to Partners	72.6	143.7	(3.2)	(28.7)	184.4
Basic and diluted net income (loss) per unit attributable to Partners <i>(in \$)</i>	0.48	0.95	(0.02)	(0.18)	1.19

<i>(in millions of dollars, unless otherwise indicated)</i>	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>	Fiscal 2014
Revenues	675.5	969.7	480.0	411.5	2,536.7
Net income (loss) attributable to Partners	75.8	132.5	(3.3)	(30.3)	174.7
Basic and diluted net income (loss) per unit attributable to Partners <i>(in \$)</i>	0.50	0.87	(0.02)	(0.20)	1.15



### Results for the fourth quarter of fiscal 2015

As shown in the above table, seasonal temperature fluctuations and wind variations influence the energy consumption levels of customers and the energy production levels of wind farms, which in turn influence the Partnership's interim consolidated financial results. These interim financial results also depend, although not solely, on overearnings or shortfalls, decisions made by the agencies that regulate the rates of the Partnership and its subsidiaries, joint ventures and entities subject to significant influence, and the impact of fluctuations of the U.S. dollar versus the Canadian dollar. Given the seasonal nature of its operations and the normally low demand for energy during the summer months, revenues and profitability are historically higher in the first two quarters of a fiscal year than in the last two quarters.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the fourth quarter of fiscal 2015, the net loss attributable to Partners decreased \$1.6 million (\$0.02 per unit) year over year, mainly due to:

- a \$5.9 million increase from Gaz Métro-QDA, mainly due to the parameters of its rate case, including a timing difference between the revenue recognition profile, which follows the customer's consumption profile, and that of costs; and
- a \$3.0 million increase from a favourable exchange rate impact on the IBIT generated by Vermont energy distribution activities.

offset by:

- a \$9.0 million decrease in the IBIT generated by Vermont distribution activities, excluding the impact of exchange rate changes, mainly due to the recognition of a before-tax US\$10.3 million allowance related to the Phase I costs of the Addison project following an agreement concluded with the VDPS.

### Summary of quarterly results

The significant items that affected the results of the other quarters of fiscal years 2015 and 2014 were as follows:

- **3<sup>rd</sup> quarters:** The 2015 third-quarter net loss attributable to Partners decreased \$0.1 million (nil per unit) year over year, mainly due to:
  - a \$2.8 million increase in the IBIT generated by energy production activities, mainly due to higher revenues given favourable winds and because wind park 4 came into service in December 2014; and
  - a \$2.0 million increase from a favourable exchange rate impact on the IBIT generated by Vermont energy distribution activities;

offset by:

- a \$3.2 million decrease in the IBIT from Vermont energy distribution activities, excluding the impact of exchange rate changes, mainly due to a decline in GMP's gross margin arising from a decline in electricity sales revenues; and
  - a \$1.7 million decrease in Gaz Métro-QDA's IBIT, mainly due to the parameters of its rate case, including a timing difference between the revenue recognition profile, which follows the customer's consumption profile, and that of costs.
- **2<sup>nd</sup> quarters:** The 2015 second-quarter net income attributable to Partners increased \$11.2 million (\$0.08 per unit) year over year, mainly due to:
    - a \$4.9 million increase in the IBIT generated by energy production activities, mainly due to higher revenues given favourable winds and because wind park 4 came into service in December 2014;
    - a \$4.1 million increase from Gaz Métro-QDA, mainly due to a timing difference between the revenue recognition profile, which follows the consumer's consumption profile, and that of costs; and
    - a \$3.9 million increase from a favourable exchange rate impact on the IBIT generated by Vermont energy distribution activities.
  - **1<sup>st</sup> quarters:** The 2015 first-quarter net income attributable to Partners decreased \$3.2 million (\$0.02 per unit) year over year, mainly due to:
    - a \$3.8 million decrease from Gaz Métro-QDA, mainly due to a timing difference between the revenue recognition profile, which follows the consumer's consumption profile, and that of costs in an amount of \$2.4 million as well as to higher financial expenses; and
    - a \$2.8 million decrease in the IBIT from Vermont energy distribution activities, excluding the impact of exchange rate changes, mainly due to a decline in GMP's gross margin arising from a decline in electricity sales revenues;

offset by:

- a \$2.0 million increase in Gaz Métro LNG's IBIT owing to the performance of short-term LNG supply contracts; and
- a \$2.0 million increase from a favourable exchange rate impact on the IBIT generated by Vermont energy distribution activities.

## X) SUBSEQUENT EVENT

### Declaration of a distribution

On November 26, 2015, the board of directors of GMi, acting in its capacity as General Partner of Gaz Métro, declared a quarterly distribution of \$48.5 million, payable on January 5, 2016 to its Partners.

This MD&A has been prepared as of November 27, 2015.

Additional information about Valener, including its audited consolidated financial statements for the year ended September 30, 2015, and eventually its 2015 Annual Information Form, can be found on SEDAR at [www.sedar.com](http://www.sedar.com) and on Valener's website at [www.valener.com/investisseurs-2/financial-documents](http://www.valener.com/investisseurs-2/financial-documents).

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### GLOSSARY

The most commonly used abbreviations in this report are listed in the table below.

UNITS OF MEASURE AND GENERAL TERMS		ENTITIES	
C&T Regulation	<i>Regulation respecting a cap-and-trade system for greenhouse gas emission allowances</i>	Beaupré Éole	Beaupré Éole General Partnership
CNG	Compressed natural gas	Beaupré Éole 4	Beaupré Éole 4 General Partnership
CPG	Certificate of Public Good	Boralex	Boralex Inc.
DBRS	Dominion Bond Rating Service	CCUM	Climatisation et Chauffage Urbains de Montréal, s.e.c.
DTH	Dekatherm	Champion	Champion Pipe Line Corporation Limited
GEEP	Global Energy Efficiency Plan	CVPS	Central Vermont Public Service Corporation
GHG	Greenhouse gas	Gaz Métro / the Partnership	Gaz Métro Limited Partnership
GJ	Gigajoule	Gaz Métro Energy Solutions	Gaz Métro Energy Solutions, L.P.
Green Fund Regulation	<i>Regulation respecting the annual duty payable to the Green Fund</i>	Gaz Métro Éole	Gaz Métro Éole Inc.
KCW	Kingdom Community Wind	Gaz Métro Éole 4	Gaz Métro Éole 4 inc.
Km	Kilometres	Gaz Métro Éole 4	Gaz Métro LNG 2013 L.P., or Gaz Métro LNG L.P., depending on the context
kW	Kilowatts	Gaz Métro LNG	Gaz Métro Plus Limited Partnership
LNG	Liquefied natural gas	Gaz Métro Plus	Gaz Métro's natural gas distribution activity in Quebec
LSR plant	Gaz Métro-QDA's natural gas liquefaction, storage and regasification plant	Gaz Métro-QDA	Gaz Métro inc.
Management	The management of GMi, in its capacity as General Partner of Gaz Métro	GMi	Green Mountain Power Corporation
Management of the manager	The management of GMi, in its capacity as General Partner of Gaz Métro, and acting as manager of Valener	GMP	HydroSolution, L.P.
MW	Megawatts	HydroSolution	Includes all of the following companies: Intragaz inc.; Intragaz Holding, Limited Partnership; Intragaz Exploration, Limited Partnership; Intragaz, Limited Partnership; and their respective subsidiaries
MWh	Megawatthour	Intragaz	Portland Natural Gas Transmission System
RAL	Regulatory assets and liabilities	PNGTS	Société des traversiers du Québec
RRA	Rate-regulated activities	STQ	TransCanada PipeLines Limited
S&P	Standard & Poor's	TCPL	Trans Québec & Maritimes Pipeline Inc., as mandatary for TQM Pipeline and Company, Limited Partnership
Seigneurie projects	Wind power projects (including wind parks 2 and 3 and wind park 4) that have been and will be developed, built and operated on the private lands of Seigneurie de Beaupré	TQM	Vermont Transco LLC
Series A preferred shares	Series A cumulative rate reset preferred shares	Transco	Gaz Métro Transport Solutions, L.P.
TSX	Toronto Stock Exchange	Transport Solutions	Union Gas Limited
Wind parks 2 and 3	Wind parks of Wind Farms 2 and 3	Union Gas	Valener Inc.
Wind park 4	Wind park of Wind Farm 4	Valener / the Company	Valener Éole Inc.
<b>GOVERNMENT AND REGULATORY AGENCIES</b>		Valener Éole	Valener Éole 4 Inc.
FERC	Federal Energy Regulatory Commission (United States)	Valener Éole 4	Vermont Electric Power Company, Inc.
ISO-NE	Independent System Operator, ISO-New England	Velco	Vermont Gas Systems, Inc.
NEB	National Energy Board (Canada)	VGS	Seigneurie de Beaupré Wind Farms 2 and 3 General Partnership
Régie	Régie de l'énergie (Quebec)	Wind Farms 2 and 3	Seigneurie de Beaupré Wind Farm 4 General Partnership
VDPS	Vermont Department of Public Service	Wind Farm 4	Vermont Yankee Nuclear Power Corporation
VPSB	Vermont Public Service Board	VYNPC	
<b>ACCOUNTING AND FINANCIAL TERMS</b>			
AcSB	Accounting Standards Board		
Canadian GAAP	Canadian generally accepted accounting principles (according to Part V of the Handbook, <i>Pre-changeover Accounting Standards</i> )		
CICA	Canadian Institute of Chartered Accountants		
DRIP	Dividend Reinvestment Plan		
Handbook	CPA Canada Handbook – Accounting		
IASB	International Accounting Standards Board		
IBIT	Income before income taxes		
IFRS	International Financial Reporting Standards		
U.S. GAAP	U.S. generally accepted accounting principles		



**VALENER INC.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEARS ENDED**  
**SEPTEMBER 30, 2015 AND 2014**



**GAZ MÉTRO LIMITED PARTNERSHIP**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEARS ENDED**  
**SEPTEMBER 30, 2015 AND 2014**



**CONSOLIDATED FINANCIAL STATEMENTS****FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2015 AND 2014****VALENER INC.**

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## MANAGER'S MANAGEMENT REPORT

### ON THE CONSOLIDATED FINANCIAL STATEMENTS OF VALENER INC.

The consolidated financial statements of Valener Inc. and all of the information in this report are the responsibility of the management of Gaz Métro inc. (GMI), in its capacity as General Partner of Gaz Métro Limited Partnership (Gaz Métro), acting as manager of Valener Inc. (the management of the manager). It is the responsibility of the management of the manager to select the appropriate accounting policies and to exercise its best judgment in determining reasonable and fair estimates based on Canadian generally accepted accounting principles and decisions by bodies that govern the various activities of Valener Inc. Financial information found elsewhere in this report is consistent with that found in the consolidated financial statements. This information and the consolidated financial statements are published with the approval of the board of directors of Valener Inc.

The management of the manager maintains accounting and internal control systems that are designed to provide reasonable assurance that the accounting records are reliable and assets are safeguarded.

The board of directors assumes its responsibilities for the consolidated financial statements primarily through the audit committee, made up solely of external directors. The audit committee has reviewed all of the information in this report as well as the annual consolidated financial statements and has recommended they be approved by the board. The audit committee also examines, on a continuous basis, the quarterly financial results and the results of the work performed by the internal auditors of GMI, in its capacity as General Partner of Gaz Métro, acting as manager of Valener Inc., and the work performed by the external independent auditors on the accounting policies and internal control systems. The audit committee also recommends the choice of external auditor to the board. External and internal auditors are free to communicate with the audit committee.

The consolidated financial statements of Valener Inc. as at September 30, 2015 and 2014 and for the fiscal years then ended were audited by KPMG LLP, Chartered Professional Accountants, in accordance with Canadian Auditing Standards. Its audits included the tests and other procedures it deemed necessary under the circumstances. Its independent opinion on the consolidated financial statements is presented hereinafter.

(signed)

**SOPHIE BROCHU**

President and Chief Executive Officer  
of GMI, in its capacity as General Partner  
of Gaz Métro, acting as  
manager of Valener Inc.

(signed)

**PIERRE DESPARS, FCPA, FCMA, CA**

Executive Vice-President, Corporate Affairs  
and Chief Financial Officer of GMI, in its capacity as  
General Partner of Gaz Métro, acting as  
manager of Valener Inc.

Montreal, Canada  
November 27, 2015

## **INDEPENDENT AUDITORS' REPORT**

### **TO THE SHAREHOLDERS OF VALENER INC.**

We have audited the accompanying consolidated financial statements of Valener Inc., which comprise the consolidated balance sheets as at September 30, 2015 and as at September 30, 2014, the consolidated statements of income, comprehensive income, shareholders' equity and cash flows for the fiscal years then ended, as well as the notes, which include a summary of significant accounting policies and other explanatory information.

### **Management's responsibility for the consolidated financial statements**

The management of Gaz Métro inc., in its capacity as General Partner of Gaz Métro Limited Partnership, acting as manager of Valener Inc., is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including our assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Valener Inc. as at September 30, 2015 and as at September 30, 2014 and the consolidated results of its operations and its consolidated cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

(signed)

KPMG LLP<sup>1</sup>

Montreal, Canada  
November 27, 2015

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<sup>1</sup> CPA auditor, CA, public accountancy permit no. A119245

**VALENER INC.**  
**CONSOLIDATED STATEMENTS OF INCOME AND**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
Fiscal years ended September 30  
(in thousands of dollars)

**CONSOLIDATED STATEMENTS OF INCOME**

	<u>2015</u>	<u>2014</u>
<b>REVENUES</b>		
Share in the net income of Gaz Métro	\$ 53,487	\$ 50,372
Share in the net income (loss) of Beauré Éole	3,501	(686)
Share in the net income (loss) of Beauré Éole 4	8	(266)
Other revenues related to the Administration and Management Support Agreement (Note 10)	<u>1,747</u>	<u>1,756</u>
	<u>58,743</u>	<u>51,176</u>
<b>EXPENSES</b>		
General and administrative expenses	2,128	2,524
Interest on long-term debt	1,593	1,357
Financial and other expenses	483	361
Change in the fair value of derivative financial instruments (Note 12)	<u>3,951</u>	<u>-</u>
	<u>8,155</u>	<u>4,242</u>
<b>INCOME BEFORE INCOME TAXES</b>	<u>50,588</u>	<u>46,934</u>
Income taxes (Note 8)		
Current	1,804	870
Future	<u>1,637</u>	<u>5,072</u>
	<u>3,441</u>	<u>5,942</u>
<b>NET INCOME</b>	<u>\$ 47,147</u>	<u>\$ 40,992</u>
<b>BASIC AND DILUTED NET INCOME PER COMMON SHARE</b> (in dollars) (Note 6)	<u>\$ 1.12</u>	<u>\$ 0.97</u>

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	<u>2015</u>	<u>2014</u>
<b>NET INCOME</b>	\$ 47,147	\$ 40,992
<b>OTHER COMPREHENSIVE INCOME</b>		
Share in the other comprehensive income of Gaz Métro	40,806	15,550
Income taxes	(5,411)	28
Share in the other comprehensive loss of Beauré Éole	(5,048)	(3,257)
Income taxes	1,361	872
Share in the other comprehensive (loss) income of Beauré Éole 4	(5)	6
Income taxes	<u>1</u>	<u>(2)</u>
<b>OTHER COMPREHENSIVE INCOME</b>	<u>31,704</u>	<u>13,197</u>
<b>COMPREHENSIVE INCOME</b>	<u>\$ 78,851</u>	<u>\$ 54,189</u>

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

**VALENER INC.**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**

Fiscal years ended September 30, 2015 and 2014

(in thousands of dollars)

	Share capital	Deficit	Accumulated other comprehensive income (loss) (Note 7)	Shareholders' equity
Balance as at September 30, 2013	\$ 732,810	\$ (17,192)	\$ (18,384)	\$ 697,234
Net income	-	40,992	-	40,992
Other comprehensive income	-	-	13,197	13,197
Dividend Reinvestment Plan (Note 6)	4,316	-	-	4,316
Dividends to common shareholders	-	(37,926)	-	(37,926)
Dividends to preferred shareholders	-	(4,350)	-	(4,350)
Balance as at September 30, 2014	\$ 737,126	\$ (18,476)	\$ (5,187)	\$ 713,463
Net income	-	47,147	-	47,147
Other comprehensive income	-	-	31,704	31,704
Dividend Reinvestment Plan (Note 6)	5,105	-	-	5,105
Dividends to common shareholders	-	(39,386)	-	(39,386)
Dividends to preferred shareholders	-	(4,350)	-	(4,350)
Balance as at September 30, 2015	\$ 742,231	\$ (15,065)	\$ 26,517	\$ 753,683

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

	<u>2015</u>	<u>2014</u>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 1,449	\$ 757
Amount receivable from Gaz Métro	294	387
Distributions receivable from Gaz Métro	12,991	12,327
Income taxes receivable	427	3,001
Future income taxes (Note 8)	750	50
Other assets	3	81
	<u>15,914</u>	<u>16,603</u>
<b>Interests in entities subject to significant influence (Note 4)</b>	<b>901,551</b>	797,121
<b>Future income taxes (Note 8)</b>	<b>229</b>	2,018
	<u>\$ 917,694</u>	<u>\$ 815,742</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 450	\$ 921
Dividends payable to common shareholders	9,973	9,509
Dividends payable to preferred shareholders	1,088	1,088
Future income taxes (Note 8)	1,006	292
	<u>12,517</u>	<u>11,810</u>
<b>Long-term debt (Note 5)</b>	<b>121,038</b>	66,780
<b>Future income taxes (Note 8)</b>	<b>26,505</b>	23,689
<b>Derivative financial instruments (Note 12)</b>	<b>3,951</b>	-
	<u>164,011</u>	<u>102,279</u>
<b>SHAREHOLDERS' EQUITY</b>		
<b>Share capital (Note 6)</b>	<b>742,231</b>	737,126
<b>Deficit</b>	<b>(15,065)</b>	(18,476)
<b>Accumulated other comprehensive income (loss) (Note 7)</b>	<b>26,517</b>	(5,187)
	<u>11,452</u>	<u>(23,663)</u>
	<u>753,683</u>	<u>713,463</u>
	<u>\$ 917,694</u>	<u>\$ 815,742</u>

Subsequent events (Note 14)

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

On behalf of the board of directors,

(signed)

PIERRE MONAHAN  
Director

(signed)

RÉAL SUREAU, FCPA, FCA  
Director

	<u>2015</u>	<u>2014</u>
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 47,147	\$ 40,992
Distributions received from entities subject to significant influence	64,231	49,054
Non-cash items:		
Share in the net income of Gaz Métro	(53,487)	(50,372)
Share in the (net income) loss of Beaurpré Éole	(3,501)	686
Share in the (net income) loss of Beaurpré Éole 4	(8)	266
Loss on derivative financial instruments (Note 12)	3,951	-
Future income taxes (Note 8)	1,637	5,072
Other	237	237
	<u>60,207</u>	<u>45,935</u>
Change in non-cash working capital items (Note 9)	2,691	(2,797)
<b>Cash flows related to operating activities</b>	<u>62,898</u>	<u>43,138</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of units in Gaz Métro (Note 4)	(73,956)	-
Purchase of units in Beaurpré Éole (Note 4)	(309)	(2,269)
Purchase of units in Beaurpré Éole 4 (Note 4)	(3,768)	(1,363)
Other	(27)	(284)
<b>Cash flows related to investing activities</b>	<u>(78,060)</u>	<u>(3,916)</u>
<b>FINANCING ACTIVITIES</b>		
Long-term debt:		
Issuances	356,021	340,940
Repayments	(302,000)	(342,000)
Dividends to common shareholders	(33,817)	(33,537)
Dividends to preferred shareholders	(4,350)	(4,350)
<b>Cash flows related to financing activities</b>	<u>15,854</u>	<u>(38,947)</u>
<b>NET CHANGE IN CASH</b>	<u>692</u>	<u>275</u>
<b>CASH AT BEGINNING</b>	<u>757</u>	<u>482</u>
<b>CASH AT END</b>	<u>\$ 1,449</u>	<u>\$ 757</u>

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



## 1. NATURE OF OPERATIONS

Valener Inc. (Valener or the Company), whose head office is located at 1717 Du Havre, Montreal, Quebec, Canada H2K 2X3, is incorporated under the *Canada Business Corporations Act*.

Valener owns a 29.0% interest in Gaz Métro Limited Partnership (Gaz Métro), whose core business is the distribution of natural gas in Quebec and Vermont (U.S.A.) and the distribution of electricity in Vermont. Valener also owns a 49.0% interest in Beauré Éole General Partnership (Beauré Éole), which owns a 50.0% interest in Seigneurie de Beauré Wind Farms 2 and 3 General Partnership (Wind Farms 2 and 3). Valener also owns a 49.0% interest in Beauré Éole 4 General Partnership (Beauré Éole 4), which owns a 50.0% interest in Seigneurie de Beauré Wind Farm 4 General Partnership (Wind Farm 4). The operations of Wind Farms 2 and 3 and of Wind Farm 4 consist essentially of operating the wind parks located on the private lands of Seigneurie de Beauré.

Valener's common shares and Series A cumulative rate reset preferred shares (Series A preferred shares) are listed and traded on the Toronto Stock Exchange (TSX) under the "VNR" and "VNR.PR.A" trading symbols, respectively.

## 2. ACCOUNTING POLICIES

### PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of Valener are prepared in accordance with the Canadian generally accepted accounting principles (GAAP) included in Part V of the CPA Canada Handbook – Accounting (Handbook), *Pre-changeover accounting standards* (Canadian GAAP).

### PRINCIPLES OF CONSOLIDATION

The Company's consolidated financial statements include the accounts of Valener and its subsidiaries. All intercompany transactions and balances are eliminated.

### USE OF ESTIMATES

In preparing the consolidated financial statements, the management of Gaz Métro inc. (GMI), in its capacity as General Partner of Gaz Métro, acting as manager of Valener (the management of the manager), must make estimates and assumptions that have an impact on the assets and liabilities presented in the consolidated balance sheet, on the contingent liabilities as at the date of the consolidated financial statements, and on the amounts reported in the consolidated statements of income and comprehensive income for the fiscal year. Actual results may differ from these estimates. Consolidated financial statement items that require greater use of estimates include long-term asset valuations (particularly the valuation of interests in entities subject to significant influence) and income taxes (particularly assessing the valuation allowance and estimating schedules, sources and amounts of future taxable income for the purposes of determining future income taxes and the fair value of financial instruments).

### INTERESTS IN ENTITIES SUBJECT TO SIGNIFICANT INFLUENCE

The Company accounts for interests in entities subject to significant influence using the equity method. Under the equity method, the Company initially recognizes the investment at cost and subsequently adjusts the carrying value by recording its share in the profit or loss and its share in transactions that affect the equity of the entity subject to significant influence. The management of the manager periodically examines, on an individual basis, the Company's interests in its entities subject to significant influence, and whenever there is a loss in value that is other than a temporary decline, the carrying amount is written down to fair value and the loss is recorded in income.

#### Interest in Gaz Métro

Gaz Métro's natural gas distribution activities in Quebec are regulated by the Régie de l'énergie. In addition, through certain subsidiaries, joint ventures and entities subject to significant influence, Gaz Métro is active in other businesses that are regulated by other agencies, such as the Vermont Public Service Board, the National Energy Board and the Federal Energy Regulatory Commission. In exercising their authority, these regulatory agencies issue decisions on, among other matters, system development, rate-setting and the use of certain accounting policies that differ from those applied by non-regulated enterprises.

Without the accounting treatment applicable to rate-regulated entities, the carrying amount of the interest in Gaz Métro and the share in its net income would have been different given the regulatory treatments used by Gaz Métro. The

Company is unable to make a reasonable estimate of the impact of these rate-regulation practices on the carrying amount of the interest in Gaz Métro and on the share in the net income of Gaz Métro.

## **INCOME TAXES**

Valener is taxable on all its income as determined by enacted tax laws, including the earnings from its interests in entities subject to significant influence formed as limited partnerships. These limited partnerships do not present income tax expense, since, under existing tax legislation, their income is taxable at the Partners' level.

The Company uses the liability method to account for income taxes. Under this method, future income tax assets and liabilities are determined according to temporary differences between the carrying amounts and the tax bases of the assets and liabilities of the Company and its share in the temporary differences of the entities subject to significant influence formed as limited partnerships. They are measured using enacted or substantively enacted tax rates and laws at the date of the consolidated financial statements for the fiscal years in which the temporary differences are expected to reverse. The impact of a change in income tax rates on future income tax assets and liabilities is included in the income of the period during which the change was enacted or substantively enacted. In all cases, future income tax assets are recognized only if they are more likely than not to be realized. The offsetting entry for future income taxes related to rate-regulated activities is reflected in the interest in Gaz Métro.

## **FINANCIAL INSTRUMENTS**

A financial instrument is a contract that gives rise to a financial asset for one of the parties to the contract and to a financial liability or equity instrument for the other party. Financial instruments are recognized on the consolidated balance sheet when the Company becomes party to the contractual obligations of the instrument.

Financial assets and liabilities are initially recognized at fair value, and subsequent measurements are made based on their classification, which are described below.

The Company classifies financial instruments as follows:

- Cash and derivative financial instruments are classified as held-for-trading assets and recognized at fair value. Gains and losses arising from changes in fair value are recognized in the income of the period in which they occur.
- The amount receivable from Gaz Métro and distributions receivable from Gaz Métro are classified as loans and receivables. Loans and receivables are measured at amortized cost in accordance with the effective interest rate method, which, upon initial recognition, equals fair value.
- Accounts payable and accrued liabilities, dividends payable to common and preferred shareholders and long-term debt are classified as financial liabilities not held for trading. They are recognized at amortized cost using the effective interest rate method, which, upon initial recognition, equals fair value.

The fair value of derivative financial instruments is established based on the observable nature of the data used to measure the fair value. The three levels of the fair value hierarchy are as follows:

- Level 1 - This category includes assets and liabilities measured at fair value on the basis of unadjusted prices applied to identical assets and liabilities in active and accessible markets at the measurement date. An active market for an asset or liability means a market where operations occur at sufficient frequency and volumes to provide a constant flow of information on prices.
- Level 2 - This category includes measurements based on directly or indirectly observable data other than the quoted prices included in Level 1. Financial instruments in this category are measured using models or other standard industry valuation techniques, techniques that are derived from observable market data. These valuation techniques use data such as quoted prices in the forward market, time value, volatility factors and prices quoted by brokers that can be observed or corroborated on the market for the entire term of the derivative financial instrument.
- Level 3 - This category includes measurements based on data that is less observable or unavailable or for which the observable data does not largely substantiate the fair value of the financial instruments. In general, Level 3 measurements relate to long-term operations that are transacted in less active markets or in places where it is impossible to obtain information on the price, or for which no price quoted by brokers is sufficiently enforceable to justify a Level 2 classification.

The fair value hierarchy requires the use of observable market data each time that such data exists. A financial instrument is classified according to the lowest level from which significant data was used in measuring its fair value.

### TRANSACTION COSTS

Transaction costs related to held-for-trading financial instruments are recorded in income as incurred. Transaction costs related to financial instruments not classified as held for trading are added to or subtracted from the carrying value of the underlying instrument, and they are then amortized using the effective interest rate method.

Share capital is presented net of share issuance expenses.

### BASIC AND DILUTED NET INCOME PER COMMON SHARE

Basic net income per common share is calculated by dividing the net income attributable to common shareholders by the weighted average number of common shares outstanding. As at September 30, 2015 and 2014, no instrument had a dilutive effect on the basic net income per common share.

## 3. ACCOUNTING CHANGES

### FUTURE ACCOUNTING CHANGES

#### Change in accounting framework

Valener has chosen to use the exemption set out in the Introduction to Part I of the Handbook, *International Financial Reporting Standards* (IFRS), under which qualifying entities with rate-regulated activities may defer application of Part I to fiscal periods beginning on or after January 1, 2015. Consequently, for fiscal 2015, Valener is presenting its consolidated financial statements in accordance with Canadian GAAP.

In May 2015, given the uncertainty surrounding the accounting for rate-regulated activities under IFRS and the impacts of IFRS 14, *Regulatory Deferral Accounts*, Valener obtained a new three-year exemption from the Canadian Securities Administrators allowing it to prepare its consolidated financial statements in accordance with U.S. GAAP in order to meet its continuous disclosure requirements in Canada. This exemption is valid until the first of the following dates: (i) January 1, 2019; (ii) the first day of the fiscal year following the cessation of rate-regulated activities by Valener, if applicable; (iii) the effective date prescribed by the International Accounting Standards Board for mandatory application of a permanent and specific IFRS standard for entities engaged in rate-regulated activities. Valener will therefore use U.S. GAAP to prepare its annual and interim consolidated financial statements for fiscal years 2016 to 2018, inclusively.

## 4. INTERESTS IN ENTITIES SUBJECT TO SIGNIFICANT INFLUENCE

	Ownership interest	2015	2014
Interest in Gaz Métro (a)	29.0%	\$ 868,790	\$ 752,661
Interest in Beauré Éole (b)	49.0%	24,860	36,045
Interest in Beauré Éole 4 (c)	49.0%	7,901	8,415
		<u>\$ 901,551</u>	<u>\$ 797,121</u>

- (a) During fiscal 2015, Valener subscribed, in proportion to its current interest in Gaz Métro, 4,482,188 Gaz Métro units for a total cash consideration of \$73,956,000.

The interest in Gaz Métro includes \$351,262,000 in goodwill as at September 30, 2015 (\$337,736,000 as at September 30, 2014).

- (b) During fiscal 2015, Valener subscribed, in proportion to its current interest in Beauré Éole, 308,700 Beauré Éole units for a total cash consideration of \$309,000 (2,268,728 Beauré Éole units for a total cash consideration of \$2,269,000 in 2014).

- (c) During fiscal 2015, Valener subscribed, in proportion to its current interest in Beauré Éole 4, 3,768,399 Beauré Éole 4 units for a total cash consideration of \$3,768,000 (1,362,607 Beauré Éole 4 units for a total cash consideration of \$1,363,000 in 2014).

**5. LONG-TERM DEBT**

	Maximum authorized amount	Maturity	2015	2014
CREDIT FACILITY	\$ 200,000	2020	\$ 121,038	\$ 66,780

On September 30, 2015, Valener's credit facility was amended to extend its maturity to September 30, 2020 and now contains an annual extension clause. This credit facility is secured by Valener's units in Gaz Métro and its shares in Valener Éole and bears interest at floating rates based on bankers' acceptance rates or the prime rate, adjusted according to the terms of this credit facility. The effective interest rate for the year ended September 30, 2015 was 1.77% (2.22% in 2014).

Under the terms of this credit facility, the Company must comply with restrictive covenants requiring it to satisfy certain financial ratios or conditions at all times. As at September 30, 2015, Valener was in compliance with all of the conditions of its credit facility. After all amounts borrowed and letters of credit issued, the unused credit facility as at September 30, 2015 was \$77,667,000 (\$128,981,000 as at September 30, 2014).

The amount drawn on the credit facility as at September 30, 2015 is presented net of \$705,000 in financing costs (\$475,000 as at September 30, 2014).

**6. SHARE CAPITAL**
**AUTHORIZED**

The Company's authorized capital includes an unlimited number of common shares without par value and 10,000,000 non-voting preferred shares issuable in series, including up to 4,000,000 Series A preferred shares and 4,000,000 Series B preferred shares.

**DECLARED**

	2015	2014
38,359,969 common shares (38,037,286 as at September 30, 2014)	\$ 644,751	\$ 639,646
4,000,000 Series A preferred shares	\$ 97,480	\$ 97,480
	<u>\$ 742,231</u>	<u>\$ 737,126</u>

**Common shares**

The Company offers its shareholders a Dividend Reinvestment Plan (DRIP) under which they may elect to have all or part of their cash dividends automatically reinvested into additional common shares of Valener. The Valener shares thus purchased can, at Valener's option, be either newly issued from treasury or acquired on the open market. If the Valener shares to be purchased under the DRIP are newly issued from treasury, the price of these shares is the weighted average price of Valener's shares on the TSX for the five trading days immediately preceding the dividend payment date on Valener's shares (weighted average price) and could include, at Valener's option, a discount of up to 5%. If the shares are purchased on the open market through the TSX, the transfer agent purchases the shares in question within ten business days of the dividend payment date.

Brokerage and administrative fees are not charged to shareholders for purchases or withdrawals of Valener shares under the DRIP, and all DRIP administrative costs are assumed by Valener.

During fiscal 2015, 322,683 common shares were issued under the DRIP (292,499 in 2014) for a total amount of \$5,105,000 (\$4,316,000 in 2014).

**Preferred shares**

The Series A preferred shares will pay cumulative dividends of \$1.0875 per share per annum, i.e., a yield of 4.35% per annum, payable quarterly, for the initial period ending October 15, 2017. The dividend rate will be reset on October 15, 2017 and every five years thereafter at a rate equal to the five-year Government of Canada bond yield plus 2.81%. The Company may redeem the Series A preferred shares on or after October 15, 2017, at a price of \$25.00 per share, in accordance with their terms.

Holders of Series A preferred shares will have the right, at their option, to convert their Series A preferred shares into Series B preferred shares on October 15, 2017 and on October 15 every five years thereafter at the rate of one Series B preferred share for each converted Series A preferred share. Holders of Series B preferred shares will be entitled to receive quarterly cumulative annual floating rate dividends at a rate equal to the three-month Government of Canada Treasury bill yield plus 2.81%. The Company may redeem the Series B preferred shares on or after October 15, 2017 at a price of \$25.00 or \$25.50 per share, in accordance with their terms.

#### **BASIC AND DILUTED NET INCOME PER COMMON SHARE**

	<b>2015</b>	<b>2014</b>
Net income	\$ <b>47,147</b>	\$ 40,992
Less:		
Cumulative dividends on Series A preferred shares	<b>4,350</b>	4,350
Net income attributable to common shareholders	\$ <b>42,797</b>	\$ 36,642
Basic and diluted weighted average number of common shares outstanding (in thousands)	<b>38,226</b>	37,915
Basic and diluted net income per common share (in dollars)	\$ <b>1.12</b>	\$ 0.97

#### **7. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**

	<b>2015</b>	<b>2014</b>
Share in the other comprehensive income of Gaz Métro, net of income taxes	\$ <b>44,495</b>	\$ 9,100
Share in the other comprehensive loss of Beaupré Éole, net of income taxes	<b>(17,978)</b>	(14,291)
Share in the other comprehensive income of Beaupré Éole 4, net of income taxes	-	4
	\$ <b>26,517</b>	\$ (5,187)

#### **8. INCOME TAXES**

##### **RECONCILIATION OF INCOME TAX RATES**

The effective income tax rate differs from the rate computed under Canadian income tax legislation. This difference between the statutory tax rates and the effective income tax rate is explained in the following table:

	<b>2015</b>	<b>2014</b>
Income before income taxes	\$ <b>50,588</b>	\$ 46,934
Statutory income tax rate	<b>26.9%</b>	26.9%
Income taxes at statutory rate	<b>13,608</b>	12,625
Increase (decrease) attributable to the following:		
Change in temporary differences related to Gaz Métro's rate-regulated activities	<b>667</b>	771
Income taxes on income from entities subject to significant influence that are incorporated	<b>(8,793)</b>	(7,608)
Income taxes on the outside-basis temporary difference	<b>(2,659)</b>	-
Net impact of non-taxable items and other	<b>618</b>	154
Income taxes	\$ <b>3,441</b>	\$ 5,942
Effective income tax rate	<b>6.8%</b>	12.7%

## COMPONENTS OF FUTURE INCOME TAXES

Future income taxes are recognized to take into account temporary differences. The net future income tax liability is mainly composed of the following:

	2015	2014
Interest in Gaz Métro	\$ (25,728)	\$ (23,529)
Interest in Beaupré Éole	(6,115)	(412)
Interest in Beaupré Éole 4	(278)	31
Non-capital losses	4,736	2,114
Derivative financial instruments	1,063	-
Other	(210)	(117)
Net future income tax liability	\$ (26,532)	\$ (21,913)

## CONSOLIDATED BALANCE SHEET PRESENTATION

	2015	2014
Future income tax assets:		
Current	\$ 750	\$ 50
Long-term	229	2,018
	979	2,068
Future income tax liabilities:		
Current	(1,006)	(292)
Long-term	(26,505)	(23,689)
	(27,511)	(23,981)
Net future income tax liability	\$ (26,532)	\$ (21,913)

The Company's subsidiaries expect to be able to use their non-capital losses of \$17,606,000 before they expire, i.e., between 2032 and 2035.

As at September 30, 2015, Valener's net future income tax liability related to its interest in Gaz Métro included a future income tax liability of \$3,354,000 (future income tax asset of \$4,869,000 as at September 30, 2014, reduced by a valuation allowance in the same amount) related to the excess of the tax basis of its interest in Gaz Métro over the carrying amount (outside-basis temporary difference). The future income taxes related to the outside-basis temporary difference were recorded partly in the consolidated statement of income for tax savings of \$2,659,000 and partly in the consolidated statement of comprehensive income for an expense of \$6,013,000 (nil in 2014).

## 9. CASH FLOWS

	2015	2014
Change in non-cash working capital items:		
Amount receivable from Gaz Métro	\$ 93	\$ (205)
Other assets	78	-
Accounts payable and accrued liabilities	(471)	(540)
Income taxes receivable (payable)	2,991	(2,052)
	\$ 2,691	\$ (2,797)
Other information:		
Interest received	\$ 35	\$ 32
Interest paid	\$ 1,593	\$ 896
Income taxes (received) paid	\$ (1,186)	\$ 2,922

## 10. RELATED PARTY TRANSACTIONS

The following related party transactions are carried out in the normal course of operations and, unless otherwise indicated, are measured at the exchange amount, i.e., the amount of consideration established and agreed to by the related parties.

### ADMINISTRATION AND MANAGEMENT SUPPORT AGREEMENT

Gaz Métro and Valener entered into an Administration and Management Support Agreement (the Administration Agreement), maturing in 2025, under which (i) Gaz Métro, either directly or through its General Partner GMi, provides Valener with certain administration and management support services solely in respect of Valener's interest in Gaz Métro and related



public company matters and, in certain circumstances, certain additional services and (ii) Gaz Métro reimburses Valener for all general and administrative expenses that it incurs (including costs related to public company matters), subject to certain limitations. Under this Administration Agreement, Valener charged Gaz Métro an amount of \$1,747,000 for fiscal 2015 (\$1,756,000 for fiscal 2014).

## 11. CAPITAL MANAGEMENT

Valener manages its capital to ensure that its shareholders earn a stable and foreseeable return and to create wealth for them over time. To achieve this, Valener is involved in Gaz Métro's development and considers growth and value creation opportunities such as the Seigneurie projects. Valener considers the nature of its assets, its anticipated cash needs and the financial ratios to be met in its approach to managing its capital structure.

Valener's capital management activities include the issuance of new debt; the issuance of new common shares directly on the market or via the DRIP; the issuance of new preferred shares; making the necessary investments to maintain its interest percentages in Gaz Métro and in the Seigneurie projects; receiving distributions from its entities subject to significant influence; paying dividends to shareholders; and using cash flows from operating activities and other changes in cash and cash equivalents.

The amount of the Company's financing needs remains subject to a certain amount of volatility based on the amount of distributions received from Gaz Métro, Beupré Éole and Beupré Éole 4 and the amount of investment required in the entities subject to significant influence. The Company must therefore remain vigilant in establishing appropriate dividend levels so as to not unduly pass on this volatility. It must also maintain a sufficient level of unused credit facilities such that it may respond to all possible situations.

Valener considers its capital structure to be comprised of shareholders' equity and long-term debt. As at September 30, 2015 and 2014, the Company's capital structure was as follows:

	2015	2014
Long-term debt, net of financing costs	\$ 121,038	\$ 66,780
Shareholders' equity	753,683	713,463
Total capitalization	\$ 874,721	\$ 780,243
Debt / total capitalization ratio	13.8%	8.6%

Valener monitors capital management using the debt / total capitalization ratio, which is equal to the total amount of long-term debt, net of financing costs, divided by the amount of capitalization. Capitalization is equal to the total amount of long-term debt, net of financing costs, and shareholders' equity.

The Company's long-term debt is subject to restrictive covenants requiring it to satisfy certain financial ratios or conditions at all times. Among other things, on a non-consolidated financial statements basis, the Company must satisfy an interest coverage ratio of at least 3.00 times and a ratio of long-term debt to the total distributions and dividends received less general and administrative expenses of less than 4.25 times. The interest coverage ratio is obtained from the relationship between (i) the total interest on long-term debt and (ii) the total distributions and dividends received less general and administrative expenses. For the fiscal year ended September 30, 2015, these ratios were 33.96 times (30.81 times in 2014) and 2.18 times (1.52 times in 2014), respectively. The Company was in compliance with all of the conditions of its credit facility as at September 30, 2015 and 2014.

## 12. FINANCIAL INSTRUMENTS

### NON-DERIVATIVE FINANCIAL INVESTMENTS

The fair value of the non-derivative financial instruments approximates their carrying amount given their short periods to maturity or, since their terms and conditions are comparable, to those of the current market for similar instruments.

### DERIVATIVE FINANCIAL INSTRUMENTS

During fiscal 2015, Valener entered into swaps for a total nominal value of \$44,757,000, with a mandatory early termination date of October 31, 2016, to cover the risk of interest rate fluctuations on an initially planned debt issuance. Since these swaps do not meet the conditions for hedge accounting, changes in fair value are therefore recognized in income.



The fair value of these swaps was calculated using the discounted future cash flows method based on an assumed discount rate of 2.29%. As at September 30, 2015, the observable nature of the data used to measure the swaps falls within Level 2, as described in Note 2.

### 13. FINANCIAL INSTRUMENT RISK MANAGEMENT

#### OVERVIEW OF RISK MANAGEMENT

The existing strategies, policies and controls are designed to ensure that the risks assumed by Valener and other related risks comply with regulatory requirements and with Valener's objectives and risk tolerance. Risks are managed within limits approved by its board of directors and applied by the management of the manager.

#### MARKET RISK

##### Interest rate risk

Valener is exposed to interest-rate-related market risk resulting from its long-term debt, which bears interest at variable rates, and from the fair value of swaps, which varies according to interest rates. The Company seeks to maintain an appropriate debt structure in order to reduce the impact of interest rate fluctuations. A 100-basis-point increase in interest rates, with all other variables being constant, would have increased consolidated net income by \$3,135,000, whereas a 100-basis-point decrease in interest rates would have decreased consolidated net income by \$3,872,000.

#### CREDIT RISK

Credit risk is the risk that a counterparty to financial instruments is unable to fulfill its obligations pursuant to the agreements in which it has entered into, and that such a situation results in a financial loss. The maximum counterparty risk exposure is the carrying amount of the financial instruments reported in assets on the consolidated balance sheet. Gaz Métro is the main counterparty to the financial instruments reported in assets on the consolidated balance sheet.

#### LIQUIDITY RISK

Liquidity risk is the risk that Valener would be unable to pay its financial commitments as they become due. Valener manages liquidity risk by forecasting its cash flows in order to determine its financing needs and by ensuring that it has sufficient cash and credit facilities to fulfill its needs and meet its obligations as they become due. The committed credit facility and access to capital markets allow it to meet its needs. However, any significant reduction in Valener's ability to access capital markets by reason, for example, of a significant deterioration in economic conditions, the general state of financial markets, or a negative financial market perception of Valener's financial position or outlook, could have an unfavourable impact on Valener's activities, financial position or consolidated net income.

The following table presents the required capital and interest payments for the financial liabilities as at September 30, 2015, assuming the balances borrowed on the credit facility remain constant.

Maturity	Accounts payable and accrued liabilities	Dividends payable to common shareholders	Dividends payable to preferred shareholders	Derivative financial liabilities	Long-term debt	Interest	Total
Less than 1 year	\$ 450	\$ 9,973	\$ 1,088	\$ -	\$ -	\$ 2,148	\$ 13,659
1 to 5 years	-	-	-	3,951	121,038	8,592	133,581
Total	\$ 450	\$ 9,973	\$ 1,088	\$ 3,951	\$ 121,038	\$ 10,740	\$ 147,240

Interest is presented based on contractual maturity and using the rates in effect as at September 30, 2015.

**14. SUBSEQUENT EVENTS**

**DECLARATION OF A DIVIDEND TO COMMON SHAREHOLDERS**

On November 27, 2015, the board of directors declared a quarterly dividend of \$0.27 per common share for the quarter ending December 31, 2015, payable on January 15, 2016 to common shareholders of record at the close of business on December 31, 2015.

**DECLARATION OF A DIVIDEND TO PREFERRED SHAREHOLDERS**

On November 27, 2015, the board of directors also declared a dividend of \$0.271875 per Series A preferred share for the period of October 16, 2015 to January 15, 2016, payable on January 15, 2016 to the preferred shareholders of record at the close of business on January 11, 2016.

**15. COMPARATIVE FIGURES**

Certain prior year comparative figures have been reclassified to conform to the current year's presentation.

## MANAGEMENT'S REPORT

### ON THE CONSOLIDATED FINANCIAL STATEMENTS OF GAZ MÉTRO LIMITED PARTNERSHIP

The consolidated financial statements of Gaz Métro Limited Partnership (Gaz Métro) and all of the information in this report are the responsibility of the management of Gaz Métro inc. (GMi), acting in its capacity as General Partner of Gaz Métro. It is the responsibility of GMi's management to select the appropriate accounting policies and to exercise its best judgment in determining reasonable and fair estimates based on Canadian generally accepted accounting principles and decisions by bodies that govern the various regulated activities of Gaz Métro. Financial information found elsewhere in this report is consistent with that found in the consolidated financial statements. This information and the consolidated financial statements are published with the approval of the board of directors of GMi.

GMi's management maintains accounting and internal control systems that are designed to provide reasonable assurance that accounting records are reliable and assets are safeguarded.

The board of directors of GMi assumes its responsibilities for the consolidated financial statements primarily through the audit committee, made up solely of external directors of GMi. The audit committee has reviewed all of the information in this report as well as the annual consolidated financial statements and has recommended they be approved by the board. The audit committee also examines, on a continuous basis, the quarterly financial results and the results of internal auditors and external independent auditors of accounting policies and internal control systems. The audit committee also recommends the choice of external auditor to the board. External and internal auditors are free to communicate with the audit committee.

The consolidated financial statements of Gaz Métro as at September 30, 2015 and 2014 and for the years then ended were audited by KPMG LLP, Chartered Professional Accountants, in accordance with Canadian Auditing Standards. Its audits included the tests and other procedures it deemed necessary under the circumstances. Its independent opinion on the consolidated financial statements is presented hereinafter.

(signed)

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SOPHIE BROCHU  
President and Chief Executive Officer  
of GMi, in its capacity as General Partner of Gaz Métro

(signed)

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PIERRE DESPARS, FCPA, FCMA, CA  
Executive Vice-President,  
Corporate Affairs and Chief Financial Officer  
of GMi, in its capacity as General Partner of Gaz Métro

Montreal, Canada  
November 26, 2015

## **INDEPENDENT AUDITORS' REPORT**

### **TO THE PARTNERS OF GAZ MÉTRO LIMITED PARTNERSHIP**

We have audited the accompanying consolidated financial statements of Gaz Métro Limited Partnership, which comprise the consolidated balance sheets as at September 30, 2015 and as at September 30, 2014, and the consolidated statements of income, comprehensive income, Partners' equity and cash flows for the years then ended, as well as the notes, which include a summary of significant accounting policies and other explanatory information.

### **Management's responsibility for the consolidated financial statements**

The management of Gaz Métro inc., in its capacity as General Partner of Gaz Métro Limited Partnership, is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including our assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Gaz Métro Limited Partnership as at September 30, 2015 and as at September 30, 2014 and the consolidated results of its operations and its consolidated cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

(signed)

KPMG LLP<sup>1</sup>

Montreal, Canada  
November 26, 2015

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<sup>1</sup> CPA auditor, CA, public accountancy permit no. A119245

**CONSOLIDATED STATEMENTS OF INCOME**

	<u>2015</u>	<u>2014</u>
<b>REVENUES</b>	<b>\$ 2,720,587</b>	<b>\$ 2,536,708</b>
<b>DIRECT COSTS</b>	<b>1,642,619</b>	<b>1,522,636</b>
<b>GROSS MARGIN</b>	<b><u>1,077,968</u></b>	<b><u>1,014,072</u></b>
<b>EXPENSES</b>		
Operating and maintenance	498,299	471,355
Amortization (Notes 4, 7 and 10)	271,317	247,770
Interest on long-term debt (Note 14)	174,450	155,707
Financial and other expenses	<u>(12,172)</u>	<u>(5,578)</u>
	<b><u>931,894</u></b>	<b><u>869,254</u></b>
<b>INCOME BEFORE THE UNDERNOTED</b>	<b>146,074</b>	<b>144,818</b>
Share in earnings of entities subject to significant influence	<u>92,122</u>	<u>76,881</u>
<b>INCOME BEFORE INCOME TAXES</b>	<b>238,196</b>	<b>221,699</b>
Income taxes (Note 20)	<u>50,181</u>	<u>47,904</u>
<b>NET INCOME</b>	<b>\$ <u>188,015</u></b>	<b>\$ <u>173,795</u></b>
<b>NET INCOME (LOSS) ATTRIBUTABLE TO:</b>		
Non-controlling interests	<b>\$ 3,597</b>	<b>\$ (889)</b>
Partners	<b><u>184,418</u></b>	<b><u>174,684</u></b>
	<b>\$ <u>188,015</u></b>	<b>\$ <u>173,795</u></b>
<b>BASIC AND DILUTED NET INCOME PER UNIT ATTRIBUTABLE TO PARTNERS (in dollars)</b>	<b>\$ <u>1.19</u></b>	<b>\$ <u>1.15</u></b>
<b>BASIC AND DILUTED WEIGHTED AVERAGE NUMBER OF UNITS OUTSTANDING (in thousands of units)</b>	<b><u>155,268</u></b>	<b><u>151,796</u></b>

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	<u>2015</u>	<u>2014</u>
<b>NET INCOME</b>	<b>\$ 188,015</b>	<b>\$ 173,795</b>
<b>OTHER COMPREHENSIVE INCOME</b>		
Change in translation adjustments of self-sustaining foreign operations	227,526	88,347
Change in translation adjustments related to net investment hedging activities	(124,029)	(51,708)
Change in the fair value of derivative financial instruments designated as hedges	(19,918)	(10,926)
Income taxes	2,255	1,864
Changes in the fair value of derivative financial instruments designated as hedges reclassified to the consolidated statement of income	3,626	3,768
Income taxes	<u>(445)</u>	<u>(467)</u>
<b>OTHER COMPREHENSIVE INCOME</b>	<b>89,015</b>	<b>30,878</b>
<b>COMPREHENSIVE INCOME</b>	<b>\$ <u>277,030</u></b>	<b>\$ <u>204,673</u></b>
<b>COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:</b>		
Non-controlling interests	<b>\$ (1,457)</b>	<b>\$ (4,138)</b>
Partners	<b><u>278,487</u></b>	<b><u>208,811</u></b>
	<b>\$ <u>277,030</u></b>	<b>\$ <u>204,673</u></b>

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

	Attributable to Partners			Total	Non-controlling interests	Partners' equity
	Capital	Deficit	Accumulated other comprehensive income (loss) (Note 17)			
Balance as at September 30, 2013	\$ 1,496,825	\$ (30,464)	\$ (63,533)	\$ 1,402,828	\$ 41,235	\$ 1,444,063
Net income (loss)	-	174,684	-	174,684	(889)	173,795
Other comprehensive income (loss)	-	-	34,127	34,127	(3,249)	30,878
Issuances of units	-	-	-	-	3,630	3,630
Distributions	-	(170,012)	-	(170,012)	-	(170,012)
Balance as at September 30, 2014	\$ 1,496,825	\$ (25,792)	\$ (29,406)	\$ 1,441,627	\$ 40,727	\$ 1,482,354
Net income	-	184,418	-	184,418	3,597	188,015
Other comprehensive income (loss)	-	-	94,069	94,069	(5,054)	89,015
Issuances of units (Note 16)	255,000	-	-	255,000	4,077	259,077
Distributions	-	(174,594)	-	(174,594)	(14,259)	(188,853)
Balance as at September 30, 2015	\$ 1,751,825	\$ (15,968)	\$ 64,663	\$ 1,800,520	\$ 29,088	\$ 1,829,608

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

	2015	2014
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 87,437	\$ 103,657
Restricted cash	-	27,175
Trade and other receivables (Note 5)	222,678	211,865
Income taxes receivable	3,889	3,206
Inventories (Note 6)	117,692	114,905
Prepaid expenses	16,621	14,987
Future income taxes (Note 20)	52,136	37,053
Derivative financial instruments (Note 24)	2	1,057
	<u>500,455</u>	<u>513,905</u>
<b>Property, plant and equipment (Note 7)</b>	<u>4,439,737</u>	<u>3,970,917</u>
<b>Restricted cash</b>	28,100	18,373
<b>Intangible assets (Note 10)</b>	390,927	81,134
<b>Deferred charges (Note 4)</b>	407,455	394,804
<b>Investments and other (Note 8)</b>	948,134	736,755
<b>Goodwill (Note 11)</b>	414,128	348,969
<b>Future income taxes (Note 20)</b>	2,636	4,676
<b>Derivative financial instruments (Note 24)</b>	16,220	86
<b>Other long-term assets (Note 12)</b>	70,246	74,595
	<u>2,277,846</u>	<u>1,659,392</u>
	<u>\$ 7,218,038</u>	<u>\$ 6,144,214</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Bank overdraft	\$ 6,421	\$ 5,422
Bank loans (Note 13)	28,972	-
Accounts payable and accrued liabilities	355,547	341,073
Income taxes payable	164	199
Distributions payable	44,794	42,503
Future income taxes (Note 20)	1,823	-
Derivative financial instruments (Note 24)	5,198	11,882
Current portion of long-term debt (Note 14)	33,310	27,016
	<u>476,229</u>	<u>428,095</u>
<b>Long-term debt (Note 14)</b>	3,530,986	3,140,762
<b>Deferred credits (Note 4)</b>	375,906	304,801
<b>Future income taxes (Note 20)</b>	538,337	416,041
<b>Derivative financial instruments (Note 24)</b>	32,219	12,691
<b>Other long-term liabilities (Note 15)</b>	434,753	359,470
	<u>5,388,430</u>	<u>4,661,860</u>
<b>PARTNERS' EQUITY</b>		
<b>Capital (Note 16)</b>	1,751,825	1,496,825
<b>Deficit</b>	(15,968)	(25,792)
<b>Accumulated other comprehensive income (loss) (Note 17)</b>	64,663	(29,406)
	<u>48,695</u>	<u>(55,198)</u>
	<u>1,800,520</u>	<u>1,441,627</u>
<b>Non-controlling interests</b>	29,088	40,727
	<u>1,829,608</u>	<u>1,482,354</u>
	<u>\$ 7,218,038</u>	<u>\$ 6,144,214</u>

Commitments and guarantees (Note 26)

Contingencies (Note 27)

Subsequent event (Note 28)

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

On behalf of the board of directors of Gaz Métro inc. in its capacity as General Partner,

(signed)

 SOPHIE BROCHU  
 Director

(signed)

 PIERRE MONAHAN  
 Director

	<u>2015</u>	<u>2014</u>
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 188,015	\$ 173,795
Distributions received from entities subject to significant influence	71,331	65,390
Non-cash items:		
Amortization of property, plant and equipment (Note 7)	196,754	183,468
Amortization of deferred charges and credits, intangible assets and financing costs (Notes 4, 10 and 14)	149,484	68,291
Change in deferred charges related to the cost of energy	111,023	109,638
Change in rate stabilization accounts	26,521	23,822
Share in earnings of entities subject to significant influence	(92,122)	(76,881)
Future income taxes (Note 20)	47,161	43,105
Other	8,381	2,668
	<u>706,548</u>	<u>593,296</u>
Change in non-cash working capital items (Note 18)	31,470	11,706
<b>Cash flows related to operating activities</b>	<u>738,018</u>	<u>605,002</u>
<b>INVESTING ACTIVITIES</b>		
Change in restricted cash	21,158	(29,941)
Purchases of property, plant and equipment	(398,447)	(451,477)
Change in deferred charges and credits	(198,680)	(116,473)
Purchases of intangible assets	(380,334)	(19,609)
Purchases of investment fund units	(286,330)	(212,252)
Disposals of investment fund units	283,292	211,914
Change in an interest in an entity subject to significant influence and other investments	(32,623)	(25,220)
Other	13,320	1,770
<b>Cash flows related to investing activities</b>	<u>(978,644)</u>	<u>(641,288)</u>
<b>FINANCING ACTIVITIES</b>		
Change in bank loans	28,428	(21,227)
Increase in term loans	3,129,510	2,842,445
Repayments of term loans	(3,237,822)	(2,638,972)
Issuances of long-term debt	212,414	117,125
Repayments of long-term debt	(11,356)	(58,611)
Change in other long-term liabilities (Note 15)	22,542	-
Issuances of units	259,077	3,630
Distributions	(186,562)	(169,137)
<b>Cash flows related to financing activities</b>	<u>216,231</u>	<u>75,253</u>
<b>IMPACT OF EXCHANGE RATE FLUCTUATIONS ON CASH AND CASH EQUIVALENTS AND BANK OVERDRAFT</b>	<u>7,176</u>	<u>3,149</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS, NET OF BANK OVERDRAFT</b>	<u>(17,219)</u>	<u>42,116</u>
<b>CASH AND CASH EQUIVALENTS, NET OF BANK OVERDRAFT, AT BEGINNING <sup>(1)</sup></b>	<u>98,235</u>	<u>56,119</u>
<b>CASH AND CASH EQUIVALENTS, NET OF BANK OVERDRAFT, AT END <sup>(1)</sup></b>	<u>\$ 81,016</u>	<u>\$ 98,235</u>

<sup>(1)</sup> As at September 30, 2015, the cash and cash equivalents balance consists of \$85,354 in cash, \$2,083 in short-term investments, and \$6,421 in bank overdraft. As at September 30, 2014, these amounts were, respectively, \$68,541, \$35,116 and \$5,422.

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



## 1. NATURE OF OPERATIONS

Gaz Métro Limited Partnership (the Partnership or Gaz Métro) is a company whose core business is the distribution of natural gas in Quebec (Gaz Métro-QDA). Also, through its wholly owned subsidiary, Northern New England Energy Corporation (NNEEC), Gaz Métro is the sole shareholder of Vermont Gas Systems, Inc. (VGS), the sole gas distributor in Vermont (U.S.A.), and of Green Mountain Power Corporation (GMP), the largest electricity distributor in Vermont. In addition, through its subsidiaries, joint ventures and entities subject to significant influence, Gaz Métro is active in other, mostly regulated activities in natural gas transportation, in natural gas storage, and in the development and operation of promising energy projects such as the generation of wind power and the use of liquefied natural gas (LNG) and compressed natural gas as a fuel or energy product. The regulatory context for Gaz Métro and some of its subsidiaries, joint ventures and entities subject to significant influence, as well as its impact on the consolidated financial statements, are described in Note 4.

## 2. ACCOUNTING POLICIES

### PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of Gaz Métro are prepared in accordance with the Canadian generally accepted accounting principles (GAAP) included in Part V of the CPA Canada Handbook - Accounting (Handbook), *Pre-changeover accounting standards* (Canadian GAAP).

### PRINCIPLES OF CONSOLIDATION

The consolidated financial statements of the Partnership include the accounts of Gaz Métro and all its subsidiaries. All intercompany transactions and balances are eliminated. The Partnership's investments in jointly controlled enterprises (joint ventures) are accounted for using the proportionate consolidation method. Under this method, the Partnership records its proportionate share in each of the joint venture's assets, liabilities, revenues and expenses in the corresponding line items of its own financial statements.

### USE OF ESTIMATES

In preparing the consolidated financial statements, the management of Gaz Métro inc. (GMI) (the management), in its capacity as General Partner of Gaz Métro, must make estimates and assumptions that have an impact on the assets and liabilities presented in the consolidated balance sheet, on the contingent liabilities as at the date of the consolidated financial statements, and on the amounts reported in the consolidated statements of income and comprehensive income for the fiscal year. Actual results may differ from these estimates. Consolidated financial statement items requiring greater use of management estimates include the actuarial and economic assumptions used to recognize the employee pension plans and other postretirement benefits, the measurement of the liability of Investissement Québec's interest in Gaz Métro LNG, the useful life of assets for amortization purposes, the measurement of future cash flows expected to be generated by assets used for goodwill and long-term asset impairment testing purposes, estimated unbilled deliveries for revenue recognition purposes, the fair value determination of assets and liabilities in business combinations, the impact of decisions and other regulatory proceedings on deferred charges and credits, on property plant and equipment and on intangible assets, the future cost of retiring property, plant and equipment, provisions for income taxes, in particular assessing the valuation allowance and estimating schedules, sources and amounts of future taxable income for the purposes of determining future income taxes, the fair value of financial instruments, and determining provisions such as legal contingencies.

### REGULATION

One of Gaz Métro's core activities is the distribution of natural gas in Quebec, an activity that is regulated by the Régie de l'énergie (the Régie).

In addition, through certain subsidiaries, joint ventures and entities subject to significant influence, it is active in other activities that are regulated by other agencies. Intragaz Limited Partnership, which is part of Intragaz Group (Intragaz), is regulated by the Régie, and Trans Québec & Maritimes Pipeline Inc. (TQM) and Champion Pipe Line Corporation Limited (Champion) are regulated by the National Energy Board (NEB). Portland Natural Gas Transmission System (PNGTS), Vermont Electric Power Company, Inc. (Velco) and Vermont Transco LLC (Transco) are regulated by the Federal Energy Regulatory Commission (FERC). VGS and GMP are regulated by the Vermont Public Service Board (VPSB). Vermont Yankee Nuclear Power Corporation (VYNPC) is regulated by the FERC and VPSB.

In exercising their authority, the regulatory agencies issue decisions on, among other matters, system development, rate-setting and the use of certain accounting policies that differ from those applied by non-regulated enterprises.

### **CASH AND CASH EQUIVALENTS**

Cash and cash equivalents consist of cash and highly liquid investments with an initial maturity of three months or less from the acquisition date.

### **RESTRICTED CASH**

Restricted cash consists mainly of cash and cash equivalents reserved for specific uses in connection with the financing arrangements of network extensions or the financing of development activities. Restricted cash is reported in long-term assets when its use is restricted to long-term asset acquisition or development projects. The portion reported in current assets is that portion of restricted cash that will be used to settle current liabilities.

### **INVENTORIES**

Inventories consist mainly of natural gas used by Gaz Métro-QDA and VGS and also include supplies and materials. Inventories are measured at the lower of cost and net realizable value. Cost is determined using the weighted average cost method. Gaz Métro-QDA and VGS are not authorized to profit from the sale of natural gas. As such, the difference between the supply rates approved by the Régie or the VPSB, as necessary, and the actual cost of supplying natural gas is recognized as an adjustment to direct costs with an offsetting deferred charge or credit in accordance with the regulatory mechanism.

### **PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment consist mainly of assets used in rate-regulated activities and are recorded at cost less accumulated amortization. Cost includes direct costs and general expenses as well as a return on funds used for certain construction projects. Gaz Métro capitalizes interest to the cost of construction projects resulting from non-rate-regulated activities until the project enters the operating phase.

Where construction projects are carried out in connection with rate-regulated activities, Gaz Métro capitalizes interest calculated based on its weighted average cost of capital, which includes an interest component and an equity return component, as accepted by the various regulatory agencies. Without the accounting treatment applicable to rate-regulated entities, this capitalized return component for certain construction projects, the corresponding income and the subsequent amortization of these items would not be recognized. The Partnership is unable to make a reasonable estimate of the financial impact of this rate-regulated practice on the value of property, plant and equipment, amortization expense or other components of the consolidated financial statements.

Amortization is mainly calculated using the straight-line method over the estimated remaining lives of the existing assets. The amortization rates applied to assets used in rate-regulated activities are periodically reviewed and approved by regulatory agencies and, in certain cases, reflect estimates of future retirement costs and gains and losses upon disposal of property already retired. The offset is added to deferred credits, whereas actual retirement costs are applied against them. The impact of this practice is presented in Note 4.

Property, plant and equipment is amortized according to the following periods:

Storage	5 to 44 years
Transportation	25 to 70 years
Distribution	16 to 70 years
General plant and other	2 to 50 years
Production	5 to 100 years

### **RETIREMENT OBLIGATIONS FOR PROPERTY, PLANT AND EQUIPMENT**

The fair value of an obligation to retire property, plant and equipment is recorded when a legal obligation exists, as a liability in the period in which it is incurred, provided that a reasonable estimate of fair value can be made. The obligation is initially measured at fair value using the expected present value technique and is subsequently adjusted to reflect any

change resulting from the passage of time and any change in the timing of payment or in the amount of the initial estimate.

For certain rate-regulated activities, it is impossible to determine the precise scope of the legal obligations or when they would have to incur the cost of meeting such obligations. Consequently, a reasonable estimate of the fair value of the related liability cannot be established. However, in management's view, it is reasonable to expect that if the costs of retiring this property, plant and equipment were incurred, they would be recovered through rates in future fiscal years.

## **INVESTMENTS AND OTHER**

Investments and other consist primarily of interests in entities subject to significant influence and other investments. The Partnership recognizes its interests in entities subject to significant influence using the equity method. Under the equity method, the Partnership initially recognizes the investment at cost and subsequently adjusts the carrying value by recording its share in the net income and its share in transactions affecting the equity of the entity subject to significant influence. Other investments are recognized at fair value, except for life insurance policies, which are recognized at surrender value. All interests in entities subject to significant influence are in entities with rate-regulated activities.

Management periodically examines its interests in its entities subject to significant influence on an individual basis, and whenever there is a loss in value that is other than temporary, the carrying amount is written down to fair value and the loss is recorded in income.

Without the accounting treatment applicable to rate-regulated entities, the carrying amount of the Partnership's interests and share in the earnings of entities subject to significant influence with rate-regulated activities would have been different given the regulatory treatments used by these entities. The Partnership is unable to make a reasonable estimate of the financial impact of these rate-regulation practices on the carrying amount of the interests in entities subject to significant influence and on the share in the results of entities subject to significant influence presented in the consolidated financial statements.

## **DEFERRED CHARGES AND CREDITS**

Deferred charges are amounts disbursed that rate-regulated entities expect to recover from their customers in future years through the rate-setting process, as approved by the various regulatory agencies. Deferred credits are amounts received that the rate-regulated entities expect to return to their customers in future years through the rate-setting process.

Deferred charges and credits would not be accounted for in this manner if the rates were not regulated. Under the existing regulations, deferred charges and credits are amortized in rates over various periods, depending on their nature, and are subject to a return on invested capital, or interest generally accrues on balances to be recovered or returned through rates charged to customers in the future.

Deferred charges and credits are periodically monitored and valued. If the Partnership deemed that certain amounts were no longer likely to be recovered or returned through future rate adjustments, following interventions by regulatory agencies, the carrying amount of the underlying deferred charge or credit account would be adjusted accordingly.

## **INTANGIBLE ASSETS**

Intangible assets consist mainly of greenhouse gas (GHG) emission allowances and the costs of developing information technology.

GHG emission allowances are recorded at cost less accumulated amortization. Cost is determined on a first-in, first-out basis. GHG emission allowances are purchased under the Government of Quebec's cap-and-trade system for GHG emission allowances and are recognized in income, in the *Direct costs* item, as the GHG emissions are produced. If GHG emissions were to exceed allowance holdings, a liability for the insufficient allowance amount would be recorded and measured at the price in effect for GHG emission allowances at the consolidated balance sheet date.

The costs of developing information technology include the costs incurred by the Partnership to develop computer systems and the cost of software and licences obtained for internal use. Maintenance and training expenses are recognized in income, in the *Operating and maintenance* item, as incurred. The costs of developing information technology are recorded at cost less accumulated amortization. Amortization is calculated using the straight-line method over 5- and 10-year estimated useful lives.

## **BUSINESS COMBINATIONS**

Business combinations are accounted for using the acquisition method. Under this method, all identifiable assets acquired and liabilities assumed are measured and recognized at fair value, including any non-controlling interests. Non-controlling interests are presented as a separate item of equity. Moreover, acquisition-related costs and restructuring costs resulting from an acquisition are expensed.

## **GOODWILL**

Goodwill is the excess of the purchase price over the net values assigned to assets acquired and liabilities assumed when a business is acquired. Goodwill, which is not amortized, is tested for impairment annually or more frequently if events or changes in circumstances indicate that goodwill might not be recoverable. This test, which is carried out in two steps, first compares the carrying amount and the fair value of the reporting units. The fair value of a reporting unit is calculated based on the discounted future cash flow method or using external valuations. If the carrying amount of a reporting unit exceeds its fair value, the second step of the test is then completed. During this step, the fair value of the reporting unit's goodwill is compared to its carrying amount, and any excess carrying amount represents an impairment that is recorded in the consolidated statement of income. The fair value of goodwill corresponds to the excess of the fair value of the reporting unit over the total of the amounts assigned to the underlying assets and liabilities.

Goodwill is tested for impairment on either April 1 or July 1 of each year, depending on the reporting unit tested.

## **OTHER LONG-TERM LIABILITIES**

### **Investissement Québec's economic interest in Gaz Métro LNG**

As part of the project to expand the liquefaction, storage and regasification plant (LSR plant), Gaz Métro LNG issued units to Investissement Québec, including a purchase option as of the 8<sup>th</sup> year following the project in service date at an amount that entitles Investissement Québec to a 10% annual return on its invested capital. The units also include a sell option as of the 15<sup>th</sup> year after the project comes into service. Under the conditions of this sell option, Investissement Québec may sell its interest in Gaz Métro LNG to Gaz Métro at 90% of its fair value (exit price).

The sell option granted to Investissement Québec provides for a cash settlement by Gaz Métro and therefore meets the definition of a financial liability. The Partnership applies the acquisition method, under which the interest is accounted for as though the sell option had already been exercised by Investissement Québec and the units already acquired by Gaz Métro. Consequently, rather than presenting Investissement Québec's interest in Gaz Métro LNG as a non-controlling interest, a financial liability was recorded. In so doing, the income, assets and liabilities, and cash flows attributable to the non-controlling interest covered by the sell option are presented as attributable to the Partners and not to the non-controlling interests.

The financial liability was initially recorded at the present value of the exercise price of the sell option and remeasurement of the liability is recorded as financial expenses.

## **IMPAIRMENT OF LONG-TERM ASSETS**

The long-term assets that are tested for impairment include property, plant and equipment, deferred charges, interests in entities subject to significant influence, and intangible assets with finite useful lives. These assets are tested for impairment if events or changes in circumstances indicate their carrying amount might not be recoverable. For impairment testing purposes, the assets are grouped at the lowest level for which independent cash inflows are generated. The recoverability test consists of comparing the total amount of net undiscounted future cash flows that are directly associated with the use and future disposal of the group of assets with its carrying amount. If the carrying amount of the group of assets exceeds the net undiscounted future cash flows, the amount of the impairment, namely, the difference between the group of assets' carrying amount and its fair value, is recognized in the consolidated statement of income. The fair value is determined using valuation techniques such as market price, if available, or based on the total discounted future cash flows expected to result from the use and eventual disposition of the group of assets.

In addition, if the Partnership believes that certain costs relating to property, plant and equipment and intangible assets relating to rate-regulated activities, are no longer likely to be recovered by future rate adjustments, following interventions from regulatory agencies, the carrying value of these assets would be adjusted accordingly.

## RESEARCH AND DEVELOPMENT COSTS

Research costs are charged to the consolidated statement of income in the period in which they are incurred.

Costs incurred for development activities are charged to the consolidated statement of income in the period in which they are incurred unless they meet all of the deferral criteria. Capitalized development costs are recorded at cost, less accumulated amortization, and are amortized using the straight-line method over the useful life of the underlying assets.

## FOREIGN CURRENCY TRANSLATION

Foreign currency monetary assets and liabilities are translated at the rate of exchange prevailing on the balance sheet date, whereas other items are translated at the rate of exchange prevailing on the transaction date. Exchange gains and losses arising from translation are recognized in the consolidated statement of income of the current fiscal year.

The assets and liabilities of foreign entities subject to significant influence and foreign operations that are considered self-sustaining are translated into Canadian dollars at the rate of exchange prevailing on the balance sheet date. Revenues and expenses are translated at the rate prevailing on the transaction date. The resulting unrealized exchange gains and losses are presented in *Other comprehensive income* and are recognized in the consolidated statement of income of the fiscal year during which the net investment in self-sustaining foreign operations is reduced.

## REVENUE RECOGNITION

The Partnership's revenues are generated mostly from rate-regulated activities and, to a lesser extent, from non-rate-regulated activities.

Revenues from rate-regulated activities come mainly from natural gas and electricity distribution and transportation activities in Canada and the United States. These revenues are recognized in accordance with underlying agreements approved by the various regulatory agencies. More specifically, energy distribution revenues are recognized once delivery has occurred and based on meter readings and other methods of estimating customer consumption.

Revenues from non-rate-regulated activities come mainly from wind farm power production, services, consulting and equipment sales. These revenues are recognized when earned, that is, when the following conditions have been met:

- services have been rendered or products delivered to customers;
- persuasive evidence of an arrangement exists;
- amounts are fixed or determinable; and
- collection is reasonably assured.

Revenues from non-rate-regulated activities also come from rental income, which is recognized on a straight-line basis over the term of the lease.

Contributions received from customers in connection with rate-regulated activities are recognized as a reduction to the cost of property, plant and equipment to which they relate. Contributions received from customers in connection with non-rate regulated activities are recognized as deferred revenues, presented in the *Other long-term liabilities* item of the consolidated balance sheet and amortized over the duration of the underlying contract.

## GOVERNMENT ASSISTANCE

Government assistance is recognized when it is more likely than not to be realized and is recorded using the cost reduction method. Under this method, government assistance is applied against the related expense or asset.

## INCOME TAXES

Gaz Métro and its subsidiaries and joint ventures formed as limited partnerships do not present income tax expense, since, under existing tax legislation, their income is taxable at the Partners' level.

Subsidiaries and joint ventures formed as corporations use the liability method to account for income taxes. Under this method, future income tax assets and liabilities are determined according to differences between the carrying amounts and the tax bases of assets and liabilities. They are measured using enacted or substantively enacted tax rates and laws at the date of the consolidated financial statements for the fiscal years in which the temporary differences are expected to reverse. The impact of a change in income tax rates on future income tax assets and liabilities is included in the

income of the period during which the change was enacted or substantively enacted. In all cases, future income tax assets are recognized only if they are more likely than not to be realized.

According to the regulatory treatments, certain subsidiaries and joint ventures owned by Gaz Métro recover income tax-related costs through their rates according to a method that differs from the one set out in Section 3465, *Income Taxes*, of Part V of the Handbook. The cumulative differences between the regulatory treatments and the method set out in Section 3465 are recognized as deferred charges or credits.

## **EMPLOYEE FUTURE BENEFITS**

Virtually all employees are offered defined benefit and defined contribution pension plans as well as other postretirement benefit plans, including supplemental health care and life insurance coverage.

The cost of defined benefit plans and other postretirement benefit plans is actuarially determined using the projected benefit method prorated on eligible years of service. These actuarial calculations are based on key assumptions, which are based on management's best estimates concerning (i) the discount rate, (ii) the expected return on plan assets, (iii) future changes in salary levels and the costs of supplemental health care and life insurance coverage, and (iv) the retirement age of employees. Pension plan assets are measured at fair value, which is based on the market values on the measurement date. The fair value method is used to calculate the expected return on plan assets that is used to determine the accrued benefit cost.

Net actuarial gains and losses that exceed 10% of the higher of the amount of the accrued benefit obligation and the fair value of the plan assets at the beginning of the period are amortized over the expected remaining service life of the employee groups covered, which varies between seven and 18 years, depending on the plan.

The past service cost arising from changes made to the plans is deferred and amortized on a straight-line basis over the expected remaining service life of the employee groups at the date of the changes.

Transitional assets and liabilities are amortized on a straight-line basis over a period equal to the expected remaining service life of the employee groups that should receive benefits under the plans.

According to the regulatory treatments, Gaz Métro-QDA recovers the costs of defined benefit pension plans and other postretirement benefit plans through rates when these amounts are disbursed (disbursements method). The cumulative differences between the costs recorded in income under regulatory treatments and the actuarially determined costs using the projected benefit method prorated on eligible years of service, as set out in Section 3461, *Employee Future Benefits*, of Part V of the Handbook, are recorded as deferred charges or credits.

Unamortized balances existing on the date of acquisition of certain entities with rate-regulated activities are recognized as deferred charges, since these balances are recoverable through future rates. These deferred charges are amortized according to the regulatory treatments approved by the rate regulators.

The cost of defined contribution pension plans is recognized when services are rendered by the Partnership's employees, which generally corresponds to the time when the contributions are paid.

## **FINANCIAL INSTRUMENTS**

A financial instrument is a contract that gives rise to a financial asset for one of the parties to the contract and to a financial liability or equity instrument for the other party. Financial instruments are recognized on the consolidated balance sheet when the Partnership becomes party to the contractual obligations of the instrument.

Financial instruments are measured at fair value upon initial recognition. Subsequent measurements of financial instruments and the accounting for fair value changes depend on their classification.



The classification of the financial instruments, excluding derivative financial instruments, in the various categories is presented in the following table:

<b>Categories</b>	<b>Financial instruments</b>
Financial assets and liabilities held for trading	Cash and cash equivalents Restricted cash Bank overdraft
Loans and receivables	Trade and other receivables
Financial assets available for sale	Investment funds <sup>(1)</sup>
Financial liabilities not held for trading	Bank loans Accounts payable and accrued liabilities Distributions payable Long-term debt Liability related to the elimination of spent nuclear fuel <sup>(2)</sup> Investissement Québec's interest in Gaz Métro LNG <sup>(2)</sup>

<sup>(1)</sup> This financial instrument is presented in *Investments and other* on the consolidated balance sheet.

<sup>(2)</sup> These financial instruments are presented in *Other long-term liabilities* on the consolidated balance sheet.

Financial assets and liabilities held for trading are recognized at fair value on the consolidated balance sheet. Gains and losses arising from changes in fair value are recognized in income in the period in which they arise, except for those arising from financial instruments designated as hedging instruments, for which the changes are recognized in *Other comprehensive income*.

Available-for-sale financial assets are related to rate-regulated activities and are recognized at fair value on the consolidated balance sheet. Gains and losses arising from changes in fair value are recognized in *Deferred charges and credits* in the period in which they arise.

Loans and receivables and financial liabilities not held for trading are measured at amortized cost in accordance with the effective interest rate method, which, upon initial recognition, equals fair value.

Financial assets and liabilities measured at fair value are categorized into a three-level hierarchy that is based on the observable nature of the data used to measure the fair value. The three levels of the fair value hierarchy are as follows:

- Level 1 - This category includes assets and liabilities measured at fair value on the basis of unadjusted prices applied to identical assets and liabilities in active and accessible markets at the measurement date. An active market for an asset or liability means a market where operations occur at sufficient frequency and volumes to provide a constant flow of information on prices.
- Level 2 - This category includes measurements based on directly or indirectly observable data other than the quoted prices included in Level 1. Financial instruments in this category are measured using models or other standard industry valuation techniques, techniques that are derived from observable market data. These valuation techniques use data such as quoted prices in the forward market, time value, volatility factors and prices quoted by brokers that can be observed or corroborated on the market for the entire term of the derivative financial instrument.
- Level 3 - This category includes measurements based on data that is less observable or unavailable or for which the observable data does not largely substantiate the fair value of the financial instruments. In general, Level 3 measurements relate to long-term operations that are transacted in less active markets or in places where it is impossible to obtain information on the price, or for which no price quoted by brokers is sufficiently enforceable to justify a Level 2 classification.

The fair value hierarchy requires the use of observable market data each time that such data exists. A financial instrument is classified according to the lowest level from which significant data was used in measuring its fair value.

## **DERIVATIVE FINANCIAL INSTRUMENTS**

Derivative financial instruments classified as held-for-trading financial assets and liabilities are recognized at fair value on the consolidated balance sheet. Gains and losses arising from changes in fair value are recognized in the income of

the period in which they arise, except for those arising from derivative financial instruments related to rate-regulated activities and those arising from derivative financial instruments designated as hedging instruments.

Derivative financial instruments are used to reduce or eliminate the inherent risks in certain transactions and identifiable balances that arise in the normal course of operations. The inherent risks related to those transactions and identifiable balances arise from fluctuations in natural gas and electricity prices, in interest rates and in foreign exchange rates. Derivative financial instruments are therefore used to ensure that fluctuations in the cash flows from these transactions and balances are offset by changes in the cash flows from the derivative financial instruments. No derivative financial instruments are held or have been issued for speculative purposes.

#### **Derivative financial instruments related to regulated activities**

Derivative financial instruments related to the cost of energy are used to manage exposure to the volatility of natural gas and electricity prices. The prices paid are based on indices and are therefore variable. These tools make it possible to either fix prices or to contain them in accordance with temporal, volumetric and financial limits approved by the Régie for Gaz Métro-QDA's activities or by management in the case of VGS. In 2014, however, the Régie ended this program, and Gaz Métro-QDA may no longer contract new derivative financial instruments related to the cost of energy. The derivatives currently in effect have maturity dates up to October 2015. GMP uses fixed-price swaps to manage its risk related to capacity price fluctuations. Forward exchange contracts are also used to manage the exchange risk exposure related to a significant portion of VGS's Canadian-dollar natural gas purchases and to certain Gaz Métro expenses denominated in U.S. dollars.

The derivative financial instruments related to regulated activities are not designated as hedging instruments eligible for hedge accounting. Gains and losses arising from changes in the fair value of these financial instruments are recognized as adjustments to deferred charges or credits, as approved by the Régie and the VPSB, since they will be reimbursed or recovered through future rates.

#### **Derivative financial instruments designated as hedging instruments**

Hedge accounting is applied to eligible transactions, which include cash flow hedges and hedging of the net investment in self-sustaining foreign operations. To offset the exchange risk on the net investment in self-sustaining foreign operations, certain U.S.-dollar-denominated debts are designated as hedges of an equivalent portion of the net investment in self-sustaining foreign operations whose functional currency is the U.S. dollar.

All relationships between hedging instruments and hedged items are formally documented, as are the risk management objectives and strategy behind the hedging activities. In addition, the effectiveness of the hedge is assessed when it is implemented, on each balance sheet date, and upon expiry of the hedge designation. Hedge accounting is discontinued prospectively when the hedging relationship is no longer effective or when the hedging or hedged items cease to exist because they have been sold off or liquidated or if the hedge designation ceases.

In the case of a cash flow hedge, the effective portion of changes in the fair value of a derivative financial instrument designated as a hedging item is recognized in *Other comprehensive income*, and the ineffective portion is immediately recognized in income. Amounts previously recognized in *Accumulated other comprehensive income (loss)* are reclassified to income in the periods during which the changes in cash flow of the hedged item affect income or when the hedged item is settled.

Forward-starting interest rate swaps are used to set a specific interest rate on a Gaz Métro fixed rate loan that is expected to be issued by the end of fiscal 2017. These derivative financial instruments are designated as hedging instruments eligible for cash flow hedge accounting.

Interest rate swaps are used to fix the interest rate on a portion of the floating rate borrowings, and forward exchange contracts were used until October 2013 to manage exchange risk exposure related to a significant portion of equipment purchases in euros for Seigneurie de Beaupré Wind Farms 2 and 3 General Partnership (Wind Farms 2 and 3). These derivative financial instruments are designated as hedging instruments eligible for cash flow hedge accounting.

An interest rate swap is used to fix the interest rate on a floating rate loan of Intragaz. This derivative financial instrument is designated as a hedging instrument eligible for cash flow hedge accounting.

Forward exchange contracts are used to manage the exchange risk exposure related to U.S.-dollar-denominated revenues in some Gaz Métro LNG contracts. These derivative financial instruments are designated as hedging instruments eligible for cash flow hedge accounting.



In the case of a hedge of the net investment in self-sustaining foreign operations, the effective portion of translation exchange gains and losses on debts designated as hedging items is included in *Other comprehensive income*, and the ineffective portion is immediately recognized in income. The unrealized exchange gains or losses on these hedging items recognized in *Accumulated other comprehensive income (loss)* are reclassified to income when the corresponding net investment is reduced, i.e., at the same time as the corresponding unrealized exchange gains or losses on translation of the financial statements of self-sustaining foreign operations are recognized in income.

A cash balance in euros was partially used to manage the exchange risk exposure related to a significant portion of euro-denominated equipment purchases for Seigneurie de Beaupré Wind Farm 4 General Partnership (Wind Farm 4). This financial instrument was designated as a hedging instrument eligible for cash flow hedge accounting. This hedging relationship ended in fiscal 2015 when Wind Farm 4 was put in service.

### **TRANSACTION COSTS**

Transaction costs related to held-for-trading financial instruments are recorded in income as incurred. Transaction costs related to financial instruments not classified as held for trading are added to or subtracted from the carrying value of the underlying instrument; they are subsequently amortized using the effective interest rate method.

### **BASIC AND DILUTED NET INCOME PER UNIT**

Basic net income per unit is calculated on the basis of the weighted average number of units outstanding. As at September 30, 2015 and 2014, no instrument had a dilutive effect on basic net income per unit.

## **3. ACCOUNTING CHANGES**

### **FUTURE ACCOUNTING CHANGES**

#### **Change in accounting framework**

Gaz Métro has chosen to use the exemption set out in the Introduction to Part I of the Handbook, *International Financial Reporting Standards* (IFRS), under which qualifying entities with rate-regulated activities may defer application of Part I to fiscal periods beginning on or after January 1, 2015. Consequently, for fiscal 2015, Gaz Métro is presenting its consolidated financial statements in accordance with Canadian GAAP.

In May 2015, given the uncertainty surrounding the accounting for rate-regulated activities under IFRS and the impacts of IFRS 14, *Regulatory Deferral Accounts*, the Partners of Gaz Métro, GMi and Valener, obtained new three-year exemptions from the Canadian Securities Administrators allowing them to prepare their consolidated financial statements in accordance with U.S. GAAP in order to meet their continuous disclosure requirements in Canada. These exemptions are valid until the first of the following dates: (i) January 1, 2019; (ii) the first day of the fiscal year following the cessation of rate-regulated activities by Gaz Métro, if applicable; or (iii) the effective date prescribed by the International Accounting Standards Board for mandatory application of a permanent and specific IFRS standard for entities engaged in rate-regulated activities. GMi and Valener will therefore use U.S. GAAP to prepare their annual and interim consolidated financial statements for fiscal years 2016 to 2018, inclusively. Gaz Métro, which is not a publicly accountable enterprise within the meaning of the Handbook, will adopt the strategy recommended by its Partners.

## **4. RATE REGULATION**

### **APPROVAL OF RATES**

The Partnership operates in various regulated industries where the costs of energy and providing services are recovered through the rates billed to customers. The following information presents the main rate-regulated businesses and how regulation affects their accounting treatments.

#### **Regulated establishments in Quebec**

##### Quebec distribution activity

The activities of Gaz Métro-QDA are regulated by the *Act respecting the Régie de l'énergie*. The rates for fiscal years 2015 and 2014 were established using a cost-of-service method. Under the cost-of-service method, Gaz Métro-QDA sets annual rates that allow it to recover the costs it expects to incur to serve its customers and earn a fair and reasonable

base return on the deemed Partners' equity allocated to this activity. Gaz Métro-QDA expects to continue using the cost-of-service method until the next incentive mechanism is implemented, which is planned for fiscal 2018.

The weighted average cost of capital on the rate base must be fixed using a "deemed" capital structure, in which deemed Partners' equity is 46.0%, comprising 38.5% that is compensated as if it were common shares and 7.5% as if it were preferred shares.

The authorized base rate of return on deemed common equity is usually determined using an automatic adjustment formula approved by the Régie. For fiscal years 2016 and 2017, the Régie agreed to not apply the automatic adjustment formula and to set the rate at 8.90%, as it had done for 2014 and 2015.

With respect to supply service, meaning the supply of natural gas, the *Act respecting the Régie de l'énergie* states that distributors shall resell natural gas at the actual supply cost. The natural gas supply rate is adjusted monthly using the rate adjustment mechanism in place.

#### Intragaz

Gaz Métro owns interests, ranging between 40% and 60%, in the entities that make up Intragaz. The core business of Intragaz is natural gas storage, and its rates are approved by the Régie.

The rates of Intragaz Limited Partnership are established using a cost-of-service method. The Régie also approved the use of a deemed average capital structure composed of 46% deemed equity as of May 1, 2013 for a 10-year period. The shareholder's rate of return approved by the Régie, and fixed for a 10-year period, is 8.50%.

### **Regulated establishments elsewhere in Canada**

#### TQM and Champion

The main activity of TQM, which is 50%-owned by Gaz Métro, and of Champion, wholly owned by Gaz Métro, is the transportation of natural gas. These activities are regulated by the NEB, an independent federal agency that regulates the interprovincial and international aspects of the oil, natural gas and electricity sectors with respect to revenue determination, tolls, construction and operations.

In February 2014, the NEB approved a rate agreement for TQM for fiscal years 2014 to 2016. Under this agreement, and as in the previous agreement, annual rates are calculated using a formula that includes a fixed component and a cost component in which the costs are entirely recoverable from or returnable to customers. Under this method, TQM can determine the optimal capital structure that would better reflect its economic reality and the business risks to which it is exposed. In fiscal 2015, TQM maintained a capital structure that consisted of 40% equity.

Champion's rates are established using a cost-of-service method, which includes a specified rate of return on equity as well as operating expenses, income taxes and amortization. Champion uses a rate of return on equity and a capital structure equivalent to those approved by the Régie for establishing Gaz Métro-QDA's rates, as defined above.

### **Regulated establishments in the United States**

#### VGS, GMP and VYNPC

VGS and GMP, two indirect wholly owned subsidiaries of Gaz Métro, are regulated by the VPSB. Rates for their activities are established using a cost-of-service method. The base rates for VGS and GMP are approved annually by the VPSB, whereas natural gas and electricity prices are adjusted quarterly using the rate adjustment mechanisms in place.

The following table summarizes the regulatory framework for each of these subsidiaries for the fiscal years ended September 30, 2015 and 2014.

	2015		2014	
	Deemed shareholders' equity	Authorized rate of return on common equity	Deemed shareholders' equity	Authorized rate of return on common equity
VGS	55.00%	10.20%	55.00%	10.26%
GMP	50.00%	9.60%	49.56%	9.58%

VYNPC is an indirect wholly owned subsidiary of Gaz Métro that is regulated by the FERC when it comes to rate-setting and by the VPSB for all non-rate-related matters. VYNPC's core business is managing its investment fund, the amounts of which will be used to settle its obligations with the United States Department of Energy (DOE) to eliminate spent nuclear fuel. The authorized base rate of return on common equity, which is set by the FERC, has been 7.5% since July 31, 2002.

#### PNGTS, VELCO and TRANSCO

PNGTS, indirectly owned by Gaz Métro at 38.3%, operates a gas pipeline in the Northeastern United States. Its rates for the transportation of natural gas are regulated by the FERC in accordance with the *Natural Gas Act*.

As at September 30, 2015, Velco and Transco were indirectly owned by Gaz Métro at 38.8% and 71.5%, respectively (38.8% and 70.0% as at September 30, 2014). Velco operates a transmission line and manages Transco, and Transco operates an electricity transmission system. Velco and Transco are regulated by the FERC when it comes to rate-setting and financing and by other Vermont regulatory agencies for, among other matters, the construction of electricity-transmission assets.

**REGULATORY ASSETS AND LIABILITIES**

Regulatory assets are reported in the consolidated balance sheet under *Deferred charges*, and regulatory liabilities are reported under *Deferred credits*. The following table presents the net carrying amounts of the regulatory assets and liabilities as at September 30, 2015 and 2014:

	Years of expected recovery or settlement		2015	2014
<b>DEFERRED CHARGES <sup>(1)</sup></b>				
Rate stabilization account related to temperature and wind velocity (a)	2016-2020	\$	-	\$ 26,790
Rate stabilization account related to inventory (a)	2016-2017		<b>1,330</b>	8,081
Charges related to the cost of energy (b)	2016		<b>42,775</b>	49,855
Grants paid (c)	2016-2025		<b>105,648</b>	109,676
Charges related to financial instruments (d)	2016-2017		<b>5,154</b>	11,648
Charges related to energy efficiency programs (e)	2016-2025		<b>26,215</b>	23,169
Charges related to funding of pension plans and other postretirement benefit plans (f)	Indeterminable		<b>67,092</b>	64,226
Site decontamination and dismantling costs in the United States (g)	2016-2035		<b>15,905</b>	13,899
Vacation allowance (h)	2016-2017		<b>3,482</b>	5,223
Charges related to mechanisms for sharing profits and losses (i)	2016-2017		<b>42,498</b>	15,278
Charges related to income taxes (j)	Indeterminable		<b>26,988</b>	23,109
Charges related to replenishing the meter fleet (k)	2016-2018		<b>8,969</b>	10,061
Charges related to storms (l)	2016-2017		<b>25,991</b>	4,826
Other	Indeterminable		<b>35,408</b>	28,963
		\$	<b>407,455</b>	\$ 394,804
<b>DEFERRED CREDITS <sup>(2)</sup></b>				
Rate stabilization account related to temperature and wind velocity (a)	2016-2021	\$	<b>15,101</b>	\$ 2,030
Credits related to the cost of energy (b)	2016		<b>166</b>	1,419
Credits related to financial instruments (d)	2016		<b>16,220</b>	566
Credits related to mechanisms for sharing profits and losses (i)	2016-2017		<b>640</b>	1,252
Credits related to the Green Fund duty (m)	-		-	5,833
Credits related to the System Expansion and Reliability Fund (n)	Indeterminable		<b>26,262</b>	16,301
Credits related to the Electrical Assistance program (o)	2016-2017		<b>11,705</b>	7,861
Future costs of retiring property, plant and equipment (p)	Indeterminable		<b>279,588</b>	252,813
Other	Indeterminable		<b>26,224</b>	16,726
		\$	<b>375,906</b>	\$ 304,801

<sup>(1)</sup> The amortization of deferred charges was \$66,054,000 in 2015 (\$64,372,000 in 2014).

<sup>(2)</sup> The amortization of deferred credits was \$8,374,000 in 2015 (\$12,244,000 in 2014).

- (a) Gaz Métro uses rate stabilization accounts to alleviate the unpredictable and uncontrollable impact on Gaz Métro-QDA's activities of temperature changes, wind velocity changes and natural gas inventory variances. Annual temperature and wind variations are amortized so as to be recovered or returned through rates starting in the second subsequent year over five years, and the annual inventory variances are amortized so as to be recovered or returned through rates starting in the second subsequent year over a one-year period.

VGS applies a similar mechanism for temperature variations. Annual temperature variations are amortized so as to be recovered or returned through rates during the subsequent year.

With respect to temperature and wind changes, net amounts of \$25,307,000 and \$26,736,000 to be returned to customers were recorded in the rate stabilization accounts during fiscal years 2015 and 2014, respectively. These net amounts would not have been recorded if not for the accounting treatment applicable to rate-regulated entities. The amortization expense for the temperature and wind rate stabilization account was \$14,237,000 in 2015 and \$18,749,000 in 2014.

Adjustments for Gaz Métro-QDA's inventory variances totalling \$1,214,000 to be returned to customers in 2015 and \$2,916,000 to be recovered from customers in 2014 have been deferred to fiscal years 2017 and 2016, respectively, instead of being immediately recognized in the consolidated statement of income under *Direct costs*. The amortization expense for the rate stabilization account related to inventory was \$5,537,000 during fiscal 2015 compared to \$1,915,000 for fiscal 2014.

Without the accounting treatment applicable to rate-regulated entities, the fiscal 2015 and 2014 results would have been affected through the use of a different rate-setting approach, the impacts of which are not reasonably determinable.

- (b) The impact of rate regulation on the accounting treatment of these assets is described under the *Inventories* heading in Note 2. The charges and credits related to the cost of energy consist of offsets related to inventory revaluations, billing differences resulting from a late implementation of the new applicable annual rates, and other adjustments to the cost of energy delivered that are needed to eliminate the impacts from the sale of energy on income, as prescribed by the Régie and the VPSB. These amounts are then returned to or recovered from customers in the form of rate adjustments over a period of 12 months. In substance, these accounts only represent differences in billings to customers that are normally corrected within a period of 12 months. Without the accounting treatment applicable to rate-regulated entities, the fiscal 2015 and 2014 results would have been affected by the use of a different rate-setting method, the impacts of which are not reasonably determinable.
- (c) Grants paid consist mainly of amounts and other assistance granted to Gaz Métro-QDA and VGS customers to purchase equipment to convert to natural gas or to replace existing equipment with more energy efficient equipment. With regard to Gaz Métro-QDA, the amounts are deferred and then amortized over periods of five and 10 years. With regard to VGS, the amounts are deferred and then amortized over a three-year period.

If regulatory treatments had not been applied, grants paid would have been recognized in the consolidated statement of income as incurred. In light of these differences, additional revenue of \$4,734,000 for fiscal 2015 (an additional charge of \$189,000 for fiscal 2014) would have been recorded and included in a rate application.

- (d) The charges and credits related to financial instruments represent the net impacts of remeasurements of the derivative financial instruments of companies in the Energy Distribution segment. Derivative financial instruments must be presented on the consolidated balance sheet and remeasured at their fair value. Without the accounting treatment applicable to rate-regulated entities, the offsetting entries of these remeasurements, which are presently included in the deferred charges and credits accounts, would be recorded directly in income. If regulatory treatments had not been applied, the Partnership would have modified its hedging strategies such that the changes in the fair value of the financial instruments related to businesses in this segment, which were \$22,148,000 and \$17,569,000 during fiscal years 2015 and 2014, respectively, would not influence income. The impacts on income are therefore not reasonably determinable.
- (e) Gaz Métro-QDA established a Global Energy Efficiency Plan (GEEP) and GMP set up Energy Efficiency Funds (EEF), both designed to create energy efficiency programs in which customers could participate by meeting certain criteria. Gaz Métro-QDA and GMP are therefore committed to making disbursements to develop programs and pay grants to participating customers.

The charges related to Gaz Métro-QDA's GEEP consist of the differences between actual disbursements and those projected in the rate case at the start of the fiscal year and the amounts related to the GEEP performance

incentive. This incentive seeks to encourage Gaz Métro-QDA to promote energy efficiency among its customers and consists of an incentive return for the Partners. Once Gaz Métro-QDA attains an annual natural gas delivery reduction target, Gaz Métro recognizes an amount of revenue equal to this incentive and an equivalent offsetting amount in a deferred charges account.

The amounts related to Gaz Métro-QDA's GEEP are deferred and then fully amortized as of the second subsequent fiscal year.

As for GMP, the charges related to its EEFs consist of the amounts deposited in the various funds during the fiscal year. These charges are deferred during the current fiscal year and then amortized over a 10-year period as of the following fiscal year.

If not for the application of regulatory treatments, the costs would have been recognized in income when incurred, and the incentive would have been accounted for as revenue once it had effectively been received from customers. Accordingly, no subsequent amortization expense would have been recorded for these charges. Without this regulatory treatment, Gaz Métro's consolidated net income would have been \$1,156,000 and \$590,000 higher, respectively, for fiscal years 2015 and 2014.

- (f) Deferred charges related to the funding of pension plans and other postretirement benefit plans consist of accumulated variances between the regulatory treatments used by Gaz Métro-QDA and the standards set out in Section 3461 of Part V of the Handbook and of the amounts resulting from acquisitions of rate-regulated enterprises.

For Gaz Métro-QDA, these deferred charges totalled \$14,374,000 and \$15,404,000, respectively, as at September 30, 2015 and 2014. In substance, these charges represent the costs that Gaz Métro-QDA expects to be able to recover through future rates. They are not subject to a return on invested capital or to specific amortization. Without this regulatory treatment, the costs recorded in income would have been \$1,030,000 and \$5,272,000 lower, respectively, for fiscal years 2015 and 2014. These costs would have been included in a rate application, thereby eliminating the impact on income.

The deferred charges resulting from the acquisition of rate-regulated enterprises totalled \$52,718,000 as at September 30, 2015 (\$48,822,000 as at September 30, 2014) and comprise a portion of the unamortized balances of the defined benefit pension plans and the other postretirement benefit plans from the acquisition of GMP and CVPS. Without the accounting treatment applicable to rate-regulated entities, the deferred charges resulting from the acquisition of GMP and CVPS would have had an impact on the purchase price allocation. The Partnership is unable to make a reasonable estimate of the impacts of these practices on the purchase price allocation.

- (g) Site decontamination and dismantling costs in the United States concern VGS and GMP. A portion of these costs, which will eventually be paid by VGS and GMP, will be used to decontaminate land on which a manufactured gas plant that ceased operations in 1966 was located. VGS and GMP, together with other businesses, were held potentially liable for pollution on this site. These deferred charges represent \$10,349,000 in costs incurred as at September 30, 2015 (\$9,344,000 as at September 30, 2014) and are amortized by VGS and GMP over a period of 10 to 20 years. As an offsetting entry to a portion of these deferred charges, a liability of \$5,556,000 as at September 30, 2015 (\$4,555,000 as at September 30, 2014) was recognized to reflect estimated future disbursements and is presented in *Other long-term liabilities* in the consolidated balance sheet.

As approved by the VPSB, the costs related to the decontamination and dismantling of the sites in the United States are amortized so as to be recovered from future rates without a return on invested capital. Without the regulatory treatments, past costs would have been recorded in income when incurred.

- (h) Since October 1, 2012, Gaz Métro-QDA has been using accrual basis accounting rather than the previous disbursements method to account for the cost of vacation. The deferred charges related to the vacation allowance consisted of the cumulative differences between the costs recorded in income under the disbursements method and the costs established using accrual basis accounting.

These deferred charges became subject to a return on invested capital and to straight-line amortization over a five-year period. Without this regulatory treatment, the rate-setting approach of fiscal years prior to 2013 would have been different. Consequently, the impacts of this regulatory treatment are not reasonably determinable.

- (i) The charges and credits related to the mechanisms for sharing profits and losses are composed of amounts related to Gaz Métro-QDA, VGS and GMP. Under the profit and loss sharing mechanism related to Gaz Métro-QDA, the



Régie requires overearnings or shortfalls attributable to customers to be returned or recovered, primarily in the form of rate adjustments, in the fiscal year following their approval. As for VGS and GMP, the mechanism for sharing profits and losses approved by the VPSB provides for a rate adjustment in the fiscal year following its approval. These deferred charges and credits are recorded in the fiscal years in which they arise.

Without these regulatory treatments, profits and losses would have been charged to income in the fiscal years in which they materialized; however, the rate-setting approach would have been different. Consequently, the impacts of this regulatory treatment are not reasonably determinable.

- (j) Charges related to income taxes consist mainly of amounts recoverable through TQM's, VGS's and GMP's future rates, due to the difference between the income tax expense calculated in accordance with the method used for rate-setting purposes and the method set out in Section 3465, *Income Taxes*, of Part V of the Handbook. Without these regulatory treatments, income tax expenses would have been charged to income in the years in which they materialized; however, the rate-setting approach would have been different. Consequently, the impacts of these regulatory treatments are not reasonably determinable.
- (k) The charges related to replenishing the meter fleet consist of amounts incurred by GMP to remove the meters that have been replaced by next-generation meters as part of the deployment of its smart power distribution system. These meter fleet charges will be amortized until 2018 so as to be recovered in future rates. Without the accounting treatment applicable to rate-regulated entities, these charges would have been recognized in income when incurred with no subsequent amortization expense. Therefore, without this regulatory treatment, Gaz Métro's consolidated net income would have been \$2,780,000 higher for fiscal 2015 and for fiscal 2014.
- (l) Charges related to storms are expenses caused by exogenous events that affect GMP's system and that exceed the US\$1,200,000 amount authorized by the Alternative Regulation Plan and that are recoverable from customers over a 24-month period. Without this regulatory treatment, committed costs would have been recorded in income when incurred.
- (m) The deferred credits related to Gaz Métro-QDA's Green Fund duty consisted of the difference between the duty amount paid to the government and the amount billed to customers. There were two reasons for this difference. First, a part of the difference was attributable to the billing differences related to the late implementation of the new applicable annual rates. The second reason stemmed from (i) the difference between projected and actual natural gas deliveries and (ii) the difference between the actual duty and the projected duty used to set the rate.

It should be noted that the Green Fund continued to apply until December 31, 2014. As of that date, the amortization of the deferred credit balance related to the Green Fund duty has been included in the monthly calculation of the price of the cap-and-trade system for greenhouse gas emission allowances, which is recognized as an intangible asset.

If regulatory treatment had not been applied, the differences related to the Green Fund duty would have been recognized in income during the year in which they were created, and no subsequent amortization expense for these credits would have been recorded.

- (n) The VPSB approved the use of savings resulting from lower natural gas prices to create the VGS System Expansion and Reliability Fund. With this fund, VGS can deposit, in a restricted cash account, amounts withheld that would have otherwise served to reduce rates and to use them to support system expansion to other regions with little or no impact on rates. In the event that no system expansion takes place, the amounts will be returned to VGS's customers. VGS recognizes the recovered amounts as a regulatory liability given that they will be returned to customers in the form of a system expansion or as a refund. As an offset for this regulatory liability, assets totalling \$26,497,000 and \$16,454,000 are recognized in the *Restricted cash* item of the consolidated balance sheet as at September 30, 2015 and 2014, respectively.

Without regulatory treatments, the rate-setting approach would have been different. Consequently, the impacts of these regulatory treatments are not reasonably determinable.

- (o) GMP's energy assistance program is funded through a meter charge applied to every category of customer. Collected amounts are used to provide a 25% discount rate to eligible low-income residential customers and cover the program administration costs. Deferred credits related to the energy assistance program consist of surplus amounts collected over the costs incurred by GMP as at September 30, 2015 and 2014. If excess amounts are collected, they could either be credited to customers' bills or used for program development, as decided by the VPSB. Without regulatory treatment, there would be no significant impact on the consolidated financial statements

as the amounts collected through meter charges over the costs incurred by GMP would be recognized as deferred revenues.

- (p) Under regulatory treatments, the Partnership recognizes the estimated future costs of retiring certain property, plant and equipment that are used in its energy distribution activities through the Gaz Métro-QDA, VGS and GMP subsidiaries. These costs are recovered through rates mainly by using amortization rates, by adding them to deferred credits, while actual retirement costs are applied against deferred credits. With respect to transportation activities, and pursuant to the NEB's Land Matters Consultation Initiative, TQM and Champion collect funds in the tolls to cover estimated future pipeline abandonment costs. These funds are recognized as restricted investments and are presented in the investment funds of the *Investments and other* item of the consolidated balance sheet. Because these collected funds may be allocated only to the abandonment of TQM's and Champion's pipeline facilities, they are recorded as deferred credits on the consolidated balance sheet.

In addition, the investment funds must be presented on the consolidated balance sheet and remeasured at their fair value. Without regulatory treatments, the offsetting entries of these remeasurements, which are presently included in the deferred credit accounts, are recorded directly in income. Without this regulatory treatment, the fiscal 2015 and 2014 results would have been affected by the use of a different rate-setting approach, the impacts of which are not reasonably determinable.

## 5. TRADE AND OTHER RECEIVABLES

	2015	2014
Trade accounts receivable (a)	\$ 203,253	\$ 193,217
Notes receivable (b)	6,461	6,291
Taxes receivable	3,820	2,609
Other receivables	9,144	9,748
	<u>\$ 222,678</u>	<u>\$ 211,865</u>

- (a) On March 27, 2015, Gaz Métro terminated the receivables purchase agreement (also called the "securitization agreement") under which it could assign receivables to a securitization trust, with limited recourse, on a monthly basis. During the first quarter of fiscal 2015, the Partnership had transferred and derecognized receivables totalling \$59,000,000 (nil as at September 30, 2014), net of the subordinated interests retained by Gaz Métro. As at September 30, 2015, the Partnership no longer had any obligations under this agreement, and it had not negotiated a new receivables purchase agreement.
- (b) The note receivable is non-interest-bearing and is related to the construction costs reimbursable by Hydro-Québec after the start of commercial activities of Wind Farm 4.

## 6. INVENTORIES

	2015	2014
Natural gas	\$ 95,306	\$ 96,595
Supplies and materials	22,386	18,310
	<u>\$ 117,692</u>	<u>\$ 114,905</u>

## 7. PROPERTY, PLANT AND EQUIPMENT

	2015		
	Cost	Accumulated amortization	Construction in progress
Storage	\$ 172,191	\$ 48,384	\$ 5,410
Transportation	716,521	315,683	9,816
Distribution	3,744,399	1,223,241	164,754
General plant and other	465,787	179,378	77,098
Production	953,493	114,840	11,794
	<u>\$ 6,052,391</u>	<u>\$ 1,881,526</u>	<u>\$ 268,872</u>
			<u>\$ 4,439,737</u>



	2014			
	Cost	Accumulated amortization	Construction in progress	Total
Storage	\$ 172,259	\$ 46,296	\$ 6,087	\$ 132,050
Transportation	655,838	296,361	9,332	368,809
Distribution	3,400,649	1,106,952	119,219	2,412,916
General plant and other	421,506	180,819	31,431	272,118
Production	740,021	64,268	109,271	785,024
	<u>\$ 5,390,273</u>	<u>\$ 1,694,696</u>	<u>\$ 275,340</u>	<u>\$ 3,970,917</u>

The cost of property, plant and equipment not subject to amortization, excluding construction in progress, as at September 30, 2015 and 2014 was \$106,014,000 and \$99,612,000, respectively, and is primarily the cost of cushion gas in storage facilities and land.

The Partnership owns appliances that it leases under operating leases. The cost and accumulated amortization of these leased appliances stood at \$67,052,000 and \$40,857,000, respectively, as at September 30, 2015 compared to \$55,485,000 and \$32,519,000 as at September 30, 2014. Revenues from these operating leases totalled \$8,993,000 and \$7,697,000 for fiscal years 2015 and 2014, respectively.

Amortization expense was \$196,754,000 in fiscal 2015 compared with \$183,468,000 in fiscal 2014.

During fiscal 2015, interest in the amount of \$2,980,000 was capitalized to the construction in progress of certain non-rate-regulated activities (\$4,357,000 in fiscal 2014).

During fiscal 2015, an allowance of \$13,486,000 (US\$10,300,000) was recorded because the Partnership believes that certain costs of VGS's system development project are no longer likely to be recovered in future rates.

## 8. INVESTMENTS AND OTHER

	Ownership interest	2015	2014
Interests in entities subject to significant influence			
PNGTS (a)	38.3%	\$ 121,654	\$ 93,150
Transco (70.0% in 2014) (b)	71.5%	566,975	428,570
Velco	38.8%	13,965	11,555
Other		<u>2,409</u>	<u>1,947</u>
		<b>705,003</b>	535,222
Investment funds (c)		<b>210,548</b>	174,313
Surrender value of life insurance policies (d)		<u>32,583</u>	<u>27,220</u>
		<b>\$ 948,134</b>	<b>\$ 736,755</b>

(a) The investment in PNGTS has been pledged as security for senior notes in the amount of \$99,527,000 (US\$74,580,000) of this company as at September 30, 2015.

(b) During fiscal 2015, through one of its U.S. subsidiaries, Gaz Métro invested \$31,576,000 (US\$27,221,000) in Transco, raising its ownership interest from 70.0% to 71.5% (\$24,409,000 (US\$23,251,000) during fiscal 2014). These funds are intended to finance capital investments in electricity transmission activities.

(c) The investment funds consist mainly of the funds managed by VYNPC that will be used to settle liabilities related to site decontamination and dismantling in the United States and the removal of spent nuclear fuel. For additional information about these liabilities, refer to Note 15.

(d) These are life insurance policies on the lives of active and retired officers.

**9. INTERESTS IN JOINT VENTURES**

	2015	2014
TQM	50.0%	50.0%
TQM Services Inc.	50.0%	50.0%
Rabaska Limited Partnership (Rabaska)	33.3%	33.3%
CDH Solutions & Operations Inc.	50.0%	50.0%
Intragaz	40.0 to 60.0%	40.0 to 60.0%
Wind Farms 2 and 3	50.0%	50.0%
Wind Farm 4	50.0%	50.0%

The share of the joint ventures' items included in the consolidated financial statements is as follows:

	2015	2014
<b>INCOME</b>		
Revenues	\$ 120,974	\$ 95,513
Expenses	95,664	76,421
Net income	\$ 25,310	\$ 19,092
<b>BALANCE SHEET</b>		
Current assets	\$ 37,225	\$ 67,597
Long-term assets	700,140	720,098
Current liabilities	(37,351)	(49,375)
Long-term liabilities	(491,562)	(496,361)
Net assets	\$ 208,452	\$ 241,959
<b>CASH FLOWS RELATED TO:</b>		
Operating activities	\$ 65,841	\$ 87,278
Investing activities	(10,518)	(140,686)
Financing activities	(58,490)	60,534
Change in cash and cash equivalents, net of bank overdraft	\$ (3,167)	\$ 7,126

The Partnership owns a share of jointly controlled power generation and transmission assets. As at September 30, 2015, the share of jointly controlled assets included in long-term assets on the consolidated balance sheet totalled \$98,934,000 (\$84,496,000 as at September 30, 2014) and the share in the expenses, included in consolidated income, was \$23,636,000 (\$22,097,000 for the fiscal year ended September 30, 2014). Expenses related to jointly controlled assets are included in the rate base and therefore generate revenues included in the Partnership's consolidated revenues.

**10. INTANGIBLE ASSETS**

	2015			2014		
	Cost	Accumulated amortization	Net carrying amount	Cost	Accumulated amortization	Net carrying amount
GHG emission allowances	\$ 365,322	\$ 67,391	\$ 297,931	\$ -	\$ -	\$ -
Development of information technology	189,064	97,144	91,920	161,651	83,108	78,543
Rights and licences	14,890	13,814	1,076	10,829	8,238	2,591
	\$ 569,276	\$ 178,349	\$ 390,927	\$ 172,480	\$ 91,346	\$ 81,134

Capitalized intangible assets totalled \$380,334,000 in fiscal 2015 and \$19,609,000 in fiscal 2014. Of this amount, \$372,962,000 relates to assets acquired and \$7,372,000 relates to internally generated assets in fiscal 2015 (\$16,206,000 and \$3,403,000, respectively, in fiscal 2014).

The amortization expense of intangible assets was \$82,003,000 in fiscal 2015 and \$12,174,000 in fiscal 2014. The portion of the amortization expense related to GHG emission allowances, which is recorded under *Direct costs* in the consolidated statement of income, totalled \$67,391,000 for fiscal 2015 (nil in 2014).

**11. GOODWILL**

	2015			
	Energy Distribution	Natural Gas Transportation	Energy Services, Storage and Other	Total
Balance, beginning of year	\$ 340,224	\$ 7,596	\$ 1,149	\$ 348,969
Translation adjustment of self-sustaining foreign operations	65,159	-	-	65,159
Balance, end of year	\$ 405,383	\$ 7,596	\$ 1,149	\$ 414,128

	2014			
	Energy Distribution	Natural Gas Transportation	Energy Services, Storage and Other	Total
Balance, beginning of year	\$ 312,976	\$ 7,596	\$ 1,149	\$ 321,721
Translation adjustment of self-sustaining foreign operations	27,248	-	-	27,248
Balance, end of year	\$ 340,224	\$ 7,596	\$ 1,149	\$ 348,969

**12. OTHER LONG-TERM ASSETS**

	2015	2014
Accrued benefit assets (Note 19)	\$ 66,541	\$ 57,111
Other	3,705	17,484
	\$ 70,246	\$ 74,595

**13. BANK LOANS**

	Maximum authorized amounts	Interest rate (c)	Maturity	2015	2014
GAZ MÉTRO (a)	\$ 50,000	-%	-	\$ -	\$ -
VGS (b)	60,053	1.24%	2016	28,972	-
	\$ 110,053			\$ 28,972	\$ -

- (a) Gaz Métro's short-term credit facility is not guaranteed.
- (b) The maximum authorized amount under VGS's short-term credit facilities is US\$45,000,000. The balance was US\$21,710,000 as at September 30, 2015.
- (c) The short-term credit facilities bear interest at floating rates based on bankers' acceptance rates, prime rates or LIBOR, adjusted according to the credit facility terms.

**14. LONG-TERM DEBT**

	<u>Interest rate</u>	<u>Maturity</u>	<u>2015</u>	<u>2014</u>
<b>GAZ MÉTRO</b>				
First mortgage bonds (a)				
Series D	10.45%	2017	\$ 125,000	\$ 125,000
Series E	9.00%	2025	100,000	100,000
Series F	7.20%	2028	50,000	50,000
Series I	7.05%	2031	125,000	125,000
Series I	6.30%	2034	125,000	125,000
Series J	5.45%	2021	150,000	150,000
Series J	5.70%	2036	150,000	150,000
Series L	4.93%	2019	100,000	100,000
Series R	3.30%	2045	100,000	-
			<u>1,025,000</u>	<u>925,000</u>
Secured senior notes (b)				
Series A (US\$130,000)	3.86%	2022	173,485	145,600
Series B (US\$130,000)	5.06%	2042	173,485	145,600
Series C (US\$100,000)	4.04%	2043	133,450	112,000
Series D (US\$100,000)	4.19%	2048	133,450	112,000
Series E (US\$100,000)	3.22%	2025	133,450	-
			<u>747,320</u>	<u>515,200</u>
Secured term loan (0.80% in 2014) (a), (n)	0.60%	2020	245,009	364,996
Other (1.90% in 2014)	1.64%	2019	115	790
			<u>245,124</u>	<u>365,786</u>
			<u>2,017,444</u>	<u>1,805,986</u>
<b>NNEEC</b>				
Unsecured senior notes				
Series A (US\$50,000)	5.93%	2017	66,725	56,000
Series B (US\$50,000)	6.12%	2022	66,725	56,000
			<u>133,450</u>	<u>112,000</u>
<b>GMP (c)</b>				
First mortgage bonds (d)				
Series 6.04% (US\$18,000 in 2015 and US\$24,000 in 2014)	6.04%	2018	24,021	26,880
Series 6.70% (US\$15,000)	6.70%	2019	20,018	16,800
Series 9.64% (US\$9,000)	9.64%	2020	12,011	10,080
Series 8.65% (US\$11,000 in 2015 and US\$11,500 in 2014)	8.65%	2022	14,680	12,880
Series 6.53% (US\$30,000)	6.53%	2036	40,035	33,600
Series 6.17% (US\$16,000)	6.17%	2038	21,352	17,920
Series 5.98% (US\$15,000)	5.98%	2019	20,018	16,800
Series 2010A (US\$21,405 in 2015 and US\$22,120 in 2014)	3.00%	2015		
	to 5.00%	to 2035	28,565	24,774
Series 2010B (US\$5,000)	6.00%	2035	6,673	5,600
Series 4.56% - Tranche A (US\$50,000)	4.56%	2042	66,725	56,000
Series 4.61% - Tranche B (US\$25,000)	4.61%	2042	33,363	28,000
Series 5.72% (US\$55,000)	5.72%	2019	73,398	61,600
Series 6.90% (US\$17,500)	6.90%	2024	23,354	19,600
Series 6.83% (US\$60,000)	6.83%	2028	80,070	67,200
Series 8.91% (US\$15,000)	8.91%	2032	20,018	16,800
Series 5.89% (US\$40,000)	5.89%	2041	53,380	44,800
Series 3.99% (US\$85,000)	3.99%	2043	113,433	95,200
Series 4.39% (US\$20,000)	4.39%	2034	26,690	22,400
Series 4.89% (US\$43,000)	4.89%	2044	57,384	48,160
Series 4.07% (US\$12,000)	4.07%	2029	16,014	13,440
			<u>751,202</u>	<u>638,534</u>
Secured Vermont Economic Development Authority (VEDA) bonds (US\$30,000) (e)	5.00%	2021	40,035	33,600
Unsecured term loan (US\$71,174 in 2015 and US\$40,101 in 2014) (1.44% in 2014) (f), (n)	1.24%	2020	94,981	44,913
Other (US\$1,779 in 2014)	-	2015	-	1,993
			<u>94,981</u>	<u>46,906</u>
			<u>886,218</u>	<u>719,040</u>

	<u>Interest rate</u>	<u>Maturity</u>	<u>2015</u>	<u>2014</u>
<b>VGS (g)</b>				
Unsecured senior notes				
Series 7.62% (US\$10,000) (h)	7.62%	2028	<b>13,345</b>	11,200
Series 6.44% (US\$10,000)	6.44%	2036	<b>13,345</b>	11,200
Series 5.14% (US\$35,000)	5.14%	2044	<b>46,707</b>	39,200
			<u><b>73,397</b></u>	<u>61,600</u>
<b>TQM</b>				
Unsecured bonds				
Series L	4.25%	2017	<u><b>50,000</b></u>	<u>50,000</u>
Unsecured term loan (i)				
Floating-rate portion (n)	1.99%	2018	<b>14,750</b>	20,098
Fixed-rate portion	2.81%	2018	<b>37,500</b>	37,500
			<u><b>102,250</b></u>	<u>107,598</u>
<b>INTRAGAZ</b>				
Secured term loan (j), (n)	5.20%	2023	<u><b>41,743</b></u>	<u>44,779</u>
<b>WIND FARMS 2 AND 3 (k)</b>				
Secured term loan	4.70% and 5.45%	2031	<u><b>249,726</b></u>	<u>260,209</u>
<b>WIND FARM 4 (l)</b>				
Secured construction loan	5.66%	2034	<b>70,025</b>	71,223
Secured bridge loan	2.75%	2015	<b>6,450</b>	1,484
			<u><b>76,475</b></u>	<u>72,707</u>
<b>OTHER</b>				
Secured term loans (2.54% in 2014) (m), (n)	2.04%	2016 to 2023	<b>16,649</b>	16,836
Other	2.69%	2018	<b>261</b>	344
			<u><b>16,910</b></u>	<u>17,180</u>
			<u><b>3,597,613</b></u>	<u>3,201,099</u>
<b>FINANCING COSTS, NET OF AMORTIZATION</b>			<u><b>33,317</b></u>	<u>33,321</u>
			<u><b>3,564,296</b></u>	<u>3,167,778</u>
<b>CURRENT PORTION</b>			<u><b>33,310</b></u>	<u>27,016</u>
			<u><b>\$ 3,530,986</b></u>	<u>\$ 3,140,762</u>

**CAPITAL REPAYMENTS**

Capital repayments required over the next five years to meet maturities and sinking fund requirements, excluding redemptions before maturity at the Partnership's option, are:

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Capital repayments	\$ <u>33,310</u>	\$ <u>275,548</u>	\$ <u>80,833</u>	\$ <u>233,931</u>	\$ <u>381,692</u>

- (a) On January 28 and February 1, 2015, Gaz Métro, through its General Partner GMi, amended its credit facility in particular to raise the maximum authorized amount from \$600,000,000 to \$800,000,000 and to extend its maturity to March 2020. The terms and conditions of the original credit agreement remain unchanged.

On March 31, 2015, GMi issued, by way of a private placement, Series R First Mortgage Bonds in an amount of \$100,000,000. These bonds bear interest at an annual rate of 3.30% and will mature on March 31, 2045. The proceeds of the issuance were loaned to Gaz Métro at similar conditions to be used to refinance existing debt and for general business purposes.

A portion of this term loan is in U.S. dollars, i.e., \$24,154,000 (US\$18,100,000) as at September 30, 2015 and \$129,136,000 (US\$115,300,000) as at September 30, 2014.

For the first mortgage bonds and the authorized \$800,000,000 term loan, GMi raised the funds on the market and simultaneously lent the proceeds to Gaz Métro on similar terms and conditions.

The first mortgage bonds are secured by Gaz Métro under trust deeds. The authorized \$800,000,000 term loan is secured by Gaz Métro. The first mortgage bonds and the term loan also contain a hypothec on the universality of present and future movable and immovable property of Gaz Métro and GMi located in the Province of Quebec. The creditors are thus covered by a first-ranking immovable hypothec on the Partnership's present and future natural gas system and pipelines.

The first mortgage bonds are redeemable at GMi's option, through Gaz Métro, pursuant to an agreement between it and GMi, at par value or a value reflecting market conditions, whichever is higher, plus accrued and unpaid interest to the date fixed for redemption.

The long-term debt trust deeds and other agreements stipulate that Gaz Métro will not issue any new long-term debt if, given such an issuance, Gaz Métro's long-term debt to total capitalization ratio exceeds 65% and its long-term debt interest coverage ratio is less than 1.5 on a non-consolidated financial statements basis. The trust deeds also stipulate that Gaz Métro will not make a distribution to its Partners if, given such a distribution, the Partnership's long-term debt to total capitalization ratio exceeds 75% on a non-consolidated financial statements basis.

The trust deeds and other agreements stipulate that all of Gaz Métro's interests in non-regulated energy-related activities and in non-energy-related activities must not represent more than 10% of its total non-consolidated assets. As at September 30, 2015 and 2014, Gaz Métro's assets used for such activities accounted for 3.17% and 2.95%, respectively, of its total non-consolidated assets. Furthermore, with respect to non-energy-related activities, Gaz Métro's interests in such activities may not exceed 5% of its total non-consolidated assets. As at September 30, 2015 and 2014, Gaz Métro had no interests in such activities.

- (b) On December 9, 2014, GMi entered into a purchase agreement for secured senior notes in an amount of \$114,400,000 (US\$100,000,000). These notes bear interest at an annual rate of 3.22% and will mature on December 9, 2024. The proceeds of the issuance were loaned to Gaz Métro at similar conditions to be used to refinance existing debt and for general business purposes.

The notes are collateralized by Gaz Métro as to the payment of principal and interest and contain a hypothec on the universality of the present and future movable and immovable property of Gaz Métro and GMi located in the Province of Quebec. The creditors are thus covered by a first-ranking immovable hypothec on Gaz Métro's present and future natural gas system and pipelines.

- (c) Substantially all of GMP's assets are subject to the lien in the deed of trust under which the first mortgage bonds were issued. GMP's first mortgage bonds deed of trust requires that a long-term debt / total capitalization ratio of no more than 65% be maintained. The first mortgage bonds include restrictions on the payment of dividends by GMP. Under the most restrictive of these covenants, approximately US\$99,593,000 in retained earnings was unrestricted as at September 30, 2015 compared to US\$70,162,000 as at September 30, 2014. Some of these first mortgage bonds require annual payments into a sinking fund.
- (d) On December 1, 2013, GMP entered into a bond purchase agreement with investors, by way of private placement, for the issuance of first mortgage bonds for an aggregate principal amount of US\$75,000,000, i.e., three series of US\$43,000,000, US\$20,000,000 and US\$12,000,000. On December 16, 2013, GMP issued series of bonds of US\$43,000,000 and US\$20,000,000, maturing on December 16, 2043 and December 16, 2033 and bearing interest at annual rates of 4.89% and 4.39%, respectively. The bond series of US\$12,000,000 was issued on January 9, 2014. These bonds, which mature on January 9, 2029, bear interest at an annual rate of 4.07%.

The Series 2010A first mortgage bonds, in an initial amount of US\$24,765,000, has been maturing in tranches of variable amounts on April 1<sup>st</sup> of each year, since fiscal 2011.

- (e) First mortgage and VEDA bonds are secured by substantially all of GMP's assets. The first mortgage bonds are redeemable at GMP's option at par value or a value reflecting market conditions, whichever is higher, plus accrued and unpaid interest to the date fixed for redemption.
- (f) On December 15, 2014, GMP's credit facility, totalling \$81,592,000 (US\$70,000,000), was repaid using a new credit facility. This new credit facility authorizes a term loan of \$146,795,000 (US\$110,000,000) and expires on December 14, 2019.



- (g) On January 30, 2014, VGS issued senior notes by way of private placement for a total amount of US\$35,000,000. The senior notes will mature on January 30, 2044 and bear interest at an annual rate of 5.14%.

VGS's credit facilities, totalling US\$45,000,000, were renegotiated in fiscal 2014 and will mature in 2016.

- (h) The Series 7.62% senior note of VGS includes an early repayment clause of US\$1,000,000 per year starting in 2019.
- (i) On June 27, 2014, TQM amended its credit facility, which now includes a term loan portion of \$75,000,000 (Gaz Métro's share: \$37,500,000) and a credit line portion of \$60,000,000 (Gaz Métro's share: \$30,000,000). The first \$35,000,000 tranche of the term loan (Gaz Métro's share: \$17,500,000) was contracted on July 2, 2014 and bears interest at an annual rate of 2.79%, and the second \$40,000,000 tranche (Gaz Métro's share: \$20,000,000) was contracted on September 15, 2014 and bears interest at an annual rate of 2.82%. These borrowings were used to reimburse a portion of the Series K bonds which matured on September 15, 2014. The credit line portion continues to bear interest at a floating rate. The amended credit facility will mature on August 19, 2018.
- (j) On August 29, 2013, Intragaz entered into a new credit agreement that will expire on April 28, 2023. As at September 30, 2015, the amount available under this credit facility totalled \$69,572,000 (Gaz Métro's share: \$41,743,000). Intragaz entered into an interest rate swap fixing the interest rate at 5.21% until the expiry date. The rate presented reflects the impact of the swap.
- (k) As at September 30, 2015 and 2014, the total amount available and drawn of the financing secured by the assets of Wind Farms 2 and 3 was \$546,326,000 (Gaz Métro's share: \$273,163,000) and \$603,777,000 (Gaz Métro's share: \$301,889,000), respectively, and consisted of:

- a two-year construction loan consisting of a secured tranche and an unsecured tranche that was converted into a term loan on July 28, 2014. The secured tranche is guaranteed by the Federal Republic of Germany through its Export Credit Agency Euler-Hermes and bears interest at 4.70%. The amount available and used under this tranche was \$240,138,000 (Gaz Métro's share: \$120,069,000) as at September 30, 2015 and \$246,473,000 (Gaz Métro's share: \$123,237,000) as at September 30, 2014. The unsecured tranche bears interest at 5.45%. The amount available and used under this tranche was \$259,313,000 (Gaz Métro's share: \$129,657,000) as at September 30, 2015 and \$273,945,000 (Gaz Métro's share: \$136,973,000) as at September 30, 2014. The interest rate of the unsecured tranche will be increased by 25 basis points every four years as of the loan conversion on July 28, 2014. The term loan will mature in 2031; and
- a \$46,875,000 letter of credit facility (Gaz Métro's share: \$23,437,000) as at September 30, 2015 (\$83,359,000 (Gaz Métro's share: \$41,680,000) as at September 30, 2014) to ensure that Wind Farms 2 and 3 can meet the guarantees required by various counterparties. The letter of credit fees are equal to the margin applicable to the unsecured tranche.

During the construction period and until the loan conversion date, i.e., July 28, 2014, Wind Farms 2 and 3 paid only the interest on the amounts borrowed. On June 30, 2014, the first principal repayment was made, and semi-annual repayments are scheduled until loan maturity.

Following the closing of the financing of wind power projects 2 and 3 in November 2011, Wind Farms 2 and 3 entered into swaps with the lenders, hedging 90% of the value of the floating rate debt being used to finance wind power projects 2 and 3. The average rate of these transactions was approximately 3.0% and the notional amount was \$551,732,000 (Gaz Métro's share: \$275,866,000) as at September 30, 2015 and 2014. These swaps will be settled periodically until December 31, 2031. The rates presented reflect the impact of the swaps.

- (l) As at September 30, 2015 and 2014, the total amount of the non-recourse financing of Wind Farm 4 was \$163,724,000 (Gaz Métro's share: \$81,862,000) and \$166,119,000 (Gaz Métro's share: \$83,060,000), respectively, and consisted of:
- a construction loan totalling \$140,050,000 (Gaz Métro's share: \$70,025,000) that was converted on September 4, 2015 into a 19.5-year amortizing term loan after the start of commercial operations at a rate of 5.66% for the entire term of the loan; this loan represents approximately 75% of the total anticipated investment, including initial financing costs, interest payable during the construction period, working capital and contingencies;
  - a short-term bridge loan of \$12,901,000 (Gaz Métro's share: \$6,450,000) to finance certain costs incurred during construction and reimbursable by Hydro-Québec; and

- a \$10,773,000 letter of credit facility (Gaz Métro's share: \$5,387,000) so that Wind Farm 4 can satisfy the guarantees required by various counterparties.

During the construction period and until March 31, 2015, Wind Farm 4 paid only the interest on the amounts borrowed. The first principal repayment on the amounts borrowed was made on that date, and quarterly repayments are scheduled until loan maturity.

- (m) Gaz Métro's other subsidiaries and joint ventures can borrow up to \$41,000,000 under term loan facilities, secured by first ranking hypothecs.
- (n) The term loans bear interest at rates based on bankers' acceptance rates, prime rates and LIBOR, adjusted according to the terms of the credit agreements.

The interest on long-term debt totalled \$174,450,000 and \$155,707,000 for fiscal years 2015 and 2014, respectively. The interest on long-term debt included, among other items, the interest on Gaz Métro's first mortgage bonds, secured senior notes and secured term loan, which totalled \$97,218,000 and \$88,520,000 for fiscal years 2015 and 2014, respectively. Financial and other expenses included the amortization of financing costs of \$1,798,000 and \$1,640,000 for fiscal years 2015 and 2014, respectively.

As at September 30, 2015 and 2014, GMi and Gaz Métro and its subsidiaries and joint ventures were in compliance with all of the requirements of the various trust deeds and term loan agreements governing long-term debt.

## 15. OTHER LONG-TERM LIABILITIES

	<b>2015</b>	<b>2014</b>
Accrued benefit liability	\$ <b>138,692</b>	\$ 126,126
Deferred compensation liabilities of GMP and VGS	<b>11,361</b>	8,395
Deferred revenues (a)	<b>30,477</b>	32,078
Liabilities related to site decontamination and dismantling in the United States (b)	<b>5,556</b>	4,555
Liability related to the elimination of spent nuclear fuel (c)	<b>193,462</b>	162,322
Investissement Québec's interest in Gaz Métro LNG (d)	<b>24,034</b>	-
Other	<b>31,171</b>	25,994
	<b>\$ 434,753</b>	<b>\$ 359,470</b>

- (a) Deferred revenues consist mainly of certain construction costs reimbursable by Hydro-Québec to Wind Farms 2 and 3 and to Wind Farm 4.
- (b) VGS and GMP, jointly with other companies, have been cited as potentially responsible for polluting land on which a manufactured gas plant that ceased operations in 1966 was located. In 1999, a settlement protocol was signed by the U.S. Environmental Protection Agency (EPA) and the enterprises involved. It included an action plan to restore the site and a cost-sharing method. This action plan was approved by the VPSB in 2001 and has generally proven effective. The VPSB has made agreements wherein the costs incurred to date by VGS and GMP can be recovered through rates over a period of 10 to 20 years. If future outlays exceed the provisions already recorded, new requests to recover such amounts through rates will be submitted to the VPSB.
- (c) This liability represents the amount to be paid by VYNPC to the DOE for the elimination of spent nuclear fuel. This amount is composed of a fixed one-time fee established in 1983 as well as interest compounded quarterly since that date, accounted for as an increase to this liability based on the U.S. Treasury bonds rate, as set out in the agreement with the DOE. This amount will have to be paid no later than on the first delivery of spent fuel to the DOE, the timing of which cannot be determined since the federal repository site for spent nuclear fuel is not yet known.
- (d) On October 7, 2014, Gaz Métro entered into an agreement with Investissement Québec to finance a portion of the expansion project to increase the natural gas liquefaction capacity of Gaz Métro's LSR plant. Based on the estimated project costs and its maximum contribution of \$50,000,000, Investissement Québec's contribution to the project will be approximately 42%. Investissement Québec's contribution will be made gradually over the course of the project.

During fiscal 2015, Investissement Québec subscribed 22,541,680 units for a total cash consideration of \$22,542,000.



**16. CAPITAL**
**AUTHORIZED**

Unlimited number of units; each ranks equally with any other unit and confers the same rights, privileges and obligations.

**ISSUED AND PAID**

	<u>2015</u>	<u>2014</u>
Number of units as at September 30 (in thousands of units)	<u>167,251</u>	<u>151,796</u>

On April 30, 2015, the Partnership issued, by way of private placement, 8,181,818 new units to its Partners at a per-unit price of \$16.50 for total proceeds of \$135,000,000.

On September 30, 2015, the Partnership issued, by way of private placement, 7,272,727 new units to its Partners at a per-unit price of \$16.50 for total proceeds of \$120,000,000.

**17. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**

	<u>2015</u>	<u>2014</u>
Translation adjustments of self-sustaining foreign operations	\$ 291,200	\$ 63,674
Translation adjustments related to net investment hedging activities	(185,991)	(61,962)
Adjustments related to the fair value of derivative financial instruments designated as hedges, net of income taxes	(40,546)	(31,118)
	<u>\$ 64,663</u>	<u>\$ (29,406)</u>

**18. CASH FLOWS**

Change in non-cash working capital items:

	<u>2015</u>	<u>2014</u>
Trade and other receivables	\$ 11,052	\$ 23,515
Inventories	(477)	(20,427)
Prepaid expenses	126	(3,915)
Accounts payable and accrued liabilities	21,454	13,493
Income taxes payable and receivable	(685)	(960)
	<u>\$ 31,470</u>	<u>\$ 11,706</u>

Other information:

	<u>2015</u>	<u>2014</u>
Interest received	\$ 3,770	\$ 3,430
Interest paid	\$ 169,780	\$ 151,325
Income taxes paid	\$ 3,490	\$ 7,773

Accounts payable and accrued liabilities include an amount of \$40,592,000 as at September 30, 2015 related to the purchase of property, plant and equipment (\$58,286,000 as at September 30, 2014). These transactions have no impact on cash flows and are therefore not reflected in the consolidated statement of cash flows.

**19. EMPLOYEE FUTURE BENEFITS**

The Partnership maintains defined benefit and defined contribution pension plans that cover virtually all of its employees as well as deferred compensation plans that are not funded. For defined contribution pension plans, employer contributions are based on employee contributions. The cost recorded for defined contribution pension plans and other plans totalled \$3,515,000 in 2015 and \$3,190,000 in 2014.

For their part, the defined benefit pension plans are funded plans, which ensure that employees will receive pension benefits determined according to length of service and salaries during their highest earning years.

The effective dates of the most recent actuarial valuations and the next mandatory actuarial valuations for purposes of funding the funded pension plans are as follows:

	<u>Date of most recent actuarial valuation</u>	<u>Date of mandatory actuarial valuation</u>
Gaz Métro-QDA	December 31, 2014	December 31, 2015
Gaz Métro Plus	December 31, 2014	December 31, 2015
Climatisation et Chauffage Urbains de Montréal, s.e.c.	December 31, 2014	December 31, 2015
TQM	December 31, 2014	December 31, 2015
VGS	January 1, 2015	January 1, 2016
GMP	January 1, 2015	January 1, 2016

The Partnership also provides other postretirement benefits, including supplemental health care and life insurance, for virtually all of its employees, their spouses and qualified dependants. These benefits, however, are not funded, except in the case of GMP.

The following tables describe the Partnership's employee future benefits-related obligations and costs as well as the impact of the unrecognized amounts for Gaz Métro-QDA. The measurement date used is June 30 for Gaz Métro-QDA's and Gaz Métro Plus's plans and September 30 for the other plans.

**COMPONENTS OF THE ACCRUED BENEFIT ASSET (LIABILITY)**

The following table presents components of the accrued benefit asset (liability) as at September 30, 2015 and 2014 in accordance with the standards set out in Section 3461, *Employee Future Benefits*, of Part V of the Handbook as well as a reconciliation of the assets (liabilities) recognized in the consolidated balance sheet.

	2015	2014	2015	2014
	Pension plans	Pension plans	Other post-retirement benefits	Other post-retirement benefits
<b>ACCRUED BENEFIT OBLIGATIONS</b>				
BALANCE, BEGINNING OF MEASUREMENT PERIOD	\$ 941,430	\$ 821,895	\$ 153,770	\$ 124,001
Current service cost	27,456	24,755	4,803	3,603
Interest cost	40,215	37,949	6,862	5,822
Employee contributions	3,901	3,720	1,272	1,181
Other contributions and employee transfers	4,884	3,258	-	-
Benefits paid	(42,258)	(31,036)	(6,764)	(5,719)
Actuarial losses	19,703	82,617	5,491	20,849
Impact of exchange rate fluctuations	53,496	22,001	8,602	4,033
Settlement	-	(23,729)	-	-
BALANCE, END OF MEASUREMENT PERIOD	<u>1,048,827</u>	<u>941,430</u>	<u>174,036</u>	<u>153,770</u>
<b>PLAN ASSETS AT FAIR VALUE</b>				
BALANCE, BEGINNING OF MEASUREMENT PERIOD	772,439	657,261	47,904	41,452
Actual return on plan assets	41,150	94,887	(1,120)	4,344
Employer contributions	35,763	50,316	2,663	2,185
Employee contributions	3,901	3,720	1,272	1,181
Other contributions and employee transfers	4,884	3,258	-	-
Benefits paid	(42,258)	(31,036)	(6,764)	(5,719)
Impact of exchange rate fluctuations	40,594	17,762	8,836	4,461
Settlement	-	(23,729)	-	-
BALANCE, END OF MEASUREMENT PERIOD	<u>856,473</u>	<u>772,439</u>	<u>52,791</u>	<u>47,904</u>
<b>DEFICIENCY OF ASSETS OVER OBLIGATIONS</b>	<b>(192,354)</b>	<b>(168,991)</b>	<b>(121,245)</b>	<b>(105,866)</b>
Unamortized past service cost	1,015	2,220	-	-
Unamortized net actuarial losses	<u>199,128</u>	<u>173,504</u>	<u>28,669</u>	<u>22,149</u>
<b>ACCRUED BENEFIT ASSET (LIABILITY) AT MEASUREMENT DATE</b>	<b>7,789</b>	<b>6,733</b>	<b>(92,576)</b>	<b>(83,717)</b>
Employer contributions between measurement date and year-end	<u>10,764</u>	<u>6,524</u>	<u>649</u>	<u>553</u>
<b>ACCRUED BENEFIT ASSET (LIABILITY), END OF YEAR</b>	<b>\$ 18,553</b>	<b>\$ 13,257</b>	<b>\$ (91,927)</b>	<b>\$ (83,164)</b>
<b>Presented as follows:</b>				
Other long-term assets	\$ 66,541	\$ 57,111	\$ -	\$ -
Accounts payable and accrued liabilities and other long-term liabilities	<u>(47,988)</u>	<u>(43,854)</u>	<u>(91,927)</u>	<u>(83,164)</u>
	<u>\$ 18,553</u>	<u>\$ 13,257</u>	<u>\$ (91,927)</u>	<u>\$ (83,164)</u>

The following table shows the allocation of the plan assets at the measurement date.

ASSET CATEGORIES	2015	2014
Fixed-income securities	45.7%	45.5%
Equity securities	54.3%	54.5%
	<u>100.0%</u>	<u>100.0%</u>

**COMPONENTS OF THE ACCRUED BENEFIT COST**

The following table presents components of the accrued benefit cost for the 2015 and 2014 fiscal years in accordance with the standards defined in Section 3461, *Employee Future Benefits*, included in Part V of the Handbook as well as a reconciliation of costs (revenues) recognized and unrecognized in income resulting from regulatory treatments. For additional information about the regulatory treatments, refer to Note 4.

	2015	2014	2015	2014
	<b>Pension plans</b>	Pension plans	<b>Other post-retirement benefits</b>	Other post-retirement benefits
Current service cost	\$ 27,456	\$ 24,755	\$ 4,803	\$ 3,603
Interest cost	40,215	37,949	6,862	5,822
Actual return on plan assets	(41,150)	(94,887)	1,120	(4,344)
Actuarial losses on accrued benefit obligations	19,703	82,617	5,491	20,849
Loss on settlement	-	3,953	-	-
Cost before adjustments to recognize the long-term nature of employee future benefits	46,224	54,387	18,276	25,930
Difference between expected return and actual return on plan assets for the period	(7,553)	54,086	(4,524)	1,473
Difference between actuarial losses recognized for the period and actual actuarial losses on the accrued benefit obligations for the period	(7,226)	(71,533)	(2,729)	(20,017)
Amortization of past service costs for the period	1,205	1,978	-	-
Amortization of the transitional asset	-	(5,565)	-	-
Accrued benefit cost	\$ 32,650	\$ 33,353	\$ 11,023	\$ 7,386
Representing:				
Unrecognized cost (revenue) of Gaz Métro-QDA	\$ (9,267)	\$ (10,509)	\$ 8,237	\$ 5,237
Recognized cost	41,917	43,862	2,786	2,149
	\$ 32,650	\$ 33,353	\$ 11,023	\$ 7,386

The unrecognized cost (revenue) of Gaz Métro-QDA is equivalent to the difference between the cost recognized in income under the regulatory treatments and the actuarially determined cost using the projected benefit method prorated on eligible years of service for Gaz Métro-QDA. This unrecognized cost (revenue) is recognized as a deferred charge.

**MAIN ACTUARIAL ASSUMPTIONS**

	2015	2014	2015	2014
	<b>Pension plans</b>	Pension plans	<b>Other post-retirement benefits</b>	Other post-retirement benefits
<b>ACCRUED BENEFIT OBLIGATIONS AT THE MEASUREMENT DATE</b>				
Discount rate	4.00%	4.10%	4.00%	4.10%
Rate of compensation increase	2.75%	2.75%	2.75%	2.75%
<b>BENEFIT COST FOR THE 12-MONTH PERIODS ENDED AT THE MEASUREMENT DATE</b>				
Discount rate	4.10%	4.50%	4.10%	4.50%
Expected long-term rate of return on plan assets	5.80%	5.80%	6.65%	6.65%
Rate of compensation increase	2.75%	2.75%	2.75%	2.75%

The assumed health care cost trend rates used to project costs for fiscal 2016 for certain postretirement benefits are 6.3% for Gaz Métro-QDA and 7.0% for GMP. These rates decline gradually to 3.0% in 2035 for Gaz Métro-QDA and to 5.0% in 2023 for GMP, and remain at those levels thereafter. A 1% change in assumed health care cost trend rates would have the following effects:

	<u>1% increase</u>	<u>1% decrease</u>
<b>SENSITIVITY ANALYSIS OF OTHER POST-RETIREMENT BENEFITS</b>		
Impact on current service cost and interest cost	\$ 1,966	\$ (1,502)
Impact on accrued benefit obligations	\$ 23,978	\$ (18,960)

## CASH PAYMENTS

The Partnership must ensure that its defined benefit pension plans are adequately funded by making contributions to these plans in accordance with the actuarial valuations that have been based on long-term assumptions, i.e., on the expected return on plan assets, future changes in salary and retirement age, as required by the regulatory agencies governing pension plans. Total cash payments for employee future benefits stood at \$46,277,000 in 2015 and \$48,922,000 in 2014. These amounts consisted of the Partnership's contributions to its defined benefit pension plans and its defined contribution pension plans and of amounts paid for other postretirement and other benefits.

## 20. INCOME TAXES

	<u>2015</u>	<u>2014</u>
Income before income taxes	\$ 238,196	\$ 221,699
Current income taxes	3,020	4,799
Future income taxes	47,161	43,105
Income taxes	\$ 50,181	\$ 47,904

## RECONCILIATION OF INCOME TAX RATES

The effective income tax rate differs from the rate computed under Canadian income tax legislation. This difference between the statutory tax rates and the effective income tax rate is explained in the following table:

	<u>2015</u>	<u>2014</u>
Income before income taxes	\$ 238,196	\$ 221,699
Income from rate-regulated limited partnerships	(115,512)	(111,035)
Income from non-rate-regulated limited partnerships	40,362	34,993
	163,046	145,657
Statutory income tax rate	26.9%	26.9%
Income taxes at statutory rate	43,859	39,182
Increase (decrease) attributable to the following:		
Tax rate variance between jurisdictions	9,494	9,181
Future income taxes related to regulated activities	1,031	798
Permanent differences	(1,369)	(351)
Energy and production tax credits	(1,912)	(1,119)
Net impact of non-taxable items and other	(922)	213
Income taxes	\$ 50,181	\$ 47,904
Effective income tax rate <sup>(1)</sup>	30.8%	32.9%

<sup>(1)</sup> Excluding the portion of income from various limited partnerships, as the related income taxes are accounted for and paid by their partners.

**COMPONENTS OF FUTURE INCOME TAXES**

Future income taxes are recognized to take into account temporary differences. The net future income tax liability is mainly composed of the following:

	<b>2015</b>	<b>2014</b>
Non-deductible allowances	\$ <b>10,965</b>	\$ 19,208
Non-capital loss and tax credit carryforwards	<b>100,245</b>	63,947
Deferred charges and credits	<b>3,682</b>	(3,876)
Property, plant and equipment and intangible assets	<b>(422,287)</b>	(319,161)
Employee future benefits	<b>2,610</b>	2,444
Derivative financial instruments	<b>4,226</b>	1,465
Interests in entities subject to significant influence	<b>(181,443)</b>	(137,211)
Other	<b>(3,386)</b>	(1,128)
Net future income tax liability	<b>\$ (485,388)</b>	\$ (374,312)

**CONSOLIDATED BALANCE SHEET PRESENTATION**

	<b>2015</b>	<b>2014</b>
Future income tax assets:		
Current	\$ <b>52,136</b>	\$ 37,053
Long-term	<b>2,636</b>	4,676
	<b>54,772</b>	41,729
Future income tax liabilities:		
Current	<b>(1,823)</b>	-
Long-term	<b>(538,337)</b>	(416,041)
	<b>(540,160)</b>	(416,041)
Net future income tax liability	<b>\$ (485,388)</b>	\$ (374,312)

The Partnership's subsidiaries expect that they will be able to use their non-capital losses of \$226,103,000 before they expire, i.e., between 2032 and 2035.

Gaz Métro and its subsidiaries and joint ventures formed as limited partnerships do not present income tax expense, since, under existing legislation, it is the Partners who are taxable. If future income taxes relating to the group's limited partnerships had been calculated and recognized using the liability method in Section 3465 of Part V of the Handbook, the net future income tax liability balance would have been \$76,020,000 as at September 30, 2015 and \$80,864,000 higher as at September 30, 2014. This balance would have consisted primarily of the following items:

	<b>2015</b>	<b>2014</b>
Non-deductible allowances	\$ <b>6,413</b>	\$ 5,246
Deferred charges and credits	<b>(22,229)</b>	(22,884)
Property, plant and equipment and intangible assets	<b>(58,774)</b>	(61,973)
Financial instruments	<b>24,023</b>	7,469
Other	<b>(2,747)</b>	(2,190)
Subtotal	<b>(53,314)</b>	(74,332)
Valuation allowance	<b>(22,706)</b>	(6,532)
Net future income tax liability	<b>\$ (76,020)</b>	\$ (80,864)

As at September 30, 2015, the Partnership would have recognized a valuation allowance with respect to future income tax assets related to capital loss carryforwards on financial instruments for which the changes in fair value are recognized in *Other comprehensive income*.

**21. SEGMENT INFORMATION**

The below-described business segments were established based on the Partnership's management structure and reflect how management assesses their performance.

*Energy Distribution:* This segment encompasses Gaz Métro-QDA's activities and the natural gas and electricity distribution activities in Vermont (VGS and GMP). This segment's activities are subject to rate regulation by regulatory agencies in Quebec and Vermont.

*Natural Gas Transportation:* This segment reflects the results from Gaz Métro's interests in three natural gas transportation companies, i.e., TQM, Champion and PNGTS.

*Energy Production:* This segment encompasses the non-regulated energy production activities related to the wind power projects on the private lands of Seigneurie de Beauré.

*Energy Services, Storage and Other:* This segment combines Intragaz's underground natural gas storage activities in Quebec and all of the Partnership's other non-regulated commercial activities, in particular those related to the sale of natural gas as a fuel or energy product as well as the sale, leasing and maintenance of natural gas appliances.

*Corporate Affairs:* This segment encompasses all of the Partnership's other activities that are not directly attributable to the other segments as well as intersegment eliminations.

**2015**

	Energy Distribution			Natural Gas Transportation	Energy Production	Energy Services, Storage and Other	Corporate Affairs	Total
	Gaz Métro-QDA	VGS and GMP	Total					
Revenues from external customers	\$ 1,621,868	\$ 953,086	\$ 2,574,954	\$ 42,448	\$ 58,337	\$ 44,787	\$ 61	\$ 2,720,587
Intersegment revenues	12,537	-	12,537	3,645	-	10,978	(27,160)	-
Total revenues	1,634,405	953,086	2,587,491	46,093	58,337	55,765	(27,099)	2,720,587
Direct costs	1,045,676	586,246	1,631,922	-	-	10,697	-	1,642,619
Intersegment direct costs	13,725	-	13,725	-	-	12,495	(26,220)	-
Total direct costs	1,059,401	586,246	1,645,647	-	-	23,192	(26,220)	1,642,619
Gross margin	575,004	366,840	941,844	46,093	58,337	32,573	(879)	1,077,968
Operating and maintenance expenses	240,602	206,162	446,764	17,628	9,172	17,955	6,780	498,299
Share in earnings of entities subject to significant influence	-	(74,714)	(74,714)	(17,408)	-	-	-	(92,122)
EBITA <sup>(1)</sup>	334,402	235,392	569,794	45,873	49,165	14,618	(7,659)	671,791
Amortization	161,451	70,380	231,831	11,818	21,763	5,905	-	271,317
Interest on long-term debt	62,298	80,753	143,051	6,018	21,723	3,658	-	174,450
Financial and other expenses	(4,859)	(7,795)	(12,654)	157	(808)	1,141	(8)	(12,172)
Income (loss) before income taxes	115,512	92,054	207,566	27,880	6,487	3,914	(7,651)	238,196
Income taxes	-	34,828	34,828	11,234	1,103	1,495	1,521	50,181
Net income (loss)	\$ 115,512	\$ 57,226	\$ 172,738	\$ 16,646	\$ 5,384	\$ 2,419	\$ (9,172)	\$ 188,015
Net income (loss) attributable to:								
Non-controlling interests	\$ -	\$ -	\$ -	\$ -	\$ 3,597	\$ -	\$ -	\$ 3,597
Partners of Gaz Métro	\$ 115,512	\$ 57,226	\$ 172,738	\$ 16,646	\$ 1,787	\$ 2,419	\$ (9,172)	\$ 184,418
Interests in entities subject to significant influence	\$ -	\$ 583,349	\$ 583,349	\$ 121,654	\$ -	\$ -	\$ -	\$ 705,003
Assets	\$ 2,674,828	\$ 3,515,626	\$ 6,190,454	\$ 349,151	\$ 438,085	\$ 247,525	\$ (7,177)	\$ 7,218,038
Purchases of property, plant and equipment	\$ 144,037	\$ 166,464	\$ 310,501	\$ 7,987	\$ 31,340	\$ 48,619	\$ -	\$ 398,447
Change in deferred charges and credits	160,071	41,548	201,619	(2,944)	5	-	-	198,680
	\$ 304,108	\$ 208,012	\$ 512,120	\$ 5,043	\$ 31,345	\$ 48,619	\$ -	\$ 597,127

<sup>(1)</sup> EBITA is not a measurement defined by Canadian GAAP. The Partnership defines it as income (loss) before amortization (excluding the amortization of GHG emission allowances), interest on long-term debt, financial and other expenses, and income taxes.



2014

	Energy Distribution			Natural Gas Transportation	Energy Production	Energy Services, Storage and Other	Corporate Affairs	Total
	Gaz Métro-QDA	VGS and GMP	Total					
Revenues from external customers	\$ 1,551,320	\$ 866,861	\$ 2,418,181	\$ 40,301	\$ 34,842	\$ 43,308	\$ 76	\$ 2,536,708
Intersegment revenues	10,377	-	10,377	2,525	-	10,942	(23,844)	-
Total revenues	1,561,697	866,861	2,428,558	42,826	34,842	54,250	(23,768)	2,536,708
Direct costs	978,500	528,232	1,506,732	-	-	15,954	(50)	1,522,636
Intersegment direct costs	12,603	-	12,603	-	-	10,260	(22,863)	-
Total direct costs	991,103	528,232	1,519,335	-	-	26,214	(22,913)	1,522,636
Gross margin	570,594	338,629	909,223	42,826	34,842	28,036	(855)	1,014,072
Operating and maintenance expenses	256,160	168,059	424,219	13,566	6,757	19,327	7,486	471,355
Share in earnings of entities subject to significant influence	-	(61,696)	(61,696)	(15,185)	-	-	-	(76,881)
EBITA <sup>(1)</sup>	314,434	232,266	546,700	44,445	28,085	8,709	(8,341)	619,598
Amortization	142,724	72,477	215,201	11,679	14,946	5,944	-	247,770
Interest on long-term debt	60,847	67,997	128,844	6,132	17,149	3,582	-	155,707
Financial and other expenses	(171)	(2,748)	(2,919)	98	(2,614)	(138)	(5)	(5,578)
Income (loss) before income taxes	111,034	94,540	205,574	26,536	(1,396)	(679)	(8,336)	221,699
Income taxes (recovered)	-	36,331	36,331	10,388	(468)	2,270	(617)	47,904
Net income (loss)	\$ 111,034	\$ 58,209	\$ 169,243	\$ 16,148	\$ (928)	\$ (2,949)	\$ (7,719)	\$ 173,795
Net income (loss) attributable to:								
Non-controlling interests	\$ -	\$ -	\$ -	\$ -	\$ (889)	\$ -	\$ -	\$ (889)
Partners of Gaz Métro	\$ 111,034	\$ 58,209	\$ 169,243	\$ 16,148	\$ (39)	\$ (2,949)	\$ (7,719)	\$ 174,684
Interests in entities subject to significant influence	\$ -	\$ 442,072	\$ 442,072	\$ 93,150	\$ -	\$ -	\$ -	\$ 535,222
Assets	\$ 2,353,065	\$ 2,798,678	\$ 5,151,743	\$ 321,219	\$ 479,844	\$ 198,534	\$ (7,126)	\$ 6,144,214
Purchases of property, plant and equipment	\$ 161,006	\$ 155,883	\$ 316,889	\$ 9,583	\$ 110,108	\$ 15,004	\$ (107)	\$ 451,477
Change in deferred charges and credits	114,130	1,333	115,463	974	29	7	-	116,473
	\$ 275,136	\$ 157,216	\$ 432,352	\$ 10,557	\$ 110,137	\$ 15,011	\$ (107)	\$ 567,950

<sup>(1)</sup> EBITA is not a measurement defined by Canadian GAAP. The Partnership defines it as income (loss) before amortization, interest on long-term debt, financial and other expenses, and income taxes (recovered).

**GEOGRAPHIC INFORMATION**

	<b>2015</b>		<b>2014</b>	
	<b>Revenues from external customers <sup>(1)</sup></b>	<b>Property, plant and equipment and goodwill</b>	<b>Revenues from external customers <sup>(1)</sup></b>	<b>Property, plant and equipment and goodwill</b>
Canada	\$ <b>1,767,501</b>	\$ <b>2,703,779</b>	\$ 1,669,847	\$ 2,605,634
United States	<b>953,086</b>	<b>2,150,086</b>	866,861	1,714,252
Total	\$ <b>2,720,587</b>	\$ <b>4,853,865</b>	\$ 2,536,708	\$ 4,319,886

<sup>(1)</sup> Revenues from external customers are presented according to the country of origin of the goods or services.

**22. RELATED PARTY TRANSACTIONS**

The following related party transactions are carried out in the normal course of operations and, unless otherwise indicated, are measured at the exchange amount, i.e., the amount of consideration established and agreed to by the related parties.

Gaz Métro-QDA incurred natural gas storage costs of \$16,800,000 during fiscal 2015 (\$16,797,000 in 2014) with Intragaz, one of its joint ventures owned in partnership with GDF Québec Inc. The Partnership's share in Intragaz's revenues, which is eliminated upon proportionate consolidation, was \$10,080,000 in 2015 (\$10,078,000 in 2014). The non-eliminated portion of these natural gas storage costs is presented as *Direct costs* in the consolidated statement of income.

In fiscal 2015, Transco provided GMP with electricity transmission services totalling \$34,174,000 (\$22,747,000 in 2014), presented as *Direct costs* in the consolidated statement of income.

For fiscal 2015, as per the Administration and Management Support Agreement entered into with Valener, expiring in 2025, Valener charged Gaz Métro an amount of \$1,747,000 (\$1,756,000 in 2014) for administrative expenses (including costs related to public company matters). These expenses are presented as *Operating and maintenance expenses* in the consolidated statement of income.

**23. CAPITAL MANAGEMENT**

The capital is managed to ensure that its Partners earn a stable and foreseeable return and to create wealth for them over time. Since Gaz Métro's practice is to distribute substantially all of its net income, it must turn to capital markets and its Partners to finance major investment projects that are not part of routine operations.

The Partnership's capital management activities include debt issuances, repayments of existing debt, unit issuances, distributions to Partners, and the use of operating cash flows as well as the other changes in cash and cash equivalents.

The capital structure is composed of Partners' equity, bank loans, the current portion of long-term debt and long-term debt net of financing costs. As at September 30, 2015 and 2014, the consolidated capital structure was as follows:

	<b>2015</b>	<b>2014</b>
Bank loans	\$ <b>28,972</b>	\$ -
Current portion of long-term debt	<b>33,310</b>	27,016
Long-term debt, net of financing costs	<b>3,530,986</b>	3,140,762
Total debt	<b>3,593,268</b>	3,167,778
Partners' equity	<b>1,829,608</b>	1,482,354
Total capitalization	\$ <b>5,422,876</b>	\$ 4,650,132
Debt / total capitalization ratio	<b>66.3%</b>	68.1%

The capital is managed with a focus on achieving the above-mentioned objectives while also complying with the capital structure requirements of the various regulatory agencies and with the restrictive covenants of the credit facilities and of the trust deeds and other agreements governing long-term debt. Management monitors capital management using the debt / total capitalization ratio and the long-term debt interest coverage ratio. The debt / total capitalization ratio consists of total debt divided by total capitalization. Total debt is the sum of bank loans, the current portion of long-term debt, and long-term debt net of financing costs. Total capitalization is the sum of total debt and Partners' equity. The long-term debt interest coverage ratio is obtained by dividing total interest on long-term debt by net income before interest on long-term debt and income taxes.

Management has also established an internal objective to fix the interest rate on at least 75.0% of its long-term debt and leave the balance at floating rates. As at September 30, 2015, 89.7% of the long-term debt was at fixed rates compared to 86.0% as at September 30, 2014.

The Partnership's trust deeds and other credit agreements governing long-term debt include restrictive covenants, as described in Note 14.

As at September 30, 2015 and 2014, the long-term debt / total capitalization ratios under the terms of the trust deeds and other credit agreements based on Gaz Métro's non-consolidated financial statements were 52.8% and 55.6%, respectively.

For fiscal years ended September 30, 2015 and 2014, the long-term debt interest coverage ratios based on Gaz Métro's non-consolidated financial statements were 2.94 times and 3.01 times, respectively.

Each of the Partnership's regulated public utility enterprises has its own capital structure that corresponds with the capital structure reflected in customer rates as authorized by the various regulatory agencies. As at September 30, 2015, the Partnership and its subsidiaries and joint ventures were in compliance with all of the externally imposed capital requirements.

## 24. FINANCIAL INSTRUMENTS

### NON-DERIVATIVE FINANCIAL INSTRUMENTS

The carrying amount and fair value of non-derivative financial instruments recognized at amortized cost, as described in Note 2, are as follows:

	2015		2014	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>LOANS AND RECEIVABLES</b>				
Trade and other receivables	\$ 222,678	\$ 222,678	\$ 211,865	\$ 211,865
<b>FINANCIAL LIABILITIES NOT HELD FOR TRADING</b>				
Bank loans	\$ 28,972	\$ 28,972	\$ -	\$ -
Accounts payable and accrued liabilities	355,547	355,547	341,073	341,073
Distributions payable	44,794	44,794	42,503	42,503
Long-term debt <sup>(1)</sup>	3,597,613	4,053,010	3,201,099	3,483,768
Liability related to the elimination of spent nuclear fuel <sup>(2)</sup>	193,462	193,462	162,322	162,322
Investissement Québec's interest in Gaz Métro LNG <sup>(2)</sup>	24,034	24,034	-	-
<b>Total</b>	<b>\$ 4,244,422</b>	<b>\$ 4,699,819</b>	<b>\$ 3,746,997</b>	<b>\$ 4,029,666</b>

<sup>(1)</sup> The carrying amount of long-term debt is presented before financing costs, net of amortization.

<sup>(2)</sup> These financial instruments are presented in *Other long-term liabilities*.

The fair values represent the estimates of the consideration that would be agreed upon in an arm's length transaction by willing and knowledgeable parties. These estimates were determined at a specific date and could be amended during future periods as a result of market conditions or other factors.

The fair value of these financial instruments, except for long-term debt and Investissement Québec's interest in Gaz Métro LNG, approximates their carrying amount given the short period to maturity or because their terms and conditions are comparable to those of the current market for similar instruments.

The fair value of Investissement Québec's interest in Gaz Métro LNG approximates the present value of the exercise price of the sell option measured by using the estimated probability-weighted exit price payments and discounted using a project risk-adjusted discount rate.

The fair value of the long-term debt, including current portions, is calculated using market prices at the end of the year for the same or similar instruments, when available, or, when such information is not available, using discounted future

cash flows at interest rates that Gaz Métro and its subsidiaries and joint ventures could have obtained as at the balance sheet date for borrowings with similar terms, conditions and maturity dates.

The U.S.-dollar-denominated secured senior notes and a portion of Gaz Métro's U.S.-dollar-denominated term loans are designated as a hedge of the net investment in self-sustaining foreign operations that use the U.S. dollar as their functional currency. As at September 30, 2015, the carrying amount of these financial liabilities designated as hedges totalled \$771,474,000 (US\$578,100,000) (as at September 30, 2014: \$644,336,000 (US\$575,300,000)). The Partnership applied hedge accounting to these designations. The effective portion of the unrealized exchange losses on the hedge of the net investment in self-sustaining foreign operations was \$124,029,000 for the year ended September 30, 2015 (losses of \$51,708,000 in 2014) and was recognized in *Other comprehensive income*.

As described in Note 2, non-derivative financial instruments measured at fair value are allocated between the three levels, as follows:

				2015
	Level 1	Level 2	Level 3	Total
<b>FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING</b>				
Cash and cash equivalents	\$ 87,437	\$ -	\$ -	\$ 87,437
Restricted cash	28,100	-	-	28,100
Bank overdraft	(6,421)	-	-	(6,421)
	<u>\$ 109,116</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 109,116</u>
<b>FINANCIAL ASSETS AVAILABLE FOR SALE</b>				
Investment funds <sup>(1)</sup>	<u>\$ 99,896</u>	<u>\$ 110,652</u>	<u>\$ -</u>	<u>\$ 210,548</u>
	Level 1	Level 2	Level 3	2014
	Level 1	Level 2	Level 3	Total
<b>FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING</b>				
Cash and cash equivalents	\$ 103,657	\$ -	\$ -	\$ 103,657
Restricted cash	45,548	-	-	45,548
Bank overdraft	(5,422)	-	-	(5,422)
	<u>\$ 143,783</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 143,783</u>
<b>FINANCIAL ASSETS AVAILABLE FOR SALE</b>				
Investment funds <sup>(1)</sup>	<u>\$ 113,695</u>	<u>\$ 60,618</u>	<u>\$ -</u>	<u>\$ 174,313</u>

<sup>(1)</sup> These financial instruments are presented in *Investments and other* on the consolidated balance sheet.

## FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of derivative financial instruments reflects the amounts the Partnership estimates it would receive on settlement of favourable contracts or would be obliged to pay to terminate unfavourable contracts at the balance sheet date. This fair value for derivative financial instruments is estimated using spot rates or forward rates or prices at the close of markets at the balance sheet date. In the absence of such information for a given instrument, the Partnership uses the forward rate or price of a similar instrument. A risk premium is added to the risk-free interest rate in estimating fair value to reflect the credit risk of both the Partnership and its subsidiaries and joint ventures and the credit risk of each counterparty.

The following table presents the main assumptions underlying the fair value calculation of derivative financial instruments as at September 30, 2015.

	Valuation model	Discount rate	Implicit price volatility	Forward price
Swaps	<sup>(1)</sup>	2.80%	N/A	N/A
Forward exchange contracts	<sup>(1)</sup>	1.96%	N/A	N/A
Instruments related to natural gas:				
Fixed-price swaps	<sup>(1)</sup>	1.38%	N/A	\$2.52/GJ to \$2.84/GJ
Collars	Black-Scholes	1.31%	- <sup>(2)</sup>	\$2.72/GJ
Instruments related to electricity:				
Fixed-price capacity swaps	<sup>(1)</sup>	1.90%	N/A	US\$9.55/kW

<sup>(1)</sup> The fair value of these derivative financial instruments was calculated using discounted future cash flows on the basis of the assumptions indicated in this table.

<sup>(2)</sup> The volatility was nil as at September 30, 2015 given that the underlying of the financial instrument was known at that date.

The par values, fair values and maturities of the various categories of derivative financial instruments are as follows:

			2015
	Par value	Fair value	Maturity
Swaps <sup>(1)</sup>	\$ 318,970	\$ (31,514)	2017-2032
Forward exchange contracts	\$ 62,163	\$ (3,956)	2016-2019
Instruments related to natural gas (in thousands of gigajoules):			
Fixed-price swaps	4,958	\$ (1,678)	2016
Collars	465	(267)	2016
Instruments related to electricity (in megawatts):			
Fixed-price capacity swap	5,400	16,220	2019-2021
		\$ 14,275	
Total		\$ (21,195)	
Portion presented as:			
Current assets		\$ 2	
Long-term assets		16,220	
Current liabilities		(5,198)	
Long-term liabilities		(32,219)	
Total		\$ (21,195)	
			2014
	Par value	Fair value	Maturity
Swaps <sup>(1)</sup>	\$ 290,351	\$ (12,349)	2023-2032
Forward exchange contracts	\$ 35,585	\$ (1,063)	2015
Instruments related to natural gas (in thousands of gigajoules):			
Fixed-price swaps	5,131	\$ (1,111)	2015
Collars	14,848	(1)	2016
Instruments related to electricity (in thousands of megawatthours):			
9701 Agreement <sup>(2)</sup>	53	(8,906)	2015
		\$ (10,018)	
Total		\$ (23,430)	
Portion presented as:			
Current assets		\$ 1,057	
Long-term assets		86	
Current liabilities		(11,882)	
Long-term liabilities		(12,691)	
Total		\$ (23,430)	

<sup>(1)</sup> These derivative financial instruments, which are sensitive to interest rates, fix interest rates on certain floating rate debts and borrowings (Notes 13 and 14), and Gaz Métro applies cash flow hedge accounting to these derivative financial instruments.

<sup>(2)</sup> The 9701 Agreement between GMP and Hydro-Québec, which ended in 2015, granted Hydro-Québec an option to purchase a certain quantity of electricity at a predetermined price.

**FAIR VALUE HIERARCHY OF DERIVATIVE FINANCIAL INSTRUMENTS**

As at September 30, 2015, the fair values of all derivative financial instruments were measured using Level 2, as described in Note 2, except for the electricity-related instruments. During fiscal 2015, the Partnership entered into two fixed-price capacity swaps to cover a portion of future costs. The Partnership concluded that the measurement of these swaps met the requirements for Level 3 since the valuation technique included a significant unobservable assumption concerning forward prices on the capacity market. In addition to the previously presented assumptions, the Partnership used a risk-free rate of 0.88% to 1.63% and the forward prices used are based on the index determined by ISO New England.

As described in Note 4, the offsetting entry of the remeasurements of derivative financial instruments of companies in the Energy Distribution segment is recorded as deferred charges and credits in the consolidated balance sheet. Accordingly, no gain or loss has been recorded in consolidated net income and other comprehensive income under the regulatory treatment. The following table presents the changes in the net fair value of the fixed-price electricity swaps that are classified in Level 3 of the fair value hierarchy:

Balance, beginning of year	\$	-
Change in fair value related to unrealized gains		15,245
Translation adjustment of self-sustaining foreign operations		975
Balance, end of year	\$	<u>16,220</u>

As at September 30, 2014, the fair values of all derivative financial instruments were measured using Level 2.

**25. FINANCIAL INSTRUMENT RISK MANAGEMENT**
**OVERVIEW OF RISK MANAGEMENT**

The Partnership is exposed to market risk, credit risk and liquidity risk. The existing strategies, policies and controls are designed to ensure that the risks assumed by Gaz Métro related to its financial instruments comply with regulatory requirements, its objectives and its risk tolerance. Risks are managed within limits approved by GMI's board of directors and applied by management.

**MARKET RISK**

There are several classes of market risk. Changes in risk factors such as exchange rates, interest rates and natural gas and electricity prices have an impact on the fair value of financial assets and liabilities.

**Exchange risk**

The U.S.-dollar-denominated secured senior notes and a portion of Gaz Métro's U.S.-dollar-denominated term loans are designated as a hedge of an equivalent portion of the net investment in self-sustaining foreign operations. As such, the impact of exchange rate changes on U.S.-dollar-denominated long-term debts designated as hedges is recognized in consolidated other comprehensive income, partly reducing translation adjustments of self-sustaining foreign operations. Moreover, forward exchange contracts are used to manage the exchange risk related to U.S.-dollar-denominated revenues from Gaz Métro LNG contracts. For additional information about these hedging relationships, refer to Note 24.

As at September 30, 2015, a 5% appreciation or depreciation of the U.S. dollar against the Canadian dollar would have had an impact of \$1,398,000 on consolidated net income and of \$39,520,000 on consolidated other comprehensive income.

VGS, whose functional currency is the U.S. dollar, is exposed to exchange rate fluctuations of the Canadian dollar versus the U.S. dollar because a significant portion of its natural gas purchases are denominated in Canadian dollars. VGS uses forward exchange contracts to manage this type of exchange risk. This item has not been factored into the sensitivity analysis because any change in fair value is recognized in a deferred charges account, as approved by the VPSB. Consequently, any change in the exchange rate would have an impact on regulatory assets or liabilities and not on consolidated net income or consolidated other comprehensive income.

### Interest rate risk

Gaz Métro is exposed to the risk of interest rate fluctuations and manages such risk mainly through an interest-rate-setting policy allowing it to maintain a significant portion of its long-term debt at a fixed rate.

However, Gaz Métro is exposed to interest rate risk on its bank loans and on the floating rate portion of its long-term debt. Gaz Métro uses interest rate swaps, which it designates for hedging purposes, to fix interest rates on a floating-rate portion of the long-term debt. A 100-basis-point increase in interest rates, with all other variables being constant and considering the impact of the interest rate swaps, would have reduced consolidated net income by \$1,398,000, whereas a 100-basis-point decrease in interest rates would have increased consolidated net income by \$1,501,000. This impact does not include bank loans and the portion of Gaz Métro-QDA's floating-rate long-term debt, because, according to a regulatory treatment, the difference between the actual interest rates and the rates used during rate-setting is recorded as a deferred charge such that it can be recovered from future rates.

With all other variables being constant, a 100-basis-point increase in interest rates would have increased consolidated other comprehensive income by \$23,302,000, while a 100-basis-point decrease in interest rates would have decreased consolidated other comprehensive income by \$24,839,000.

### Energy cost risk

Derivative financial instruments related to natural gas and electricity are used to manage customers' exposure to the volatility of natural gas and electricity prices. Furthermore, all energy price fluctuations, including gains and losses on derivative financial instruments, are recorded as deferred charges or credits to be included in future rates under the provisions of the *Act respecting the Régie de l'énergie* and the decisions of the VPSB. In Quebec, natural gas must be sold to customers at cost. In Vermont, VGS, GMP and CVPS benefit from an adjustment mechanism that minimizes the risk of fluctuations in natural gas and electricity prices.

### CREDIT RISK

Credit risk is the risk that a customer, with whom the Partnership or one of its subsidiaries or joint ventures enters into sales transactions for goods or services, or that a counterparty to financial instruments is unable to fulfill its obligations pursuant to the agreements in which it has entered into, and that such a situation results in a financial loss. The maximum counterparty risk exposure is the carrying amount of the financial instruments reported in assets on the consolidated balance sheet.

The aging of the consolidated trade accounts receivable is presented below:

	2015	2014
Less than 30 days	\$ 190,986	\$ 178,544
30 to 60 days	7,656	7,495
61 to 90 days	2,144	2,941
Over 90 days	10,921	11,369
	<u>211,707</u>	<u>200,349</u>
Less: Allowance for doubtful accounts	(8,454)	(7,132)
	<u>\$ 203,253</u>	<u>\$ 193,217</u>

*Trade and other receivables* credit concentration is limited given the diversity and number of customers. Credit risk from *Trade and other receivables* is mitigated through various means, including obtaining security deposits from customers in circumstances permitted by the regulatory agencies. As at September 30, 2015, the Partnership has security deposits from customers amounting to \$41,593,000 compared to \$37,759,000 as at September 30, 2014.

The credit risk relating to counterparties is mitigated by using credit risk management techniques that measure and monitor a counterparty's creditworthiness; entering into agreements with several counterparties; setting risk limits; monitoring risk according to such limits; establishing credit support agreements; and obtaining financial guarantees and security deposits where warranted and pursuant to the terms and conditions approved by regulatory authorities. Gaz Métro closely monitors and manages counterparty credit risk concentration.

As at September 30, 2015, most of the counterparties have a high credit rating that is at least equivalent to that of Gaz Métro, and all are major companies that meet the Partnership's credit assessment criteria.



## LIQUIDITY RISK

Liquidity risk is the risk that the Partnership would be unable to pay its financial commitments as they become due. The Partnership manages liquidity risk by forecasting its cash flows in order to determine its financing needs and by ensuring that it has sufficient cash and credit facilities to fulfill its needs and to meet its obligations as they become due. A combination of committed and demand credit facilities and access to capital markets, directly through Gaz Métro or some of its subsidiaries and joint ventures or through GMI or Valener, allows it to satisfy its financing needs. However, any significant reduction in the ability of Gaz Métro or some of its subsidiaries or joint ventures or in the ability of the subsidiaries or joint ventures of GMI or Valener to access capital markets, or any significant increase in their financing costs, by reason of, for example, significant deterioration in economic conditions, the general condition of financial markets, a negative financial market perception of their financial position or outlook, or a significant downgrade of their credit ratings, could have an unfavourable impact on Gaz Métro's activities, financial position or consolidated net income.

The following table presents the required capital and interest payments for the financial liabilities as at September 30, 2015, assuming the balances borrowed on the credit facility remain constant.

Maturity	Bank overdraft	Bank loan	Accounts payable and accrued liabilities	Distributions payable	Derivative financial liabilities	Long-term debt	Interest	Total
Less than one year	\$ 6,421	\$ 28,972	\$ 355,547	\$ 44,794	\$ 5,151	\$ 33,310	\$ 162,309	\$ 636,504
2 to 5 years	-	-	-	-	4,876	972,004	553,553	1,530,433
6 to 10 years	-	-	-	-	3,355	808,747	518,907	1,331,009
11 to 15 years	-	-	-	-	-	278,268	403,609	681,877
16 to 20 years	-	-	-	-	24,035	369,179	311,296	704,510
21 to 25 years	-	-	-	-	-	224,732	213,636	438,368
26 to 30 years	-	-	-	-	-	777,926	109,008	886,934
31 to 34 years	-	-	-	-	-	133,447	16,775	150,222
Total	\$ 6,421	\$ 28,972	\$ 355,547	\$ 44,794	\$ 37,417	\$ 3,597,613	\$ 2,289,093	\$ 6,359,857

Interest is presented based on contractual maturity and the rates in effect as at September 30, 2015.

## 26. COMMITMENTS AND GUARANTEES

### SUPPLY CONTRACTS

In the normal course of business, energy supply contracts (natural gas and electricity) and natural gas transportation and storage contracts were concluded for various periods. For most of these contracts, prices are established based on the market or on rates periodically approved by regulatory agencies. The costs relating to these contracts will be recovered from customers in the corresponding periods.

As at September 30, 2015, the schedule of contractual commitments related to the different types of supply, for which the duration was more than one year, was as follows:

	2016	2017	2018	2019	2020	Subsequent fiscal years	Total
Energy supply	\$ 241,409	\$ 259,854	\$ 254,076	\$ 241,898	\$ 215,799	\$ 2,741,844	\$ 3,954,880
Transportation	523,734	391,315	238,785	222,572	222,513	620,584	2,219,503
Storage	18,322	14,398	9,145	7,022	6,626	19,186	74,699
Total	\$ 783,465	\$ 665,567	\$ 502,006	\$ 471,492	\$ 444,938	\$ 3,381,614	\$ 6,249,082

Contractual commitments are shown according to the prices and rates prevailing on the balance sheet date, with the exception of fixed-price contracts.

These electricity supply contracts include a joint contract signed by GMP and other Vermont electricity distributors with Hydro-Québec. This contract contains several schedules expiring between 2015 and 2021. It also includes a joint and several liability clause among the various electricity distributors. If some of the partners to the contract were unable to fulfill their volume commitment, the other partners to the contract, including GMP, would be responsible for purchasing the defaulting partner's electricity quantity. GMP estimates that if all the other partners to the contract failed to purchase their contractual volumes between September 30, 2015 and the end of the contract, its additional obligation would have

been approximately \$22,753,000 (US\$17,050,000). Given the nature of this guarantee, GMP is unable to estimate the amount of the potential payment it might be required to pay under this joint and several liability.

In 2015 and 2014, as a part of the measures implemented to ensure the security and diversity of gas supply, Gaz Métro-QDA and VGS signed transportation capacity precedent agreements and should these agreements be cancelled financial backstopping agreements in order to increase natural gas transportation capacity from the Dawn hub in Ontario. The transportation agreements will have a 15-year term and should take effect in November 2016 for Gaz Métro-QDA and in November 2017 for VGS. These agreements are required to meet gas supply needs in Quebec and Vermont and will ensure access to the affordable, diverse sources of natural gas from the Dawn hub.

## OTHER COMMITMENTS

### Wind parks 2 and 3

In June 2008, as part of wind power projects 2 and 3 with an installed capacity of 272 megawatts, Wind Farms 2 and 3 signed a wind park operation, maintenance and administration contract that took effect on December 1, 2012. Disbursements under the contract, which will end in 2033, depend on the quantity of electricity generated by the wind turbines, among other factors. As at September 30, 2015, the share of Beupré Éole General Partnership (Beupré Éole) in the commitments made by Wind Farms 2 and 3 under this contract stood at \$10,795,000.

In August 2011, Wind Farms 2 and 3 entered into two 15-year wind turbine maintenance contracts that came into effect on the electricity delivery start dates, namely in November and December 2013, respectively. These contracts have an option for termination after seven years at the discretion of Wind Farms 2 and 3. Disbursements related to these contracts will be made as of the second year following the start date of the electricity deliveries and will depend on the quantity of electricity generated by the wind turbines, among other factors. As at September 30, 2015, Beupré Éole's share in the commitments made by Wind Farms 2 and 3 under these contracts was \$18,665,000.

### Wind park 4

In August 2013, Wind Farm 4 entered into a contract that took effect on December 1, 2013 for the operation, maintenance and administration of the wind park. Disbursements under the contract, which will end in 2034, depend on the quantity of electricity generated by the wind turbines, among other factors. As at September 30, 2015, the share of Beupré Éole 4 General Partnership (Beupré Éole 4) in the commitments made by Wind Farm 4 under this contract was \$4,510,000.

In September 2013, Wind Farm 4 entered into a 15-year wind turbine maintenance contract that took effect on the start of electricity deliveries in December 2014. This contract has an option for termination after seven years at the discretion of Wind Farm 4. Disbursements related to this contract will be made as of the second year following the electricity delivery start date and will depend on the quantity of electricity generated by the wind turbines, among other factors. As at September 30, 2015, Beupré Éole 4's share in the commitments made by Wind Farm 4 under this contract was \$5,628,000.

### Expansion project to increase the capacity of the liquefaction, storage and regasification (LSR) plant

Gaz Métro LNG entered into an engineering, supply and construction contract to expand the capacity of the LSR plant, which is expected to be put into commercial service in autumn 2016. Disbursements are being made based on the stage of completion of the work. As at September 30, 2015, Gaz Métro LNG's commitment under this contract was \$44,386,000.

## LEASES

Under operating leases, the Partnership and its subsidiaries and joint ventures are committed to renting commercial premises and other assets used in the normal course of their operations. Minimum annual payments required under these leases are as follows:

	2016	2017	2018	2019	2020	Subsequent fiscal years	Total
Leases	\$ 2,565	\$ 1,569	\$ 1,442	\$ 1,248	\$ 1,143	\$ 16,315	\$ 24,282

## **GUARANTEES**

Under the electricity supply contracts for wind power projects 2 and 3, Wind Farms 2 and 3 issued guarantees in favour of Hydro-Québec totalling \$10,872,000 in the form of letters of credit. When the construction loan converted to a term loan on July 28, 2014, Wind Farms 2 and 3 issued letters of credit totalling \$32,286,000 and \$3,714,000, respectively, to guarantee the debt service reserve account and operating and maintenance expense reserve account, as set out in the Wind Farms 2 and 3 credit agreement. As at September 30, 2015, Beauré Éole's share in the letters of credit issued by the lenders of Wind Farms 2 and 3 stood at \$23,436,000.

Under the electricity supply contracts of wind power project 4, Wind Farm 4 issued guarantees in favour of Hydro-Québec totalling \$2,833,000 in the form of letters of credit. When the construction loan converted to a term loan on September 4, 2015, Wind Farm 4 issued a letter of credit totalling \$7,940,000 to guarantee the debt service reserve account, as set out in the Wind Farm 4 credit agreement. As at September 30, 2015, Beauré Éole 4's share in the letters of credit issued by the lenders of Wind Farm 4 stood at \$5,387,000.

GMI, in its capacity as General Partner of Gaz Métro, issued letters of credit for \$36,666,000 against its credit facility to guarantee a portion of the employee future benefits of Gaz Métro-QDA. If the letters of credit are not renewed, alternative solutions will have to be considered to guarantee Gaz Métro's commitments vis à vis these employee future benefits.

In the normal course of their operations, the Partnership and GMI, as General Partner, may provide bid bonds and performance bonds. The Partnership and GMI may also provide such guarantees on behalf of Gaz Métro's subsidiaries and joint ventures. Generally, the Partnership and GMI would be liable only for the amount of the bid bonds if they or Gaz Métro's subsidiaries or joint ventures did not carry out the work once the tender was awarded. In the case of performance bonds, the Partnership and GMI would also be liable for the guaranteed amounts if they or Gaz Métro's subsidiaries or joint ventures failed to perform their commitments. As at September 30, 2015, the amount of these guarantees provided by the Partnership and GMI was insignificant. The Partnership and GMI consider that they and the subsidiaries and joint ventures of Gaz Métro are in compliance with all of these guarantees and that their total obligation under these guarantees would not have a significant impact on the Partnership's net income or its financial position. The Partnership did not recognize any amount on the consolidated balance sheet in respect of these guarantees.

The Partnership and some of its subsidiaries and joint ventures have agreed to provide certain collateral, pursuant to certain derivative financial instrument contracts that define the natural gas or electricity price, the interest rates or the exchange rate, if the fair value of said instruments becomes negative for Gaz Métro and exceeds a certain pre-determined threshold. The Partnership did not recognize any amount on the consolidated balance sheet in respect of this collateral.

## **27. CONTINGENCIES**

### **LITIGATION**

The Partnership is cited in claims and lawsuits in the normal course of its operations, including for environmental matters. In management's opinion, these claims and lawsuits are, for the most part, covered by appropriate insurance coverage, and the outcome of these claims and lawsuits is not expected to have a significant impact on the Partnership's net income or financial position.

## **28. SUBSEQUENT EVENT**

### **DECLARATION OF A DISTRIBUTION**

On November 26, 2015, the board of directors of GMI, acting in its capacity as General Partner of Gaz Métro, declared a quarterly distribution of \$48,503,000, payable on January 5, 2016 to its Partners.

## **29. COMPARATIVE FIGURES**

Certain prior year comparative figures have been reclassified to conform to the current year's presentation.

**GAZ MÉTRO LIMITED PARTNERSHIP**  
**FIVE-YEAR REVIEW – CONSOLIDATED OPERATING STATISTICS <sup>(1)</sup>**

Fiscal years ended September 30

	2015	2014	2013	2012	2011
<b>NORMALIZED NATURAL GAS VOLUME (10<sup>6</sup>m<sup>3</sup>) <sup>(2)</sup></b>					
<b>Distribution</b>					
Industrial					
Firm service	3,133	2,983	2,714	2,394	1,914
Interruptible service	425	498	722	941	926
Commercial	1,809	1,846	1,659	1,670	2,207
Residential	671	673	670	639	664
Total (10 <sup>6</sup> m <sup>3</sup> )	6,038	6,000	5,765	5,644	5,711
Total (Bcf)	213	212	204	199	202
<b>NATURAL GAS DELIVERIES (10<sup>6</sup>m<sup>3</sup>)</b>					
<b>Distribution</b>					
Total (10 <sup>6</sup> m <sup>3</sup> )	6,210	6,191	5,719	5,446	5,718
Total (Bcf)	219	219	202	192	202
<b>Transportation <sup>(3) (4)</sup></b>					
Total (10 <sup>6</sup> m <sup>3</sup> )	7,709	7,145	7,343	6,171	5,703
Total (Bcf)	272	252	259	218	201
<b>ELECTRICITY DISTRIBUTION (gigawatthours) <sup>(5)</sup></b>					
Residential	1,553	1,558	1,547	785	582
Small commercial and industrial	1,564	1,569	1,562	916	702
Large commercial and industrial	1,171	1,170	1,164	764	623
Total	4,288	4,297	4,273	2,465	1,907
<b>CUSTOMERS <sup>(5)</sup></b>					
<b>Distribution of natural gas and electricity</b>					
Industrial	7,878	7,681	7,180	5,185	2,100
Commercial	95,102	93,092	88,176	83,788	70,219
Residential	404,280	401,994	403,855	403,880	251,479
Total	507,260	502,767	499,211	492,853	323,798
<b>SYSTEM DATA</b>					
<b>Length of pipelines (in km)</b>					
Natural gas distribution					
Canada <sup>(6)</sup>	10,657	10,565	10,602	10,517	10,366
United States	1,324	1,294	1,246	1,219	1,206
Total	11,981	11,859	11,848	11,736	11,572
Natural gas transportation <sup>(4)</sup>					
Canada	673	670	670	670	670
United States	489	489	489	489	489
Total	1,162	1,159	1,159	1,159	1,159
<b>Length of lines (overhead and underground) (in km)</b>					
Electricity distribution					
United States <sup>(5)</sup>	22,398	22,282	22,270	22,033	6,600
<b>Gross property, plant and equipment <sup>(7)</sup></b> (in millions of dollars)	6,372	5,719	5,182	4,667	3,877
<b>Net property, plant and equipment <sup>(7)</sup></b> (in millions of dollars)	4,440	3,974	3,584	3,249	2,531
<b>Additions to property, plant and equipment and deferred charges (in millions of dollars)</b>	597	568	625	603	314
<b>NUMBER OF EMPLOYEES <sup>(4)</sup></b>					
<b>Energy Distribution</b>					
Gaz Métro-QDA	1,449	1,413	1,408	1,373	1,335
VGS	150	134	122	116	122
GMP and CVPS <sup>(5)</sup>	566	604	650	729	217
Total	2,165	2,151	2,180	2,218	1,674
<b>Energy Production</b>	-	-	-	-	-
<b>Natural Gas Transportation</b>	-	-	-	-	-
<b>Energy Services, Storage and Other</b>	115	124	112	206	239

<sup>(1)</sup> Unaudited data.

<sup>(2)</sup> Normalized volumes based on normal temperature and wind velocities for natural gas distribution in Quebec (Gaz Métro-QDA) and for normal temperature for VGS since October 1, 2012.

<sup>(3)</sup> Includes volumes transported and delivered by TQM to the distribution segment and to PNGTS.

<sup>(4)</sup> Data not adjusted to reflect Gaz Métro's percentage interest in subsidiaries, joint ventures and entities subject to significant influence.

<sup>(5)</sup> Acquisition of CVPS on June 27, 2012.

<sup>(6)</sup> In 2014, the method used to determine pipeline length in Canada changed and now applies geomatics, which explains the difference from 2013. Prior year figures have not been changed to reflect this new method.

<sup>(7)</sup> The figures for the year ended September 30, 2014 have been adjusted to reflect the presentation adopted for the current fiscal year.

**GAZ MÉTRO LIMITED PARTNERSHIP**  
**TEN-YEAR REVIEW – CONSOLIDATED FINANCIAL INFORMATION <sup>(1)</sup>**

Fiscal years ended September 30 (in thousands of dollars)

	2015	2014
<b>SUMMARY OF RESULTS</b>		
Revenues	\$ 2,720,587	\$ 2,536,708
Direct costs	1,642,619	1,522,636
Gross margin	1,077,968	1,014,072
Operating and maintenance <sup>(2)</sup>	498,299	471,355
Operating income before amortization	579,669	542,717
Amortization	271,317	247,770
Operating income	308,352	294,947
Interest on long-term debt, financial and other expenses	162,278	150,129
Income before the undernoted	146,074	144,818
Share in earnings of entities subject to significant influence	92,122	76,881
Net gain on disposal of interests	-	-
Income before income taxes	238,196	221,699
Income taxes	50,181	47,904
<b>Net income</b>	<b>188,015</b>	<b>173,795</b>
Net income (loss) attributable to non-controlling interests	3,597	(889)
<b>Net income attributable to Partners</b>	<b>\$ 184,418</b>	<b>\$ 174,684</b>
<b>CASH FLOWS</b>		
Operating activities	\$ 738,018	\$ 605,002
Investing activities	(978,644)	(641,288)
Financing activities:		
Distributions	(186,562)	(169,137)
Other financing activities	402,793	244,390
Impact of exchange rate fluctuations <sup>(3)</sup>	7,176	3,149
<b>Net change in cash and cash equivalents, net of bank overdraft</b>	<b>\$ (17,219)</b>	<b>\$ 42,116</b>
<b>PER UNIT DATA</b>		
Basic and diluted net income per unit attributable to Partners (in dollars)	\$ 1.19	\$ 1.15
Distributions declared per unit to Partners (in dollars)	\$ 1.12	\$ 1.12
Partners' equity per unit attributable to Partners (in dollars)	\$ 10.77	\$ 9.50
Basic and diluted weighted average number of units outstanding (in thousands)	155,268	151,796
Number of outstanding units as at September 30 (in thousands)	167,251	151,796
<b>FINANCIAL STRUCTURE</b>		
Bank loans	\$ 28,972	\$ -
Current portion of long-term debt	33,310	27,016
Long-term debt	3,530,986	3,140,762
Deferred financing costs	-	-
Total debt	3,593,268	3,167,778
Partners' equity	1,829,608	1,482,354
<b>Total capitalization</b>	<b>\$ 5,422,876</b>	<b>\$ 4,650,132</b>
<b>DEBT / TOTAL CAPITALIZATION RATIO</b>	<b>66.3%</b>	<b>68.1%</b>
<b>TOTAL ASSETS</b>	<b>\$ 7,218,038</b>	<b>\$ 6,144,214</b>
<b>FINANCIAL INFORMATION USED BY THE RÉGIE DE L'ÉNERGIE IN DETERMINING GAZ MÉTRO-QDA'S RETURN</b>		
Rate base <sup>(4)</sup>	\$ 1,958,455	\$ 1,897,358
Deemed common equity <sup>(4)</sup>	38.50%	38.50%
Authorized rate of return including productivity gains on deemed common equity	8.90%	8.90%
Deemed preferred equity <sup>(4)</sup>	7.50%	7.50%
Authorized rate of return on deemed preferred equity	5.95%	6.07%
Deemed tax expense	\$ 32,745	\$ 31,899

<sup>(1)</sup> Unaudited data.

<sup>(2)</sup> Includes development activities.

<sup>(3)</sup> The impact of exchange rate fluctuations has been presented separately since 2009. Comparative figures for 2008 and 2007 were therefore restated.

<sup>(4)</sup> Calculated on a monthly average and based on a capitalization that differs from the financial structure on Gaz Métro-QDA's balance sheet due to the inclusion of short-term financing, securitization of trade receivables and other items.

**GAZ MÉTRO LIMITED PARTNERSHIP**  
**TEN-YEAR REVIEW – CONSOLIDATED FINANCIAL INFORMATION <sup>(1)</sup>**

(in thousands of dollars)

2013	2012	2011	2010	2009	2008	2007	2006
\$ 2,217,356	\$ 1,907,643	\$ 1,962,764	\$ 2,020,437	\$ 2,249,216	\$ 2,171,919	\$ 1,957,469	\$ 2,003,766
1,283,252	1,127,053	1,215,309	1,260,439	1,457,945	1,461,948	1,333,851	1,427,455
934,104	780,590	747,455	759,998	791,271	709,971	623,618	576,311
473,209	379,032	330,365	333,458	332,343	283,750	220,664	206,855
460,895	401,558	417,090	426,540	458,928	426,221	402,954	369,456
202,847	163,002	175,349	174,515	192,545	171,184	155,375	137,729
258,048	238,556	241,741	252,025	266,383	255,037	247,579	231,727
125,296	112,673	105,609	109,860	117,620	115,251	107,734	94,732
132,752	125,883	136,132	142,165	148,763	139,786	139,845	136,995
62,016	28,692	22,875	22,001	23,366	25,925	15,474	22,106
14,749	-	17,361	-	-	-	-	-
209,517	154,575	176,368	164,166	172,129	165,711	155,319	159,101
30,649	11,934	13,796	(14,517)	13,677	11,272	32,478	11,894
178,868	142,641	162,572	178,683	158,452	154,439	122,841	147,207
(1,569)	(1,203)	(1,405)	-	-	-	-	-
\$ 180,437	\$ 143,844	\$ 163,977	\$ 178,683	\$ 158,452	\$ 154,439	\$ 122,841	\$ 147,207
\$ 487,969	\$ 428,848	\$ 404,736	\$ 342,936	\$ 499,062	\$ 365,754	\$ 393,675	\$ 309,426
(653,288)	(1,105,053)	(319,236)	(245,833)	(283,165)	(362,318)	(457,464)	(176,319)
(165,112)	(141,499)	(106,125)	(186,701)	(149,361)	(149,356)	(148,430)	(156,283)
348,245	822,633	9,965	89,430	(46,839)	140,367	212,046	32,970
819	78	217	(1,274)	(73)	660	(1,301)	-
\$ 18,633	\$ 5,007	\$ (10,443)	\$ (1,442)	\$ 19,624	\$ (4,893)	\$ (1,474)	\$ 9,794
\$ 1.21	\$ 1.10	\$ 1.30	\$ 1.48	\$ 1.32	\$ 1.28	\$ 1.02	\$ 1.25
\$ 1.12	\$ 1.12	\$ 1.12	\$ 1.24	\$ 1.24	\$ 1.24	\$ 1.24	\$ 1.30
\$ 9.24	\$ 8.81	\$ 8.10	\$ 7.74	\$ 7.88	\$ 7.82	\$ 7.65	\$ 7.87
148,680	130,878	126,241	120,452	120,452	120,451	120,433	117,507
151,796	148,671	126,338	120,452	120,452	120,451	120,435	117,509
\$ 19,700	\$ 13,753	\$ 48,017	\$ 41,023	\$ 47,722	\$ 54,451	\$ 38,925	\$ 37,134
89,886	164,616	14,639	68,057	218,542	152,664	9,446	80,964
2,692,075	2,295,763	1,700,310	1,749,506	1,512,174	1,622,138	1,646,034	1,314,855
-	-	-	-	(8,602)	(8,767)	(9,604)	(9,577)
2,801,661	2,474,132	1,762,966	1,858,586	1,769,836	1,820,486	1,684,801	1,423,376
1,444,063	1,336,924	1,014,500	932,627	949,552	941,975	921,892	924,588
\$ 4,245,724	\$ 3,811,056	\$ 2,777,466	\$ 2,791,213	\$ 2,719,388	\$ 2,762,461	\$ 2,606,693	\$ 2,347,964
66.0%	64.9%	63.5%	66.6%	65.1%	65.9%	64.6%	60.6%
\$ 5,582,828	\$ 5,131,979	\$ 3,727,247	\$ 3,666,647	\$ 3,306,764	\$ 3,286,478	\$ 3,146,339	\$ 2,783,197
\$ 1,837,496	\$ 1,819,445	\$ 1,757,640	\$ 1,779,427	\$ 1,806,845	\$ 1,770,429	\$ 1,764,928	\$ 1,733,902
38.50%	38.50%	38.50%	38.50%	38.50%	38.50%	38.50%	38.50%
8.90%	9.69%	9.09%	9.20%	8.94%	9.52%	9.57%	9.33%
7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
6.14%	5.88%	5.60%	5.21%	5.25%	5.38%	5.37%	5.17%
\$ 28,741	\$ 30,008	\$ 33,018	\$ 36,806	\$ 41,652	\$ 45,637	\$ 47,053	\$ 45,122



SHAREHOLDER INFORMATION									
<b>VALENER MARKET INFORMATION</b>  <b>Common shares</b> <ul style="list-style-type: none"> <li>Common shares are listed on the Toronto Stock Exchange under the “VNR” trading symbol.</li> <li>Change in common share prices over the past fiscal year (October 1, 2014 to September 30, 2015): high: \$17.84; low: \$15.00.</li> <li>38.4 million common shares outstanding with a fair value of \$638.7 million as at September 30, 2015.</li> </ul>									
<b>DIVIDEND REINVESTMENT PLAN</b>  Valener offers shareholders a Dividend Reinvestment Plan (DRIP) pursuant to which they may elect to reinvest their cash dividends in additional Valener common shares. Subject to limited exceptions, only residents of Canada may enrol in the plan.  The DRIP enables shareholders to increase their investment in Valener common shares thanks to the conveniences and attractive cost savings it offers: <ul style="list-style-type: none"> <li>dividends are reinvested automatically;</li> <li>share price discount of up to 5%;</li> <li>no brokerage and administrative fees; and</li> <li>plan administered for shareholders.</li> </ul> The board of directors approved the reinvestment of dividends into additional common shares, for the dividend payable on January 15, 2016, by way of an issuance of new common shares by Valener at a 2% discount compared to the weighted average price for the five trading days immediately preceding the dividend payment date.  The process of enrolling in the DRIP is different for registered shareholders and non-registered shareholders (also called beneficial shareholders).  A person is a registered shareholder if his/her name appears on the physical share certificate representing his/her shares. An eligible registered shareholder may enrol in the DRIP by contacting the transfer agent, CST Trust Company, at 1-800-387-0825 or by email: <a href="mailto:inquiries@canstockta.com">inquiries@canstockta.com</a> and completing the necessary enrolment form.  A non-registered shareholder is a person whose shares are held on his/her behalf by a securities broker, dealer, bank, trust company or other financial institution. Eligible non-registered shareholders who wish to enrol in the plan must contact the intermediary that holds their shares.  The complete text of the DRIP is available in the “Investors” section of Valener’s website at <a href="http://www.valener.com/investisseurs-2/shares-and-dividendes">www.valener.com/investisseurs-2/shares-and-dividendes</a> .									
<b>TRANSFER AGENT AND REGISTRAR</b>  CST Trust Company Telephone: 1-800-387-0825 Email: <a href="mailto:inquiries@canstockta.com">inquiries@canstockta.com</a>									
<b>PUBLICATION OF RESULTS</b>  Following approval by the board of directors, the quarterly and annual results will be published around the following dates: <table> <tr> <td>1<sup>st</sup> quarter of fiscal 2016:</td><td>February 12, 2016</td></tr> <tr> <td>2<sup>nd</sup> quarter of fiscal 2016:</td><td>May 13, 2016</td></tr> <tr> <td>3<sup>rd</sup> quarter of fiscal 2016:</td><td>August 11, 2016</td></tr> <tr> <td>4<sup>th</sup> quarter of fiscal 2016:</td><td>November 24, 2016</td></tr> </table>	1 <sup>st</sup> quarter of fiscal 2016:	February 12, 2016	2 <sup>nd</sup> quarter of fiscal 2016:	May 13, 2016	3 <sup>rd</sup> quarter of fiscal 2016:	August 11, 2016	4 <sup>th</sup> quarter of fiscal 2016:	November 24, 2016	<b>INVESTOR RELATIONS</b> 1717 Du Havre, Montreal, Quebec H2K 2X3 Telephone: 514-598-3039 Fax: 514-521-8168 Email: <a href="mailto:investors@valener.com">investors@valener.com</a>  Quarterly and annual reports as well as the press releases announcing results are available in the “Investors” and “News” sections of Valener’s website: ( <a href="http://www.valener.com/investisseurs-2/financial-documents">www.valener.com/investisseurs-2/financial-documents</a> ) and ( <a href="http://www.valener.com/news">www.valener.com/news</a> ), and on the SEDAR website ( <a href="http://www.sedar.com">www.sedar.com</a> ) managed by the Canadian Securities Administrators.
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