



Our energies: powering sustainable performance

2014 Annual report



HIGHLIGHTS

VALENER INC.		Fiscal years ended September 30	
<i>(in millions of dollars, except for share data, which is in dollars, and unless otherwise indicated)</i>		2014	2013
		(unaudited)	(unaudited)
CONSOLIDATED INCOME AND CASH FLOWS			
Share in the net income of Gaz Métro	\$	50.4	\$ 52.3
Net income attributable to common shareholders	\$	36.7	\$ 37.1
Basic and diluted net income per common share	\$	0.97	\$ 0.99
Cash flows related to operating activities	\$	43.1	\$ 45.2
Normalized operating cash flows per common share ⁽¹⁾	\$	1.02	\$ 1.07
Dividends declared per common share	\$	1.00	\$ 1.00
Basic and diluted weighted average number of common shares outstanding <i>(in millions)</i>		37.9	37.7
OTHER INFORMATION			
Market prices of the common shares on the TSX:			
High	\$	16.15	\$ 16.47
Low	\$	15.17	\$ 15.41
Close	\$	15.72	\$ 15.75
CONSOLIDATED BALANCE SHEETS			
		September 30, 2014	September 30, 2013
		(unaudited)	(unaudited)
Total assets	\$	815.7	\$ 802.0
Total debt	\$	66.8	\$ 67.6
Shareholders' equity	\$	713.5	\$ 697.2
GAZ MÉTRO LIMITED PARTNERSHIP		Fiscal years ended September 30	
<i>(in millions of dollars, except for unit data, which is in dollars, and unless otherwise indicated)</i>		2014	2013
		(unaudited)	(unaudited)
CONSOLIDATED INCOME AND CASH FLOWS			
Revenues	\$	2,536.7	\$ 2,217.4
Gross margin	\$	1,014.1	\$ 934.1
Net income attributable to Partners	\$	174.7	\$ 180.4
Cash flows related to operating activities	\$	605.0	\$ 488.0
Purchases of property, plant and equipment	\$	451.5	\$ 454.3
Basic and diluted net income per unit attributable to Partners	\$	1.15	\$ 1.21
Distributions declared per unit to Partners	\$	1.12	\$ 1.12
Weighted average number of units outstanding <i>(in millions)</i>		151.8	148.7
OTHER INFORMATION			
Credit ratings			
First mortgage bonds <i>(S&P/DBRS)</i> ⁽²⁾		A+/A	A/A
Commercial paper <i>(S&P/DBRS)</i> ⁽²⁾		A-1(mid)/R-1(low)	A-1(low)/R-1(low)
CONSOLIDATED BALANCE SHEETS			
		September 30, 2014	September 30, 2013
		(unaudited)	(unaudited)
Total assets	\$	6,144.2	\$ 5,582.8
Total debt	\$	3,167.8	\$ 2,801.7
Partners' equity attributable to Partners	\$	1,441.6	\$ 1,402.8
Partners' equity per unit attributable to Partners	\$	9.50	\$ 9.24

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

⁽²⁾ Through its General Partner, GMi.

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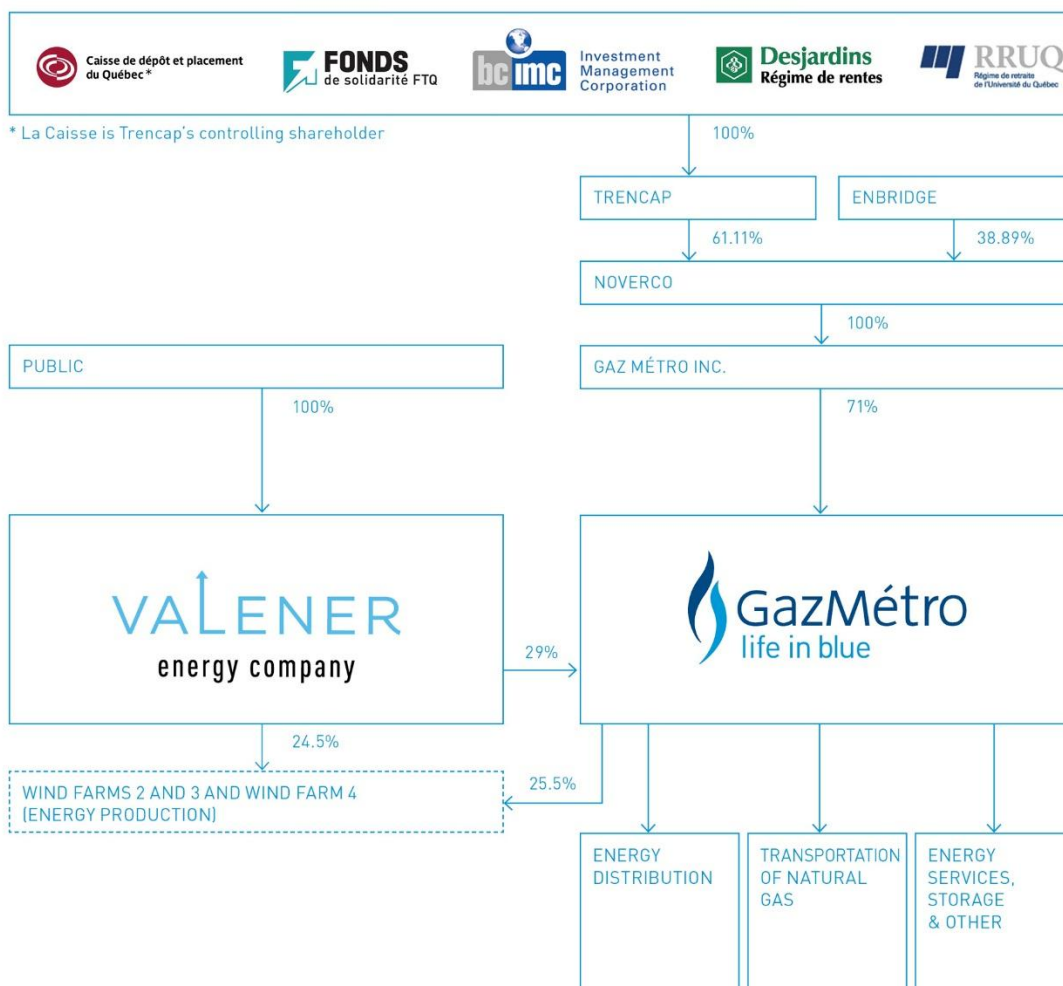
MANAGEMENT'S DISCUSSION AND ANALYSIS

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 an indirect interest in Wind Farms 2 and 3 and in Wind Farm 4, whose core business operations are to develop, own and operate wind farms.

The following diagram shows the corporate structure of Valener and of Gaz Métro as at September 30, 2014.

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, Beauré Éole and Beauré 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, 2014. 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, 2014 and 2013. 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," "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 production and commercialization of LNG and CNG, (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, (v) the future commissioning of a wind power project in which Valener and Gaz Métro are indirectly involved and the investments and financing required to complete this wind power project, (vi) anticipated distribution payments by Wind Farms 2 and 3 and Wind Farm 4, (vii) the development of natural gas as fuel for the transport industry, (viii) the potential distribution of biomethane through the Gaz Métro-QDA system, (ix) the consequences of the potential change in accounting framework, (x) the liquidity position and financing capability of the Company and Gaz Métro, (xi) the post-merger integration of CVPS's operations into GMP's operations and the resulting synergies, (xii) VGS's system development projects, and (xiii) Gaz Métro's anticipated distribution payments and Valener's anticipated dividend payments. 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 from regulatory agencies and interested parties to carry out activities in Gaz Métro's various business segments and the socio-economic risks associated with such activity, the competitiveness of natural gas in relation to other energy sources, the reliability or costs of natural gas supply and electricity supply, the integrity of the natural gas and electricity distribution systems, the evolution and profitability of wind power projects and other development projects, 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 S) RISK FACTORS RELATING TO GAZ MÉTRO of this MD&A and in Valener's and Gaz Métro's disclosure filings. 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 the Régie 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, will occur; that Gaz Métro can continue to distribute substantially all of its net income (excluding non-recurring items); that the wind power project in which Valener and Gaz Métro are indirectly involved will be completed on time and within the defined parameters; that Wind Farms 2 and 3 and Wind Farm 4 will be able to make distribution payments to their Partners; that GMP will be able 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 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 *National Instrument 52-109*, the management of the manager has concluded that, at the end of the fiscal year ended September 30, 2014, 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, 2014.

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, 2014, 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 the Company's internal control over financial reporting. Their evaluation uncovered no such changes.

CONDITIONS IN THE ELECTRICITY MARKET 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 encouraging regional economic development, Valener and Gaz Métro have decided to invest in wind power production through wind farms, namely, wind parks 2 and 3 and wind park 4.

WIND POWER PROJECTS IN QUEBEC

Wind Farms 2 and 3


Beaupré Éole and Boralex inc. (Boralex) are equal-share partners in two wind farms with an installed capacity of 272 megawatts. These wind farms began commercial operations on November 28, 2013 for wind park 2 and on December 10, 2013 for wind park 3. The commercial operation of these wind parks is going as planned, and the favourable winds experienced since the start of operations have helped Wind Farms 2 and 3 to generate operating cash flows of \$112.1 million in fiscal 2014, which also includes a \$51.6 million payment received from Hydro-Québec related to a note receivable for the reimbursement of certain construction costs. A portion of these cash flows is expected to be distributed to Valener and Gaz Métro in fiscal 2015, subject to certain conditions.

WIND FARMS 2 AND 3:
OPERATING CASH FLOWS
BEYOND EXPECTATIONS

It is important to note that this \$750 million investment (including financing costs) is entirely financed by Wind Farms 2 and 3 and that more than 90% of the value of the floating rate debt was fixed through swaps.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Seigneurie de Beaurpré wind farms

		INSTALLED CAPACITY	NUMBER OF TURBINES	START-UP
	WIND FARM 2	132 MW	62	NOVEMBER 2013
	WIND FARM 3	140 MW	64	DECEMBER 2013
	WIND FARM 4	68 MW	28	NOVEMBER 2014
		340 MW	154 WIND TURBINES	

Wind Farm 4

In addition to wind parks 2 and 3, the Seigneurie projects could include the development, construction and operation of other wind power projects developed on the private lands of Seigneurie de Beaurpré. In fiscal 2014, Beaurpré Éole 4 and Boralex continued the construction work on a third wind farm with an installed capacity of 68 megawatts and comprising 28 wind turbines. This wind farm will also benefit from the Seigneurie de Beaurpré site's significant wind and environmental advantages and existing infrastructure. The return on this wind farm will also benefit from the logistical synergies achieved during its construction and those to be realized during operation. A total investment of approximately \$190 million (including financing costs) was required to complete this farm.

The management of Wind Farm 4 is proud to confirm that the wind park will begin its operations in the following days. Construction will be completed as scheduled and within budget. Consequently, subject to certain conditions being met, Valener and Gaz Métro could potentially benefit from Wind Farm 4 distributions starting in fiscal 2015.

Financing of wind park 4

In October 2013, Wind Farm 4 completed the debt financing for wind park 4 with a group of lenders. The total amount of this non-recourse financing is \$166.1 million and consists of:

- a \$142.4 million construction loan that will convert 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 \$12.9 million to finance certain costs incurred during construction and reimbursable by Hydro-Québec; and
- a \$10.8 million letter of credit facility so that Wind Farm 4 can satisfy the guarantees required by various counterparties.

Outlook

Valener and Gaz Métro are staying apprised of potential opportunities to invest in other wind power projects. Wind power is well established in Quebec and has a positive impact in terms of job creation and local economic spinoffs. To support the long-term success of wind power, the Government of Quebec, through Hydro-Québec, issued a call for tenders to purchase a block of wind power produced by wind farms with a total installed capacity of 450 megawatts, i.e., 300 megawatts in the Bas-Saint-Laurent and Gaspésie-Îles-de-la-Madeleine regions and 150 megawatts from projects across Quebec. Under the terms and conditions of the call for tenders, these wind parks should be connected to Hydro-Québec's main grid in 2016 and 2017. Gaz Métro and its partners participated in this call for tenders, and the bids are currently being analyzed by Hydro-Québec. To cover the risk of interest rate fluctuations on a potential future debt issuance, should one or more of the submitted bids be accepted by Hydro-Québec, Valener and Gaz Métro respectively entered into swap agreements.

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 I) ADDITIONAL INFORMATION and the applicable limitations of its credit facility.

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:

Net income attributable to common shareholders and basic and diluted net income per common share	Net income attributable to the common shareholders and basic and diluted net income per common share are used by the Company to measure Valener's profitability.
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.

NON-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 they consider 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.

NON-GAAP FINANCIAL MEASURES	
Consolidated net income (loss) attributable to common shareholders, excluding the share in the non-recurring items of Gaz Métro, net of income taxes ⁽¹⁾	The consolidated net income (loss) attributable to common shareholders, net of the share in the non-recurring items of Gaz Métro and of Valener's income taxes related to those non-recurring items, i.e., items that are unlikely to recur in the next two fiscal years or did not occur in the two fiscal years preceding the fiscal year in which they were realized. This measure is used by the management of the manager to measure Valener's profitability on a recurring basis.
Consolidated net income (loss) attributable to common shareholders, excluding the share in the non-recurring items of Gaz Métro, net of income taxes, per common share ⁽¹⁾	The consolidated net income (loss) attributable to common shareholders, excluding the share in the non-recurring items of Gaz Métro, net of income taxes, 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.
Debt / total capitalization ratio ⁽²⁾	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 a source of financing for purposes of participating in Gaz Métro's development and seizing future growth opportunities.
Normalized operating cash flows ⁽²⁾	Normalized operating cash flows corresponds to cash flows related to operating activities less 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Normalized operating cash flows per common share ⁽²⁾	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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⁽¹⁾ Section B) CONSOLIDATED ANNUAL FINANCIAL PERFORMANCE SUMMARY provides a quantitative reconciliation of the measure established by Gaz Métro with that established by Valener in accordance with Canadian GAAP. Section P) SEGMENT RESULTS of Gaz Métro provides a quantitative reconciliation of the measure established by Gaz Métro with the GAAP-compliant measure.

⁽²⁾ Section D) CASH AND CAPITAL MANAGEMENT provides a quantitative reconciliation of these measures with GAAP-compliant measures.

The management of the manager considers these non-GAAP financial measures to be indicators of the Company's financial performance that can be used to measure and compare, between periods, the net income or net loss attributable to common shareholders from 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 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.

B) CONSOLIDATED ANNUAL FINANCIAL PERFORMANCE SUMMARY

CONSOLIDATED NET INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS, EXCLUDING THE SHARE IN THE NON-RECURRING ITEMS OF GAZ MÉTRO, NET OF INCOME TAXES

For the fiscal years ended September 30

<i>(in millions of dollars, unless otherwise indicated)</i>	2014	2013
Consolidated net income	41.0	41.5
Share in the non-recurring items of Gaz Métro	-	(4.3)
Income taxes on the share in the non-recurring items of Gaz Métro	-	1.1
Consolidated net income, excluding the share in the non-recurring items of Gaz Métro, net of income taxes	41.0	38.3
Less: Cumulative dividends on Series A preferred shares	4.3	4.3
Consolidated net income attributable to common shareholders, excluding the share in the non-recurring items of Gaz Métro, net of income taxes ⁽¹⁾	36.7	34.0
Basic and diluted weighted average number of common shares outstanding <i>(in millions of common shares)</i>	37.9	37.7
Consolidated net income attributable to common shareholders, excluding the share in the non-recurring items of Gaz Métro, net of income taxes, per common share <i>(in \$)</i> ⁽¹⁾	0.97	0.90

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

HIGHLIGHTS

For the fiscal years ended September 30

<i>(in millions of dollars, unless otherwise indicated)</i>	2014	2013	2012	Change 2014 vs 2013	Change 2013 vs 2012
Share in the net income of Gaz Métro	50.4	52.3	41.7	(1.9)	10.6
Share in the net loss of Beaupré Éole	(0.7)	(1.2)	(1.1)	0.5	(0.1)
Net income attributable to common shareholders	36.7	37.1	28.0	(0.4)	9.1
Basic and diluted net income per common share <i>(in \$)</i>	0.97	0.99	0.75	(0.02)	0.24
Dividends declared per common share <i>(in \$)</i>	1.00	1.00	1.00	-	-
Dividends declared per preferred share <i>(in \$)</i>	1.09	1.09	0.39	-	0.70
Cash flows related to operating activities	43.1	45.2	23.8	(2.1)	21.4
Normalized operating cash flows per common share <i>(in \$)</i> ^{(1) (2)}	1.02	1.07	0.63	(0.05)	0.44
Interests in entities subject to significant influence	797.1	783.2	742.3	13.9	40.9
Total assets	815.7	802.0	765.5	13.7	36.5
Total debt	66.8	67.6	51.4	(0.8)	16.2
Debt / total capitalization ratio <i>(in %)</i> ⁽¹⁾	8.6	8.8	7.1	(0.2)	1.7

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

⁽²⁾ The per-common-share decrease of \$0.05 stems mainly from the decrease in cash flows related to operating activities as explained in section D) CASH AND CAPITAL MANAGEMENT. The per-common-share increase of \$0.44 stems mainly from the fact that, in fiscal 2012, Valener had to pay current income taxes for its first fiscal year, i.e., fiscal 2011, and from higher distributions received from Gaz Métro.

MANAGEMENT'S DISCUSSION AND ANALYSIS

ANALYSIS OF RESULTS

For fiscal 2014, net income attributable to common shareholders decreased by \$0.4 million year over year, mainly due to:

- 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 O) CONSOLIDATED ANNUAL FINANCIAL PERFORMANCE SUMMARY of Gaz Métro; and
- a \$1.1 million increase in interest on long-term debt due to a higher average level of term loans;

offset by:

- 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 explained in section D) CASH AND CAPITAL MANAGEMENT, offset by the net impact of Gaz Métro's sale of its interest in HydroSolution during the first quarter of fiscal 2013.

For fiscal 2013, net income attributable to common shareholders had increased by \$9.1 million, mainly due to a \$10.6 million increase in the share of the net income of Gaz Métro, which is 29% of Gaz Métro's net income, as described in section O) CONSOLIDATED ANNUAL FINANCIAL PERFORMANCE SUMMARY of Gaz Métro.

C) CONSOLIDATED FINANCIAL POSITION

The following table compares the main consolidated balance sheet items as at September 30, 2014 with those of September 30, 2013.

Balance sheet item (in millions of dollars)	September 30		Increase (Decrease)	Explanation
	2014	2013		
Distributions receivable from Gaz Métro	12.3	12.1	0.2	Comparable
Interests in entities subject to significant influence	797.1	783.2	13.9	Increase mainly related to (i) the shares in the net income and other comprehensive income (loss) of Gaz Métro, (ii) investments totalling \$2.3 million and \$1.4 million in Beupré Éole and in Beupré Éole 4, respectively, partly mitigated by (iii) the distributions received from Gaz Métro
Long-term debt	66.8	67.6	(0.8)	Comparable
Net future income tax liability, including current portion	21.9	19.9	2.0	Increase comes mainly from the decrease in Valener Éole's future income tax assets following the use of non-capital losses
Share capital	737.1	732.8	4.3	Increase comes from the common shares issued under the DRIP
Accumulated other comprehensive income (loss)	(5.2)	(18.4)	13.2	Change comes from the shares in other comprehensive income (loss) of Beupré Éole and 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 2014

- Distributions totalling \$49.1 million were received from Gaz Métro;
- Dividends totalling \$37.9 million were paid in cash and shares to common shareholders; and
- Dividends totalling \$4.3 million were paid in cash to preferred shareholders.

CASH FLOW SUMMARY

For the fiscal years ended September 30

<i>(in millions of dollars)</i>			2014		2013		Change
Cash flows related to operating activities	a	\$	43.1	\$	45.2	\$	(2.1)
Cash flows related to investing activities	b	\$	(3.9)	\$	(21.8)	\$	17.9
Cash flows related to financing activities	c	\$	(38.9)	\$	(23.4)	\$	(15.5)

a) Cash flows related to operating activities

Cash flows related to operating activities decreased by \$2.1 million, partly due to:

- a \$5.5 million decrease in Gaz Métro distributions, as the distributions received from Gaz Métro in fiscal 2013 had included a total 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 distributions received on the units subscribed by Valener, in proportion to its interest in Gaz Métro, during the fourth quarter of fiscal 2013;

partly offset by:

- a tax advantage arising from the accelerated amortization of wind power assets.

b) Cash flows related to investing activities

The \$17.9 million change in cash flows related to investing activities is detailed in the following table:

For the fiscal years ended September 30

<i>Purchases of units in entities subject to significant influence and other</i>			2014		2013		Change
Gaz Métro	Amount <i>(in millions of dollars)</i>	\$	-	\$	14.5	\$	(14.5)
	Number of units		-		906,325		
Beaupré Éole	Amount <i>(in millions of dollars)</i>	\$	2.3	\$	0.5	\$	1.8
	Number of units		2,268,728		474,726		
Beaupré Éole 4	Amount <i>(in millions of dollars)</i>	\$	1.4	\$	6.0	\$	(4.6)
	Number of units		1,362,607		5,999,104		
Other	Amount <i>(in millions of dollars)</i>	\$	0.2	\$	0.8	\$	(0.6)
Total <i>(in millions of dollars)</i>		\$	3.9	\$	21.8	\$	(17.9)

c) Cash flows related to financing activities

The \$15.5 million change in cash flows related to financing activities for fiscal 2014 is detailed in the following table:

For the fiscal years ended September 30

<i>(in millions of dollars)</i>		2014		2013		Change
Net issuances (net repayments) of the credit facility	\$	(1.1)	\$	15.9	\$	(17.0)
Dividends to common shareholders		(33.5)		(34.5)		1.0
Dividends to preferred shareholders		(4.3)		(4.8)		0.5
Total	\$	(38.9)	\$	(23.4)	\$	(15.5)

MANAGEMENT'S DISCUSSION AND ANALYSIS

Net issuances (net repayments) of the credit facility

The net repayments of \$1.1 million in fiscal 2014 were mainly due to the fact that Valener generated sufficient operating cash flows to finance its investment activities and its dividend payments to common and preferred shareholders, whereas, in fiscal 2013, there was greater investment activity, including the acquisition of Gaz Métro units in an amount of \$14.5 million.

Dividends to common shareholders

Cash dividends paid to common shareholders decreased by \$1.0 million due to a larger contribution to the DRIP in fiscal 2014.

VALENER EXPECTS TO
MAINTAIN DIVIDENDS TO
COMMON SHAREHOLDERS AT
\$0.25 PER SHARE FOR EACH
QUARTER OF FISCAL 2015

The following table shows dividends paid to common shareholders in fiscal 2014:

Dividend payment date	Dividend declaration date	Dividend amount per common share (in \$) ⁽¹⁾	Cash amount (in millions of \$)
October 15, 2013	August 9, 2013	0.25	8.4
January 15, 2014	November 27, 2013	0.25	8.4
April 15, 2014	February 7, 2014	0.25	8.4
July 15, 2014	May 14, 2014	0.25	8.3

⁽¹⁾ As planned during the September 2010 reorganization of Gaz Métro.

Valener expects to maintain the dividend at \$0.25 per common share for each quarter of fiscal 2015. On November 27, 2014, the board of directors declared a quarterly dividend of \$0.25 per common share payable on January 15, 2015 to common shareholders of record at the close of business on December 31, 2014.

Dividends to preferred shareholders

Cash dividends paid to preferred shareholders decreased by \$0.5 million in fiscal 2014 due to the payment, in the first quarter of fiscal 2013, of the initial cash dividend of \$1.6 million to preferred shareholders for the period of June 6 to October 15, 2012.

The following table shows dividends paid to preferred shareholders in fiscal 2014:

Dividend payment date	Dividend declaration date	Period covered	Dividend amount per Series A preferred share (in \$)	Cash amount (in millions of \$)
October 15, 2013	August 9, 2013	July 16, 2013 to October 15, 2013	0.271875	1.1
January 15, 2014	November 27, 2013	October 16, 2013 to January 15, 2014	0.271875	1.1
April 15, 2014	February 7, 2014	January 16, 2014 to April 15, 2014	0.271875	1.1
July 15, 2014	May 14, 2014	April 16, 2014 to July 15, 2014	0.271875	1.1

On November 27, 2014, the board of directors also declared a dividend of \$0.271875 per Series A preferred share for the period of October 16, 2014 to January 15, 2015, payable on January 15, 2015 to the preferred shareholders of record at the close of business on January 9, 2015.

Share capital

As at September 30, 2014, Valener's share capital consisted of:

- 38,037,286 paid and issued common shares totalling \$639.6 million, including the 292,499 common shares issued for an amount of \$4.3 million under the DRIP during fiscal 2014; and
- 4,000,000 paid and issued 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 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

As at September 30

<i>(in millions of dollars, unless otherwise indicated)</i>			
	2014		2013
Long-term debt, net of financing costs ⁽¹⁾	\$	66.8	\$ 67.6
Shareholders' equity ⁽²⁾		713.5	697.2
Total capitalization	\$	780.3	\$ 764.8
Debt / total capitalization ratio ⁽³⁾		8.6 %	8.8 %

⁽¹⁾ The change in long-term debt, net of financing costs, is explained above in heading c) Cash Flows Related to Financing Activities.

⁽²⁾ 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, 2014 and 2013.

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

The debt / total capitalization ratio remains low, facilitating Valener's access to various sources of financing in order to participate in Gaz Métro's development and seize future growth opportunities.

Credit facility and financing outlook

Valener has a guaranteed credit facility with a maximum authorized amount of \$200.0 million that expires in October 2016. 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. 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, 2014, 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, 2014 was \$129.0 million.

During fiscal 2015, the Company expects to generate the cash needed to meet its financing needs, which will consist mainly of quarterly dividend payments to common and preferred shareholders. The Company expects to need funds to finance capital contributions to its entity subject to significant influence, Gaz Métro, estimated at \$35 million, which could be higher due to the implementation of the CATS Regulation. This amount will be used for the development of Gaz Métro and to reestablish its capital structure. Furthermore, subject to certain conditions being met, it is expected that Wind Farms 2 and 3 and possibly Wind Farm 4 will pay distributions to their partners, which should raise the cash flow levels generated in fiscal 2015. Should additional cash be required, the available sources of financing are:

- cash flows related to operating activities;
- 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, Beauré Éole, and Beauré Éole 4; and
- the amount of investment required in its entities subject to significant influence, including the capital required for growth initiatives and to rebalance Gaz Métro's capital structure.

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

	2014	2013
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>	2014	2013
Cash flows related to operating activities	\$ 43.1	\$ 45.2
Dividends to preferred shareholders	(4.3)	(4.8)
Normalized operating cash flows ⁽¹⁾	\$ 38.8	\$ 40.4
Weighted average number of common shares outstanding	37.9	37.7
Normalized operating cash flows per common share <i>(in \$)</i> ⁽¹⁾	\$ 1.02	\$ 1.07

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

The decrease in normalized operating cash flows per common share observed during fiscal 2014 stems from lower cash flows related to operating activities, partly offset by a lower dividend to preferred shareholders, as previously explained. Despite this decrease, the operating cash flows were sufficient to cover the payment of dividends to common shareholders, despite the fact that Wind Farms 2 and 3 have not yet started to pay distributions to its partners.

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
Financial liabilities					
Accounts payable and accrued liabilities	\$ 0.9	\$ 0.9	\$ -	\$ -	\$ -
Dividends payable to common shareholders	9.5	9.5	-	-	-
Dividends payable to preferred shareholders	1.1	1.1	-	-	-
Long-term debt	66.8	-	66.8	-	-
Interest related to financial liabilities ⁽¹⁾	3.1	1.5	1.6	-	-
Total contractual obligations	\$ 81.4	\$ 13.0	\$ 68.4	\$ -	\$ -

⁽¹⁾ Interest is presented based on contractual maturity and according to the rates in effect as at September 30, 2014.

GUARANTEES

Certain guarantees, primarily related to the financing of the wind park 4, were issued in the form of letters of credit against Valener's credit facility. As at September 30, 2014, these letters of credit totalled \$3.5 million.

E) RISK FACTORS RELATING TO VALENER

The risks presented below are related to the Company. For risk factors related to Gaz Métro, refer to section S) 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 eventually from Wind Farm 4 after wind park 4 comes into service, (iii) Valener's operating cash flows, (iv) the funds required to make principal repayments or interest payments under Valener's credit facility that may have previously been used to finance its share in the development cost of the Seigneurie projects or its investments in Gaz Métro or for general company purposes 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 in Wind Farms 2 and 3, to meet certain financial ratios and to not consent to, or take any action in respect of, a limitation of

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 price of the Series A preferred shares and, potentially, 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 systems and to the rates of return on deemed common equity authorized by the various regulatory agencies. In addition, Valener's economic interest in Gaz Métro stands at about 29%, meaning 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 I) 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 going forward.

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 company matters, its financing needs, its indirect interest in the Seigneurie projects and, in certain circumstances, certain additional services as described in section I) 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 Relating to the Debt of Valener, and the Second Additional Services Agreement with Respect to the Seigneurie Projects. 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.

FINANCING AND PERFORMANCE OF THE SEIGNEURIE DE BEAUPRÉ WIND FARMS

Because it holds an indirect interest in the Seigneurie de Beauré wind farms, Valener is exposed to the same wind farm operational risks to which Gaz Métro is already exposed. If they were to materialize, these risks could adversely affect the financial returns of the Seigneurie de Beauré wind farms. In addition, if Valener were unable to finance its share in the development of the other wind power projects located on the Seigneurie de Beauré land in a timely fashion and under satisfactory terms and conditions, the share of its interest in these other wind power projects could be diluted. The above-described risks could result in Valener receiving smaller cash distributions than anticipated or none at all from the Seigneurie de Beauré wind farms or other wind power projects located on Seigneurie de Beauré land, 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 in the Seigneurie projects 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 with respect to Valener's future return and capital structure 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 borrowing 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 from Gaz Métro and on the distributions from Beaupré Éole and Beaupré Éole 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 these 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 variable 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 ensures that it maintains an appropriate capital structure.

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 rate-regulated activities may defer application of Part I to fiscal periods beginning on or after January 1, 2015. Consequently, for fiscal 2014, Valener continues to present its consolidated financial statements in accordance with the Canadian GAAP included in Part V of the Handbook and will continue to do so for fiscal 2015.

On January 30, 2014, the IASB issued interim standard IFRS 14 *Regulatory Deferral Accounts*, which permits rate-regulated entities that apply IFRS as of the IFRS 14 issuance date to continue applying the rate regulation accounting policies of their current accounting framework until a final standard is issued. On September 22, 2014, the IASB issued a discussion paper exploring what information on rate-regulated activities is most useful to financial statement users as well as the possible approaches for reporting the financial effects of rate regulation. Canadian stakeholders have been invited to submit comments directly to the IASB by January 15, 2015. Valener is actively monitoring the discussions and developments regarding the implementation of a final standard on rate-regulated activities.

After analyzing the interim standard, the Company has elected to adopt IFRS as of its 2016 fiscal year and will provide restated IFRS financial information for the previous fiscal year. Based on the status of the conversion project, the Company cannot yet quantify how the future conversion to IFRS will impact its consolidated financial statements and accompanying notes as well as rate-setting for Gaz Métro's regulated entities. Given the differences that exist between Canadian GAAP and IFRS, the impacts may be significant. Additional information will be disclosed as the conversion project advances.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Gaz Métro is currently assessing how IFRS application will impact its consolidated financial statements and, at the same time, Valener is assessing the impact on its own consolidated financial statements. Valener expects that IFRS adoption could lead to accounting policy changes other than those presented in section T) RECENT ACCOUNTING CHANGES in this MD&A. At this time, Valener cannot say which accounting policy changes will be required or what impacts they will have upon the conversion to IFRS.

Detailed information about Gaz Métro's IFRS conversion project is provided in section T) 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.

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, and long-term debt. The classifications of the Company's financial instruments and quantitative information on their accounting treatment are provided in Notes 2 and 12 of the Company's audited consolidated financial statements for the years ended September 30, 2014 and 2013, and financial instrument risk management is discussed in Note 13.

FAIR VALUE OF FINANCIAL INSTRUMENTS

As at September 30, 2014, 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.

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.

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 relating 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.

REGULATION

As at September 30, 2014 and 2013, Valener's primary asset is its interest in Gaz Métro, the core business of which is the distribution of natural gas by pipeline in Quebec, which is an activity regulated by the Régie.

In addition, through subsidiaries, joint ventures and entities subject to significant influence, Gaz Métro is active in other business activities that are regulated by other agencies. Intragaz is regulated by the Régie; VGS and GMP are regulated by the VPSB; PNGTS, Velco and Transco are regulated by the FERC; VYNPC is regulated by the FERC and the VPSB; and TQM and Champion fall under the authority of the NEB.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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. In addition, certain accounting estimates are sometimes required because the regulatory frameworks in which Gaz Métro's regulated public utilities operate often require amounts to be recorded at an estimated value until they are definitively established in accordance with regulatory decisions or other regulatory processes. Consequently, the value of the interest in Gaz Métro and of the share in Gaz Métro's net income would be different if Gaz Métro were not engaged in rate-regulated activities.

I) ADDITIONAL INFORMATION

SHARES OUTSTANDING

As at November 25, 2014, the number of common shares and Series A preferred shares outstanding totalled 38,119,603 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 \$1.8 million for fiscal 2014 (\$1.8 million for fiscal 2013).

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.

c) Seigneurie Option Agreement

In December 2010, Valener exercised an option under which it could directly or indirectly acquire 49% of Gaz Métro's direct or indirect interest in the Seigneurie projects at a cost of \$3.4 million. As at September 30, 2014, all amounts payable to Gaz Métro related to this option have been settled (an amount payable of \$1.0 million related to this option was included in *Accounts payable and accrued liabilities* on the consolidated balance sheet as at September 30, 2013).

MANAGEMENT'S DISCUSSION AND ANALYSIS

J) QUARTERLY RESULTS

As Valener owns an economic interest in Gaz Métro and indirectly in Wind Farms 2 and 3, 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 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.

Unaudited (in millions of dollars, unless otherwise indicated)	1 st	2 nd	3 rd	4 th	Fiscal 2014
Share in the net income (loss) of Gaz Métro	\$ 21.7	\$ 38.4	\$ (0.9)	\$ (8.8)	\$ 50.4
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 (in \$)	\$ 0.42	\$ 0.77	\$ (0.04)	\$ (0.17)	\$ 0.97

Unaudited (in millions of dollars, unless otherwise indicated)	1 st	2 nd	3 rd	4 th	Fiscal 2013
Share in the net income (loss) of Gaz Métro	\$ 23.9	\$ 33.6	\$ 0.7	\$ (5.9)	\$ 52.3
Net income (loss) attributable to common shareholders	\$ 17.5	\$ 24.0	\$ (0.2)	\$ (4.2)	\$ 37.1
Basic and diluted net income (loss) per common share (in \$)	\$ 0.47	\$ 0.64	\$ (0.01)	\$ (0.11)	\$ 0.99

SUMMARY OF QUARTERLY RESULTS

In the fourth quarter of fiscal 2014, the net loss attributable to common shareholders was \$6.5 million compared to \$4.2 million in the fourth quarter of fiscal 2013. This \$2.3 million unfavourable change was mainly due to a \$2.9 million increase in the share in the net loss of Gaz Métro, which represents 29% of Gaz Métro's net income, as described in section O) CONSOLIDATED ANNUAL FINANCIAL PERFORMANCE SUMMARY of Gaz Métro.

The change in net income (loss) attributable to common shareholders for each quarter is mainly due to the share of the change in net income (loss) of Gaz Métro, as described in section X) QUARTERLY RESULTS of Gaz Métro, mitigated by the changes in the income tax expense applicable to this share in the net income (loss) of Gaz Métro and by the reversal of temporary differences related to Gaz Métro's rate-regulated activities.

K) SUBSEQUENT EVENTS

SIGNING OF SWAP AGREEMENTS

On October 23, 2014, Valener entered into swaps for a total nominal value of \$44.8 million and a mandatory termination date of October 31, 2016 to cover the risk of interest rates fluctuations on a potential future debt issuance. Whether or not this debt is issued will depend on the outcome of a call for tenders, issued by Hydro-Québec for the production of a block of wind power. As of this date, these swaps do not meet the conditions for hedge accounting. Changes in the fair value of the swaps will therefore be recognized in income. During fiscal 2015, management will reassess compliance with the hedge accounting conditions once the outcome of the call for tenders is known.

DECLARATION OF A DIVIDEND TO COMMON SHAREHOLDERS

On November 27, 2014, the board of directors declared a quarterly dividend of \$0.25 per common share for the quarter ending December 31, 2014, payable on January 15, 2015 to common shareholders of record at the close of business on December 31, 2014. The board of directors also approved the reinvestment of dividends into additional common shares, for the dividend payable on January 15, 2015, by way of an issuance of new common shares of the Company, at a 5% discount, in accordance with the terms and conditions of the DRIP.

DECLARATION OF A DIVIDEND TO PREFERRED SHAREHOLDERS

On November 27, 2014, the board of directors also declared a dividend of \$0.271875 per Series A preferred share for the period of October 16, 2014 to January 15, 2015, payable on January 15, 2015 to the preferred shareholders of record at the close of business on January 9, 2015.

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 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 305,000 customers. Gaz Métro is actively involved in the development and operation of innovative, promising energy projects such as the production of wind power, the use of natural gas as a transportation fuel and the development of biomethane. Gaz Métro is a major energy sector player who 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.

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 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 is one of Gaz Métro's core businesses. It 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 tools that expire at different times. Gaz Métro-QDA has transportation capacity on the TCPL network 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 secure their own supply of natural gas. Gaz Métro-QDA's supply plan is submitted to the Régie once a year for approval.



Gaz Métro-QDA is regulated by the Régie, which sets transportation, load-balancing and distribution rates each year and sets supply and compression rates each month. 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. The incentive mechanism under which Gaz Métro-QDA could receive an incentive return that would help improve financial performance results expired on September 30, 2012. Since the end of fiscal 2011, Gaz Métro-QDA had been working with various intervenors and the Régie to develop a new incentive mechanism. In 2013, the

MANAGEMENT'S DISCUSSION AND ANALYSIS

Régie indicated that it was ceasing its review of this matter and, in the meantime, Gaz Métro-QDA would be regulated on a cost-of-service basis.

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 or shortfalls are shared. For instance, should Gaz Métro-QDA fail to meet the performance indicator limits, 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.

VGS

VGS, a subsidiary of Gaz Métro, owns and operates a natural gas transportation and distribution system of over 1,200 km in northwestern Vermont in the United States. VGS is the sole gas distributor in Vermont, serving over 45,000 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

1.2 ELECTRICITY DISTRIBUTION ACTIVITIES

GMP

On October 1, 2012, by way of a merger, GMP combined its operations with those of CVPS to form a single entity, which has kept the name GMP. A subsidiary of Gaz Métro, GMP is Vermont's largest electricity distributor, serving more than 70% of the market and about 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, 17,500 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 and wind power through its various power suppliers. 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, Vermont and the Searsburg facility with an installed capacity of six megawatts, GMP is the largest wind power producer in the state.

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.

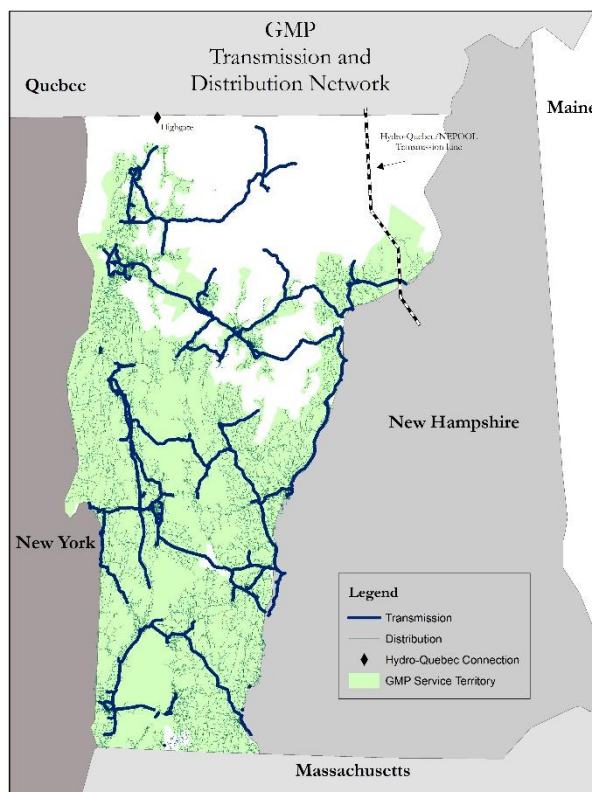
If GMP were to fail to meet its performance indicator thresholds on an annual basis, it could face a penalty that could impact its return.

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% indirect 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 51%-owned by Gaz Métro and 49%-owned by Valener. This joint venture's core business consists of owning and operating two wind parks with an installed capacity of 272 megawatts on the private lands of Seigneurie de Beaupré. Wind park 2 began commercial operations on November 28, 2013 and wind park 3 began on December 10, 2013. All generated electricity is sold to Hydro-Québec.

Wind Farm 4

Wind Farm 4 is an equal-share joint venture of Boralex and Beaupré Éole 4, which is 51%-owned by Gaz Métro and 49%-owned by Valener. This joint venture's core business consists of developing, constructing, owning and operating a wind farm with an installed capacity of 68 megawatts on the private lands of Seigneurie de Beaupré. Its commercial start-up is scheduled for November 2014, and all electricity generated will also be sold to Hydro-Québec.

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 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 sale, installation, 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.
- **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.
- **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

MANAGEMENT'S DISCUSSION AND ANALYSIS

as fuel instead of petroleum. It will also meet natural gas demand, in the form of LNG, from 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.

- **HydroSolution** operates a rental fleet of electric hot water heaters used in residential buildings. It also gives customers the possibility to buy their water heaters through a turnkey solution that includes installation. On November 27, 2012, Gaz Métro completed the sale of all its units in this joint venture in order to concentrate on activities in line with its strategy, i.e., energy distribution, transportation and production in Quebec and Vermont.
- **Servitech** uses its expertise to deliver an integrated offering to commercial, institutional and industrial markets in the areas of heating, combustion, industrial piping and water treatment, regardless of the energy source. On July 4, 2013, Servitech sold certain assets, including the "Servitech" business name. This transaction also fits within the Partnership's goal of concentrating on activities in line with its strategy, as explained above.

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 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. On May 17, 2013, the Régie approved cost-of-service as the method for setting rates, whereas previously the avoided-cost method had been used.

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-GAAP FINANCIAL MEASURES AND ADDITIONAL GAAP MEASURES

The financial information has been prepared in accordance with Canadian GAAP. In management's opinion, certain 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.

During the first quarter of fiscal 2014, management reviewed the main financial measures used to analyze the Partnership's financial performance in light of the substantial investments that have been made in the Seigneurie projects and the commissioning of wind parks 2 and 3 in November and December 2013. Further to this review, management no longer uses maintenance CAPEX, development CAPEX, investments in development activities, and distributable cash (deficiency) as performance measures.

NON-GAAP FINANCIAL MEASURES	
Standardized distributable cash (deficiency) ^{(1) (2)}	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 ⁽³⁾	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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Debt / total capitalization ratio ⁽¹⁾	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 a source of financing that enables it to seize future growth opportunities.
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- (1) Section R) CASH AND CAPITAL MANAGEMENT provides a quantitative reconciliation of these measures with GAAP-compliant measures.
- (2) 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.
- (3) Section P) SEGMENT RESULTS provides a quantitative reconciliation of this measure with the 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, income (loss) before income taxes (IBIT). Management considers IBIT to be a useful indicator for measuring the financial performance of the Partnership and its business segments.

M) RECENT SIGNIFICANT EVENTS

GAZ MÉTRO-QDA'S 2014 RATE CASE

In Phase III of its 2014 rate case filed in October 2013, Gaz Métro-QDA requested that the Régie set the fiscal 2014 rates on a cost-of-service basis. Specifically, the request sought, for fiscal 2014, application of an authorized base rate of return on deemed common equity of 8.90%, i.e., the same rate applied for fiscal 2013 and approved by the Régie in June 2013.

Hearings on the 2014 rate case were held last March. In May 2014, the Régie issued its decision on all the items in the 2014 rate case. Among other things, the Régie's decision resulted in a \$3.0 million reduction to the operating expense envelope above and beyond the \$7.8 million reduction already proposed by Gaz Métro-QDA at a hearing, for a total reduction of \$10.8 million. Thus, the average increase in the distribution service rates versus the rates approved for fiscal 2013 was 12.4% rather than the 14.4% proposed by Gaz Métro-QDA. As a result, the average increase in rates authorized for all services was 0.3% rather than the 1.3% sought by Gaz Métro-QDA.

PROJECT TO INCREASE THE LIQUEFACTION CAPACITY OF THE LSR PLANT

In September 2014, Gaz Métro and the Government of Quebec, through Investissement Québec, announced that they would be partnering in an expansion project to increase the natural gas liquefaction capacity of Gaz Métro's LSR plant located in Montreal's east end. Through Gaz Métro and Investissement Québec's financial commitment, this expansion project will triple the plant's natural gas liquefaction capacity to meet growing demand for LNG in the road and maritime transport markets and in regions that are distant from Gaz Métro-QDA's gas network, particularly the Nord-du-Québec and Côte-Nord regions. The estimated total investment of the project is \$118 million, with the Government of Quebec's participation being a maximum \$50 million.

N) 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. Using natural gas instead of 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.

Moreover, in Quebec, natural gas is currently the most competitive form of energy among all those distributed in most market segments. Compared to oil and electricity, natural gas has been more cost-effective in the industrial, commercial and residential markets in recent years. For instance, an industrial customer that converts from heavy oil (n° 6) to natural gas could cut energy costs by more than half, and a commercial and residential customer switching from heavy oil (n° 2) to natural gas would enjoy energy savings of 40% to 60% or more annually. A residential customer opting to heat with natural gas instead of electricity can reduce energy costs by 3% to 21%, depending on the size of their home. For the commercial and industrial market, the savings could range from 9% to 54%.

MANAGEMENT’S DISCUSSION AND ANALYSIS

This competitive position is expected to remain positive despite the coming into effect, on January 1, 2015, of the second phase of the carbon market (called cap-and-trade system or CATS), pursuant to the Government of Quebec’s tax regulation in replacement of the Green Fund.

The Government of Quebec has taken steps to fight climate change by reducing Quebec’s GHG emissions. The target was set based on 1990 emission levels: a 20% reduction by 2020.

The CATS has been in place since January 1, 2013. Since that date, establishments with GHG emissions equal to or exceeding 25,000 tonnes are directly subject to the CATS and must cover their GHG emissions with allowances, whether by receiving emission units free of charge or purchasing them at auction, both allocated or organized by the Government of Quebec, or by entering into transactions by mutual agreement with other participants. The first phase of the CATS covered industrial establishments, representing some 80 establishments in Quebec. The second phase, which will begin on January 1, 2015, marks the official entry into the carbon market of fuel distributors, including Gaz Métro, which must offset their emissions and those of their customers that are not subject to the CATS.

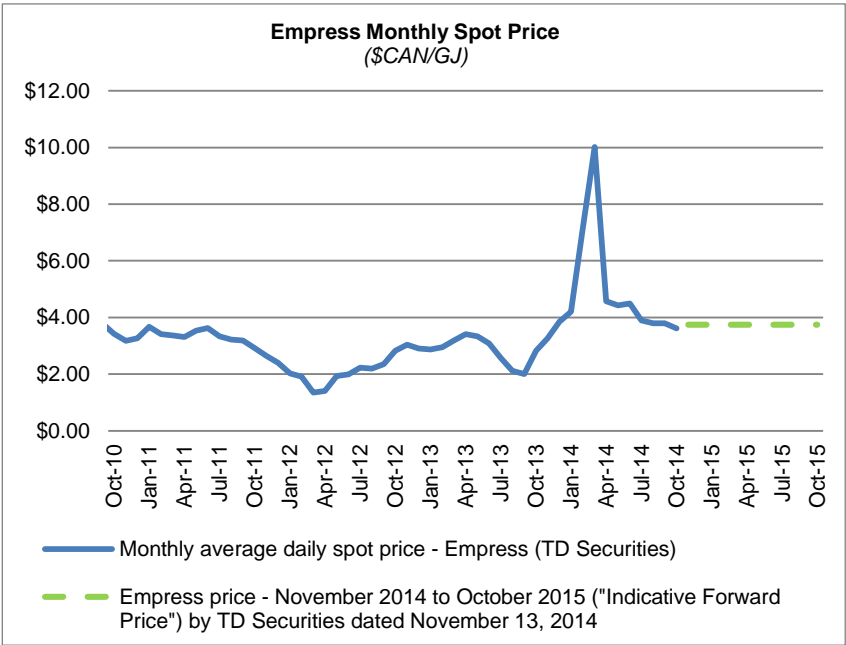
In Vermont, natural gas also benefits from a significant competitive advantage over other energy sources in the air and water heating markets, as electricity is primarily used for generating and lighting purposes in the territories served by VGS, and natural gas used for heating is more than 40% and 50% less expensive ⁽¹⁾ 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. The abundant North American supply has been driven by greater gas production in the United States, in particular shale gas production.

Last winter, much of North America was hit by prolonged periods of intense cold, causing great volatility in the natural gas market. Higher winter demand significantly reduced storage levels across all of North America. As a result, demand for natural gas for storage purposes competed with demand for other purposes such as electricity production. However, a summer free of prolonged heat waves, combined with increased natural gas production, quickly restored inventories and triggered a downward trend in prices during the summer.

During fiscal 2014, despite intense winter cold spells, Empress natural gas prices stood at \$4.10/GJ on average. The following graph shows the past and future trend of the monthly Empress natural gas price from October 2010 to October 2015:



Over the longer term, expert studies project 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

⁽¹⁾ Based on data published by the VDPS for August 2014.

MANAGEMENT'S DISCUSSION AND ANALYSIS

curve for forward contracts for the coming years. The consensus among financial analysts is that natural gas prices in Alberta should not exceed \$4.00/GJ between 2015 and 2019.

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. With these forms of natural gas, the heavy transportation industry now has an alternative to diesel for fuelling vehicles, and businesses in remote areas not served by pipelines can now have natural gas trucked in. In the longer term, this situation could also stimulate the development of LNG projects for export to international markets. Gaz Métro has been listening to current and future customers and is actively developing these new markets.

Supply dynamics

Although experts are expecting the continental supply of natural gas to exceed demand over the long term, North American gas supply dynamics can also affect the price and competitive advantage of natural gas in areas such as Quebec. The North American natural gas market has three major trading hubs: Henry Hub in Louisiana, AECO in Alberta and Dawn in Ontario. The price of natural gas at each hub 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, which offers a reliable, diversified supply at competitive prices thanks to abundant natural gas supplies from the northeastern United States. Furthermore, since this hub is geographically closer to Quebec, it is less expensive to transport gas to Quebec than from the Empress supply hub. 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 seeking 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 an affordable natural gas supply is presently restricted by the saturation of TCPL's transportation system between Dawn and Quebec, specifically the segment between Parkway and Maple. In September 2013, Gaz Métro and the Ontario gas distributors signed an agreement-in-principle 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 P) 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 a view to exporting oil to global markets. The project seeks to convert a portion of the natural gas transportation assets (called the "Mainline") between Alberta and Quebec to transport oil to Eastern Canada. Gaz Métro and the Ontario gas distributors plan on approaching the NEB to defend the interests of gas customers in the east. The current disagreements centre on the fact that, as proposed, the project could jeopardize the supply security of Gaz Métro and the Ontario gas distributors by reducing the transportation capacity now available to their customers, and that it fails to consider the future natural gas growth needs in Eastern Canada and the needs of interruptible customers. Gaz Métro and the Ontario gas distributors will also want to ensure that no cost increases will be unfairly borne by natural gas consumers for the benefit of oil transportation.

ELECTRICITY IN NEW ENGLAND

The New England electric power market continues to have adequate supply to meet demand in the region. However, limited pipeline capacity in the winter months, when demand is driven up by colder temperatures, caused an unprecedented rise in the price of natural gas and, consequently, electricity. In fact, the price of electricity is highly correlated to that of natural gas, which is widely used for electricity production in the United States. This price increase directly impacted the rates charged to customers by several regional electricity distributors. GMP has not yet been negatively affected by these electricity price increases because its needs are primarily satisfied through short- and long-term contracts and production sources owned by GMP that are not powered by natural gas. However, if prices continue to climb, there will be more pressure on rates as the short-term forwards mature. Due to the limited capacity of pipelines and the strong correlation between electricity prices and natural gas prices, the forward prices of electricity for the winter months over the next few years are considerably higher than at the same time last year.

In Vermont, GMP recorded higher electricity demand in fiscal 2014, mainly due to a colder winter, despite an ongoing state-wide improvement in energy efficiency and diversification of production (for instance, solar installations in residential and commercial markets). In future periods, barring unusual weather conditions, GMP expects electricity demand to remain comparable to current levels.

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTEREST RATES AND IMPACT ON THE RATE OF RETURN

Given the current regulatory framework, the low interest rates on long-term Canada bonds have had an unfavourable impact on the authorized rate of return on the deemed common equity of Gaz Métro-QDA, which is determined using an automatic adjustment formula that is based on interest rate forecasts on 30-year Canada bonds. To mitigate this situation, the Régie authorized suspending the automatic adjustment formula for fiscal 2013, 2014 and 2015 and setting an authorized rate of return on deemed common equity of 8.90%.

In addition, low interest rates in the North American market also had an unfavourable impact on the authorized rates of return on GMP's and VGS's shareholders' equity, as these rates are based on 10-year U.S. Treasury Bonds.

However, Gaz Métro was able to benefit from favourable market conditions and low interest rates during GMP's December 2013 and January 2014 issuances of first mortgage bonds totalling US\$75.0 million, VGS's January 2014 issuance of senior notes totalling US\$35.0 million and the June 2014 renegotiation of TQM's credit facility totalling \$135.0 million.

O) CONSOLIDATED ANNUAL FINANCIAL PERFORMANCE SUMMARY

1. HIGHLIGHTS

For the fiscal years ended September 30

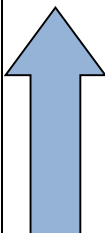
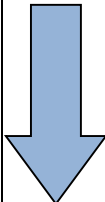
<i>(in millions of dollars, unless otherwise indicated)</i>	2014	2013	2012	Change 2014 vs 2013	Change 2013 vs 2012
Revenues	2,536.7	2,217.4	1,907.6	319.3	309.8
Gross margin	1,014.1	934.1	780.6	80.0	153.5
IBIT	221.7	209.5	154.6	12.2	54.9
Net income	173.8	178.9	142.6	(5.1)	36.3
Net income (loss) attributable to:					
Non-controlling interests	(0.9)	(1.5)	(1.2)	0.6	(0.3)
Partners	174.7	180.4	143.8	(5.7)	36.6
Basic and diluted net income per unit attributable to					
Partners <i>(in \$)</i>	1.15	1.21	1.10	(0.06)	0.11
Distributions declared per unit to Partners <i>(in \$)</i>	1.12	1.12	1.12	-	-
Total assets	6,144.2	5,582.8	5,132.0	561.4	450.8
Total debt	3,167.8	2,801.7	2,474.1	366.1	327.6
Debt / total capitalization ratio ⁽¹⁾ <i>(in %)</i>	68.1	66.0	64.9	2.1	1.1

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

2. REVENUES

The revenue changes between fiscal years 2014 and 2013 and between fiscal years 2013 and 2012 were mainly due to:

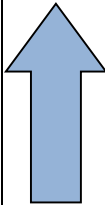
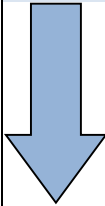
2014 vs 2013		2013 vs 2012	
Up \$319.3 million or 14.4%		Up \$309.8 million or 16.2%	
	<ul style="list-style-type: none"> a \$194.7 million increase in Gaz Métro-QDA's revenues, mainly due to higher average rates for the distribution, supply, and transportation services and to a favourable impact of colder temperatures on delivery volumes; \$34.8 million in revenues generated by Wind Farms 2 and 3 since wind parks 2 and 3 were commissioned in November and December 2013; 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; and a \$55.0 million favourable exchange rate impact from revenues generated by the distribution activities in Vermont. 		<ul style="list-style-type: none"> a \$308.8 million increase in GMP's revenues, excluding the impact of exchange rate changes, mainly due to the CVPS acquisition and colder temperatures in fiscal 2013; and a \$6.3 million increase that came mainly from higher natural gas deliveries by VGS as a result of the favourable impact of colder temperatures and the impact of the new temperature normalization mechanism;
			<ul style="list-style-type: none"> a \$14.5 million decrease in revenues from HydroSolution, as the interest in this joint venture was sold in November 2012.

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 consolidated net income, as explained in greater detail in the Energy Distribution Segment heading of section P) SEGMENT RESULTS.

MANAGEMENT'S DISCUSSION AND ANALYSIS

3. IBIT

IBIT changes between fiscal years 2014 and 2013 and between fiscal years 2013 and 2012 were mainly due to:

2014 vs 2013		2013 vs 2012	
Up \$12.2 million or 5.8%		Up \$54.9 million or 35.5%	
	<ul style="list-style-type: none"> 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 last year, 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; a \$5.1 million increase in Gaz Métro-QDA's IBIT, mainly due to: <ul style="list-style-type: none"> 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 an increase in its rate base; and a \$7.2 million favourable exchange rate impact on the IBIT generated by the distribution activities in Vermont; 		<ul style="list-style-type: none"> a \$44.1 million increase, excluding the impact of exchange rate changes, mainly explained by: <ul style="list-style-type: none"> the acquisition of CVPS in June 2012, net of related financing costs; and the acquisition-related costs and severance benefits payable to certain CVPS officers incurred in fiscal 2012; and a \$14.7 million net gain realized in the first quarter of fiscal 2013 on the sale of the interest in HydroSolution;
	<ul style="list-style-type: none"> a \$14.7 million net gain realized in the first quarter of fiscal 2013 on the sale of the interest in HydroSolution. 		<ul style="list-style-type: none"> a \$4.8 million decrease in Gaz Métro-QDA's net income due mainly to a lower rate of return on deemed common equity and to a distribution service shortfall.

COLDER TEMPERATURES THIS WINTER HAD A FAVOURABLE IMPACT ON THE REVENUES AND NET INCOME FROM DISTRIBUTION ACTIVITIES IN QUEBEC AND VERMONT

4. INCOME TAXES

For fiscal 2014, income taxes 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 depreciation of the Canadian dollar against the U.S. dollar.

For fiscal 2013, income taxes were \$30.6 million, up \$18.7 million from \$11.9 million in fiscal 2012. This increase was mainly due to higher IBIT from the CVPS acquisition.

5. NET LOSS ATTRIBUTABLE TO NON-CONTROLLING INTERESTS

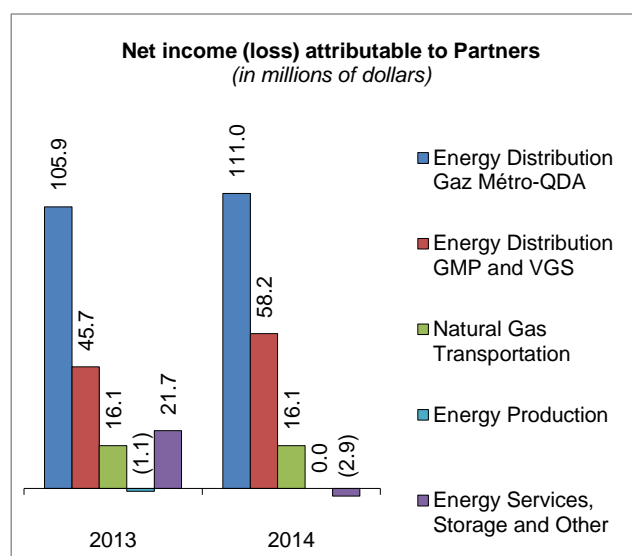
For fiscal 2014, the \$0.6 million year over year decrease in net loss attributable to non-controlling interests is mainly due to the results generated by the Energy Production segment. The net loss attributable to non-controlling interests realized in fiscal 2013 was \$0.3 million higher than that of fiscal 2012 for 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 ATTRIBUTABLE TO PARTNERS BY SEGMENT

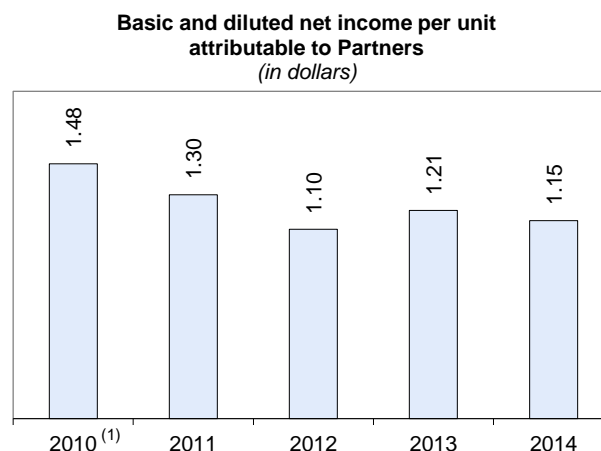
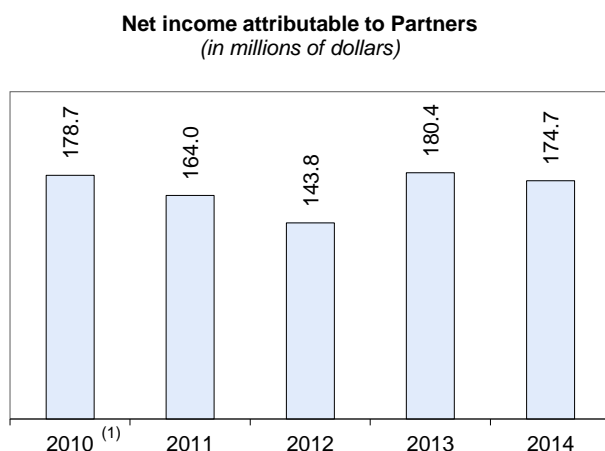
The net income generated by Gaz Métro-QDA, which is significantly influenced by the rate of return authorized by the Régie on deemed common equity, represents over 63% of the consolidated net income attributable to Partners for fiscal 2014. Excluding the \$14.7 million net gain realized in the first quarter of fiscal 2013 on the sale of Gaz Métro's interest in HydroSolution, the net income generated by Gaz Métro-QDA in fiscal 2013 had represented approximately 64% of the consolidated net income attributable to the Partners of Gaz Métro, which is comparable to the 2014 result.



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

The net income attributable to Partners for fiscal 2014 totalled \$174.7 million, down \$5.7 million or 3.2% from fiscal 2013. This decrease was mainly due to the reasons discussed above.

For fiscal 2014, basic and diluted net income per unit attributable to Partners was \$1.15 compared to \$1.21 for fiscal 2013, a year that had included a favourable non-recurring item. In fact, excluding the \$14.7 million net gain realized during the first quarter of fiscal 2013 on the sale of Gaz Métro's interest in HydroSolution, basic and diluted net income per unit attributable to Partners for fiscal 2013 would have been \$1.11, which is below the fiscal 2014 result.



⁽¹⁾ On October 1, 2007, the CICA had published new recommendations that required flow-through entities, such as Gaz Métro, to recognize the impacts of *Income Tax Act* amendments once legislative provisions were substantively enacted. On June 22, 2007, the House of Commons passed a bill amending the *Income Tax Act* to reflect the proposals set out in the Minister of Finance's Tax Fairness Plan tabled on October 31, 2006, regarding the taxation of income trusts and limited partnerships (or specified investment flow-through entities, also known as SIFTs) as of October 1, 2010 in the case of Gaz Métro. The application of these recommendations resulted in a \$26.2 million future income tax liability being initially recorded as at September 30, 2007 and, since fiscal 2007, the Partnership has had to recognize the future income tax impacts resulting from the adoption of this bill. As at September 30, 2010, subsequent to the corporate reorganization of Gaz Métro, the Partnership no longer met the definition of a SIFT. Accordingly, the Partnership reversed the future income tax liability that had been recorded since fiscal 2007, resulting in a \$26.1 million favourable adjustment during fiscal 2010. Excluding the impact of this reversal, net income and net income per unit attributable to Partners for fiscal 2010 would have been \$152.6 million and \$1.26, respectively.

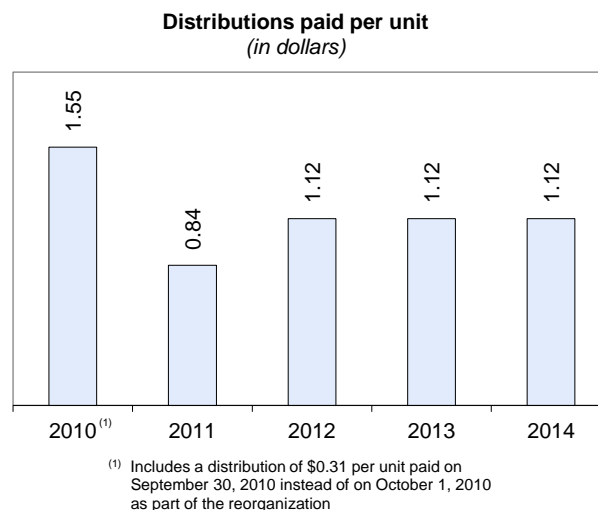
MANAGEMENT'S DISCUSSION AND ANALYSIS

7. LIQUIDITY

Gaz Métro has a strong financial position, which has helped increase its corporate credit rating to A (stable). As for GMI's first mortgage bonds and commercial paper ratings, S&P raised its ratings to A+ and A-1 (mid), respectively. The credit ratings of the DBRS rating agency were maintained.

7.1 DISTRIBUTIONS PAID PER UNIT

Gaz Métro's favourable financial position has enabled it to pay total distributions of \$1.12 per unit in fiscal 2014, the same level as in fiscal 2013. 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 in fiscal years 2014, 2013 and 2012. In fiscal 2011, three quarterly distributions of \$0.28 per unit were paid, due to the corporate reorganization completed on September 30, 2010. During fiscal 2010, four quarterly distributions of \$0.31 per unit each had been paid by the Partnership. In addition to these four distributions, Gaz Métro paid an additional distribution of \$0.31 per unit on September 30, 2010 as part of the Partnership's reorganization. If not for the context of the reorganization, this distribution would have been paid on October 1, 2010, i.e., during fiscal 2011. The Partnership plans to maintain the distribution level at \$0.28 per unit for each quarter of fiscal 2015.



MANAGEMENT'S DISCUSSION AND ANALYSIS

P) SEGMENT RESULTS

CONSOLIDATED NET INCOME ATTRIBUTABLE TO PARTNERS EXCLUDING NON-RECURRING ITEMS

For the fiscal years ended September 30

<i>(in millions of dollars)</i>	2014	2013	Change
Energy Distribution			
Gaz Métro-QDA	111.0	105.9	5.1
GMP and VGS	81.2	65.6	15.6
Financing costs of investments in this segment ⁽¹⁾	(23.0)	(19.9)	(3.1)
	169.2	151.6	17.6
Natural Gas Transportation			
TQM, PNGTS and Champion	17.9	17.6	0.3
Financing costs of investments in this segment ⁽¹⁾	(1.8)	(1.5)	(0.3)
	16.1	16.1	-
Energy Production			
Gaz Métro Éole and Gaz Métro Éole 4	0.4	(1.1)	1.5
Financing costs of investments in this segment ⁽¹⁾	(0.4)	-	(0.4)
	-	(1.1)	1.1
Energy Services, Storage and Other			
Energy and storage	(2.0)	22.8	(24.8)
Financing costs of investments in this segment ⁽¹⁾	(0.9)	(1.1)	0.2
Net gain on the disposal of the interest in HydroSolution	-	(14.7)	14.7
	(2.9)	7.0	(9.9)
Corporate Affairs			
Corporate affairs	(7.7)	(7.9)	0.2
	(7.7)	(7.9)	0.2
Consolidated net income attributable to Partners, excluding non-recurring items ⁽²⁾	174.7	165.7	9.0
Non-recurring items	-	14.7	(14.7)
Consolidated net income attributable to Partners	174.7	180.4	(5.7)

⁽¹⁾ 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.

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

\$9.0 MILLION INCREASE IN CONSOLIDATED NET INCOME ATTRIBUTABLE TO PARTNERS, EXCLUDING NON-RECURRING ITEMS

1. ENERGY DISTRIBUTION SEGMENT

1.1 GAZ MÉTRO-QDA

Gaz Métro-QDA			
Fiscal years ended September 30			
<i>(in millions of dollars)</i>	2014	2013	Change
Revenues	1,561.7	1,367.0	194.7
Gross margin	570.6	555.6	15.0
IBIT	111.0	105.9	5.1
Net income attributable to Partners	111.0	105.9	5.1

Revenues

As mentioned in section M) RECENT SIGNIFICANT EVENTS, in May 2014 the Régie issued its decision on the 2014 rate case, thus setting the rates for the period of October 1, 2013 to September 30, 2014. The new rates have been in effect since June 1, 2014 with retroactive effect to October 1, 2013. For the period of October 1, 2013 to May 31, 2014, Gaz Métro-QDA recorded its revenues based on the final rates approved by the Régie, and the difference between the revenues billed to customers for that period and those that would have been generated using the final rates approved by the Régie has been recognized in a deferred charges account.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table highlights the results of fiscal 2014, in terms of revenue and volume changes, compared with those of fiscal 2013:

	Fiscal 2014		
	Volume change (10 ⁶ m ³)	(%)	Revenue change (millions \$)
Distribution:			
Residential and commercial	180	8.3	\$ 79.1
Industrial	23	0.7	(4.1)
Total distribution	203	3.7	75.0
Supply and compression	288	10.6	97.8
Transportation	991	21.7	16.4
Load-balancing	298	7.5	6.0
Other revenues	-	-	(0.5)
Total			\$ 194.7

Since Gaz Métro-QDA's revenues are divided into five service categories, namely, distribution, supply, compression, transportation and load-balancing, the Régie authorizes a specific rate for each service and, for certain services, for each category of customer.

For fiscal 2014, Gaz Métro-QDA's revenues increased \$194.7 million year over year, mainly due to:

- a \$97.8 million increase in supply and compression revenues that stems mainly from a 14.4% increase in the average supply rate as well as from a 10.6% increase in supply service volume. These increases reflect considerably colder temperatures, particularly in the first six months of fiscal 2014;
- a \$79.1 million increase in residential and commercial distribution revenues, mainly due to a 12.6% increase in the average distribution rates authorized by the Régie and to an 8.3% increase in normalized natural gas deliveries to these markets during the year;
- a \$16.4 million increase in transportation revenues that came mainly from a 21.7% increase in transportation service volume as a result of considerably colder-than-normal temperatures in fiscal 2014, combined with the fact that a greater proportion of customers called on Gaz Métro-QDA than on third parties for this service, partly mitigated by a 13.6% decrease in average transportation rates; and
- a \$6.0 million increase in load-balancing revenues mainly due to a 7.5% increase in load-balancing service volume (also reflecting the colder temperatures), partly mitigated by a 2.9% decrease in average load-balancing rates.

As for other revenues, the fiscal 2014 results are comparable to those of fiscal 2013 due to (i) an increase in the customers' share of distribution service overearnings, generated primarily by higher volumes, almost entirely mitigated by (ii) a greater shortfall recognized in the transportation and load-balancing services and higher supply costs in winter 2014, as temperatures were considerably colder than normal during this period.

The above-described changes in distribution revenue 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. Given the considerably colder-than-normal temperatures in fiscal 2014, revenues were adjusted downward by \$24.8 million compared to a \$10.4 million upward adjustment in 2013 given the warmer-than-normal temperatures last year. 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, as was the case for fiscal 2014.

Distribution revenues include the annual Green Fund duty amounts. The costs of this duty, which were \$24.2 million for fiscal 2014 and \$30.3 million ⁽¹⁾ for fiscal 2013, 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 consolidated net income attributable to Partners.

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

⁽¹⁾ On December 5, 2013, the Régie informed Gaz Métro-QDA that the annual Green Fund duty payable for fiscal 2013, which had been initially set at \$41.7 million, was reduced by \$11.4 million to \$30.3 million. This reduction comes from changes made to the *Act respecting the Régie de l'énergie* whereby the annual Green Fund duty calculation excludes the consumption volumes of Gaz Métro-QDA customers that qualify as large emitters under the CATS Regulation. In light of this reduction in the annual duty, Gaz Métro-QDA has returned the excess amounts collected to customers.

MANAGEMENT'S DISCUSSION AND ANALYSIS

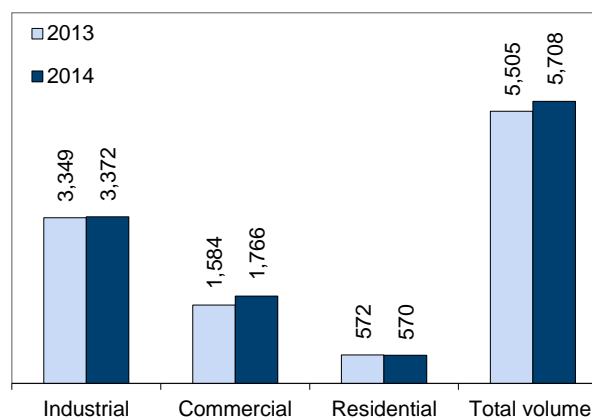
natural gas. As for revenues from compression, transportation and load-balancing activities, they generate very low margins. Consequently, distribution revenues are the main source of gross margin, since there are practically no direct costs associated with these revenues.

Normalized deliveries

For fiscal 2014, Gaz Métro-QDA's normalized natural gas deliveries totalled 5,708 million cubic metres, up 3.7% from 5,505 million cubic metres in fiscal 2013.

For fiscal 2014, the combined normalized deliveries to Gaz Métro-QDA's residential and commercial markets increased 8.3% year over year, due to (i) the maturation of new sales net of customer churn, (ii) a less significant impact of energy conservation measures undertaken by Gaz Métro-QDA's customers when compared to fiscal 2013, and (iii) a favourable change in consumption among Gaz Métro-QDA's existing customers due to considerably colder temperatures, particularly in the first six months of fiscal 2014. While the distribution service is partly normalized for temperature and wind, 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, as was the case for fiscal 2014.

Gaz Métro-QDA
Normalized natural gas deliveries
(in millions of cubic metres)



Deliveries to Gaz Métro-QDA's industrial market grew 0.7% year over year due to greater consumption, primarily in the metallurgy sector.

Customers and new contracts			
Fiscal years ended September 30			
	2014	2013	Change (%)
Number of customers	195,617	192,877	1.4
Number of new contracts:			
new customers	5,096	5,535	(7.9)
existing customers	1,471	1,237	18.9
Total	6,567	6,772	(3.0)

The number of customers shown in the table above represents, as at September 30, 2014 and 2013, the number of customers who were using the Gaz Métro-QDA system. The 1.4% increase in the number of customers between September 30, 2014 and September 30, 2013 stems mainly from customers that were added upon performance of new contracts that had been signed in previous years.

For fiscal 2014, new contracts were down 3.0% year over year given a decline in new residential market contracts. However, the number of high-rise condominium projects increased compared to 2013. Therefore, while the number of new contracts is down, the number of units is up. In addition, with natural gas maintaining its favourable competitive position over other energy sources, there was a slight increase in the number of new contracts in the business market. When new contracts are signed, demand for natural gas deliveries is ensured for future periods. However, because of the time lapse between the signing of a contract and the actual delivery and billing to customers, the favourable impact of new contracts on natural gas deliveries and on the number of new customers may occur over a period that may exceed one fiscal year.

IBIT

For fiscal 2014, IBIT increased \$5.1 million year over year due to the various parameters in the 2014 rate case, as authorized by the Régie, which had anticipated a \$0.7 million increase in IBIT compared to fiscal 2013. The anticipated increase in IBIT came from:

- an increase in the average rate base; and
- the fact that an underearnings situation was not anticipated in the 2014 rate case, whereas \$2.2 million in underearnings for the distribution service occurred in fiscal 2013;

mitigated by:

- the impact of having no new transportation service incentive return anticipated in the 2014 rate case, whereas a \$2.3 million incentive return was realized in fiscal 2013. The Régie disallowed this additional incentive return for fiscal 2014;

MANAGEMENT'S DISCUSSION AND ANALYSIS

- the impact of having no incentive return from transportation and load-balancing financial optimization transactions anticipated in the 2014 rate case, whereas a \$0.7 million incentive return was realized in fiscal 2013;
- lower capitalized interest on non-rate-base investments; and
- the impact of having no revenue related to the GEEP performance incentive anticipated in the 2014 rate case, whereas \$1.0 million in revenue was realized in fiscal 2013.

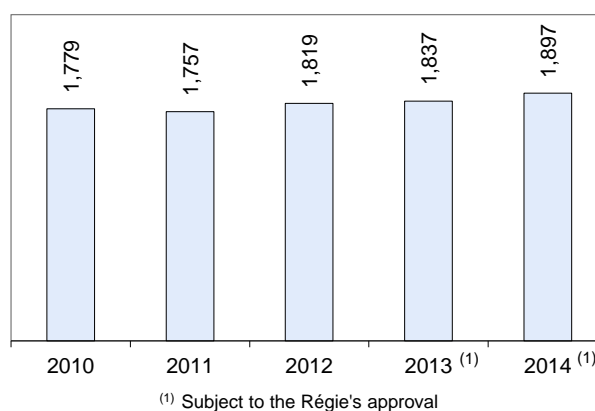
In addition to the \$0.7 million increase in Gaz Métro-QDA's net income anticipated in the 2014 rate case, the following items, totalling \$4.4 million, also contributed to the \$5.1 million increase in Gaz Métro-QDA's IBIT:

- a \$2.5 million favourable impact arising essentially from the recognition of a share in the anticipated overearnings of the distribution service resulting primarily from higher natural gas deliveries in fiscal 2014;
- achievement of the annual energy savings goal, which allowed Gaz Métro-QDA to obtain the \$1.0 million GEEP performance incentive; and
- a \$0.9 million decrease in financial expenses resulting primarily from an increase in capitalized interest on non-rate-base investments.

Return on deemed common equity

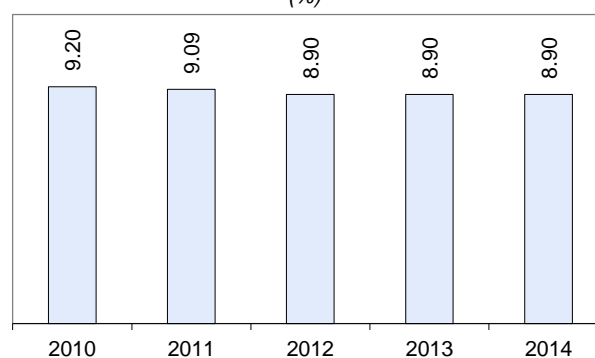
For fiscal 2014, the actual rate base was \$60 million higher than the fiscal 2013 rate base, mainly due to greater investments in property, plant and equipment, to higher deferred charges related to the revenue variances caused by the late application of rates in fiscal 2013, and to higher deferred charges related to temperature normalization.

Average rate base evolution
(in millions of dollars)



At 8.90%, Gaz Métro-QDA's authorized base rate of return on deemed common equity for fiscal 2014 is the same as the rate authorized for fiscal 2013.

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

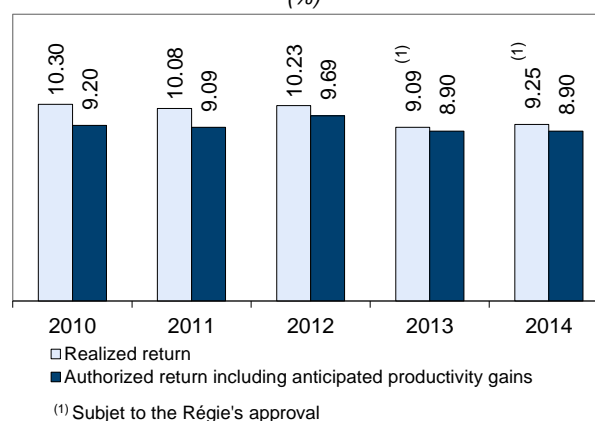


MANAGEMENT'S DISCUSSION AND ANALYSIS

The realized rate of return on deemed common equity for fiscal 2014 was 9.25%, up 0.16% from the rate realized in fiscal 2013. The increase stems from the fact that, in fiscal 2014, the distribution service generated overearnings, whereas, in fiscal 2013, it posted a shortfall. This increase was, however, tempered by the fact that the transportation service realized an incentive return in fiscal 2013 but that incentive was not renewed in 2014 under new rules set by the Régie.

GAZ MÉTRO-QDA:
**9.25% REALIZED RATE OF
 RETURN ON DEEMED COMMON
 EQUITY ATTRIBUTABLE TO THE
 OVEREARNINGS REALIZED BY
 THE DISTRIBUTION SERVICE**

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



Regulatory matters

Summary of Gaz Métro-QDA's regulatory framework

Fiscal years ended September 30	2014	2013	2012
Rate case period	2013-10-01 to 2014-09-30	2012-10-01 to 2013-09-30	2011-10-01 to 2012-09-30
Authorized rate of return on deemed common equity ⁽¹⁾	8.90%	8.90%	9.69%
Capital structure (Debt; Equity)	54%; 46% ⁽²⁾	54%; 46% ⁽²⁾	54%; 46% ⁽²⁾
Average rate base in rate case	\$1,902 million	\$1,836 million	\$1,792 million

⁽¹⁾ No productivity gain has been included for fiscal years 2014 and 2013 (0.79% in fiscal 2012).

⁽²⁾ Deemed equity is divided as follows: 7.5% preferred equity and 38.5% common equity.

Regulatory filings

Fiscal 2013	
2013 annual regulatory report	In September 2014, the Régie issued its final decision on the 2013 annual regulatory report. While the decision had no significant impact on its net income, Gaz Métro-QDA filed a request with the Régie to have the decision reviewed as it is contesting the legality of several conclusions that could have a significant future impact for Gaz Métro-QDA and its customers. A decision is expected during 2015.
Fiscal 2014	
2014 rate case	<p>Pending a new incentive mechanism, Gaz Métro-QDA's 2014 rate case was developed on a cost-of-service basis.</p> <p><u>Phase I – Setting the rate of return</u></p> <p>In June 2013, the Régie approved the renewal for fiscal 2014 of the fiscal 2013 authorized rate of return, i.e., 8.90%.</p> <p><u>Phase II – 2014-2016 supply plan and investment application seeking approval to raise the liquefaction capacity of the LSR plant</u></p> <p>The 2014-2016 supply plan was filed with the Régie in June 2013. In November 2013, a supply plan for an additional three-year period (2017-2019) was submitted for Régie approval following an agreement negotiated with TCPL, Union Gas and Enbridge Gas Distribution Inc. (Enbridge). In December 2013, the Régie issued a decision approving the 2014 supply plan. A decision approving the 2015-2019 supply plan, subject to certain changes, was issued in January 2014.</p> <p>Gaz Métro announced that it will be carrying out an investment project to raise the liquefaction capacity of the LSR plant as part of its non-regulated activities. In March 2014, the Régie approved the cost-sharing rules for use of the LSR plant's existing infrastructure by the non-regulated activities. For</p>

MANAGEMENT'S DISCUSSION AND ANALYSIS

	<p>additional information on this project, refer to the Energy Services, Storage and Other heading in this section.</p> <p><u>Phase III – Rate setting</u></p> <p>In September 2013, the Régie approved, for fiscal 2014, a temporary renewal of the 2013 rates effective October 1, 2013. To avoid the rate application delays experienced in fiscal 2013, the Régie approved the application of interim rates starting on December 1, 2013. However, it limited the increase in the cost of distribution service to inflation rather than on the basis of Gaz Métro-QDA's request.</p> <p>Phase III of its 2014 rate case was filed in October 2013, and the hearings on the 2014 rate case were held in March 2014.</p> <p>In May 2014, the Régie issued its decision on all the items in the 2014 rate case. Among other things, the Régie's decision resulted in a \$3.0 million reduction to the operating expense envelope above and beyond the \$7.8 million reduction already proposed by Gaz Métro-QDA at a hearing, for a total reduction of \$10.8 million. Thus, the average increase in the distribution service rates versus the rates approved for fiscal 2013 is 12.4% rather than the 14.4% proposed by Gaz Métro-QDA. More than 35% of this increase comes from charges attributable to the 2013 fiscal year that should have been billed to customers as of October 1, 2012. As a result, the average increase in rates authorized for all services is 0.3% rather than the 1.3% sought by Gaz Métro-QDA.</p>
Fiscal 2015	
2015 rate case	<p><u>Phase I</u></p> <p>In March 2014, Gaz Métro-QDA filed Phase I of its 2015 rate case with the Régie, which included a fiscal 2015 rate of return application, evidence supporting its CATS Regulation strategy, and a proposal for regulatory relief.</p> <p><i>Setting the rate of return</i></p> <p>As was proposed by Gaz Métro-QDA, in May 2014, the Régie approved a renewal, for fiscal 2015, of the 8.90% rate of return authorized by the Régie for fiscal years 2013 and 2014, since the financial and economic criteria on which this rate was based remain the same.</p> <p><i>CATS Regulation</i></p> <p>As a gas distributor, Gaz Métro-QDA will be subject to the CATS Regulation as of January 1, 2015. In September 2014, the Régie approved the creation of a new CATS unit as well as the rate-related and accounting-related treatments for meeting its obligations under the regulation. This regulation will replace the annual duty payable to the Green Fund. Since this measure takes effect on January 1, 2015, the compliance costs for fiscal 2015 could have a net impact of approximately \$45 million on Gaz Métro-QDA's customers (over \$70 million for fiscal 2016).</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 expenditures increases to inflation and to equitably share potential variances. This environment would be a transitional measure until implementation of the next incentive mechanism that will be applicable as of the 2018 rate case. In a decision issued in June 2014, the Régie denied Gaz Métro-QDA's proposal and ordered that the 2015 and 2016 rate cases be filed no later than March 2015. In July 2014, Gaz Métro-QDA filed a request to have this decision reviewed. The review hearing took place in October 2014, and a final decision is expected by the end of calendar year 2014 or early 2015.</p> <p><u>Phase II</u></p> <p>In June 2014, Gaz Métro-QDA submitted evidence to the Régie relating, in particular, to the gas supply, follow-up information on saturation rates on certain sections of the network, the sale of LNG, and GEEP. With respect to the evidence regarding 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 last July. The hearings for Phase II of the 2015 rate case were held in late October and early November 2014. A decision regarding these matters is expected by the end of November 2014.</p> <p><u>Phase III</u></p> <p>Pending a new incentive mechanism and given that the Régie denied the proposed regulatory relief, Gaz Métro-QDA's 2015 rate case was prepared on a cost-of-service basis. The cost of service and</p>

MANAGEMENT'S DISCUSSION AND ANALYSIS

	<p>the rate impact, submitted in October 2014, show an average rate increase of 1.8%. For the distribution service, the rates are 3.9% lower than those approved for fiscal 2014. However, this decrease is neutralized by higher transportation rates attributable to higher supply costs in the secondary market to offset reduced transportation capacity available from TCPL. A decision by the Régie is expected no later than summer 2015.</p> <p><i>Interim rates</i></p> <p>Pending the filing of Phase III of the 2015 rate case and a decision on the final rates for fiscal 2015, the Régie renewed the rates authorized for fiscal 2014, on an interim basis, for the period of October 1 to December 31, 2014.</p> <p>Moreover, the Régie approved an interim distribution rate based on a 1.8% inflation rate that will take effect as of January 1, 2015 and to remain in effect until a final decision is made on Phase III of the 2015 rate case. The final transportation and load-balancing rates should take effect on January 1, 2015 following the Régie's decision on Phase II of the 2015 rate case, which is expected by the end of November 2014.</p>
Regulatory outlook	
Incentive mechanism	<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 future contemplations 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.</p> <p>Hearings on certain matters are scheduled for April 2015 while other work sessions and rate proceedings are planned for 2015 and 2016.</p>

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

As mentioned above in section N) CONDITIONS IN THE ENERGY MARKET AND FOR GAZ MÉTRO, in September 2013 Gaz Métro and the Ontario gas distributors signed an agreement-in-principle with TCPL to ensure access to the diverse and affordable sources of natural gas from the Dawn hub. With such access, Gaz Métro should be able to procure the bulk of its natural gas near its market and secure more flexible supply sources at a better cost for the customers of Gaz Métro-QDA and VGS. Remember that the costs of service of Gaz Métro-QDA and VGS include the transportation costs billed by TCPL and that TCPL's rate adjustments are reflected directly in their respective transportation rates. 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 contributing to 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.

The final agreement was filed with the NEB in December 2013 in the form of a settlement agreement. In March 2014, after the interested parties had filed their comments, the NEB issued a procedural decision in which it deemed that the proposed approach, that is, to treat the request as a contested agreement, was not appropriate for this application. However, the NEB has stated that it was prepared to examine the application as a rate application with contested tolls, and to treat it as a position common to the parties to the settlement. Thus, in April 2014, TCPL sent a letter to the NEB confirming acceptance of such treatment while expressing a desire that the application be processed quickly to avoid any additional delays. In July 2014, Gaz Métro, together with the Ontario gas distributors, submitted evidence in support of TCPL's request. Gaz Métro participated in the hearing on this matter in September 2014. A decision is expected at the end of 2014. Pending a decision, TCPL has undertaken steps for the construction of additional infrastructure needed to provide additional transportation capacity to the Eastern Canadian market. To that end, TCPL filed, with the NEB, an application for approval of the King's North project, which is intended to increase the transportation capacity between Dawn and Maple, in Ontario, and will thus improve access to the Dawn hub.

MANAGEMENT'S DISCUSSION AND ANALYSIS

In January 2014, the Ontario Energy Board had already issued a decision approving three investment projects proposed by Enbridge and Union Gas designed to add capacity in order to ensure security and diversity of gas supplies from Dawn under conditions that are stable and fair for shippers in this market, including Gaz Métro. Rapid approval of the rate application before the NEB, combined with these three investment projects, would improve access to the Dawn hub for shippers in Eastern Canada.

However, as previously mentioned, TCPL has also filed an application with the NEB for the Energy East project, which is proposing the construction and operation of a pipeline 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 for the purpose of oil transportation. This asset conversion work would include a gas pipeline located between North Bay and Ottawa that serves as critical section for the reliable supply of natural gas in Quebec. In fact, 100% of the capacity of this key section is currently being used to meet demand in Quebec and Ontario during the peak winter period. To compensate for this loss in natural gas transportation capacity, TCPL is envisioning another project, called the Eastern Mainline, that would build a new pipeline adjacent to its existing mainline, between Markham and Iroquois, in Ontario. However, this new pipeline would not replace all of the natural gas transportation capacity currently being used. The end result would be a net decrease in available capacity that would constrain transportation service supply and expose Gaz Métro's customers to higher natural gas supply costs given the likely higher rates during periods of extreme cold. Major natural gas consumers would have to turn to other sources of costlier, more polluting energy sources given the lack of available transportation capacity in Quebec and Ontario. What's more, the infrastructure costs related to the Eastern Mainline project would be borne by natural gas consumers rather than consumers of oil products.

As proposed, the Energy East project would jeopardize Gaz Métro's supply security and could increase the costs to be borne by its customers. Gaz Métro and the Ontario gas distributors are therefore opposed to any plans that could result in higher costs to be assumed by natural gas consumers for the benefit of oil transportation.

Service to the Côte-Nord region

The Côte-Nord region is the last of Quebec's major industrial regions that does not yet benefit from the environmental and economic advantages of natural gas. Large amounts of heavy oil are currently consumed in the Côte-Nord. However, the distance separating the Côte-Nord from Gaz Métro-QDA's existing infrastructures is considerable. The project to provide service to the Côte-Nord requires construction of a 450-kilometre pipeline. In March 2013, Gaz Métro announced that it was postponing all activities related to the project. After completing feasibility studies, Gaz Métro concluded that global metals market conditions, particularly in iron ore and iron processing, make it very difficult to reach long-term agreements with major industrial customers in the Côte-Nord. Moreover, decisions announced by companies to defer major investments and indefinitely discontinue plant operations have caused further complications. Consequently, the minimum natural gas volumes required to launch the next phase of the project are not in view. Financial contributions or other forms of support from different levels of government would be needed to resume project activities. At this time, Gaz Métro is unable to predict when the project might be relaunched.

As at September 30, 2014, the costs associated with these studies for Gaz Métro-QDA were approximately \$19.0 million and were recognized as assets.

While the volumes required to begin building a gas pipeline are not currently in view, Gaz Métro believes that providing natural gas service to the Côte-Nord region is still worthwhile, both from an environmental perspective and also to support the competitiveness of businesses in the region. Gaz Métro is therefore working on alternative solutions that would provide gas service to this region as soon as possible. For one, it is working on trucking LNG from the LSR plant to supply the industrial clients in the Côte-Nord region. This solution would help them significantly reduce the costs associated with using other forms of fuel. Gaz Métro is also moving forward with its plans to expand the LSR plant to raise production capacity and meet the growing demand for LNG. By 2016, Gaz Métro will be able to provide additional LNG volumes that could be used, among other things, to serve clients in the Côte-Nord region. Gaz Métro LNG, a subsidiary of Gaz Métro, will be responsible for selling LNG delivered by truck and, eventually, by ship. For additional information on Gaz Métro's LNG services, refer to the Energy Services, Storage and Other heading in this section.

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 biomethanation program, which aims to divert organic waste from landfills for reclamation purposes. Gaz Métro plans on providing its customers with this renewable, locally produced natural gas as of 2015.

In 2011 and 2012, agreements had been concluded with the cities of Saint-Hyacinthe and Quebec City. These agreements had stipulated that Gaz Métro-QDA would purchase the energy produced by these cities and install the infrastructures needed to inject biomethane into its distribution network and make it available to its customers. These projects were subject to the Régie's approval. In March 2013, the Régie denied Gaz Métro-QDA's investment project application to receive biomethane produced by the city of Saint-Hyacinthe, thereby requiring Gaz Métro-QDA to review the agreements.

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Since Gaz Métro has attached great importance to the biomethanation project, Gaz Métro-QDA worked on developing a new business model that will adhere to the Régie's March 2013 decision and allow renewable natural gas to be injected into its gas network and sold. 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. In October 2014, Gaz Métro-QDA filed a new application with the Régie on this project, seeking its approval. A decision is expected by January 2015.

1.2 GMP and VGS

GMP and VGS				
Fiscal years ended September 30				
<i>(in millions of dollars)</i>	2014	2013	Impact of exchange rate changes	Change, excluding the impact of exchange rate changes
Revenues	866.9	769.9	55.0	42.0
Gross margin	338.6	303.2	21.2	14.2
Share in earnings of entities subject to significant influence	61.7	51.9	4.9	4.9
IBIT	94.5	69.5	7.2	17.8
Net income attributable to Partners	58.2	45.7	4.5	8.0

Revenues

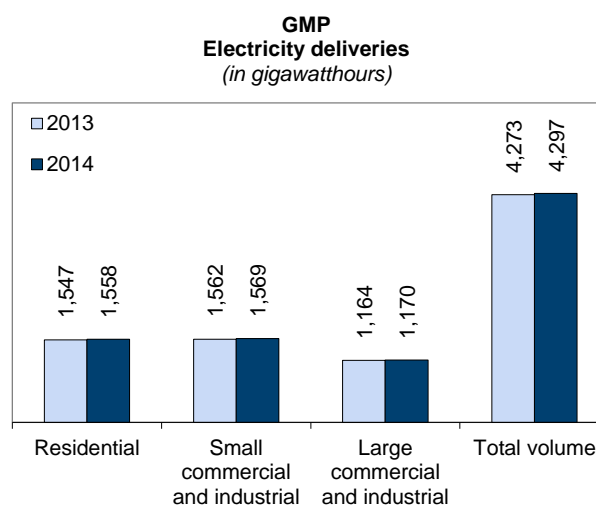
The revenues of VGS and GMP, excluding the impact of exchange rate changes, rose \$42.0 million year over year, mainly due to:

- a \$30.6 million increase in GMP's revenues, mainly due to:
 - a 2.46% increase in its overall rates since October 1, 2013 stemming from its 2014 rate case parameters;
 - a favourable impact on electricity deliveries from colder temperatures in the first half of fiscal 2014 compared to the same period in fiscal 2013, tempered by an unfavourable impact of colder temperatures in the second half that reduced air conditioning usage; and
 - a net increase in the number of customers in the residential market and in the small commercial and industrial market;
 partly mitigated by:
 - less demand in the residential and small commercial and industrial markets resulting from energy conservation measures undertaken by GMP's customers; and
- an \$11.4 million increase in VGS's revenues, mainly due to:
 - greater consumption by customers for purposes other than heating;
 - higher interruptible service revenues stemming primarily from the higher rates billed to customers who refused to have distribution service interrupted during periods of high demand caused by colder weather, and also from the addition of a major customer; and
 - a net favourable impact of the customers' share in the profit-sharing mechanism recorded during fiscal 2014 compared to that recorded last year;
 partly mitigated by:
 - an overall rate decrease due to lower natural gas commodity prices, as had been anticipated in the 2014 rate case.

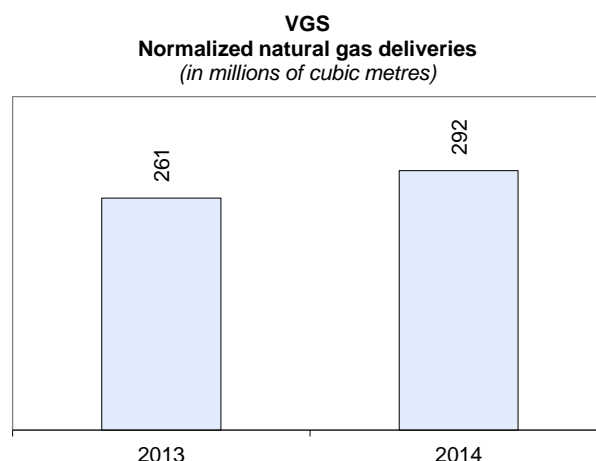
MANAGEMENT'S DISCUSSION AND ANALYSIS

Deliveries

GMP - The electricity distributed by GMP is mainly used for lighting, heating and generating purposes. As such, demand is influenced by economic ups and downs, customer efforts to conserve energy, and temperature fluctuations. For fiscal 2014, GMP's electricity deliveries totalled 4,297 gigawatthours, up 0.6% from last year. The higher volume came mainly from increases of 0.7% in the residential market and of 0.4% in the small commercial and industrial market given the favourable impacts of colder temperatures in the first two quarters of fiscal 2014 and from a net increase in the number of customers, as previously explained, partly tempered by energy conservation measures undertaken by the customers in these markets. Deliveries to the large commercial and industrial market increased 0.5% due to stronger demand from GMP's major customers.



VGS - For fiscal 2014, VGS's normalized natural gas deliveries totalled 292 million cubic metres, up 11.9% from last year. This increase was primarily due to (i) the addition of a major interruptible service customer and (ii) an increase in customer consumption for purposes other than heating. It should be recalled that VGS has been applying a normalization mechanism to its natural gas deliveries since October 1, 2012, 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.

On December 23, 2013, GMP invested \$24.4 million (US\$23.3 million) in Transco, one of its entities subject to significant influence, raising its ownership interest from 69.1% to 70.0%, 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.

The net investment in its entities subject to significant influence is included in GMP's rate base which enables it to generate a return. The fact that GMP had invested \$24.4 million in December 2013 and \$33.2 million in December 2012 has enabled it to raise its rate base and thereby generate additional net income for fiscal 2014 versus fiscal 2013.

For fiscal 2014, GMP's share in the earnings of entities subject to significant influence, excluding the impact of exchange rate changes, was up \$4.9 million year over year. This increase is mainly due to the greater ownership in these entities subject to significant influence, as previously explained. These shares in earnings are returned to customers through rates and therefore have a negligible impact on GMP's net income.

MANAGEMENT'S DISCUSSION AND ANALYSIS

IBIT

For fiscal 2014, the IBIT from GMP and VGS, excluding the impact of exchange rate changes, increased \$17.8 million year over year, mainly due to:

- a \$17.9 million increase in GMP's IBIT, mainly due to:
 - a favourable impact on gross margin arising from the previously described revenue increase and from the higher rate of return on deemed common equity;
 - the impact on IBIT of a higher rate base stemming, among other factors, from the December 2012 and December 2013 investments in Transco, as previously explained; and
 - a decrease in certain operating and maintenance expenses owing to the synergies generated by the integration of GMP's and CVPS's operations;
 partly mitigated by:
 - an unfavourable impact on gross margin from higher supply, production and transmission prices due to the considerably colder temperatures in fiscal 2014 compared to fiscal 2013; and
- a \$2.2 million increase in VGS's IBIT, mainly due to:
 - greater consumption by customers for purposes other than heating;
 - higher base rates, as anticipated in the 2014 rate case, reflecting the higher rate of return on deemed common equity and the rate base resulting from VGS's system development investments; and
 - a net favourable impact of the customers' share in the profit-sharing mechanism recorded during fiscal 2014 compared to that recorded last year.

It should be noted that, because GMP met all of the service quality performance indicators set by the VPSB during the 2013 calendar year, it has not incurred penalties that would have reduced its IBIT in fiscal 2014.

Regulatory matters

Summary of the regulatory framework for GMP and VGS

Fiscal years ended September 30	2014		2013		2012		
	GMP	VGS	GMP ⁽¹⁾	VGS	GMP	CVPS	VGS
Rate case period	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	2011-10-01 to 2012-09-30	2012-01-01 to 2012-09-30	2011-10-01 to 2012-09-30
Authorized rate of return on common equity	9.58%	10.26%	8.84%	9.75%	9.93%	9.17%	10.25%
Capital structure (Debt; Equity)	50.4%; 49.6%	45%; 55%	48.4%; 51.6%	45%; 55%	50.7%; 49.3%	47.2%; 52.8%	45%; 55%
Average rate base in rate case (US\$)	\$1,159 million ⁽³⁾	\$144 million ⁽²⁾	\$1,093 million	\$107 million ⁽²⁾	\$468 million	\$498 million	\$101 million

⁽¹⁾ GMP has been merged with CVPS since October 1, 2012.

⁽²⁾ Including US\$33 million (US\$5 million in 2013) related to the investments made in the Addison County system development project. The increase in the projected average rate base also came from other system development projects commissioned towards the end of fiscal 2013.

⁽³⁾ The projected average rate base in GMP's 2014 rate case is US\$66 million higher than that of fiscal 2013. This increase was mainly due to increased investments in property, plant and equipment and the additional investment in Transco and in an energy efficiency fund.

Regulatory filings

Fiscal 2014	
GMP - 2014 rate case	On August 1, 2013, GMP filed its 2014 rate case for the period of October 1, 2013 to September 30, 2014. The application provided for a 9.58% rate of return on common equity and a 49.5% common equity ratio. It had also included a provision whereby US\$5.0 million in synergy savings (resulting from the CVPS merger and guaranteed by the merged entity for the second year following the merger) would be returned to GMP's customers. Also as part of this application, GMP asked the VPSB to increase the rates paid by its customers by 2.46% as of October 1, 2013. It had also included an agreement with the VDPS to defer approximately US\$4.9 million of 2014 transmission-related costs and recover such costs (without a return) in 2015. The agreement also includes a provision capping any 2015 rate increase at no more than 2.5%. The VPSB approved this rate case on September 26, 2013 and the rate increase took effect on October 1, 2013.
VGS - 2014 rate case	On June 28, 2013, the VDPS and VPSB reviewed a summary of the 2014 rate case. The final rate case was submitted on August 28, 2013 and approved by the VPSB on October 31, 2013, including a rate of return on common equity of 10.26% and a common equity ratio of 55%. The new rates that came into effect on November 1, 2013 reflect a 5.86% overall decrease in rates.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal 2015	
GMP - 2015 rate case and Alternative Regulation Plan	<p>In December 2013, GMP filed its 2015 rate case, covering 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 parties to 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 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 maintains several existing features, including a power supply adjustment mechanism, the adjustment for annual base rates, and a formula to determine the authorized rate of return on 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>As for the 2015 rate case, in May and June 2014 the VDPS, GMP and all the other parties in the proceedings signed memorandums of understanding to revise certain parameters of the Alternative Regulation Plan submitted by GMP. These revisions include changes to the methods used for calculating the earnings sharing mechanism and 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>
VGS - 2015 rate case	<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 common equity of 10.20% and a 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-related rates.</p>
Regulatory outlook	
GMP - Restructuring of rates	<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 June 2014, the VPSB asked that GMP first file details of its actual fiscal 2013 and 2014 operating and maintenance costs by November 2014. Once these costs have been examined and approved by the VPSB, GMP may file its new proposal for rates and for the allocation of costs among all categories of customer. This filing, expected to be made in the third quarter of fiscal 2015, will be subject to review and regulatory approval by the VDPS and VPSB. GMP and the VDPS will make reasonable efforts to complete the work and hold the hearings over a period not exceeding nine months.</p>
VGS - System development project	<p>In December 2013, the VPSB issued a Certificate of Public Good (CPG), enabling VGS, subject to various permits being obtained, to begin construction of Phase I of its system development project, which consists of extending the natural gas distribution service to 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. The expectation is that VGS will be able to serve the communities of Vergennes and Middlebury starting in December 2015. As at September 30, 2014, US\$40.4 million had been invested in the project.</p> <p>In July 2014, VGS filed an 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 initially projected costs was 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) changes to the pipeline route and engineering after consultation with residents and other stakeholders. To address this budget increase, the VPSB opened two files. An initial file was opened to determine whether the size of the cost increase would require the VPSB to review the CPG issued for Phase I; in October 2014, the VPSB decided that it would not have to review the issuance of the CPG. A second file was opened to determine if VGS had violated a rule requiring it to monitor and update, in a timely manner, the estimated capital costs of Phase I of the project. The VPSB has not yet issued a decision on this second file.</p>

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	<p>In November 2013, VGS filed an application with the VPSB seeking regulatory approval to extend the natural gas distribution service to International Paper Company in New York state. This system extension (Phase II) would be added to the VGS system development project in Addison County (Phase I). Public hearings were held during the third quarter of fiscal 2014. In September 2014, the VPSB announced that the technical hearings, initially planned for October 2014, would be postponed to January 2015. A decision is expected by March 2015 such that this customer would be able to be served by the end of the 2015 calendar year. In February 2014, VGS also filed an application with the FERC seeking authorization to cross the Vermont / New York border in order to supply gas to International Paper Company. In September 2014, the FERC approved VGS's request by conferring its regulatory authority to the regulatory agencies of the states of Vermont and New York, so that once decisions have been rendered by these agencies, no additional authorization will be needed from the FERC.</p> <p>In recent months, the project has been contested by citizens and various interest groups, while it enjoys broad support among businesses and related groups, governmental organizations, and the public. Although Phase I of the project has received VPSB approval and while VGS has begun the related construction work, some agreements still need to be signed with the 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. As for Phase II, it is also being contested by citizens and various interest groups that will be affected by the project, while currently being examined by the VPSB.</p>
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GMP's wind farm

In November 2012, GMP completed construction of its KCW project, a 63-megawatt wind power project located in Lowell, Vermont. This wind farm, which represents an investment of over US\$156.0 million, has 21 turbines and can supply power to more than 24,000 households. It is also the largest renewable energy production project in Vermont.

To interconnect this wind farm to the transmission system, GMP had entered into an interconnection agreement with ISO-NE, which serves as Independent System Operator. However, ISO-NE had required GMP to install a voltage control device to regulate the transmission system and ensure its reliability. While GMP was authorized to operate the wind farm until the device was installed, ISO-NE limited the farm's production to a level below its minimum capacity during that period. In the second quarter of fiscal 2014, GMP completed the device installation. Implementation of the device has minimized the impact of the production limits imposed by the ISO-NE. The costs incurred for this project, which will be included in GMP's rate base, totalled US\$9.9 million.

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.

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 covers 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 of September 30, 2014, GMP had completed a number of integration milestones, including:

- negotiation of a new single labour agreement between GMP and unionized workers that will expire in January 2018;
- consolidation of labour management processes;
- merger of financial operations, controls and reporting;
- consolidation of communications and external affairs functions and processes;
- merger of safety programs and procedures;
- deployment of a new customer information and billing system that will become the target platform for converting CVPS legacy customer data and operations;
- consolidation of pension plans and other employee benefits;
- merging the customer information system and the billing system; and
- merging the geospatial data system and the outage management system.

During fiscal 2015, GMP will continue merging its operations so that its customers and GMP itself can continue to benefit from the resulting efficiencies and synergies.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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;
- shared equally between GMP and its customers for fiscal years 2016 to 2020; and
- 100% for fiscal years 2021 and 2022.

THE SYNERGIES ACHIEVED BY GMP FROM THE CVPS MERGER EXCEEDED EXPECTATIONS IN 2014 AND 2013

For fiscal years 2014 and 2015, amounts of US\$5.0 million and US\$8.0 million, respectively, were included in GMP's rate cases, such that the synergy savings can be returned to customers as per the required terms. For fiscal 2014, as was the case in fiscal 2013, GMP was able to achieve greater-than-anticipated synergies and reach the US\$5.0 million attributable to customers. Under the memorandum of understanding entered into upon the CVPS acquisition, such additional savings are retained by GMP and have therefore had a favourable impact on its net income for fiscal 2014.

Site restoration

VGS and GMP, subsidiaries of NNEEC, jointly with other companies, have been cited as being 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.

2. NATURAL GAS TRANSPORTATION SEGMENT

Transportation			
Fiscal years ended September 30			
(in millions of dollars)	2014	2013	Change
Revenues	42.8	41.2	1.6
Gross margin	42.8	41.2	1.6
Share in earnings of an entity subject to significant influence	15.2	10.2	5.0
IBIT	26.5	22.7	3.8
Net income attributable to Partners	16.1	16.1	-

Revenues

For fiscal 2014, the Natural Gas Transportation segment's revenues, which are also equal to the segment's gross margin, increased \$1.6 million year over year. This increase came essentially from TQM and reflect its rate case, which permits a revenue increase so that an operating expense increase, stemming from pipeline maintenance and other costs, can be recovered from customers, partly mitigated by lower final rates in the first quarter of fiscal 2014.

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 \$5.0 million increase in this share came mainly from higher short-term revenues, as new short-term contracts increased transported volumes, and from higher demand, as temperatures were colder in fiscal 2014 than in fiscal 2013.

IBIT

For fiscal 2014, IBIT was \$3.8 million higher year over year, mainly due to:

- a \$5.0 million increase in the share of PNGTS's IBIT, as previously explained; and
- a \$1.6 million increase in TQM's revenues, as previously explained;

mitigated by:

- higher operating expenses stemming, in part, from higher pipeline maintenance costs for TQM.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Regulatory matters

Summary of TQM's regulatory framework

Rate case period	2014-01-01 to 2014-12-31	2013-01-01 to 2013-12-31	2012-01-01 to 2012-12-31
Rate principles	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	Final rates based on the multiyear plan (2010-2012) negotiated with interested parties
Decision issued by the NEB	April 2014	May 2013	August 2012
Average rate base in rate case	\$353 million	\$363 million	\$373 million

Regulatory filings

Fiscal 2014	
TQM - 2014-2016 negotiated multiyear agreement	<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	
TQM - 2015 rate case	TQM intends to file an application with the NEB by December 1, 2014 seeking approval of interim rates for fiscal 2015. Upon approval, interim rates will take effect on January 1, 2015 and remain in effect until final rates are approved. Final rates are expected to be submitted in the second quarter of fiscal 2015, and NEB approval of the final rates is expected in the third quarter of fiscal 2015.
Regulatory outlook	
TQM - Future pipeline abandonment costs	<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 February 2013, the Group 1 pipeline companies, including TQM, submitted a joint application to the NEB that proposed a process for setting aside funds that will be used to cover future abandonment costs. In April 2013, TQM filed a document with the NEB providing abandonment cost estimates.</p> <p>In addition, in May 2013, TQM filed an application that proposed a mechanism for collecting funds through a surcharge on transportation services. Hearings on these matters were held in January and February 2014. In May 2014, the NEB approved TQM's proposed processes for:</p> <ul style="list-style-type: none"> estimating abandonment costs; establishing the annual amounts to be collected and the mechanism for collecting funds through a surcharge on transportation services; and 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. <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.</p> <p>In December 2014, TQM intends to file an application seeking NEB approval for the amount collectible from customers in fiscal 2015 for the financing of future abandonment costs.</p>
PNGTS - Rate cases	<p>PNGTS filed a rate case with the FERC in April 2008 and May 2010 seeking to have its rates increased. In March 2013, the FERC issued decisions regarding both rate proceedings. In April 2013, PNGTS filed a request with the FERC to review the rate case filed in May 2010, seeking to have certain aspects of the decisions re-examined. Gaz Métro is currently unable to determine the final impacts of these decisions on its consolidated financial results. Pending the FERC's decisions on the rate cases, PNGTS recorded its revenues based on the latest FERC-approved rates. The difference between the interim rates billed by PNGTS and latest FERC-approved rates was recorded in a liability account.</p>

MANAGEMENT'S DISCUSSION AND ANALYSIS

Outlook

PNGTS

The loss of two major customers in recent years with whom PNGTS had long-term contracts, combined with difficulties in concluding the same type of contracts with other customers to replace the lost volumes, has undermined the results expected from this investment. PNGTS's main challenge is therefore to remain vigilant and active in the market such that it can seize business opportunities that would allow it to maximize the capacity of its transmission system.

3. ENERGY PRODUCTION SEGMENT

Energy Production			
Fiscal years ended September 30			
<i>(in millions of dollars)</i>	2014	2013	Change
Revenues	34.8	-	34.8
Gross margin	34.8	-	34.8
Loss before income taxes	(1.4)	(3.2)	1.8
Net loss attributable to Partners	-	(1.1)	1.1

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 2014, the segment's revenues consisted of 50% of the revenues generated by Wind Farms 2 and 3 since wind parks 2 and 3 were commissioned in November and December 2013. During the first 10 months of operation, wind parks 2 and 3 have generated 645,143 megawatt-hours, exceeding expectations thanks to favourable wind conditions. According to the terms of the 20-year electricity supply contracts with Hydro-Québec, the average price for the first month of operation had been set at \$107.85 per megawatt-hour. On January 1, 2014, this price was indexed to \$107.90 per megawatt-hour. This price will be indexed over the term of the contracts on January 1 of each year.

Loss before income taxes

For fiscal 2014, the segment's loss before income taxes was \$1.8 million less than the loss incurred in fiscal 2013, mainly due to:

- the IBIT generated by Wind Farms 2 and 3, as wind parks 2 and 3 were commissioned during the first quarter of fiscal 2014. This net income helped to generate \$56.1 million in cash flows related to operating activities in fiscal 2014, which also includes a \$25.8 million payment received from Hydro-Québec related to a note receivable for the reimbursement of certain construction costs; and
- a favourable net impact of changes in the ineffective portion of the Wind Farms 2 and 3 swaps compared to last year.

The changes in the inefficiency 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.

Outlook

Wind power projects

As explained in greater detail in the VALENER INC. AND GAZ MÉTRO LIMITED PARTNERSHIP heading of this MD&A, wind parks 2 and 3 were commissioned in November and December 2013, respectively, and it is scheduled that wind park 4 will be commissioned in November 2014. In November 2014, Gaz Métro and its partners also responded to a Hydro-Québec call for tenders seeking the purchase of a block of wind power. The tenders are currently being examined by Hydro-Québec.

MANAGEMENT'S DISCUSSION AND ANALYSIS

4. ENERGY SERVICES, STORAGE AND OTHER SEGMENT

Energy Services, Storage and Other			
Fiscal years ended September 30			
<i>(in millions of dollars)</i>	2014	2013	Change
Revenues	54.3	60.7	(6.4)
Gross margin	28.0	35.1	(7.1)
IBIT (loss before income taxes)	(0.7)	22.7	(23.4)
Net income (loss) attributable to Partners	(2.9)	21.7	(24.6)
Net gain on the disposal of the interest in HydroSolution	-	14.7	(14.7)
Net income (loss) attributable to Partners, excluding non-recurring items ⁽¹⁾	(2.9)	7.0	(9.9)

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

Revenues

This segment's fiscal 2014 revenues decreased by \$6.4 million year over year, mainly due to:

- a \$6.8 million decrease in revenues from Servitech following the sale of this subsidiary's assets in July 2013;
- a \$3.0 million decrease in revenues from HydroSolution during the first quarter of fiscal 2014, as the units held in this joint venture were sold in November 2012; and
- a \$2.3 million decrease in Intragaz's storage revenues, following the Régie's May 2013 decision, as explained in the Regulatory Filings heading of this section;

partly offset by:

- a \$3.2 million increase in Gaz Métro LNG's revenues owing to the performance of short-term LNG supply contracts driven by strong demand; and
- a \$1.9 million increase in revenues realized by Transport Solutions, which increased its LNG truck-fuelling operations compared with fiscal 2013.

IBIT (loss before income taxes)

The segment's fiscal 2014 IBIT decreased \$23.4 million year over year, mainly due to:

- the fact that a \$14.7 million net gain had been realized on the disposal of the interest in HydroSolution in the first quarter of fiscal 2013;
- a \$4.3 million decrease in Intragaz's IBIT due to a lower gross margin following the Régie's May 2013 decision and a higher financial expense upon implementation of its financing in September 2013; and
- a \$1.2 million decrease in CCUM's IBIT, given its higher fuel supply costs due to the cold snaps in winter 2014.

Regulatory matters

Regulatory filings

Fiscal 2014	
Intragaz - 2014 rate case	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.

Sale of Servitech's assets

On July 4, 2013, Servitech, a subsidiary of the Partnership, sold certain assets, including the "Servitech" business name. This transaction is in line with Gaz Métro's strategy of focusing on energy distribution, energy transportation and energy production in Quebec and Vermont. The transaction did not have a significant impact on Gaz Métro's consolidated net income.

Outlook

LNG

In September 2014, Gaz Métro and the Government of Quebec, through Investissement Québec, announced they would be partnering in 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 stake in the project will be a maximum \$50 million investment in Gaz Métro LNG.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The LSR plant expansion work is expected to run from May 2015 to June 2016, making LNG available to customers as of autumn 2016. The additional volumes of LNG generated by the project will be used to meet growing demand in the road and marine transportation 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, and, in the maritime industry, Groupe Desgagnés inc. which, as of 2016, will be the first marine freight transport company in Quebec to be supplied by Gaz Métro LNG, and which recently ordered two of a series of LNG-fuelled ships.

In addition, in September 2013, Gaz Métro LNG had concluded an agreement with Société des traversiers du Québec for the purchase of fuel to supply three ferries with LNG. As provided for in the agreement, the first North American LNG-powered ferry will be commissioned in Quebec as of 2015. The new ship, which will run on fuel supplied by Gaz Métro LNG, will navigate the St. Lawrence between Matane, Baie-Comeau and Godbout. Two other LNG-fuelled ferries to be supplied by Gaz Métro LNG will subsequently be commissioned for the Tadoussac–Baie-Ste-Catherine crossing. The three new ferries will produce 25% less GHG emissions than comparable ships using marine diesel.

In addition to working on the LSR plant expansion project, Gaz Métro LNG has continued to market LNG based on the LSR plant's current capacity.

Blue Road and CNG

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 and Sainte-Julie.

The CNG fuel market also gained momentum last year, with private and public CNG refuelling sites emerging concurrently with the Blue Road. Transport Solutions is playing a key role in stimulating this market by offering compression station rental services.

Rail transportation

Transport Solutions worked with three innovative partners, Westport Innovations, Electro-Motive Diesel Inc. and Canadian National, at developing a new LNG engine technology for locomotives. However, technical setbacks combined with the Lac-Mégantic tragedy, which has had a major impact on rail transportation regulations, have significantly slowed down the consortium's work.

5. CORPORATE AFFAIRS SEGMENT

Corporate Affairs			
Fiscal years ended September 30			
<i>(in millions of dollars)</i>	2014	2013	Change
Revenues	(23.8)	(21.3)	(2.5)
Gross margin	(0.9)	(0.9)	-
Loss before income taxes	(8.3)	(8.0)	(0.3)
Net loss attributable to Partners	(7.7)	(7.9)	0.2

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

Q) CONSOLIDATED FINANCIAL POSITION

The following table compares the main consolidated balance sheet items as at September 30, 2014 with those of September 30, 2013.

Balance sheet item (in millions of dollars)	September 30		Increase (Decrease)	Explanation
	2014	2013 ⁽¹⁾		
Trade and other receivables	211.9	222.6	(10.7)	Decrease comes from (i) the net impact of Hydro-Québec's payment of a note receivable related to reimbursements of certain construction costs for wind parks 2 and 3 and the increase in the note receivable related to wind park 4, partly offset by (ii) higher deliveries and (iii) higher natural gas prices
Inventories	114.9	93.3	21.6	Increase comes from (i) higher natural gas prices and (ii) higher natural gas storage volumes
Property, plant and equipment	3,973.5	3,583.7	389.8	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 systems, (ii) wind parks 2 and 3 and wind park 4, (iii) GMP's electricity distribution system and (iv) VGS's system development projects (including Addison project)
Restricted cash	45.5	14.4	31.1	Increase comes mainly from amounts drawn by Wind Farm 4 during fiscal 2014 after the financing of investments in wind park 4 was completed in October 2013. The cash is being allocated to the project's construction costs
Intangible assets	78.5	67.8	10.7	Increase comes mainly from a greater investment in IT development
Deferred charges and credits	90.0	209.3	(119.3)	Decrease comes from (i) an increase in deferred credits related to rate stabilization accounts given colder temperatures compared with fiscal 2013, (ii) a decrease in deferred charges related to the funding of Gaz Métro-QDA's and GMP's pension plans, (iii) the net impact of the late application of Gaz Métro-QDA's 2014 and 2013 rates and (iv) a decrease in deferred charges related to Gaz Métro-QDA's financial instruments
Investments and other	736.8	639.1	97.7	Increase comes from the appreciation of the U.S. dollar against the Canadian dollar and from GMP's investment in Transco
Goodwill	349.0	321.7	27.3	Increase comes from the appreciation of the U.S. dollar against the Canadian dollar
Other long-term assets	74.6	68.1	6.5	Increase comes mainly from an increase in the accrued benefit assets of Gaz Métro-QDA's and GMP's pension plans
Accounts payable and accrued liabilities	341.1	314.4	26.7	Increase comes from (i) higher construction costs for wind park 4, (ii) the appreciation of the U.S. dollar against the Canadian dollar, (iii) an increase in Gaz Métro-QDA's transported volumes and (iv) higher expenses related to VGS's system development projects, partly mitigated by (v) lower construction expenses for wind parks 2 and 3 given the fact they were commissioned in November and December 2013
Long-term debt, including current portion	3,167.8	2,782.0	385.8	Increase comes from (i) the financing of investments in wind park 4 and the development of Gaz Métro-QDA's, GMP's and VGS's systems and (ii) the appreciation of the U.S. dollar against the Canadian dollar
Net future income tax liability, including current portion	374.3	311.5	62.8	Increase comes mainly from the change in temporary differences of U.S. companies and from the appreciation of the U.S. dollar against the Canadian dollar
Net liability related to derivative financial instruments, including current portion	23.4	31.2	(7.8)	Decrease comes from (i) a favourable impact of the higher forward price of natural gas on the fair value of the derivative financial instruments, (ii) settlements of interest rate derivative financial instruments, partly offset by the unfavourable impact of lower interest rates on the fair value of the derivative financial instruments
Other long-term liabilities	359.5	344.2	15.3	Increase comes mainly from (i) an increase in the accrued benefit liability of Gaz Métro-QDA's postretirement benefits and (ii) an increase in deferred revenues related to potential reimbursements by Hydro-Québec of certain construction costs for wind park 4

⁽¹⁾ The fiscal 2013 figures have been adjusted to reflect the presentation adopted for fiscal 2014.

MANAGEMENT'S DISCUSSION AND ANALYSIS

R) CASH AND CAPITAL MANAGEMENT

Gaz Métro's cash and capital management strategy focuses on maintaining a sound and flexible financial position and on generating sufficient cash. 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.

HIGHLIGHTS FOR FISCAL 2014

- Credit ratings of Gaz Métro and GMi revised upwards by the S&P rating agency;
- Credit ratings of Gaz Métro and GMi maintained by the DBRS rating agency;
- Debt / total capitalization ratio of 68.1%; and
- \$451.5 million invested in purchases of property, plant and equipment.

CASH FLOW SUMMARY

For the fiscal years ended September 30 ⁽¹⁾

<i>(in millions of dollars)</i>		2014	2013	Change
Cash flows related to operating activities	a	\$ 605.0	\$ 488.0	\$ 117.0
Cash flows related to investing activities	b	\$ (641.3)	\$ (653.3)	\$ 12.0
Cash flows related to financing activities	c	\$ 75.3	\$ 183.1	\$ (107.8)

⁽¹⁾ The standardized distributable cash was \$153.5 million for fiscal 2014 compared to \$33.7 million for fiscal 2013. This is a non-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.

a) Cash flows related to operating activities

Cash flows related to operating activities increased by \$117.0 million, in part due to:

- an increase in cash inflows generated primarily by the Energy Distribution segment, resulting mainly from the much colder temperatures in the first two quarters of fiscal 2014;
- an increase in cash inflows generated by the Energy Production segment given the commissioning of wind parks 2 and 3 in the first quarter of fiscal 2014; and
- a \$29.5 million increase in distributions received from entities subject to significant influence;

partly mitigated by:

- a \$33.1 million unfavourable change in non-cash working capital items, mainly due to:
 - a \$40.0 million unfavourable impact on Gaz Métro-QDA's inventories of the increase in the price of natural gas during fiscal 2014 and the reduction in storage capacities in 2013 following a decision issued by the Régie;
 - a \$24.9 million unfavourable impact on Gaz Métro-QDA's trade and other receivables resulting from the higher deliveries and the increase in the price of natural gas compared to fiscal 2013; and
 - an \$11.1 million unfavourable impact on GMP's income taxes receivable due to a receipt, in fiscal 2013, of a prior year income tax refund;

partly offset by:

- a \$40.5 million favourable impact on the trade and other receivables of wind parks 2 and 3 attributable to the repayment of a note by Hydro-Québec for certain construction costs related to wind parks 2 and 3 and the larger amount of sales tax receivable at the beginning of fiscal 2014 compared to fiscal 2013 as the construction period on wind farms was nearing completion;
- a tax advantage arising from the accelerated amortization of wind power assets; and
- a \$15.8 million favourable impact on Gaz Métro-QDA's accounts payable and accrued liabilities attributable to the greater transportation capacity in fiscal 2014 resulting from a greater number of customers who retained Gaz Métro-QDA rather than a third party for the transportation of natural gas, combined with higher natural gas prices.

MANAGEMENT'S DISCUSSION AND ANALYSIS

b) Cash flows related to investing activities

For the fiscal years ended September 30

<i>(in millions of dollars)</i>	2014	2013	Change
Change in restricted cash	\$ (29.9)	\$ (7.0)	\$ (22.9)
Purchases of property, plant and equipment	(451.5)	(454.3)	2.8
Change in deferred charges and credits	(116.5)	(170.7)	54.2
Purchases of intangible and other assets	(19.6)	(20.8)	1.2
Net change in an interest in a joint venture and an entity subject to significant influence	(25.6)	6.2	(31.8)
Other	1.8	(6.7)	8.5
Total	\$ (641.3)	\$ (653.3)	\$ 12.0

Change in restricted cash

For fiscal 2014, the change in restricted cash increased \$22.9 million, mainly due to the fact that Wind Farm 4 drew a total amount of \$142.5 million (Gaz Métro's share: \$71.3 million) in the first two quarters of fiscal 2014, after its financing was completed, as explained in the Conditions in the Electricity Market in Quebec section of the VALENER INC. AND GAZ MÉTRO LIMITED PARTNERSHIP heading. This increase was partly mitigated by the construction costs incurred by Wind Farm 4.

Purchases of property, plant and equipment

Purchases of property, plant and equipment decreased by \$2.8 million when compared to fiscal 2013, mainly due to:

- a \$77.8 million decrease in investments by the Energy Production segment given less investment in wind parks 2 and 3, now that they have been completed, as scheduled, partly offset by greater investments in wind park 4;

partly offset by:

- a \$68.3 million increase in investments in the Energy Distribution segment, mainly due to:
 - the fact that, during the first two quarters of fiscal 2013, Gaz Métro-QDA received two more portions of the federal subsidy for the project to extend the system to Thetford Mines, recognizing them as a reduction to purchases of property, plant and equipment; and
 - the investments VGS needed to make to carry out its project to extend its system in Addison County;

partly mitigated by:

- the fact that, in fiscal 2013, GMP had made more significant investments in the KCW wind power project completed in November 2012.

Change in deferred charges and credits

Invested funds decreased \$54.2 million compared to fiscal 2013, partly due to:

- a \$33.3 million decrease in deferred charges related to the cost of natural gas reimbursable to Gaz Métro-QDA's customers due to the late application of the 2013 rates;
- an \$11.8 million decrease in the deferred charges incurred for the studies and preparatory work for the project to serve the Côte-Nord region with natural gas as a result of the postponement of project-related activities; and
- a \$7.2 million decrease in GMP's investments due in part to the \$5.5 million (US\$5.1 million) investment in an energy efficiency fund created following the CVPS acquisition, as required by the VPSB, whereas GMP had invested \$8.0 million (US\$8.0 million) in the fund during fiscal 2013. GMP must invest approximately US\$21 million over five years in this fund in order to achieve US\$46 million in savings for customers residing in CVPS's pre-merger service territory. As at September 30, 2014, the net amount invested in this fund was \$14.7 million (US\$13.2 million).

Net change in the interest in a joint venture and an entity subject to significant influence

The net change in the interest in a joint venture and an entity subject to significant influence was \$31.8 million compared to fiscal 2013, mainly due to:

- the November 2012 disposal of the interest in HydroSolution for a cash consideration of \$42.4 million (net of related transaction costs and disposed cash);

offset, among other factors, by:

- GMP's \$24.4 million (US\$23.3 million) investment in Transco on December 20, 2013, \$8.8 million (US\$10.2 million) less than that of December 2012.

MANAGEMENT'S DISCUSSION AND ANALYSIS

c) Cash flows related to financing activities

For the fiscal years ended September 30

<i>(in millions of dollars)</i>	2014	2013	Change
Issuances of units	\$ 3.6	\$ 56.5	\$ (52.9)
Distributions	(169.1)	(165.1)	(4.0)
Other financing activities	240.8	291.7	(50.9)
Total	\$ 75.3	\$ 183.1	\$ (107.8)

Issuances of units

Unit issuances were down \$52.9 million year over year, mainly because, on September 30, 2013, the Partnership had issued, by way of private placement, 3,125,000 units to its partners at a per-unit price of \$16.00 for total proceeds of \$50.0 million.

Distributions

The following table shows the distributions paid to Partners during fiscal 2014:

Distribution payment date	Distribution declaration date	Per-unit distribution amount (in \$)	Cash amount (in millions of \$)
October 1, 2013	August 8, 2013	0.28	41.6
January 3, 2014	November 26, 2013	0.28	42.5
April 1, 2014	February 6, 2014	0.28	42.5
July 2, 2014	May 13, 2014	0.28	42.5

With the distributions of \$1.12 per unit paid during fiscal 2014, Gaz Métro kept with its practice of distributing virtually all of its income, since, as at September 30, 2014, it had distributed 98.6% of the net income it has earned since becoming public in 1993.

Gaz Métro plans on maintaining the distribution level at \$0.28 per unit for each quarter of fiscal 2015. On November 26, 2014, GMI's board of directors, acting in its capacity as General Partner of Gaz Métro, declared a quarterly distribution of \$0.28 per unit, totalling \$42.5 million, payable to its Partners on January 5, 2015.

Other financing activities

Other financing activities resulted in net issuances of \$240.8 million (excluding a \$69.2 million unfavourable exchange rate impact) for fiscal 2014 and were essentially due to:

- GMP's issuance, by way of private placement, of three series of first mortgage bonds totalling US\$75.0 million. The first series in the amount of US\$43.0 million bears interest at an annual rate of 4.89% and matures on December 16, 2043; the second, in the amount of US\$20.0 million, bears interest at an annual rate of 4.39% and matures on December 16, 2033; the third, in the amount of US\$12.0 million, bears interest at an annual rate of 4.07% and matures on January 9, 2029;
- VGS's issuance, by way of a private placement, of senior notes totalling US\$35.0 million, which bear interest at an annual rate of 5.14% and mature on January 30, 2044. These notes replace the ones in Series 7.00% totalling US\$10.0 million, which matured on February 2, 2014 and made it possible to repay VGS's bank loans in the amount of \$21.2 million;
- a \$75.7 million increase in the financing of investments in wind parks 2 and 3 and wind park 4; and
- a \$102.5 million increase in Gaz Métro-QDA's term loans, whereas, in fiscal 2013, it had turned to other sources of financing such as long-term debt and proceeds from the above-described unit issuance.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL STRUCTURE AND DEBT RATIO

As at September 30

<i>(in millions of dollars unless otherwise indicated)</i>	2014	2013
Bank loans	\$ -	\$ 19.7
Current portion of long-term debt	27.0	89.9
Long-term debt, net of financing costs	3,140.8	2,692.1
Total debt ⁽¹⁾	3,167.8	2,801.7
Partners' equity ⁽²⁾	1,482.4	1,444.1
Total capitalization	\$ 4,650.2	\$ 4,245.8
Debt / total capitalization ratio ⁽³⁾	68.1%	66.0%

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

⁽²⁾ 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 2014 and 2013.

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

At 68.1%, the debt / total capitalization ratio increased by 2.1%. This increase was mainly due to the above-described financing activities. 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 in Partners' equity.

In fiscal 2014, the Partnership increased the value of its U.S.-dollar net assets by \$36.6 million 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 stood at \$503.8 million (US\$449.9 million) as at September 30, 2014 compared with \$397.1 million (US\$385.5 million) as at September 30, 2013.

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:

	September 30, 2014	September 30, 2013	Increase
U.S. dollar	\$1.1200	\$1.0303	8.7%

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

	September 30, 2014	September 30, 2013	Increase
U.S. dollar	\$1.0831	\$1.0132	6.9%

Unused credit facilities and financing outlook

As at September 30, 2014, the Partnership, in part through its General Partner GMi, had term credit facilities totalling \$1,251.9 million and an operating credit facility totalling \$50.0 million, including the debt financing of Wind Farms 2 and 3 and Wind Farm 4, 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, its subsidiaries and joint ventures, the unused credit facilities stood at \$365.4 million as at September 30, 2014.

In April 2014, Gaz Métro, through its General Partner GMi, extended the expiry of its \$600.0 million maximum authorized credit facility to March 2019.

During fiscal 2015, the Partnership expects to require funds to finance:

- investments in property, plant and equipment that could amount to approximately \$460 million and related mainly to extensions and improvements to be made to the energy distribution systems in Quebec and Vermont (approximately \$390 million), to the LSR plant expansion project (approximately \$50 million), and to wind power projects (approximately \$20 million);
- investment opportunities;

MANAGEMENT'S DISCUSSION AND ANALYSIS

- capital contributions needed for Gaz Métro's subsidiaries, joint ventures and entities subject to significant influence;
- the purchase of Gaz Métro-QDA's GHG emission allowances under the CATS Regulation;
- the refinancing or repayment of \$27.0 million in long-term debt coming due within 12 months; and
- distributions to Partners.

The available sources of financing are:

- cash flows related to operating activities;
- available credit facilities and operating credit lines;
- Gaz Métro's securitization program as described in the Off-Balance-Sheet Arrangements heading of this section; and
- if necessary, new financings in the form of debt or unit issuances.

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% equity.

The Partnership believes that it will be able to refinance or reimburse the \$27.0 million portion of long-term debt coming due within 12 months, as it has never experienced a significant reduction in its ability to access capital markets, including the past period of economic instability. New debt issuances by GMP and VGS amounting to US\$75.0 million and US\$35.0 million, respectively; the renewal of TQM's credit facility amounting to \$75.0 million, as described in the Other Financing Activities heading of this section; the long-term financing totalling \$166.1 million obtained by Wind Farm 4 on October 29, 2013; and the increase in the S&P credit ratings and confirmation of the DBRS credit ratings for Gaz Métro and GMi are all tangible evidence of the financial markets' confidence in Gaz Métro and its Partners. This situation specific to Gaz Métro reflects:

- its capital management approach, which reflects the capital structures stipulated by the various regulatory agencies and complies with the restrictive covenants in the credit facilities and in the trust deeds 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
- the fact that the Partnership has kept with its practice of distributing virtually all of its net income.

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. 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 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.

The following table shows these ratios based on Gaz Métro's non-consolidated financial statements as at September 30, 2014 and 2013.

	2014	2013
Long-term debt / total capitalization ratio	55.6%	54.1%
Long-term debt interest coverage ratio	3.01 times	3.13 times

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, 2014 and 2013, Gaz Métro's assets used for such activities accounted for 2.95% and 2.67%, 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, 2014 and 2013, Gaz Métro has no interests in such activities.

As at September 30, 2014 and 2013, 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. 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.

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Internal policy for the fixing of interest rates

As at September 30, 2014, 86.0% of the long-term debt was at fixed rates compared to 88.0% as at September 30, 2013. 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

On December 17, 2013, S&P published its final ratings following an update to its rating criteria for corporate industrial companies and utilities. Gaz Métro's and GMI's credit ratings were removed from *CreditWatch with positive implications*. Gaz Métro's corporate credit rating was raised to A (stable). As for GMI's first mortgage bonds and commercial paper ratings, they were raised to A+ and A-1 (mid), respectively. The credit ratings of the DBRS rating agency were maintained. The following table presents the changes to the credit ratings.

For the fiscal years ended September 30

	2014	2013
First mortgage bonds (S&P/DBRS) ⁽¹⁾	A+/A	A/A
Commercial paper (S&P/ DBRS) ⁽¹⁾	A-1(mid)/R-1(low)	A-1(low)/R-1(low)

⁽¹⁾ Through its General Partner, GMI.

As part of this same update process, GMP's credit rating was also revised upwards to BBB+ (stable), and the rating on its first mortgage bonds was raised to A.

OFF-BALANCE-SHEET ARRANGEMENTS

Securitization program

Under a claims purchase agreement (called the "securitization agreement") entered into on September 30, 2010, amended and now having an undetermined duration, Gaz Métro may assign claims to a securitization trust, with limited recourse, on a monthly basis. The maximum amount negotiated with the securitization trust was \$85.0 million as at September 30, 2014 and 2013, and the securitization trust has no recourse against the other assets of the Partnership in the event debtors fail to pay amounts owing when they become due.

This agreement provides the Partnership with an additional source of financing. No asset or liability with respect to the management of the claims is recorded; however, the Partnership retains the responsibility for the management, administration and collection of the claims sold. The Partnership chose not to use this source of financing during fiscal years 2014 and 2013 as it was able to obtain financing under more favourable conditions through its credit facilities.

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 27 to Gaz Métro's audited consolidated financial statements for the years ended September 30, 2014 and 2013.

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CONTRACTUAL OBLIGATIONS

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

<i>(in millions of dollars)</i>	Total	Less than 1 year	1 to 3 years	4 to 5 years	Thereafter
Financial liabilities					
Bank overdraft	5.4	5.4	-	-	-
Accounts payable and accrued liabilities	341.1	341.1	-	-	-
Distributions payable	42.5	42.5	-	-	-
Derivative financial liabilities	24.6	11.9	0.3	-	12.4
Long-term debt	3,201.1	27.0	344.1	664.8	2,165.2
Interest ⁽¹⁾	2,113.7	144.3	278.7	243.4	1,447.3
Total	5,728.4	572.2	623.1	908.2	3,624.9
Supply contracts ⁽²⁾					
Energy supply	3,309.0	252.8	389.9	287.9	2,378.4
Transportation	865.1	331.5	408.2	45.0	80.4
Storage	76.4	17.4	20.8	14.4	23.8
Total	4,250.5	601.7	818.9	347.3	2,482.6
Service and maintenance contracts ⁽³⁾	116.1	4.5	9.4	9.4	92.8
Construction contracts ⁽⁴⁾	101.2	55.4	45.8	-	-
Leases ⁽⁵⁾	27.7	4.6	3.5	2.3	17.3
Total contractual obligations	10,223.9	1,238.4	1,500.7	1,267.2	6,217.6

⁽¹⁾ Interest is presented based on contractual maturity and the rates in effect as at September 30, 2014.

⁽²⁾ Supply contracts are shown according to the prices and rates prevailing on the balance sheet date, with the exception of fixed-price contracts. The costs relating to these contracts will be recovered from customers in the corresponding periods.

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

⁽⁴⁾ Contract to build and install the Wind Farm 4 turbines and the contract to raise the liquefaction capacity of the LSR plant.

⁽⁵⁾ 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 2014, as a part of the measures implemented to ensure the security and diversity of gas supplies, Gaz Métro-QDA signed precedent agreements and financial backstopping agreements, in the event that these were cancelled, to increase pipeline transportation capacity from the Dawn trading hub, in Ontario. The transportation agreements will have a 15-year term and are targeted to start in November 2016. The agreements are required to meet gas supply needs in Québec and will ensure access to the affordable, diverse sources of natural gas from the Dawn hub.

For additional information on commitments, refer to Note 27 to Gaz Métro's audited consolidated financial statements for the fiscal years ended September 30, 2014 and 2013.

S) RISK FACTORS RELATING TO 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 Valener's financial position and consolidated net income. Other risks not currently known to Gaz Métro or that it currently believes to be immaterial, may also adversely affect its activities. Gaz Métro has developed and applied practices for identifying, assessing and managing risk in order to reduce the nature and scope of risks as much as possible.

REGULATORY AND POLITICAL RISK

The activities of Gaz Métro and its subsidiaries and joint ventures are extensively regulated by various government agencies in both Canada and the United States. There is always a risk that changes to government policies and laws could have an unfavourable impact on the activities, financial position and consolidated net income of Gaz Métro and its subsidiaries and joint ventures.

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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 affected by such decisions. Substantially all of Gaz Métro's consolidated revenues in fiscal 2014 were generated by regulated activities and were therefore subject to such decisions.

These regulatory agencies set the rates, usually on an annual basis, using data projections provided by Gaz Métro-QDA and some of Gaz Métro's subsidiaries and joint ventures. Any discrepancy between projections and actual data, particularly with respect to 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 from a regulatory agency when determining rates 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 on the credit ratings of the subsidiaries or joint ventures of Gaz Métro, as applicable.

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 some of Gaz Métro's rate-regulated subsidiaries and joint ventures and, consequently, on Gaz Métro's consolidated net income.

Failure to obtain rates in accordance with the 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 some of Gaz Métro's 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 has set its rates using the cost-of-service method. Under this method, the projected cost of performing Gaz Métro-QDA's activities is used to determine its rates. At year-end, a positive difference between Gaz Métro-QDA's allowable net income and earned net income is fully or partially designated as overearnings to be shared with customers according to the Régie-approved parameters, and a negative difference is designated as a shortfall charged solely to Gaz Métro-QDA. Therefore, there is no assurance that Gaz Métro-QDA will be able to recover all of the costs that are actually incurred and, consequently, 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 municipal, provincial or federal in Canada or local, state or federal in the United States, could have an unfavourable impact on the activities, competitive position, financial position and consolidated net income of Gaz Métro and its subsidiaries and joint ventures.

Change in accounting standards

As qualifying entities with rate-regulated activities are permitted to do, Gaz Métro is presenting its consolidated financial statements in accordance with Part V of the Handbook, *Pre-changeover Accounting Standards* for fiscal 2014 and will continue to do so for fiscal 2015. Under Part V of the Handbook, entities with rate-regulated activities can recognize regulatory assets and liabilities to reflect the economic impacts of the policies, decisions and rate-setting mechanisms permitted by regulatory agencies, as opposed to IFRS, which currently does not have a definitive standard permitting recognition of regulatory assets and liabilities. The IASB recently released an interim standard on regulatory deferral accounts and is continuing to work on a definitive standard applicable to rate-regulated activities. Based on an analysis of the interim standard, Gaz Métro has decided to adopt IFRS

MANAGEMENT'S DISCUSSION AND ANALYSIS

beginning in fiscal 2016 and will present restated information in accordance with IFRS for the preceding fiscal year. Based on the progress made to date on the IFRS conversion project, Gaz Métro is not currently able to quantify how the future conversion to IFRS will impact its consolidated financial statements and accompanying notes or rate setting. Given the differences that exist between Canadian GAAP and IFRS, in particular the uncertainty surrounding the definitive standard on rate-regulated activities, the impacts may be significant.

Given these circumstances, Gaz Métro may have to file new applications with the Régie to amend certain aspects of the already approved regulatory framework, in particular applications for rate adjustments in order to comply with the new accounting framework and to limit any impacts on Gaz Métro's consolidated net income.

The conversion to IFRS could increase volatility in Gaz Métro's consolidated net income if the definitive IFRS standard on rate-regulated activities does not permit recognition of regulatory assets and liabilities. In such a situation, Gaz Métro's consolidated net income would not be representative of the actual financial performance in a reporting period, which would not be the case if Part V of the Handbook were to continue to apply.

RISKS RELATED TO ECONOMIC CONDITIONS

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

Economy

The economy in general has an influence on the business activities of Gaz Métro and its subsidiaries and joint ventures. Generally speaking, poor economic conditions have a negative impact on the business activities of the industrial and commercial customers of Gaz Métro-QDA and some of Gaz Métro's subsidiaries and joint ventures and therefore on the demand for natural gas or electricity and related services.

However, since many of Gaz Métro-QDA's customers must sign a contract for the supply of natural gas to their facilities and many of these clients 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. Furthermore, for several years now, Gaz Métro-QDA has been working to further penetrate the residential market in order to raise natural gas's market share, thereby partly reducing 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.

During fiscal 2014, Gaz Métro-QDA generated 63% of the consolidated net income attributable to the Partners of Gaz Métro. Therefore, a significant and prolonged economic downturn in Quebec resulting in (i) a significant reduction in natural gas demand not protected by contractual payment guarantees or (ii) a greater inability of customers to pay amounts owing, at a time when it could be difficult to significantly reduce expenses related to the distribution of natural gas, would create upward pressure on distribution rates that could affect Gaz Métro-QDA's ability to compete with other energy sources.

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 other available energy sources.

Electricity has the largest residential market share in the province 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, a situation largely due to fluctuations in the price of the natural gas commodity, which must be sold to Gaz Métro-QDA's customers at cost. Although natural gas is cheaper than electricity, the cost gap between these two energy sources is narrower for customers using standard natural gas furnaces in comparison with high-efficiency electric heating systems.

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

As the price of No. 2 fuel oil is substantially higher than that of natural gas as a commodity, the competitiveness of natural gas is favourable in the residential and commercial markets.

Natural gas competitiveness in the industrial market may be subject to large fluctuations, since it is closely linked to fluctuations in the price of natural gas compared with heavy fuel oil. 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 for customers

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in this market than for residential or commercial customers because of the large volumes they consume. Furthermore, Gaz Métro-QDA has a specific distribution rate based on the price of heavy fuel oil for periods that may last a few days to almost a year.

Should the price of natural gas become substantially less competitive in relation to the price of electricity or other energy sources, Gaz Métro-QDA's ability to attract new customers could be affected, and existing customers could reduce their consumption or discontinue their use of natural gas. This could create upward pressure on distribution rates, which could affect Gaz Métro-QDA's ability to compete with other energy sources.

Any legislative amendment resulting in a substantial increase in Gaz Métro-QDA's operating costs could also create an upward pressure on distribution rates. Such upward pressure on distribution rates could affect Gaz Métro-QDA's ability to compete with other energy sources.

In addition, the competitiveness of natural gas 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.

Moreover, since the Green Fund Regulation came into force in Quebec, Gaz Métro-QDA, like fuel oil distributors, has had to pay the government an annual duty on its natural gas deliveries; however, since January 1, 2013, this excludes deliveries to Gaz Métro-QDA customers who themselves are emitters within the meaning of the CATS Regulation. Since the duty payable under the Green Fund Regulation is billed to Gaz Métro-QDA's customers through distribution rates, the obligation to pay it has an unfavourable impact on natural gas's competitiveness compared to electricity, which is not subject to such a duty, but a favourable impact compared to fuel oil, which is subject to a generally higher duty. Moreover, since January 1, 2013, under the CATS Regulation, Gaz Métro-QDA customers who themselves are emitters within the meaning of the CATS Regulation must cover their GHG emissions. As for its other customers, beginning on or after January 1, 2015 Gaz Métro-QDA will be obliged to cover their GHG emissions as well as its own and will therefore need to purchase GHG emission allowances, the cost of which Gaz Métro-QDA will pass on to customers through distribution rates. The CATS Regulation will therefore have an unfavourable impact on natural gas's competitiveness versus electricity (the use of which is essentially not a source of GHG emissions in Quebec) but a positive impact compared to fuel oil (the combustion or use of which is a greater source of GHG emissions than the combustion or use of natural gas).

For natural gas distribution in Vermont, U.S.A.

In Vermont, natural gas generally enjoys a substantial competitive advantage when compared with other energy sources in the residential, commercial and industrial air and water heating markets. However, a significant increase in transportation rates could mitigate this competitive advantage over petroleum products. Electricity is not a major energy source for space heating in the Vermont territories served by VGS and is therefore not currently a significant source of competition with natural gas.

For electricity distribution in Vermont, U.S.A.

At the wholesale level, in New England, a detailed competitive market framework was implemented that has resulted in bid-based wholesale competition of power suppliers rather than prices set under cost-of-service regulation.

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 also exists the potential for municipalities located within GMP's service territory, with citizen approval, to form and operate municipally owned utilities. In addition, self-generation, demand-side electricity management programs, and co-generation are potential competitive threats to network electric sales by displacing electricity demand within GMP's service territory and by 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 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.

As for electricity distribution activities in Vermont, GMP is exposed to the risk of future power supply costs arising from expiring short and long-term contracts (starting in 2016) that could prove significant to the extent that market power prices remain at current levels. GMP has put in place a program of regular short-term purchases to manage these open portfolio positions and reduce market risk. GMP also monitors opportunities for new long-term contracts or the construction of new generation facilities

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as part of its ongoing portfolio management policies. In the short term, most incremental replacement power costs would be recovered through the power cost adjustment mechanisms of GMP's Alternative Regulation Plan. Conversely, if market power prices drop significantly in relation to the levels provided for in the power supply contracts, this could have an impact on GMP's cash position due to possible accessory guarantee requirements resulting from purchases through ISO-NE or third parties. However, GMP adjusts its business practices so as to limit the possibility of having to provide such accessory guarantees. In addition, in extreme cases, GMP could seek emergency rate relief from its regulatory agencies; however, such relief may not be provided and, if it is provided, GMP and, indirectly, Gaz Métro cannot predict its timing and adequacy.

Loss of major customers

In Quebec, Gaz Métro-QDA's major customers, numbering more than 200, consumed just over 52% of Gaz Métro-QDA's natural gas deliveries in fiscal 2014, which corresponds to slightly more than 22% of its total revenues. Natural gas deliveries to these customers have depended, and will continue to depend, on their ability to continue doing business in spite of difficult economic conditions and on the competitiveness of natural gas relative to other sources of energy. 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 the supply of natural gas to their facilities, and 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 clients 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 the unfavourable impacts on Gaz Métro's consolidated net income can be the object of a distribution rate adjustment for the following fiscal year, such upward pressure on distribution rates could affect the competitive position of natural gas in relation 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.

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 a number of years, Gaz Métro-QDA has been working to raise natural gas's market share in the residential market, thereby partly reducing 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 highly 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. With climate change, there can be no assurance that long-term historical weather patterns will remain unchanged.

Gaz Métro-QDA benefits from a revenue normalization mechanism for its natural gas distribution and load-balancing revenues, based on normal temperature and normal wind velocity. Gaz Métro-QDA normalizes natural gas deliveries (based on temperature and wind velocity) and reflects the adjustment in its revenues using rate stabilization accounts. The rate stabilization accounts serve to mitigate the effect on earnings of volume volatility, caused mainly by weather. However, unusual or severe temperatures could adversely affect the revenue normalization mechanism and therefore have an unfavourable impact on Gaz Métro-QDA's financial position and net income and, in turn, on the consolidated net income of Gaz Métro.

As for VGS, since October 1, 2012, it has been benefiting from a mechanism that normalizes earnings for weather under its new Successor Alternative Regulation Plan, thus further mitigating the weather-related risk. However, as with Gaz Métro-QDA, unusual or severe temperatures could adversely affect the revenue normalization mechanism and therefore have an unfavourable impact on VGS's financial position and net income and, in turn, on the consolidated net income of Gaz Métro.

As for GMP, electricity deliveries can vary significantly in response to seasonal changes in weather and unusual or severe temperatures. GMP has an Alternative 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.

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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.

Current uncertainty about natural gas supply, a shift in North America supply, the fact that certain transportation systems are already operating at full capacity, government policy changes, and legislative changes affecting energy transportation could lead to the purchase of transportation capacity at an additional cost or could even make such purchases impossible, thereby having a significant impact on operations, costs and transportation rates and in turn could have an impact on the ability of Gaz Métro-QDA or VGS to compete with other energy sources.

Continuity of activities

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

Certain portions of Gaz Métro-QDA's system have reached a high level of saturation. A shortage of system capacity for timely servicing of existing or potential customers could have impacts on customers and on operating results, creating an unfavourable impact on Gaz Métro's consolidated net income.

The operating efficiency of Gaz Métro and its subsidiaries and joint ventures 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 and its subsidiaries and joint ventures. 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, or cause a competitive disadvantage, which could have an unfavourable impact on the financial position of Gaz Métro, its subsidiaries and joint ventures and, consequently, on the consolidated net income of Gaz Métro.

The activities of Gaz Métro-QDA and of some of Gaz Métro's subsidiaries and joint ventures 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 cause 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 approval, it is not guaranteed to 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 particularly burdensome during a peak demand period.

Gaz Métro and its subsidiaries and joint ventures could also be affected by public health problems, including pandemics.

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 systems in Quebec and Vermont could also result in an unfavourable impact on Gaz Métro's image and reputation.

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

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 in order to improve and replace aging pipelines. In addition, Gaz Métro and its subsidiaries and joint ventures have very strict policies in place that they follow rigorously to safeguard 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 applies to natural or technological events or events resulting from human intervention as well as to situations such as pandemics.

Gaz Métro and its subsidiaries and joint ventures also carry insurance coverage with reputable insurers for amounts that are considered sufficient given the nature and scope of their activities. However, significant uninsured claims or claims exceeding

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policy limits could have an unfavourable impact on Gaz Métro's financial position and consolidated net income. In addition, it is impossible to guarantee that the insurance coverage will continue to be offered at economically acceptable and reasonable terms, or that the coverage will continue to cover all occurrences that could give rise to a loss or potential claim.

In addition, during the useful life of the natural gas pipelines forming their systems, Gaz Métro and some of its subsidiaries and joint ventures have to make provisions for their asset retirement costs. When a legal obligation exists, Gaz Métro and its subsidiaries and joint ventures account for the fair value of an asset retirement obligation as a liability in the period in 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 should 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 have generally received approval for recovery of those costs, it is not guaranteed to be sufficient or timely.

Environment, health and safety

The activities and facilities of Gaz Métro and its subsidiaries and joint ventures 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 their operations, Gaz Métro and some of its subsidiaries and joint ventures 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. Moreover, the enforcement of existing environmental laws and regulations is becoming increasingly strict. Compliance with environmental laws and requirements can impose significant costs, reduce cash flows and may result, in certain cases, in shutdowns of certain facilities or reduced output. Gaz Métro and its subsidiaries and joint ventures 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.

Gaz Métro and its subsidiaries and joint ventures could be particularly affected by current and future GHG-emission reduction regulations that impose reduction measures or emissions taxes.

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 CATS Regulation came into force on January 1, 2012. As of January 1, 2015, under the CATS Regulation, Gaz Métro-QDA will be obliged to cover: (i) its own GHG emissions, (ii) fugitive emissions and emissions caused by third-party damage and (iii) emissions of its customers, other than customers who themselves are emitters as defined in the CATS Regulation, that are caused by the use or combustion of natural gas for their establishments covered by the CATS Regulation in Quebec. To do so, Gaz Métro-QDA will have to purchase GHG emission allowances and reduce its GHG emissions. Gaz Métro-QDA has taken the necessary measures to purchase greenhouse gas emission allowances when required in order to comply with the CATS Regulation. This Regulation will create upward pressure on distribution rates and therefore affect Gaz Métro-QDA's ability to compete with other energy sources. The monetary impact will mainly depend on the trading prices of emission allowances. In anticipation of having to purchase GHG emission allowances, Gaz Métro-QDA is monitoring the emission allowance market.
- In June 2012, the Government of Quebec made public 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 will closely monitor the implementation of priorities defined in the CCAP 2020 over the next few years to determine how they will influence its growth outlook and competitive position.

In Vermont

- **GMP** is subject to a state policy that encourages development of renewable energy resources in Vermont as well as the purchase or sale of renewable power by the state's electricity distributors. In 2005, the Vermont legislature enacted the Sustainably Priced Energy Enterprise Development (SPEED) program, with a goal that 20% of total statewide electric retail sales during the year commencing January 1, 2017 be generated by new renewable energy sources. Although this program has not had a major impact on electricity rates, GMP is closely monitoring the program's potential impacts in terms of its costs and competitive position. Under the SPEED program, GMP and other Vermont utilities can

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and do sell attributes from their renewable energy sources in 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. If Vermont adopted a future renewable portfolio standard or if surrounding states ceased to accept SPEED resource attributes, that revenue stream would be reduced or eliminated resulting in corresponding rate needs.

- **GMP** participates in the Regional Greenhouse Gas Initiative (RGGI), a cooperative effort among U.S. Northeast and Mid-Atlantic states to reduce carbon dioxide (CO₂) emissions that uses a multi-state cap-and-trade program with a market-based emissions trading system. The oil-fired turbine in Berlin, Vermont, is GMP's only electric power generating facility currently subject to RGGI compliance. GMP is required to purchase CO₂ emissions allowances to offset the total CO₂ emissions generated by this facility. At present, the cost of participating in the program is low, and GMP does not expect that cost to vary significantly during fiscal 2015. Compliance with the RGGI is subject to three-year control periods. At the end of each control period, each regulated power plant must submit one RGGI CO₂ emission allowance for each ton of CO₂ emitted over the preceding three years. The third and final control period will begin on January 1, 2015.
- **VGS** is subject to Vermont legislation that encourages GHG-emission reduction. This legislation does not impose any specific reduction targets at present, but may become more stringent with time; this could force VGS to incur additional costs, which would affect its competitive position.

During fiscal 2014, environmental protection requirements had no significant financial or operational impacts for Gaz Métro on (i) purchases of property, plant and equipment, (ii) its consolidated net income, and (iii) its competitive position, except for the obligation to pay the Green Fund duty, which influenced its competitive position in Quebec, as previously described under the competition risk. However, the costs related specifically to environmental protection requirements cannot be easily identified since they are incorporated into the system maintenance and development programs.

Subject to the impacts of the CATS Regulation, management believes that the 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 their future rates. However, there is no guarantee that the 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 Wind Farm 4 mainly depends 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.

Should any cost overruns occur in the construction of Wind Farm 4 or should Wind Farm 4 not be put into service at the expected date, penalties could be incurred as well as the value of Gaz Métro's investment, as a partner in the consortium, could be significantly impaired, which could have an unfavourable impact on Gaz Métro's financial position and consolidated net income.

Human resources

Gaz Métro and its subsidiaries and joint ventures employ both union and non-union personnel. If Gaz Métro-QDA or one of Gaz Métro's subsidiaries or joint ventures is not in a position to negotiate the renewal of collective agreements upon expiry, this could result in labour disputes or work stoppages, which in turn could have an unfavourable impact on their activities. Gaz Métro and its subsidiaries and joint ventures maintain good relations with their various unions and union representatives.

The key to the success of Gaz Métro and its subsidiaries and joint ventures lies partly in the specialized skills and knowledge required for operating and maintaining 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-QDA and some of Gaz Métro's subsidiaries and joint ventures offer competitive compensation programs as well as the training needed to maintain skills. Gaz Métro-QDA and some of Gaz Métro's subsidiaries and joint ventures have also developed a succession plan to ensure the transfer of skills as their employees retire.

Business partners

For certain projects, Gaz Métro-QDA or the affected subsidiaries or joint ventures of Gaz Métro, enter into joint venture agreements with various partners. The success of these projects rests largely on the satisfactory performance of obligations by Gaz Métro-QDA or the subsidiaries or joint ventures of Gaz Métro, on one hand, and by the partners, on the other. The failure of

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one of the partners to perform its obligations could impose additional financial and performance obligations on Gaz Métro-QDA or the subsidiaries or joint ventures of Gaz Métro, which could result in higher costs for such projects or have an adverse effect on their reputation and goodwill.

Reliance on certain service providers

Gaz Métro-QDA and some of Gaz Métro's subsidiaries and joint ventures have contractual arrangements with a few businesses, general contractors and other service providers for the development, maintenance and improvement of their energy distribution and transmission system. The risk of default 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-QDA and some of Gaz Métro's subsidiaries and joint ventures, which would put upward pressure on costs and possibly on distribution and transportation rates and could affect the ability of Gaz Métro-QDA and of some of Gaz Métro's subsidiaries and joint ventures 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-QDA's development projects and on some of Gaz Métro's subsidiaries or joint ventures.

Terrorist attack

Given the importance of the natural gas and electricity industries in Canada and the United States, Gaz Métro-QDA and some of Gaz Métro's subsidiaries and joint ventures 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-QDA and some of Gaz Métro's 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-QDA and some of Gaz Métro's subsidiaries and joint ventures could therefore be obliged to invest substantial sums to repair any loss or damage, which could adversely affect the consolidated net income and the business of Gaz Métro and some of its subsidiaries and joint ventures.

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, the actual results could differ significantly from projections, including projections of costs, future revenues and earnings. This could have an unfavourable impact on Gaz Métro's activities, financial position and consolidated net income. 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.

ACQUISITION AND DEVELOPMENT RISKS

From time to time, Gaz Métro plans to selectively seek strategic acquisition opportunities and expansion opportunities for its current operations. Gaz Métro's ability to complete and effectively integrate future acquisitions at favourable terms 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 or obtain financing at satisfactory terms. Acquisitions and expansions 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 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

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consummated, expected synergies may not materialize. Gaz Métro's failure to effectively address any of these issues could have an unfavourable impact on its business, 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 the 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. Failure to realize the benefits expected from the CVPS acquisition, including the synergy-related savings of the GMP-CVPS merger, could have an unfavourable impact on GMP's financial position and net income and could have an impact on Gaz Métro's financial position and consolidated net income.

FINANCIAL RISKS

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. The financial information shown in the Partnership's audited consolidated financial statements as at September 30, 2014 with respect to 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, and employee retirement age. 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 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 pension and other postretirement benefit expenses, and 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

Part 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 the fluctuation of the U.S. dollar in relation 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.

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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 allowing it to 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 Gaz Métro and its subsidiaries and joint ventures would be unable to meet their financial obligations as they become due. Gaz Métro and its subsidiaries and joint ventures 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 these 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, 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 of 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 or one of its subsidiaries or joint ventures 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, note receivable and derivative financial assets.

Any breach of the obligations by the counterparties could result in a financial loss for Gaz Métro or one of its subsidiaries or joint ventures and thus have an unfavourable impact on Gaz Métro's consolidated net income. For Gaz Métro, such a financial loss could also put upward pressure on distribution rates, which could affect its ability to compete with other energy sources.

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 and its subsidiaries and joint ventures closely monitor and manage counterparty credit risk concentration.

T) 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 rate-regulated activities may defer application of Part I to fiscal periods beginning on or after January 1, 2015. Consequently, for fiscal 2014, Gaz Métro continues to present its consolidated financial statements in accordance with the Canadian GAAP included in Part V of the Handbook and will continue to do so for fiscal 2015.

On January 30, 2014, the IASB issued interim standard IFRS 14 *Regulatory Deferral Accounts*, which permits rate-regulated entities that apply IFRS as of the IFRS 14 issuance date to continue applying the rate regulation accounting policies of their current accounting framework until a final standard is issued. On September 22, 2014, the IASB issued a discussion paper exploring what information on rate-regulated activities is most useful to financial statement users as well as the possible approaches for reporting the financial effects of rate regulation. Canadian stakeholders have been invited to submit comments directly to the IASB by January 15, 2015. Gaz Métro is actively monitoring the discussions and developments regarding the implementation of a final standard on rate-regulated activities.

After analyzing the interim standard, the Partnership has elected to adopt IFRS as of its 2016 fiscal year and will provide restated IFRS financial information for the previous fiscal year. Based on the status of the conversion project, the Partnership cannot yet quantify how the future conversion to IFRS will impact its consolidated financial statements and accompanying notes as well as

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rate-setting for Gaz Métro's regulated entities. Given the differences that exist between Canadian GAAP and IFRS, the impacts may be significant. Additional information will be disclosed as the conversion project advances.

IFRS conversion project

A first conversion project was initiated in 2008 because the AcSB had published Part I of the Handbook, *International Financial Reporting Standards*, which was to be adopted by Canadian publicly accountable enterprises for fiscal years starting on or after January 1, 2011. However, given uncertainty about whether a final standard on rate-regulated activities would be included in IFRS and when it might come into effect, the AcSB amended Part I of the Handbook to defer the application of Part I for rate-regulated entities until fiscal years starting on or after January 1, 2015. Now, given the above-explained developments, the IFRS conversion project has resumed.

The Partnership has re-established a formal governance structure for the project. Presentations have been made to GMI's Management Committee and Audit Committee, and a report on the project's progress has been presented to GMI's board of directors. To make sure the project runs smoothly, the Partnership has set up a conversion team that is overseeing and actively participating in the transition to IFRS. The professionals who make up this team have the necessary expertise and participate regularly in IFRS update training sessions. The Partnership's external auditors are also being kept informed about the project and are being consulted.

In addition, a communication and conversion plan for subsidiaries, joint ventures and entities subject to significant influence has been developed. This plan has been communicated to the entities concerned, and planning activities and analyses identifying the differences between Canadian GAAP and IFRS have begun.

The conversion project comprises four steps: initial assessment, detailed assessment, design, and implementation. During its first conversion project, the Partnership had finalized the initial assessment step, which involved analyzing the main differences between Canadian GAAP and IFRS. The work to update this initial assessment began during the third quarter of fiscal 2014.

During the third quarter of fiscal 2014, the Partnership also started the detailed assessment step, which consists of assessing, through working groups, the impacts of IFRS 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. This step is currently under way and is expected to be finalized in the second half of fiscal 2015.

During the design step, the Partnership will review the accounting processes and information systems that will be affected by the conclusions and accounting policy choices made during the detailed assessment step. This step is expected to be carried out and completed during the second half of fiscal 2015.

Finally, the implementation step, which is planned for fiscal 2015, will consist of implementing the changes applicable to policies, procedures, practices and information systems. Also during this step, the Partnership will perform parallel testing on the fiscal 2015 figures, i.e., the fiscal year preceding the first year of IFRS adoption. This step is expected to be finalized by the end of fiscal 2015.

Communication plan with the Régie

Gaz Métro-QDA is currently analyzing the regulatory impacts of the IFRS conversion to determine whether applications for accounting policy changes will have to be filed with the Régie in order to harmonize certain regulatory treatments used to establish rates according to IFRS. If necessary, a schedule will be established to ensure that the changes are in place for fiscal 2016.

Significant accounting impacts

To date, the preliminary detailed assessment has identified the following, below-described differences between current accounting policies and those that will have to be applied when preparing IFRS financial statements. This assessment is not final and the list not exhaustive. Rather, it aims to identify the accounting areas where the Partnership currently thinks the differences will be most significant. Changes may be made upon completion of the detailed assessment step planned for the third quarter of fiscal 2015.

Significant accounting impacts	
Property, plant and equipment	<p>In May 2010, the IASB issued <i>Improvements to IFRS</i>, which added an exemption to IFRS 1. The new exemption allows a first-time adopter to use the net carrying amount of property, plant and equipment or intangible assets that are used in rate-regulated activities, determined using the previous accounting framework, as deemed cost at the IFRS transition date. Gaz Métro plans to use this exemption in preparing its opening IFRS balance sheet.</p> <p>Although the basic guidelines for the accounting of property, plant and equipment under IFRS are similar to those of Canadian GAAP, there are a few differences in application. For example, under IAS 16, <i>Property, Plant and</i></p>

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	<p><i>Equipment</i>, certain amounts previously capitalized under Canadian GAAP will be excluded from the valuation of an item of property, plant or equipment upon initial recognition and thereafter. More specifically, Gaz Métro-QDA expects that changes will be made to the accounting policies used for general expenses and other capitalizable expenses as well as to gains and losses on disposals of property, plant and equipment.</p>
Provisions and contingent liabilities	<p>Under IAS 37, <i>Provisions, Contingent Liabilities and Contingent Assets</i>, a provision must be recognized when there is a present obligation as a result of a past transaction or event, when it is probable that an outflow of resources will be required to settle the obligation and when the amount of the obligation can be reliably estimated. IFRS differ from Canadian GAAP in terms of recognition criteria, meaning, certain liabilities will meet the IFRS recognition criteria even though they are not recognized under Canadian GAAP. Gaz Métro is continuing to analyze the issue.</p>
Employee future benefits	<p>Under IAS 19, <i>Employee Benefits</i>, actuarial gains and losses related to defined benefit pension plans must be recognized directly in other comprehensive income. However, the standard provides an election whereby all cumulative actuarial gains and losses existing at the IFRS transition date may be recognized immediately in retained earnings.</p> <p>As explained in Gaz Métro's audited consolidated financial statements as at September 30, 2014, Gaz Métro-QDA recognizes the costs related to the defined benefit pension plans and to the other postretirement benefit plans of its employees when these amounts are disbursed (disbursement method). For this reason, and because the actuarial gains and losses should be recovered in future rates, the actuarial gains and losses of Gaz Métro-QDA's pension plans and other postretirement benefit plans will be recognized as deferred charges or credits. At the transition date, the actuarial gains or losses will be fully recognized in the accrued benefit liability with an offsetting deferred charge or credit.</p> <p>Also, IAS 19 does not permit the deferral of transitional assets or obligations or past service costs, as is currently allowed under Canadian GAAP. At the transition date, the unamortized balances of transitional assets or liabilities and past service costs must be fully recognized in the accrued benefit liability with an offsetting deferred charge or credit.</p> <p>Finally, IAS 19 requires that the net interest on the net defined benefit liability or asset be calculated using the same discount rate as that used to evaluate the defined benefit obligation, as opposed to Canadian GAAP which require the use of an expected rate of return. However, since the costs related to the defined benefit pension plans and to other postretirement benefit plans are accounted for under the disbursement method, as explained above, the impact of this change will be recognized as a deferred charge or credit.</p>
Regulatory deferral accounts	<p>As previously explained, IFRS 14 <i>Regulatory Deferral Accounts</i> permits rate-regulated entities that will apply IFRS as of the IFRS 14 publication date to continue applying the rate regulation accounting principles of their current accounting framework until a final standard is issued.</p> <p>IFRS 14 also states, first, that regulatory assets/liabilities that meet the asset or liability recognition criteria of another IFRS standard must be recognized and measured in accordance with that standard. Afterwards, regulatory assets/liabilities that are not recognized and measured in accordance with a standard other than IFRS 14 will be recognized and measured under the entity's current accounting framework. IFRS 14 also provides additional reporting requirements. The Partnership is currently analyzing the impact of this standard on its consolidated financial statements.</p>

Information systems

At this time, the conversion to IFRS is not expected to require significant changes to the information system infrastructure. However, the changes will consist more of a need to develop new reports or amend existing reports in order to compile some new information. Changes may also have to be made to existing general ledger accounting structures.

Internal control over financial reporting

The Partnership is currently evaluating the impact of the IFRS conversion on its internal controls. Changes could be made to internal controls but the impacts have yet to be identified.

U) 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 bank overdraft, bank loans, accounts payable and accrued liabilities, distributions payable, derivative financial instruments with a negative fair value as well as long-term debt. The classifications of the financial instruments and quantitative information on their accounting treatment are provided in Notes 2 and 25 to the Partnership's audited consolidated financial statements for the years ended September 30, 2014 and 2013, and financial instrument risk management is described in Note 26 therein.

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 and in interest rates and foreign exchange rates. Derivative financial instruments

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are therefore used to ensure that fluctuations in cash flows from these transactions and balances are offset by changes in 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 prices. The prices paid are based on indices and are therefore variable. These tools make it possible to fix or contain prices 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. However, the Régie has 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. 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.

The derivative financial instruments related to the cost of energy as well as the forward exchange contracts of VGS 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 this exchange risk on its net investment in its 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 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.

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.

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.

In the case of a hedging relationship of the net investment in self-sustaining foreign operations, the effective portion of translation exchange gains and losses on debts designated as hedges 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 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 is 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 is designated as a hedging instrument eligible for cash flow hedge accounting.

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, 2014, the carrying amount of these financial liabilities designated as hedges totalled \$644.3 million (US\$575.3 million), (\$592.7 million (US\$575.3 million) as at September 30, 2013). 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

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foreign operations was \$51.7 million for the year ended September 30, 2014 (losses of \$21.2 million in 2013) 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, 2014, the credit risk relating to counterparties of derivative financial instruments was virtually non-existent, 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, 2013. 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, 2014 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.

The following table presents the main assumptions underlying the fair value calculation of derivative financial instruments as at September 30, 2014:

	Valuation model	Discount rate	Implicit price volatility	Forward price
Swaps	(1)	2.94%	N/A	N/A
Forward exchange contracts	(1)	2.05%	N/A	N/A
Instruments related to natural gas:				
Fixed-price swaps	(1)	1.82%	N/A	\$3.85/GJ to \$4.25/GJ
Collars	Black-Scholes	1.41%	28% to 40%	\$3.59/GJ to \$4.26/GJ
Instruments related to electricity:				
9701 Agreement	Black-Scholes	0.23%	24%	US\$186.38/MWh

(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.

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.

V) 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.

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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 5 to the Partnership's audited consolidated financial statements for the fiscal years ended September 30, 2014 and 2013.

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 and gains and losses upon disposal of property already retired. 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.

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 2014 and 2013 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 20 to the Partnership's audited consolidated financial statements for the fiscal years ended September 30, 2014 and 2013 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 5 of the Partnership's audited consolidated financial statements for the fiscal years ended September 30, 2014 and 2013.

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 by 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.

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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.

W) ADDITIONAL INFORMATION

Units outstanding

As at November 25, 2014, a total of 151,796,363 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 2014 (\$20.5 million in 2013) 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 2014 (\$12.3 million in 2013). The non-eliminated portion of these natural gas storage costs is presented as *Direct costs* in the consolidated statement of income.

In fiscal 2014, Transco provided GMP with electricity transmission services totalling \$22.7 million (\$19.9 million in 2013), presented as *Direct costs* in the consolidated statement of income.

For fiscal 2014, as per the Administration and Management Support Agreement entered into with Valener, expiring in 2025, Valener charged Gaz Métro an amount of \$1.8 million (\$1.8 million in 2013) 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.

Litigation

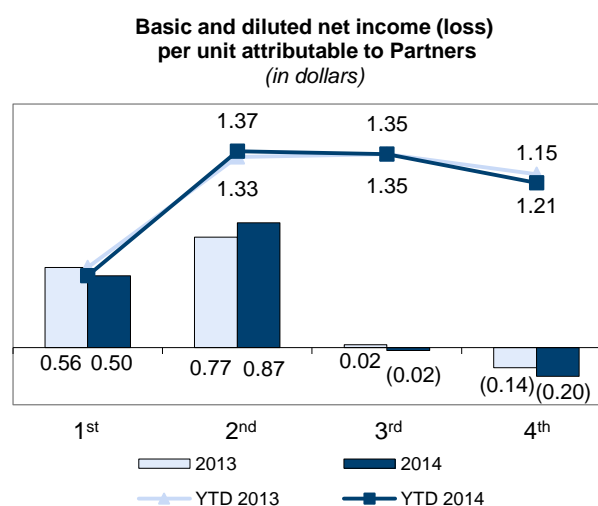
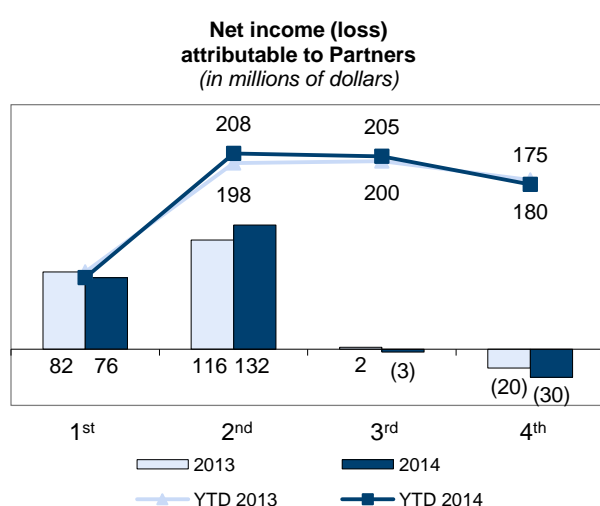
The Partnership is cited in claims and lawsuits in the normal course of its operations, including for environmental matters. In management's opinion, these claims and lawsuits are, for the most part, covered by appropriate insurance coverage, and the outcome of these claims and lawsuits is not expected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

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X) QUARTERLY RESULTS

Unaudited (in millions of dollars unless otherwise indicated)	1 st	2 nd	3 rd	4 th	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 (in \$)	\$ 0.50	\$ 0.87	\$ (0.02)	\$ (0.20)	\$ 1.15

Unaudited (in millions of dollars unless otherwise indicated)	1 st	2 nd	3 rd	4 th	Fiscal 2013
Revenues	\$ 622.8	\$ 782.0	\$ 437.5	\$ 375.1	\$ 2,217.4
Net income (loss) attributable to Partners	\$ 82.5	\$ 115.8	\$ 2.4	\$ (20.3)	\$ 180.4
Basic and diluted net income (loss) per unit attributable to Partners (in \$)	\$ 0.56	\$ 0.77	\$ 0.02	\$ (0.14)	\$ 1.21



Summary of 2014 fourth quarter results

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.

For the fourth quarter of fiscal 2014, the net loss attributable to Partners was \$10.0 million (\$0.06 per unit) higher than the net loss attributable to Partners in the same period of fiscal 2013, mainly due to:

- a \$12.2 million increase in Gaz Métro-QDA's loss before income taxes, primarily due to the impact of a timing difference between revenue and cost recognition, as anticipated in the 2014 rate case; and
- a \$7.6 million increase in income taxes primarily due to higher IBIT generated by the U.S. subsidiaries;

partly mitigated by:

- a \$9.8 million increase in the IBIT generated by energy distribution in Vermont (excluding the impact of exchange rate changes), which came essentially from GMP and was mostly due to (i) lower operating and maintenance expenses owing to the synergies generated by the integration of GMP's and CVPS's operations and (ii) the impact on gross margin of an overall 2.46% increase in rates since October 1, 2013, stemming from its rate case parameters, partly mitigated by (iii) an unfavourable impact of colder temperatures in the fourth quarter that reduced air conditioning usage.

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Summary of quarterly results

The significant items affecting the results of the other quarters of fiscal years 2014 and 2013 are as follows:

- **3rd quarters:** The 2014 third-quarter net loss attributable to Partners increased \$5.7 million (\$0.04 per unit) year over year, mainly due to:
 - a \$5.1 million decrease in Gaz Métro-QDA's IBIT, mainly due to the impact of a timing difference between revenue and cost recognition, as anticipated in the 2014 rate case; and
 - a \$4.0 million increase in income taxes, mainly given the higher IBIT generated by the U.S. subsidiaries and an unfavourable impact of the depreciation of the Canadian dollar against the U.S. dollar;partly offset by:
 - a \$3.0 million increase in GMP's IBIT (excluding the impact of exchange rate changes), mainly because of lower operating and maintenance expenses owing to the synergies generated by the integration of GMP's and CVPS's operations.
- **2nd quarters:** The 2014 second-quarter net income attributable to Partners increased \$16.7 million (\$0.10 per unit) year over year, mainly due to:
 - a \$15.1 million increase in Gaz Métro-QDA's IBIT, mainly due to (i) a timing difference between the revenue recognition profile, which follows the customers' consumption profile, and that of costs, and (ii) increased deliveries to the commercial market due to considerably colder-than-normal temperatures, despite application of the temperature normalization mechanism on part of the distribution service deliveries;
 - a \$3.2 million favourable exchange rate impact on the IBIT generated by Vermont distribution activities; and
 - a \$1.7 million increase in GMP's IBIT (excluding the impact of exchange rate changes), mainly due to the favourable impact of colder temperatures.
- **1st quarters:** The 2014 first-quarter net income attributable to Partners decreased \$6.7 million (\$0.06 per unit) year over year, mainly due to:
 - a \$14.7 million net gain that had been realized in the first quarter of fiscal 2013 on the sale of the interest in HydroSolution;partly offset by:
 - a \$7.3 million increase in Gaz Métro-QDA's IBIT, mainly due to (i) a timing difference between the revenue recognition profile, which follows the customers' consumption profile, and that of costs and (ii) increased deliveries to the residential and commercial markets due to considerably colder-than-normal temperatures in the first quarter of fiscal 2014, despite application of the temperature normalization mechanism on part of the distribution service deliveries.

Y) SUBSEQUENT EVENTS

Investment in Gaz Métro LNG

On October 7, 2014, Gaz Métro LNG entered into an agreement with Investissement Québec, which became a partner of Gaz Métro LNG and as such will 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 \$50.0 million, Investissement Québec's stake in Gaz Métro LNG will be approximately 42%. Investissement Québec's contribution will be made gradually over the course of the project.

Declaration of a distribution

On November 26, 2014, the board of directors of GMi, acting in its capacity as General Partner of Gaz Métro, declared a quarterly distribution of \$42.5 million, payable on January 5, 2015 to its Partners.

This MD&A has been prepared as of November 27, 2014.

Additional information about Valener, including its audited consolidated financial statements for the year ended September 30, 2014, and eventually its 2014 Annual Information Form, can be found on SEDAR at www.sedar.com and on Valener's website at www.valener.com/investisseurs.

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GLOSSARY

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

UNITS OF MEASURE AND GENERAL TERMS		ENTITIES	
CATS 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
DBRS	Dominion Bond Rating Service	CCUM	Climatisation et Chauffage Urbains de Montréal, s.e.c.
GEEP	Global Energy Efficiency Plan	Champion	Champion Pipe Line Corporation Limited
GHG	Greenhouse gas	CVPS	Central Vermont Public Service Corporation
GJ	Gigajoule	Gaz Métro / the Partnership	Gaz Métro Limited Partnership
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 LNG	Gaz Métro LNG 2013 L.P., or Gaz Métro LNG L.P., depending on the context
LNG	Liquefied natural gas	Gaz Métro Plus	Gaz Métro Plus Limited Partnership
LSR Plant	Gaz Métro-QDA's natural gas liquefaction, storage and regasification plant	Gaz Métro-QDA	Gaz Métro's natural gas distribution activity in Quebec
Management	The management of GMi, in its capacity as General Partner of Gaz Métro	GMi	Gaz Métro inc.
Management of the manager	The management of GMi, in its capacity as General Partner of Gaz Métro, and acting as manager of Valener	GMP	Green Mountain Power Corporation
S&P	Standard & Poor's	HydroSolution	HydroSolution, L.P.
Seigneurie projects	Wind power projects located on the private lands of Seigneurie de Beaupré	Intragaz	Includes all of the following companies: Intragaz inc., Intragaz Holding, Limited Partnership, Intragaz Exploration, Limited Partnership, Intragaz, Limited Partnership, and their respective subsidiaries
Series A preferred shares	Series A cumulative rate reset preferred shares	NNEEC	Northern New England Energy Corporation
TSX	Toronto Stock Exchange	PNGTS	Portland Natural Gas Transmission System
Wind parks 2 and 3	Wind parks of Wind Farms 2 and 3	Servitech	Servitech Energy Limited Partnership
Wind park 4	Wind park of Wind Farm 4	TCPL	TransCanada PipeLines Limited
GOVERNMENT AND REGULATORY AGENCIES		TQM	Trans Québec & Maritimes Pipeline Inc., as mandatary for TQM Pipeline and Company, Limited Partnership
FERC	Federal Energy Regulatory Commission (United States)	Transco	Vermont Transco LLC
ISO-NE	ISO-New England Inc.	Transport Solutions	Gaz Métro Transport Solutions, L.P.
NEB	National Energy Board	Union Gas	Union Gas Limited
Régie	Régie de l'énergie (Quebec)	Valener / the Company	Valener Inc.
VDPS	Vermont Department of Public Service	Valener Éole	Valener Éole Inc.
VPSB	Vermont Public Service Board	Valener Éole 4	Valener Éole 4 Inc.
ACCOUNTING AND FINANCIAL TERMS		Velco	Vermont Electric Power Company, Inc.
AcSB	Accounting Standards Board	VGS	Vermont Gas Systems, Inc.
Canadian GAAP	Canadian generally accepted accounting principles (according to Part V of the Handbook, <i>Pre-changeover Accounting Standards</i>)	VYNPC	Vermont Yankee Nuclear Power Corporation
CICA	Canadian Institute of Chartered Accountants	Wind Farms 2 and 3	Seigneurie de Beaupré Wind Farms 2 and 3 General Partnership
DRIP	Dividend Reinvestment Plan	Wind Farm 4	Seigneurie de Beaupré Wind Farm 4 General Partnership
Handbook	CPA Canada Handbook – Accounting		
IASB	International Accounting Standards Board		
IBIT	Income before income taxes		
IFRS	International Financial Reporting Standards		



VALENER INC.
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED
SEPTEMBER 30, 2014 AND 2013



GAZ MÉTRO LIMITED PARTNERSHIP
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED
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CONSOLIDATED FINANCIAL STATEMENTS**FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2014 AND 2013****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, 2014 and 2013 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, 2014

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, 2014 and as at September 30, 2013, the consolidated statements of income, comprehensive income, shareholders' 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, 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, 2014 and as at September 30, 2013 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 ¹

Montreal, Canada
November 27, 2014

¹ CPA auditor, CA, public accountancy permit no. A119245

(in thousands of dollars)

CONSOLIDATED STATEMENTS OF INCOME

	<u>2014</u>	<u>2013</u>
SHARE IN THE NET INCOME OF GAZ MÉTRO	\$ 50,372	\$ 52,331
SHARE IN THE NET LOSS OF BEAUPRÉ ÉOLE	(686)	(1,220)
SHARE IN THE NET LOSS OF BEAUPRÉ ÉOLE 4	(266)	(349)
OTHER REVENUES RELATED TO THE ADMINISTRATION		
AND MANAGEMENT SUPPORT AGREEMENT (Note 10)	1,756	1,810
	51,176	52,572
EXPENSES		
General and administrative expenses	2,524	2,100
Interest on long-term debt	1,357	307
Financial and other expenses	361	515
	4,242	2,922
INCOME BEFORE INCOME TAXES	46,934	49,650
Income taxes (Note 8)		
Current	870	9,767
Future	5,072	(1,569)
	5,942	8,198
NET INCOME	\$ 40,992	\$ 41,452
BASIC AND DILUTED NET INCOME PER COMMON SHARE		
(in dollars) (Note 6)	\$ 0.97	\$ 0.99

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	<u>2014</u>	<u>2013</u>
NET INCOME	\$ 40,992	\$ 41,452
OTHER COMPREHENSIVE INCOME		
Share in the other comprehensive income of Gaz Métro	15,550	11,745
Income taxes	28	801
Share in the other comprehensive (loss) income of Beauré Éole	(3,257)	8,972
Income taxes	872	(2,466)
Share in the other comprehensive income of Beauré Éole 4	6	-
Income taxes	(2)	-
OTHER COMPREHENSIVE INCOME	13,197	19,052
COMPREHENSIVE INCOME	\$ 54,189	\$ 60,504

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, 2014 and 2013

(in thousands of dollars)

	Share capital	Deficit	Accumulated other comprehensive loss (Note 7)	Shareholders' equity
Balance as at September 30, 2012	\$ 729,725	\$ (16,629)	\$ (37,436)	\$ 675,660
Net income	-	41,452	-	41,452
Other comprehensive income	-	-	19,052	19,052
Dividend Reinvestment Plan (Note 6)	3,085	-	-	3,085
Dividends to common shareholders	-	(37,665)	-	(37,665)
Dividends to preferred shareholders	-	(4,350)	-	(4,350)
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

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

	<u>2014</u>	<u>2013</u>
ASSETS		
Current assets		
Cash	\$ 757	\$ 482
Amount receivable from Gaz Métro	464	259
Distributions receivable from Gaz Métro	12,327	12,073
Income taxes receivable	3,001	699
Future income taxes (Note 8)	50	381
Other assets	4	4
	<u>16,603</u>	<u>13,898</u>
Interests in entities subject to significant influence (Note 4)	797,121	783,195
Future income taxes (Note 8)	2,018	4,896
	<u>\$ 815,742</u>	<u>\$ 801,989</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 921	\$ 1,461
Dividends payable to common shareholders	9,509	9,436
Dividends payable to preferred shareholders	1,088	1,088
Future income taxes (Note 8)	292	-
	<u>11,810</u>	<u>11,985</u>
Long-term debt (Note 5)	66,780	67,603
Future income taxes (Note 8)	23,689	25,167
	<u>102,279</u>	<u>104,755</u>
SHAREHOLDERS' EQUITY		
Share capital (Note 6)	737,126	732,810
Deficit	(18,476)	(17,192)
Accumulated other comprehensive loss (Note 7)	(5,187)	(18,384)
	<u>(23,663)</u>	<u>(35,576)</u>
	<u>713,463</u>	<u>697,234</u>
	<u>\$ 815,742</u>	<u>\$ 801,989</u>

Commitments and guarantees (Note 14)
Subsequent events (Note 15)

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

	2014	2013
OPERATING ACTIVITIES		
Net income	\$ 40,992	\$ 41,452
Distributions received from Gaz Métro	49,054	54,553
Non-cash items:		
Share in the net income of Gaz Métro	(50,372)	(52,331)
Share in the net loss of Beaurpré Éole	686	1,220
Share in the net loss of Beaurpré Éole 4	266	349
Future income taxes (Note 8)	5,072	(1,569)
Other	237	272
	<u>45,935</u>	<u>43,946</u>
Net change in non-cash working capital items (Note 9)	(2,797)	1,222
Cash flows related to operating activities	<u>43,138</u>	<u>45,168</u>
INVESTING ACTIVITIES		
Purchase of units in Gaz Métro (Note 4)	-	(14,501)
Purchase of units in Beaurpré Éole (Note 4)	(2,269)	(475)
Purchase of units in Beaurpré Éole 4 (Note 4)	(1,363)	(5,999)
Other	(284)	(789)
Cash flows related to investing activities	<u>(3,916)</u>	<u>(21,764)</u>
FINANCING ACTIVITIES		
Long-term debt:		
Issuances	340,940	322,939
Repayments	(342,000)	(307,000)
Dividends to common shareholders	(33,537)	(34,530)
Dividends to preferred shareholders	(4,350)	(4,823)
Cash flows related to financing activities	<u>(38,947)</u>	<u>(23,414)</u>
NET CHANGE IN CASH	275	(10)
CASH AT BEGINNING	482	492
CASH AT END	<u>\$ 757</u>	<u>\$ 482</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, through wholly owned subsidiary Valener Éole Inc. (Valener Éole), a 49.0% interest in Beaurpré Éole General Partnership (Beaurpré Éole), which owns a 50.0% interest in Seigneurie de Beaurpré Wind Farms 2 and 3 General Partnership (Wind Farms 2 and 3). Valener also owns, through wholly owned subsidiary Valener Éole 4 Inc. (Valener Éole 4), a 49.0% interest in Beaurpré Éole 4 General Partnership (Beaurpré Éole 4), which owns a 50.0% interest in Seigneurie de Beaurpré Wind Farm 4 General Partnership (Wind Farm 4). The operations of Wind Farms 2 and 3 and of Wind Farm 4 consist essentially of developing and operating the wind power projects located on the private lands of Seigneurie de Beaurpré.

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*.

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 assets valuation (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).

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.

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 value 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 value 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 is 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.

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, 2014 and 2013, there is no instrument having 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 2014, Valener continues to present its consolidated financial statements in accordance with the Canadian GAAP included in Part V of the Handbook and will continue to do so for fiscal 2015.

On January 30, 2014, the International Accounting Standards Board (IASB) issued interim standard IFRS 14 *Regulatory Deferral Accounts*, which permits rate-regulated entities that apply IFRS as of the IFRS 14 issuance date to continue applying the rate regulation accounting policies of their current accounting framework until a final standard is issued. On September 22, 2014, the IASB issued a discussion paper exploring what information on rate-regulated activities is most useful to financial statement users as well as the possible approaches for reporting the financial effects of rate regulation. Canadian stakeholders have been invited to submit comments directly to the IASB by January 15, 2015. Valener is actively monitoring the discussions and developments regarding the implementation of a final standard on rate-regulated activities.

After analyzing the interim standard, the Company has elected to adopt IFRS as of its 2016 fiscal year and will provide restated IFRS financial information for the previous fiscal year. Based on the status of the conversion project, the Company cannot yet quantify how the future conversion to IFRS will impact its consolidated financial statements and accompanying notes as well as rate-setting for Gaz Métro's regulated entities. Given the differences that exist between Canadian GAAP and IFRS, the impacts may be significant. Additional information will be disclosed as the conversion project advances.

4. INTERESTS IN ENTITIES SUBJECT TO SIGNIFICANT INFLUENCE

	Ownership interest	2014	2013
Interest in Gaz Métro (a)	29.0%	\$ 752,661	\$ 738,449
Interest in Beaupré Éole (b)	49.0%	36,045	37,594
Interest in Beaupré Éole 4 (c)	49.0%	8,415	7,152
		<u>\$ 797,121</u>	<u>\$ 783,195</u>

- (a) During fiscal 2013, Valener subscribed, in proportion to its current interest in Gaz Métro, 906,325 Gaz Métro units for a total cash consideration of \$14,501,000.

The interest in Gaz Métro includes \$337,736,000 in goodwill as at September 30, 2014 (\$332,079,000 as at September 30, 2013).

- (b) During fiscal 2014, Valener subscribed, in proportion to its current interest in Beaupré Éole, 2,268,728 Beaupré Éole units for a total cash consideration of \$2,269,000 (474,726 Beaupré Éole units for a total cash consideration of \$475,000 in 2013). Interest in the amount of \$125,000 was capitalized to the cost of the interest in the subsidiary in fiscal 2014 (\$748,000 in 2013) up to the commissioning date.
- (c) During fiscal 2014, Valener subscribed, in proportion to its current interest in Beaupré Éole 4, 1,362,607 Beaupré Éole 4 units for a total cash consideration of \$1,363,000 (5,999,104 Beaupré Éole 4 units for a total cash consideration of \$5,999,000 in 2013). Interest in the amount of \$160,000 was capitalized to the cost of the interest in the subsidiary in fiscal 2014 (\$41,000 in 2013).

5. LONG-TERM DEBT

	Maximum authorized amount	Maturity	2014	2013
CREDIT FACILITY	\$ 200,000	2017	\$ 66,780	\$ 67,603

Valener's 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, 2014 was 2.22% (2.16% in 2013).

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, 2014, 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, 2014 was \$128,981,000 (\$131,046,000 as at September 30, 2013).

The amount drawn on the credit facility as at September 30, 2014 is presented net of \$475,000 in financing costs (\$712,000 as at September 30, 2013).

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 cumulative floating rate preferred shares (Series B preferred shares).

DECLARED

	2014	2013
38,037,286 common shares (37,744,787 as at September 30, 2013)	\$ 639,646	\$ 635,330
4,000,000 Series A preferred shares	97,480	97,480
	<u>\$ 737,126</u>	<u>\$ 732,810</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 10 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 2014, 292,499 common shares were issued under the DRIP (201,965 in 2013) for a total amount of \$4,316,000 (\$3,085,000 in 2013).

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

	2014	2013
Net income	\$ 40,992	\$ 41,452
Less:		
Cumulative dividends on Series A preferred shares	4,350	4,350
Net income attributable to common shareholders	\$ 36,642	\$ 37,102
Basic and diluted weighted average number of common shares outstanding (in thousands)	37,915	37,657
Basic and diluted net income per common share (in dollars)	\$ 0.97	\$ 0.99

7. ACCUMULATED OTHER COMPREHENSIVE LOSS

	2014	2013
Share in the other comprehensive income (loss) of Gaz Métro, net of income taxes	\$ 9,100	\$ (6,478)
Share in the other comprehensive loss of Beauré Éole, net of income taxes	(14,291)	(11,906)
Share in the other comprehensive income of Beauré Éole 4, net of income taxes	4	-
Accumulated other comprehensive loss	\$ (5,187)	\$ (18,384)

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:

	2014	2013
Income before income taxes	\$ 46,934	\$ 49,650
Statutory income tax rate	26.9 %	26.9 %
Income taxes at statutory rate	12,625	13,356
Increase (decrease) attributable to the following:		
Change in temporary differences related to Gaz Métro's rate-regulated activities	771	330
Income taxes on income from entities subject to significant influence that are incorporated	(7,608)	(6,083)
Net impact of non-taxable items and other	154	595
Income taxes	\$ 5,942	\$ 8,198
Effective income tax rate	12.7 %	16.5 %

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:

	<u>2014</u>	<u>2013</u>
Interest in Gaz Métro	\$ (23,529)	\$ (25,299)
Interest in Beaurpré Éole	1,776	5,277
Interest in Beaurpré Éole 4	-	-
Share issuance expenses	491	797
Other	(651)	(665)
Net future income tax liability	<u>\$ (21,913)</u>	<u>\$ (19,890)</u>

CONSOLIDATED BALANCE SHEET PRESENTATION

	<u>2014</u>	<u>2013</u>
Future income tax assets:		
Current	\$ 50	\$ 381
Long-term	<u>2,018</u>	<u>4,896</u>
	<u>2,068</u>	<u>5,277</u>
Future income tax liabilities:		
Current	(292)	-
Long-term	<u>(23,689)</u>	<u>(25,167)</u>
	<u>(23,981)</u>	<u>(25,167)</u>
Net future income tax liability	<u>\$ (21,913)</u>	<u>\$ (19,890)</u>

The limited partnerships do not recognize future income tax assets and liabilities related to the temporary differences between the carrying amount and the tax bases of the assets and liabilities, since, under existing tax legislation, it is the Partners who are taxable. The following table presents the main items composing Valener's net future income tax liability in respect of its share in the temporary differences of Gaz Métro, Beaurpré Éole and Beaurpré Éole 4.

	<u>2014</u>	<u>2013</u>
Property, plant and equipment and intangible assets	\$ (18,391)	\$ (19,437)
Deferred charges and credits	(6,638)	(7,111)
Non-deductible allowances	1,648	1,497
Interests in entities subject to significant influence	482	6,640
Long-term debt issuance expenses	(1,295)	(877)
Financial instruments	3,572	498
Non-capital loss carryforwards	2,115	5,477
Other	(464)	(286)
	<u>(18,971)</u>	<u>(13,027)</u>
Valuation allowance	(2,781)	(6,995)
Net future income tax liability	<u>\$ (21,752)</u>	<u>\$ (20,022)</u>

The Company expects to be able to use its non-capital losses of \$7,864,000 before they expire, i.e., between 2032 and 2034.

As at September 30, 2014 and 2013, Valener recognized a valuation allowance of \$887,000 (\$6,995,000 in 2013) against the future income tax asset in respect of the excess of the tax basis of its ownership interest in Gaz Métro over the carrying amount thereof, excluding the effect of taxable temporary differences specific to Gaz Métro.

As at September 30, 2014, Valener recognized a \$1,894,000 (nil in 2013) valuation allowance on future income tax assets related to the capital loss carryforwards. The capital losses related to the financial instruments held by its interest in Gaz Métro, whose changes in fair value are recognized in Other comprehensive income (loss).

9. CASH FLOWS

	2014	2013
Net change in non-cash working capital items:		
Amount receivable from Gaz Métro	\$ (205)	\$ 159
Accounts payable and accrued liabilities	(540)	3
Income taxes receivable	(2,052)	1,009
Other current assets	-	51
	<u>\$ (2,797)</u>	<u>\$ 1,222</u>
Other information:		
Interest received	\$ 32	\$ -
Interest paid	\$ 896	\$ 307
Income taxes paid	\$ 2,922	\$ 8,758

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 \$1,756,000 for fiscal 2014 (\$1,810,000 for fiscal 2013).

SEIGNEURIE OPTION AGREEMENT

In December 2010, Valener exercised an option under which it could directly or indirectly acquire 49% of Gaz Métro's direct or indirect interest in the Seigneurie projects at a cost of \$3,391,000. As at September 30, 2014, all amounts payable to Gaz Métro related to this option have been settled (an amount payable of \$1,000,000 related to this option was included in *Accounts payable and accrued liabilities* on the consolidated balance sheet as at September 30, 2013).

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.

(tabular amounts are in thousands of dollars)

Valener considers its capital structure to be comprised of shareholders' equity and long-term debt. As at September 30, 2014 and 2013, the Company's capital structure was as follows:

	2014	2013
Long-term debt, net of financing costs	\$ 66,780	\$ 67,603
Shareholders' equity	713,463	697,234
Total capitalization	\$ 780,243	\$ 764,837
Debt / total capitalization ratio	8.6%	8.8%

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, 2014, these ratios were 30.81 times (61.26 times in 2013) and 1.52 times (1.31 times in 2013), respectively. The Company is in compliance with all of the conditions of its credit facility as at September 30, 2014 and 2013.

12. FINANCIAL INSTRUMENTS

The fair value of the 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.

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.

INTEREST RATE RISK

Valener is exposed to cash flow risk from its long-term debt that bears interest at floating rates. The Company seeks to maintain an appropriate debt structure in order to reduce the impact of interest rate fluctuations. Assuming a 100-basis-point increase in floating interest rates, Valener's net income would have decreased by approximately \$640,000 for the fiscal year ended September 30, 2014.

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 to 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.

(tabular amounts are in thousands of dollars)

The following table presents the required capital and interest payments for the financial liabilities as at September 30, 2014, 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	Long-term debt	Interest	Total
Less than one year	\$ 921	\$ 9,509	\$ 1,088	\$ -	\$ 1,490	\$ 13,008
1 to 5 years	-	-	-	66,780	1,600	68,380
Total	\$ 921	\$ 9,509	\$ 1,088	\$ 66,780	\$ 3,090	\$ 81,388

Interest is presented based on contractual maturity and the rates in effect as at September 30, 2014.

14. COMMITMENTS AND GUARANTEES

Certain guarantees, primarily related to the financing of the wind power project of Wind Farm 4, were issued in the form of letters of credit against Valener's credit facility. As at September 30, 2014, these letters of credit totalled \$3,519,000.

15. SUBSEQUENT EVENTS

SIGNING OF SWAP AGREEMENTS

On October 23, 2014, Valener entered into swaps for a total nominal value of \$44,757,000 and a mandatory termination date of October 31, 2016 to cover the risk of interest rates fluctuations on a potential future debt issuance. Whether or not this debt is issued will depend on the outcome of a call for tenders, issued by Hydro-Québec for the production of a block of wind power. As of this date, these swaps do not meet the conditions for hedge accounting. Changes in the fair value of the swaps will therefore be recognized in income. During fiscal 2015, management will reassess compliance with the hedge accounting conditions once the outcome of the call for tenders is known.

DECLARATION OF A DIVIDEND TO COMMON SHAREHOLDERS

On November 27, 2014, the board of directors declared a quarterly dividend of \$0.25 per common share for the quarter ending December 31, 2014, payable on January 15, 2015 to common shareholders of record at the close of business on December 31, 2014.

DECLARATION OF A DIVIDEND TO PREFERRED SHAREHOLDERS

On November 27, 2014, the board of directors also declared a dividend of \$0.271875 per Series A preferred share for the period of October 16, 2014 to January 15, 2015, payable on January 15, 2015 to the preferred shareholders of record at the close of business on January 9, 2015.

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. The external and internal auditors are free to communicate with the audit committee.

The consolidated financial statements of Gaz Métro as at September 30, 2014 and 2013 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)

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

(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

Montreal, Canada
November 26, 2014

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, 2014 and as at September 30, 2013, 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, 2014 and as at September 30, 2013 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 ¹

Montreal, Canada
November 26, 2014

¹ CPA auditor, CA, public accountancy permit no. A119245

CONSOLIDATED STATEMENTS OF INCOME

	<u>2014</u>	<u>2013</u>
REVENUES	\$ 2,536,708	\$ 2,217,356
DIRECT COSTS	1,522,636	1,283,252
GROSS MARGIN	1,014,072	934,104
EXPENSES		
Operating and maintenance	471,355	473,209
Amortization (Notes 5, 8 and 11)	247,770	202,847
Interest on long-term debt (Note 15)	155,707	128,995
Financial and other expenses	(5,578)	(3,699)
	<u>869,254</u>	<u>801,352</u>
INCOME BEFORE THE UNDERNOTED	144,818	132,752
Share in earnings of entities subject to significant influence	76,881	62,016
Net gain on disposal of an interest in a joint venture (Note 4)	-	14,749
INCOME BEFORE INCOME TAXES	221,699	209,517
Income taxes (Note 21)	47,904	30,649
NET INCOME	\$ 173,795	\$ 178,868
NET INCOME (LOSS) ATTRIBUTABLE TO:		
Non-controlling interests	(889)	(1,569)
Partners	<u>174,684</u>	<u>180,437</u>
	\$ 173,795	\$ 178,868
BASIC AND DILUTED NET INCOME PER UNIT ATTRIBUTABLE TO THE PARTNERS OF GAZ MÉTRO (in dollars)	\$ 1.15	\$ 1.21
BASIC AND DILUTED WEIGHTED AVERAGE NUMBER OF UNITS OUTSTANDING (in thousands of units)	151,796	148,680

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	<u>2014</u>	<u>2013</u>
NET INCOME	\$ 173,795	\$ 178,868
OTHER COMPREHENSIVE INCOME		
Change in translation adjustments of self-sustaining foreign operations	88,347	43,419
Change in translation adjustments related to net investment hedging activities	(51,708)	(21,217)
Change in the fair value of derivative financial instruments designated as hedges	(7,158)	18,600
Income taxes	1,397	(2,493)
OTHER COMPREHENSIVE INCOME	30,878	38,309
COMPREHENSIVE INCOME	\$ 204,673	\$ 217,177
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:		
Non-controlling interests	(4,138)	7,403
Partners	<u>208,811</u>	<u>209,774</u>
	\$ 204,673	\$ 217,177

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

	Attributable to Partners				Non-controlling interests	Partners' equity
	Capital	Deficit	Accumulated other comprehensive loss (Note 18)	Total		
Balance as at September 30, 2012	\$ 1,446,825	\$ (44,389)	\$ (92,870)	\$ 1,309,566	\$ 27,358	\$ 1,336,924
Net income (loss)	-	180,437	-	180,437	(1,569)	178,868
Other comprehensive income	-	-	29,337	29,337	8,972	38,309
Issuances of units	50,000	-	-	50,000	6,474	56,474
Distributions	-	(166,512)	-	(166,512)	-	(166,512)
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

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

	2014	2013
ASSETS		
Current assets		
Cash and cash equivalents	\$ 103,657	\$ 59,495
Restricted cash	27,175	4,819
Trade and other receivables (Note 6)	211,865	222,574
Income taxes receivable	3,206	2,196
Inventories (Note 7)	114,905	93,347
Prepaid expenses	14,987	10,389
Future income taxes (Note 21)	37,053	16,986
Derivative financial instruments (Note 25)	1,057	522
	<u>513,905</u>	<u>410,328</u>
Property, plant and equipment (Note 8)	3,973,508	3,583,650
Restricted cash	18,373	9,536
Intangible assets (Note 11)	78,543	67,774
Deferred charges (Note 5)	394,804	473,494
Investments and other (Note 9)	736,755	639,100
Goodwill (Note 12)	348,969	321,721
Future income taxes (Note 21)	4,676	5,289
Derivative financial instruments (Note 25)	86	3,808
Other long-term assets (Note 13)	74,595	68,128
	<u>1,656,801</u>	<u>1,588,850</u>
	\$ 6,144,214	\$ 5,582,828
LIABILITIES		
Current liabilities		
Bank overdraft	\$ 5,422	\$ 3,376
Bank loans (Note 14)	-	19,700
Accounts payable and accrued liabilities	341,073	314,407
Income taxes payable	199	-
Distributions payable	42,503	41,628
Future income taxes (Note 21)	-	1,936
Derivative financial instruments (Note 25)	11,882	27,646
Current portion of long-term debt (Note 15)	27,016	89,886
	<u>428,095</u>	<u>498,579</u>
Long-term debt (Note 15)	3,140,762	2,692,075
Deferred credits (Note 5)	304,801	264,230
Future income taxes (Note 21)	416,041	331,810
Derivative financial instruments (Note 25)	12,691	7,880
Other long-term liabilities (Note 16)	359,470	344,191
	<u>4,661,860</u>	<u>4,138,765</u>
PARTNERS' EQUITY		
Capital (Note 17)	1,496,825	1,496,825
Deficit	(25,792)	(30,464)
Accumulated other comprehensive loss (Note 18)	(29,406)	(63,533)
	<u>(55,198)</u>	<u>(93,997)</u>
	<u>1,441,627</u>	<u>1,402,828</u>
Non-controlling interests	40,727	41,235
	<u>1,482,354</u>	<u>1,444,063</u>
	\$ 6,144,214	\$ 5,582,828

Commitments and guarantees (Note 27)

Contingencies (Note 28)

Subsequent events (Note 29)

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

	2014	2013
OPERATING ACTIVITIES		
Net income	\$ 173,795	\$ 178,868
Distributions received from entities subject to significant influence	65,390	35,923
Non-cash items:		
Amortization of property, plant and equipment (Note 8)	183,468	157,920
Amortization of deferred charges and credits, intangible assets and financing costs (Notes 5, 11 and 15)	68,291	46,956
Change in deferred charges related to the cost of energy	109,638	103,208
Change in the rate stabilization accounts	23,822	(16,388)
Share in earnings of entities subject to significant influence	(76,881)	(62,016)
Net gain on disposal of an interest in a joint venture (Note 4)	-	(14,749)
Future income taxes (Note 21)	43,105	27,550
Other	2,668	(14,145)
	<u>593,296</u>	<u>443,127</u>
Change in non-cash working capital items (Note 19)	11,706	44,842
Cash flows related to operating activities	<u>605,002</u>	<u>487,969</u>
INVESTING ACTIVITIES		
Change in restricted cash	(29,941)	(7,029)
Purchases of property, plant and equipment	(451,477)	(454,339)
Change in deferred charges and credits	(116,473)	(170,728)
Purchases of intangible and other assets	(19,609)	(20,796)
Change in an interest in an entity subject to significant influence and other	(25,558)	(36,137)
Disposal of an interest in a joint venture (Note 4)	-	42,362
Other	1,770	(6,621)
Cash flows related to investing activities	<u>(641,288)</u>	<u>(653,288)</u>
FINANCING ACTIVITIES		
Change in bank loans	(21,227)	5,349
Increase in term loans	2,842,445	2,218,117
Repayments of term loans	(2,638,972)	(2,056,197)
Issuances of long-term debt	117,125	284,144
Repayments of long-term debt	(58,611)	(159,642)
Issuances of units	3,630	56,474
Distributions	(169,137)	(165,112)
Cash flows related to financing activities	<u>75,253</u>	<u>183,133</u>
IMPACT OF EXCHANGE RATE FLUCTUATIONS ON CASH AND CASH EQUIVALENTS AND BANK OVERDRAFT	3,149	819
NET CHANGE IN CASH AND CASH EQUIVALENTS, NET OF BANK OVERDRAFT	<u>42,116</u>	<u>18,633</u>
CASH AND CASH EQUIVALENTS, NET OF BANK OVERDRAFT, AT BEGINNING ⁽¹⁾	<u>56,119</u>	<u>37,486</u>
CASH AND CASH EQUIVALENTS, NET OF BANK OVERDRAFT, AT END ⁽¹⁾	<u>\$ 98,235</u>	<u>\$ 56,119</u>

⁽¹⁾ As at September 30, 2014, the cash and cash equivalents balance consists of \$103,657 in cash, a nil amount of short-term investments, and \$5,422 in bank overdraft. As at September 30, 2013, these amounts were, respectively, \$55,872, \$3,623 and \$3,376.

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 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 natural gas as fuel for transportation. 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 5.

2. ACCOUNTING POLICIES

CONSOLIDATED FINANCIAL STATEMENTS PRESENTATION

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*.

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 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, 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, 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.

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 is mainly composed of cash and cash equivalents reserved for specific uses in connection with financing arrangements for network extensions or to finance 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.

Upon retiring the property, plant and equipment related to certain rate-regulated activities, the profits and losses upon disposal are recognized to accumulated amortization, as required by the regulatory agencies, with no impact on the Partnership's consolidated net income.

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 5.

Property, plant and equipment is amortized using the following rates:

Storage	1.75% to 38.71%
Transportation	0.24% to 12.75%
Distribution	1.55% to 10.00%
General plant	1.01% to 50.00%
Production	1.00% to 20.00%

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 the transactions that affect 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 value of the Partnership's interests and the share in the earnings in 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 value of the interests in entities subject to significant influence and on the share in the earnings 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. They 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 the costs of developing information technology, in particular 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 as incurred in the *Operating and maintenance* item. Intangible assets 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 accounted for at their 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.

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 that will likely result from the use and future retirement of the group of assets.

RESEARCH AND DEVELOPMENT COSTS

Research costs are charged to the consolidated statement of income for the period in which they have been incurred.

Costs incurred for development activities are charged to the consolidated statement of income for the period in which they are incurred unless they meet all 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 carried to 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, revenues from energy distribution are recognized once delivery has occurred, 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 by 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 6 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 the 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 the balances are recoverable through future rates. These deferred charges are amortized according to the regulatory treatments approved by their 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:

Categories	Financial instruments
Financial assets held for trading	Cash and cash equivalents Restricted cash
Loans and receivables	Trade and other receivables Note receivable
Financial assets available for sale	Investment fund ^(a)
Financial liabilities not held for trading	Bank overdraft Bank loans Accounts payable and accrued liabilities Distributions payable Long-term debt

^(a) This financial instrument is presented in *Investments and other* on the consolidated balance sheet.

Financial assets 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*.

Financial assets available for sale are recognized at fair value on the consolidated balance sheet. Gains and losses arising from changes in fair value are recognized in *Other comprehensive income* 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 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 and in interest rates and foreign exchange rates. Derivative financial instruments are therefore used to ensure that fluctuations in cash flows from these transactions and balances are offset by changes in 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 prices. The prices paid are based on indices and are therefore variable. These tools make it possible to fix or contain prices 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. However, the Régie has 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. 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.

The derivative financial instruments related to the cost of energy as well as the forward exchange contracts of VGS 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 this exchange risk on its net investment in its 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 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.

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 the wind power projects of the Seigneurie de Beauré 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.

In the case of a hedging relationship of the net investment in self-sustaining foreign operations, the effective portion of translation exchange gains and losses on debts designated as hedges 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 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 is partially used to manage the exchange risk exposure related to a significant portion of euro-denominated equipment purchases for the wind power project of Seigneurie de Beaupré Wind Farm 4 General Partnership (Wind Farm 4). This financial instrument is designated as a hedging instrument eligible for cash flow hedge accounting.

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.

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, 2014 and 2013, 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 2014, Gaz Métro continues to present its consolidated financial statements in accordance with the Canadian GAAP included in Part V of the Handbook and will continue to do so for fiscal 2015.

On January 30, 2014, the International Accounting Standards Board (IASB) issued interim standard IFRS 14 *Regulatory Deferral Accounts*, which permits rate-regulated entities that apply IFRS as of the IFRS 14 issuance date to continue applying the rate regulation accounting policies of their current accounting framework until a final standard is issued. On September 22, 2014, the IASB issued a discussion paper exploring what information on rate-regulated activities is most useful to financial statement users as well as the possible approaches for reporting the financial effects of rate regulation. Canadian stakeholders have been invited to submit comments directly to the IASB by January 15, 2015. Gaz Métro is actively monitoring the discussions and developments regarding the implementation of a final standard on rate-regulated activities.

After analyzing the interim standard, the Partnership has elected to adopt IFRS as of its 2016 fiscal year and will provide restated IFRS financial information for the previous fiscal year. Based on the status of the conversion project, the Partnership cannot yet quantify how the future conversion to IFRS will impact its consolidated financial statements and accompanying notes as well as rate-setting for Gaz Métro's regulated entities. Given the differences that exist between Canadian GAAP and IFRS, the impacts may be significant. Additional information will be disclosed as the conversion project advances.

4. DISPOSAL OF AN INTEREST IN A JOINT VENTURE

On November 27, 2012, the Partnership completed the sale of all the units it held in HydroSolution, L.P. (HydroSolution), its joint venture, for a cash consideration of \$42,362,000, net of transaction costs and disposed cash of \$2,016,000. The transaction, effective November 27, 2012, generated a net gain on disposal of \$14,749,000. This joint venture had previously been included in the *Energy Services, Storage and Other* segment.

The share in the sold assets and liabilities of HydroSolution are as follows:

Current assets, excluding disposed cash of \$2,016	\$ 2,329
Property, plant and equipment	28,050
Intangible assets	9,108
Investments and other	67
Goodwill	13,345
	<u>52,899</u>
Current liabilities	1,652
Long-term debt	21,454
Other long-term liabilities	2,180
	<u>25,286</u>
Net value of assets sold	27,613
Consideration received (net of transaction costs and disposed cash)	42,362
Net gain on disposal of an interest in a joint venture	<u>\$ 14,749</u>

5. RATE REGULATION

APPROVAL OF RATES

The Partnership operates in various regulated industries where the cost 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 2013 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%, including 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 the fiscal years ended September 30, 2014 and 2013, the Régie agreed to not apply the automatic adjustment formula and to set the rate at 8.90%.

With respect to the supply service, meaning the supply of natural gas, the *Act respecting the Régie de l'énergie* states that the distributor shall resell natural gas at its 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.

Since May 1, 2013, the rates of Intragaz Limited Partnership have been established using a cost-of-service method compared to the previous, avoided-cost method. In its May 2013 decision, the Régie also approved the use of a deemed average capital structure composed of 46% deemed equity starting May 1, 2013 for a 10-year period. The shareholder's rate of return approved by the Régie, 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 international and interprovincial aspects of the oil, natural gas and electricity sectors with respect to revenue determination, rates, construction and operations.

In February 2014, the NEB approved a rate agreement for TQM for fiscal years 2014 to 2016 given that the rate agreement approved in May 2013 and applicable to 2013 expired. Under this agreement, 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 business risks to which it is exposed. TQM maintained a capital structure that consisted of 40% equity in fiscal 2014.

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, 2014 and 2013.

	2014		2013	
	Deemed shareholders' equity	Authorized rate of return on common equity	Deemed shareholders' equity	Authorized rate of return on common equity
VGS	55.00%	10.26%	55.00%	9.75%
GMP	49.56%	9.58%	51.58%	8.84%

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 U.S. 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, 2014, Velco and Transco were indirectly owned by Gaz Métro at 38.8% and 70.0%, respectively (38.8% and 69.1% as at September 30, 2013). 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 the construction of assets related to electricity transmission, among other matters.

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, 2014 and 2013:

	Years of expected recovery or settlement	2014	2013
DEFERRED CHARGES ⁽¹⁾			
Rate stabilization account related to temperature and wind velocity (a)	2015-2020	\$ 26,790	\$ 70,245
Rate stabilization account related to inventory (a)	2015-2016	8,081	7,080
Charges related to the cost of energy (b)	2015	49,855	73,411
Grants paid (c)	2015-2024	109,676	109,206
Charges related to financial instruments (d)	2015-2017	11,648	29,122
Charges related to energy efficiency programs (e)	2015-2024	23,169	22,235
Charges related to funding of pension plans and other postretirement benefit plans (f)	Indeterminable	64,226	72,595
Site decontamination and dismantling costs in the United States (g)	2015-2034	13,899	15,049
Vacation allowance (h)	2015-2017	5,223	6,964
Charges related to mechanisms for sharing profits and losses (i)	2015-2016	15,278	176
Charges related to income taxes payable (j)	Indeterminable	23,109	23,034
Charges related to replenishing the meter fleet (k)	2015-2018	10,061	11,899
Charges related to storms (l)	2016	4,826	9,308
Other	Indeterminable	28,963	23,170
		\$ 394,804	\$ 473,494
DEFERRED CREDITS ⁽²⁾			
Rate stabilization account related to temperature and wind velocity (a)	2015	2,030	-
Credits related to the cost of energy (b)	2015	1,419	2,967
Credits related to financial instruments (d)	2015	566	471
Credits related to mechanisms for sharing profits and losses (i)	2015-2016	1,252	1,860
Credits related to the Green Fund duty (m)	2015	5,833	4,245
Credits related to the System Expansion and Reliability Fund (n)	Indeterminable	16,301	9,839
Credits related to the Electrical Assistance program (o)	2015	7,861	2,456
Future costs of retiring property, plant and equipment (p)	Indeterminable	252,813	233,205
Other	Indeterminable	16,726	9,187
		\$ 304,801	\$ 264,230

⁽¹⁾ The amortization of deferred charges was \$64,372,000 in 2014 (\$55,619,000 in 2013).

⁽²⁾ The amortization of deferred credits was \$12,244,000 in 2014 (\$23,130,000 in 2013).

- (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 5 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 1-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 \$26,736,000 to be returned to customers and \$11,463,000 to be recovered from customers were recorded in the rate stabilization accounts during fiscal years 2014 and 2013, 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 stabilization account related to temperature and wind velocity was \$18,749,000 in 2014 and \$14,540,000 in 2013.

Adjustments for Gaz Métro-QDA's inventory variances totalling \$2,916,000 in 2014 and \$5,090,000 in 2013 have been deferred to fiscal years 2016 and 2015, respectively, instead of being immediately expensed in the

consolidated statement of income under *Direct costs*. The amortization expense for the rate stabilization account related to inventory variances was \$1,915,000 during fiscal 2014 compared to \$753,000 for fiscal 2013.

Without the accounting treatment applicable to rate-regulated entities, the results for fiscal years 2014 and 2013 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. Without the regulatory treatment applicable to this situation, a customer account receivable or account payable would have been recorded in the consolidated balance sheet in place of the deferred charges or credits because these energy costs are, by law, fully borne by customers who must ultimately pay for the costs incurred. In substance, these accounts only represent differences in billings to customers that are corrected within a period of 12 months.
- (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 5 and 10 years. With regard to VGS, the amounts are deferred and then amortized over a 3-year period.

If regulatory treatments had not been applied, grants paid would have been recognized in the consolidated statement of income when incurred. In light of these differences, an additional charge of \$189,000 for fiscal 2014 (\$152,000 for fiscal 2013) 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 \$17,569,000 and \$36,191,000 during fiscal years 2014 and 2013, 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 the actual disbursements and those projected at the start of the fiscal year in the rate case 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 \$590,000 higher for fiscal 2014 and \$6,345,000 lower for fiscal 2013.

- (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 the acquisition of rate-regulated enterprises.

For Gaz Métro-QDA, these deferred charges totalled \$15,404,000 and \$20,676,000, respectively, as at September 30, 2014 and 2013. 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 \$5,272,000 and \$10,726,000 lower, respectively, for fiscal years 2014 and 2013. 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 \$48,822,000 as at September 30, 2014 (\$51,919,000 as at September 30, 2013) 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 enterprises, were held potentially liable for pollution on this site. These deferred charges represent \$9,344,000 in costs incurred as at September 30, 2014 (\$7,158,000 as at September 30, 2013) and estimated future costs of \$4,555,000 as at September 30, 2014 (\$7,891,000 as at September 30, 2013). The costs incurred and estimated future costs for VGS and GMP have been deferred and are amortized over a period of 10 to 20 years. As an offsetting entry to a portion of these deferred charges, a liability of \$4,555,000 as at September 30, 2014 (\$7,891,000 as at September 30, 2013) 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 5-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 its 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 2014 and \$11,092,000 lower for fiscal 2013.
- (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 12-month period. Without this regulatory treatment, committed costs would have been recorded in income when incurred.
- (m) The deferred charges related to Gaz Métro-QDA's Green Fund duty consist of the difference between the duty amount paid to the government and the amount billed to customers. There are two reasons for this difference. First, a part of the difference is attributable to the billing differences related to the late implementation of the new applicable annual rates. The second reason stems 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 deferred charge related to the Green Fund duty will continue to apply until December 31, 2014. From that date on, amortization of the deferred charge balance will be included in the monthly calculation of the price of the cap-and-trade system for greenhouse gas emission allowances.

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 charges 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 \$16,454,000 and \$9,536,000 are recognized in the *Restricted cash* item of the consolidated balance sheet as at September 30, 2014 and 2013, 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 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, 2014 and 2013. 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, which are recovered through rates mainly by using amortization rates, by adding them to deferred credits, while actual retirement costs are applied against deferred credits. Without this regulatory treatment, income for fiscal years 2014 and 2013 would have been affected by the use of a different rate-setting approach, the impacts of which are not reasonably determinable.

6. TRADE AND OTHER RECEIVABLES

	<u>2014</u>	<u>2013</u>
Trade accounts receivable	\$ 193,217	\$ 163,906
Notes receivable (a)	6,291	25,888
Taxes receivable	2,609	21,401
Other receivables	9,748	11,379
	<u>\$ 211,865</u>	<u>\$ 222,574</u>

(a) The note receivable as at September 30, 2014 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. The note receivable as at September 30, 2013 was related to construction costs of Wind Farms 2 and 3 to be reimbursed by Hydro-Québec, and was repaid in fiscal 2014.

7. INVENTORIES

	<u>2014</u>	<u>2013</u>
Natural gas	\$ 96,595	\$ 76,015
Supplies and materials	18,310	17,332
	<u>\$ 114,905</u>	<u>\$ 93,347</u>

8. PROPERTY, PLANT AND EQUIPMENT

	<u>2014</u>			
	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Construction in progress</u>	<u>Total</u>
Storage	\$ 172,259	\$ 46,296	\$ 16,205	\$ 142,168
Transportation	660,192	300,715	9,332	368,809
Distribution	3,455,679	1,159,391	119,219	2,415,507
General plant	410,336	169,649	21,313	262,000
Production	744,723	68,970	109,271	785,024
	<u>\$ 5,443,189</u>	<u>\$ 1,745,021</u>	<u>\$ 275,340</u>	<u>\$ 3,973,508</u>

	<u>2013</u>			
	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Construction in progress</u>	<u>Total</u>
Storage	\$ 172,088	\$ 44,129	\$ 4,748	\$ 132,707
Transportation	610,152	283,741	8,483	334,894
Distribution	3,219,098	1,073,813	77,552	2,222,837
General plant	377,715	169,416	18,449	226,748
Production	339,908	27,330	353,886	666,464
	<u>\$ 4,718,961</u>	<u>\$ 1,598,429</u>	<u>\$ 463,118</u>	<u>\$ 3,583,650</u>

The cost of property, plant and equipment not subject to amortization, excluding construction in progress, as at September 30, 2014 and 2013 was \$79,269,000 and \$80,829,000, 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 \$55,485,000 and \$32,519,000, respectively, as at September 30, 2014 compared to \$46,276,000 and \$25,104,000 as at September 30, 2013. Revenues from these operating leases totalled \$7,697,000 and \$10,714,000 for fiscal years 2014 and 2013, respectively.

Amortization expense was \$183,468,000 in fiscal 2014 compared with \$157,920,000 in fiscal 2013. During fiscal 2014, the Partnership realized net losses on the disposal of property, plant and equipment totalling \$3,431,000 (\$2,860,000 in fiscal 2013) and applied them against accumulated amortization.

During fiscal 2014, interest in the amount of \$4,357,000 was capitalized to the construction in progress of certain non-rate-regulated activities (\$13,304,000 in fiscal 2013).

9. INVESTMENTS AND OTHER

	Ownership interest	2014	2013
Interests in entities subject to significant influence			
PNGTS (a)	38.3%	\$ 93,150	\$ 89,388
Transco (69.1% in 2013) (b)	70.0%	428,570	356,011
Velco	38.8%	11,555	10,404
Other		1,947	1,834
		<u>535,222</u>	<u>457,637</u>
Investment funds (c)		174,313	158,193
Surrender value of life insurance policies (d)		27,220	23,270
		<u>\$ 736,755</u>	<u>\$ 639,100</u>

(a) The investment in PNGTS has been pledged as security for senior notes in the amount of \$106,613,000 (US\$95,190,000) of this company as at September 30, 2014.

(b) On December 27, 2012, through one of its U.S. subsidiaries, Gaz Métro invested \$33,181,000 (US\$33,473,000) in Transco, raising its interest from 68.5% to 69.1%. These funds are intended to finance capital investments in electricity transmission activities.

On December 23, 2013, through one of its U.S. subsidiaries, Gaz Métro invested \$24,409,000 (US\$23,251,000) in Transco, raising its ownership interest from 69.1% to 70.0%. 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 16.

(d) These are life insurance policies on the lives of active and retired officers.

10. INTERESTS IN JOINT VENTURES

	<u>2014</u>	<u>2013</u>
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:

	<u>2014</u>	<u>2013</u>
INCOME		
Revenues	\$ 95,513	\$ 62,786
Expenses	76,421	41,174
Net income	\$ 19,092	\$ 21,612
BALANCE SHEET		
Current assets	\$ 67,597	\$ 70,071
Long-term assets	720,098	640,193
Current liabilities	(49,375)	(113,606)
Long-term liabilities	(496,361)	(353,459)
Net assets	\$ 241,959	\$ 243,199
CASH FLOWS RELATED TO:		
Operating activities	\$ 87,278	\$ 38,726
Investing activities	(140,686)	(168,677)
Financing activities	60,534	127,311
Change in cash and cash equivalents, net of bank overdraft	\$ 7,126	\$ (2,640)

The Partnership owns a share of jointly controlled power generation and transmission assets. As at September 30, 2014, the share of jointly controlled assets included in long-term assets on the consolidated balance sheet totalled \$84,496,000 (\$75,935,000 as at September 30, 2013) and the share in the expenses, included in consolidated income, was \$22,097,000 (\$16,657,000 for the fiscal year ended September 30, 2013). Expenses related to jointly controlled assets are included in the rate base and therefore generate income included in the Partnership's consolidated income.

11. INTANGIBLE ASSETS

					2014			2013								
					Net carrying amount			Net carrying amount								
Cost					Accumulated amortization			Cost								
Cost					Accumulated amortization			Cost								
Development of information technology					\$	161,651	\$	83,108	\$	78,543	\$	144,129	\$	76,355	\$	67,774

Capitalized intangible assets totalled \$19,609,000 in fiscal 2014 and \$20,796,000 in fiscal 2013. Of this amount, \$16,206,000 relates to assets acquired and \$3,403,000 relates to internally generated assets in fiscal 2014 (\$15,343,000 and \$5,453,000, respectively, in fiscal 2013). Amortization expense was \$12,174,000 in fiscal 2014 and \$12,438,000 in fiscal 2013.

12. GOODWILL

	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

	2013			
	Energy Distribution	Natural Gas Transportation	Energy Services, Storage and Other	Total
Balance, beginning of year	\$ 299,157	\$ 7,596	\$ 14,494	\$ 321,247
Translation adjustment of self-sustaining foreign operations	13,819	-	-	13,819
Disposal of an interest in a joint venture (Note 4)	-	-	(13,345)	(13,345)
Balance, end of year	\$ 312,976	\$ 7,596	\$ 1,149	\$ 321,721

13. OTHER LONG-TERM ASSETS

	2014	2013
Accrued benefit assets (Note 20)	\$ 57,111	\$ 50,183
Notes receivable (a)	-	1,750
Other	17,484	16,195
	\$ 74,595	\$ 68,128

- (a) This note receivable is non-interest-bearing and is related to Wind Farm 4 construction costs that are reimbursable by Hydro-Québec. The note receivable is expected to be received during fiscal 2015 and, consequently, it is reported in *Trade and other receivables* on the consolidated balance sheet as at September 30, 2014 (Note 6).

14. BANK LOANS

	Maximum authorized amounts	Interest rate	Maturity	2014	2013
GAZ MÉTRO (a)	\$ 50,000	-%	2015	\$ -	\$ -
VGS (b) (1.13% in 2013)	\$ -	-%	2016	\$ -	\$ 19,700

- (a) Gaz Métro's short-term credit facility is not guaranteed.
- (b) VGS's short-term credit facilities, which matured in 2014, were renegotiated and will mature in 2016. As at September 30, 2014, the balance of these credit facilities was reported in long-term debt (Note 15).

15. LONG-TERM DEBT

	Interest rate	Maturity	2014	2013
GAZ MÉTRO				
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
			<u>925,000</u>	<u>925,000</u>
Secured senior notes (b)				
Series A (US\$130,000)	3.86 %	2022	145,600	133,939
Series B (US\$130,000)	5.06 %	2042	145,600	133,939
Series C (US\$100,000)	4.04 %	2043	112,000	103,030
Series D (US\$100,000)	4.19 %	2048	112,000	103,030
			<u>515,200</u>	<u>473,938</u>
Secured term loan (0.71% in 2013) (a), (n)	0.80 %	2019	364,996	252,028
Other (1.45% in 2013)	1.90 %	2015	790	1,530
			<u>365,786</u>	<u>253,558</u>
			<u>1,805,986</u>	<u>1,652,496</u>
NNEEC				
Unsecured senior notes				
Series A (US\$50,000)	5.93 %	2017	56,000	51,515
Series B (US\$50,000)	6.12 %	2022	56,000	51,515
			<u>112,000</u>	<u>103,030</u>
GMP (c)				
First mortgage bonds (d)				
Series 6.04% (US\$24,000 in 2014 and US\$30,000 in 2013)	6.04 %	2018	26,880	30,909
Series 6.70% (US\$15,000)	6.70 %	2019	16,800	15,455
Series 9.64% (US\$9,000)	9.64 %	2020	10,080	9,273
Series 8.65% (US\$11,500 in 2014 and US\$12,000 in 2013)	8.65 %	2022	12,880	12,364
Series 6.53% (US\$30,000)	6.53 %	2036	33,600	30,909
Series 6.17% (US\$16,000)	6.17 %	2038	17,920	16,485
Series 5.98% (US\$15,000)	5.98 %	2019	16,800	15,455
Series 2010A (US\$22,120 in 2014 and US\$22,815 in 2013)	2.60 %	2015		
Series 2010B (US\$5,000)	to 5.00 %	to 2035	24,774	23,506
Series 4.56% - Tranche A (US\$50,000)	6.00 %	2035	5,600	5,152
Series 4.61% - Tranche B (US\$25,000)	4.56 %	2042	56,000	51,515
Series 5.72% (US\$55,000)	4.61 %	2042	28,000	25,758
Series 6.90% (US\$17,500)	5.72 %	2019	61,600	56,667
Series 6.83% (US\$60,000)	6.90 %	2024	19,600	18,030
Series 8.91% (US\$15,000)	6.83 %	2028	67,200	61,818
Series 5.89% (US\$40,000)	8.91 %	2032	16,800	15,455
Series 3.99% (US\$85,000)	5.89 %	2041	44,800	41,212
Series 4.39% (US\$20,000)	3.99 %	2043	95,200	87,576
Series 4.89% (US\$43,000)	4.39 %	2034	22,400	-
Series 4.07% (US\$12,000)	4.89 %	2044	48,160	-
	4.07 %	2029	13,440	-
			<u>638,534</u>	<u>517,539</u>
Secured Vermont Economic Development Authority (VEDA) bonds (US\$30,000) (e)	5.00 %	2021	33,600	30,909
Unsecured term loan (US\$40,101 in 2014 and US\$48,294 in 2013), (1.29% in 2013) (f), (n)	1.44 %	2016	44,913	49,757
Other (US\$1,779 in 2014 and US\$1,246 in 2013)		2015	1,993	1,284
			<u>46,906</u>	<u>51,041</u>
			<u>719,040</u>	<u>599,489</u>

	Interest rate	Maturity	2014	2013
VGS (g)				
Unsecured senior notes				
Series 7.62% (US\$10,000) (h)	7.62%	2028	11,200	10,303
Series 6.44% (US\$10,000)	6.44%	2036	11,200	10,303
Series 7.00% (US\$10,000)	7.00%	2014	-	10,303
Series 5.14% (US\$35,000)	5.14%	2044	39,200	-
			<u>61,600</u>	<u>30,909</u>
Unsecured term loan (US\$45,000) (n)	-	2016	-	-
			<u>61,600</u>	<u>30,909</u>
TQM				
Unsecured bonds				
Series k	4.05%	2014	-	37,500
Series l	4.25%	2017	50,000	50,000
			<u>50,000</u>	<u>87,500</u>
Unsecured term loan (i)				
Floating-rate portion (2.22% in 2013) (n)	2.25%	2018	20,098	21,168
Fixed-rate portion	2.81%	2018	37,500	-
			<u>107,598</u>	<u>108,668</u>
INTRAGAZ				
Secured term loan (5.21% in 2013) (j), (n)	5.21%	2023	44,779	47,747
WIND FARMS 2 AND 3 (k)				
Secured term loan	4.70% and 5.45%	2031	260,209	232,555
Secured bridge loan	3.01%	2014	-	24,695
			<u>260,209</u>	<u>257,250</u>
WIND FARM 4 (l)				
Secured construction loan	5.66%	2034	71,223	-
Secured bridge loan	2.75%	2015	1,484	-
			<u>72,707</u>	<u>-</u>
OTHER				
Secured term loans (2.54% in 2013) (m), (n)	2.54%	2016 to 2023	16,836	15,764
Other	2.69%		344	-
			<u>17,180</u>	<u>15,764</u>
			<u>3,201,099</u>	<u>2,815,353</u>
FINANCING COSTS, NET OF AMORTIZATION			<u>33,321</u>	<u>33,392</u>
			<u>3,167,778</u>	<u>2,781,961</u>
CURRENT PORTION			<u>27,016</u>	<u>89,886</u>
			<u>\$ 3,140,762</u>	<u>\$ 2,692,075</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:

	2015	2016	2017	2018	2019
Capital repayments	\$ 27,016	\$ 87,013	\$ 257,053	\$ 84,699	\$ 580,128

- (a) In fiscal 2012, GMi, as the General Partner of Gaz Métro, entered into a new credit agreement, the maximum authorized amount of which is \$600,000,000, replacing the credit agreement with a \$400,000,000 maximum authorized amount set to expire on December 21, 2012. On April 3, 2014, GMi extended the expiry of its credit agreement to March 2019.

A portion of this term loan is in U.S. dollars, i.e., \$129,136,000 (US\$115,300,000) as at September 30, 2014 and \$118,794,000 (US\$115,300,000) as at September 30, 2013.

For the first mortgage bonds and the authorized \$600,000,000 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 \$600,000,000 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 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, 2014 and 2013, Gaz Métro's assets used for such activities accounted for 2.95% and 2.67%, 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, 2014 and 2013, Gaz Métro has no interests in such activities.

- (b) On February 5, 2013, GMI entered into a note purchase agreement with investors by way of private placement. On April 10, 2013, the Series C and Series D notes guaranteed by Gaz Métro were issued for a total capital amount of US\$200,000,000, that is, two series of US\$100,000,000 each. The proceeds of the issuance were loaned to Gaz Métro at conditions similar to those of the secured notes, to be used for general business purposes and to repay the \$150,000,000 in Series L First Mortgage Bonds on April 15, 2013, their maturity date.

The Series A and Series B secured notes were issued by GMI and are guaranteed by Gaz Métro. The issuance proceeds were simultaneously loaned to Gaz Métro at conditions similar to those of the secured notes in order to finance a portion of NNEEC's acquisition of all the CVPS shares.

- (c) On October 1, 2012, by way of a merger, CVPS combined its operations with those of GMP to form a single entity, which has kept the name GMP. Following the merger, CVPS's first mortgage bonds were exchanged for new bonds issued under GMP's first mortgage bonds deed of trust. The new bonds have the same face values, maturities, repayment terms and interest rates as the former CVPS bonds. GMP's first mortgage bonds deed of trust was amended on December 1, 2012 to require that a long-term debt / total capitalization ratio of no more than 65% be maintained. On October 1, 2012, VEDA bonds and other long-term debt were also exchanged for new debt with the same conditions as those in effect before the merger.

Substantially all of GMP's assets are subject to the lien in the deed of trust under which the first mortgage bonds were issued. The first mortgage bonds include restrictions on the payment of dividends by GMP. Under the most restrictive of these covenants, about US\$70,162,130 in retained earnings was unrestricted as at September 30, 2014 compared to US\$62,511,000 as at September 30, 2013. 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%.

On December 6, 2012, GMP issued, by way of private placement, first mortgage bonds in the amount of US\$85,000,000 to finance a portion of its investments in property, plant and equipment and to reimburse certain short-term debts. These first mortgage bonds bear interest at an annual rate of 3.99% and will mature on December 1, 2042.

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 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 October 1, 2012, GMP's and CVPS's credit facilities were cancelled and the amounts owing were repaid using a new credit facility signed by GMP. This new credit facility authorizes a US\$70,000,000 term loan, which can be increased by an additional amount of up to US\$15,000,000, subject to the lender's approval, and expires on September 30, 2016.
- (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. As at September 30, 2013, the balances of these credit facilities were presented in bank loans (Note 14).

- (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, 2014, the amount available under this credit facility totalled \$74,631,000 (Gaz Métro's share: \$44,779,000). 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) On November 8, 2011, Wind Farms 2 and 3, a joint venture, entered into a credit agreement to finance wind power projects 2 and 3 with a group of lenders. As at September 30, 2014 and 2013, the total amount available and drawn of this financing secured by the assets of Wind Farms 2 and 3 was \$603,777,000 (Gaz Métro's share: \$301,889,000) and \$695,155,000 (Gaz Métro's share: \$347,578,000) 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 under this tranche was \$246,473,000 (Gaz Métro's share: \$123,237,000) as at September 30, 2014 and \$260,000,000 (Gaz Métro's share: \$130,000,000) as at September 30, 2013. The unsecured tranche bears interest at 5.45%. As at September 30, 2014 and 2013, the amount available under this tranche was \$273,945,000 (Gaz Métro's share: \$136,973,000) and \$300,157,000 (Gaz Métro's share: \$150,079,000), respectively. 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;
- an \$83,359,000 letter of credit facility (Gaz Métro's share: \$41,680,000) as at September 30, 2014 and 2013 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;
- a bridge loan to finance certain construction costs reimbursable by Hydro-Québec after the start of commercial operations of Wind Farms 2 and 3. Since commercial activities began in fiscal 2014 and Wind Farms 2 and 3 received the reimbursement from Hydro-Québec, Wind Farms 2 and 3 repaid and cancelled the bridge loan and, consequently, the amount available as at September 30, 2014 was nil. As at September 30, 2013, the amount available was \$51,639,000 (Gaz Métro's share: \$25,820,000); and
- a standby loan of \$28,750,000 (Gaz Métro's share: \$14,375,000) as at September 30, 2012 to provide Wind Farms 2 and 3 with the necessary liquidity should the value of the euro have appreciated, given that Wind Farms 2 and 3 had to make various euro-based payments in fiscal 2013. As the euro depreciated

after the financing closed, Wind Farms 2 and 3 cancelled this standby loan during fiscal 2013 and, as a result, the amount available as at September 30, 2014 and 2013 was nil.

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. The first principal repayment on the amounts borrowed was made on June 30, 2014.

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, 2014 and 2013. These swaps will be settled periodically until December 31, 2031. The rates presented reflect the impact of the swaps.

- (l) On October 29, 2013, the debt financing of the wind power project of Wind Farm 4 was completed with a group of lenders. The total amount of this non-recourse financing is \$166,119,000 (Gaz Métro's share: \$83,060,000) and consists of:
- a construction loan totalling \$142,445,000 (Gaz Métro's share: \$71,223,000) that will convert 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: \$6,451,000) 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.
- (m) Gaz Métro's other subsidiaries and joint ventures can borrow up to \$29,500,000 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 \$155,707,000 and \$128,995,000 for fiscal years 2014 and 2013, 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 \$88,520,000 and \$88,065,000 for fiscal years 2014 and 2013, respectively. Financial and other expenses included the amortization of financing costs of \$1,640,000 and \$1,726,000 for fiscal years 2014 and 2013, respectively.

As at September 30, 2014 and 2013, GMI and Gaz Métro and its subsidiaries and joint ventures were in compliance with all of the requirements of the trust deeds and term loan agreements governing long-term debt.

16. OTHER LONG-TERM LIABILITIES

	2014	2013
Accrued benefit liability	\$ 126,126	\$ 127,345
Deferred compensation liabilities of GMP and VGS	8,395	7,129
Deferred revenues (a)	32,078	27,601
Liabilities related to site decontamination and dismantling in the United States (b)	4,555	7,891
Liability related to the elimination of spent nuclear fuel (c)	162,322	149,261
Other	25,994	24,964
	\$ 359,470	\$ 344,191

- (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, subsidiaries of NNEEC, jointly with other companies, have been cited as being 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 of 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 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.

17. CAPITAL

AUTHORIZED

Unlimited number of units; each ranks equally with any other unit and confers the same rights, privileges and obligations.

ISSUED AND PAID

	2014	2013
Number of units as at September 30 (in thousands of units)	151,796	151,796

On September 30, 2013, the Partnership issued, by way of private placement, 3,125,000 new units at a per-unit price of \$16.00 for total proceeds of \$50,000,000.

18. ACCUMULATED OTHER COMPREHENSIVE LOSS

	2014	2013
Translation adjustments of self-sustaining foreign operations	\$ 63,674	\$ (24,673)
Translation adjustments related to net investment hedging activities	(61,962)	(10,254)
Adjustments related to the fair value of derivative financial instruments designated as hedges, net of income taxes	(31,118)	(28,606)
Accumulated other comprehensive loss	\$ (29,406)	\$ (63,533)

19. CASH FLOWS

Change in non-cash working capital items:

	2014	2013
Trade and other receivables	\$ 23,515	\$ 4,548
Inventories	(20,427)	21,148
Prepaid expenses	(3,915)	1,859
Accounts payable and accrued liabilities	13,493	8,641
Income taxes payable and receivable	(960)	8,646
	\$ 11,706	\$ 44,842

Other information:

	2014	2013
Interest received	\$ 3,430	\$ 3,860
Interest paid	\$ 151,325	\$ 135,323
Income taxes paid (received)	\$ 7,773	\$ (5,637)

Accounts payable and accrued liabilities include an amount of \$58,286,000 as at September 30, 2014 related to the purchase of property, plant and equipment (\$56,331,000 as at September 30, 2013). These transactions have no impact on cash flows and are therefore not reflected in the consolidated statement of cash flows.

20. 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 \$3,190,000 in 2014 and \$2,962,000 in 2013.

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, 2013	December 31, 2014
Gaz Métro Plus	December 31, 2013	December 31, 2014
Climatisation et Chauffage Urbains de Montréal, s.e.c.	December 31, 2013	December 31, 2014
TQM	December 31, 2013	December 31, 2014
VGS	January 1, 2014	January 1, 2015
GMP	January 1, 2014	January 1, 2015

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, 2014 and 2013 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.

	2014	2013	2014	2013
	Pension plans	Pension plans	Other post-retirement benefits	Other post-retirement benefits
ACCRUED BENEFIT OBLIGATIONS				
BALANCE, BEGINNING OF MEASUREMENT PERIOD	\$ 821,895	\$ 795,274	\$ 124,001	\$ 127,760
Current service cost	24,755	25,827	3,603	3,988
Interest cost	37,949	36,274	5,822	5,732
Employee contributions	3,720	3,143	1,181	872
Other contributions and employee transfers	3,258	2,385	-	-
Benefits paid	(31,036)	(37,243)	(5,719)	(5,071)
Actuarial losses (gains)	82,617	(15,763)	20,849	(11,282)
Impact of exchange rate fluctuations	22,001	11,998	4,033	2,002
Settlement	(23,729)	-	-	-
BALANCE, END OF MEASUREMENT PERIOD	941,430	821,895	153,770	124,001
PLAN ASSETS AT FAIR VALUE				
BALANCE, BEGINNING OF MEASUREMENT PERIOD	657,261	572,057	41,452	36,508
Actual return on plan assets	94,887	52,178	4,344	4,788
Employer contributions	50,316	56,203	2,185	2,710
Employee contributions	3,720	3,143	1,181	872
Other contributions and employee transfers	3,258	2,385	-	-
Benefits paid	(31,036)	(37,243)	(5,719)	(5,071)
Impact of exchange rate fluctuations	17,762	8,538	4,461	1,645
Settlement	(23,729)	-	-	-
BALANCE, END OF MEASUREMENT PERIOD	772,439	657,261	47,904	41,452
DEFICIENCY OF ASSETS OVER OBLIGATIONS	(168,991)	(164,634)	(105,866)	(82,549)
Unamortized past service cost	2,220	4,209	-	-
Unamortized net actuarial losses	173,504	152,349	22,149	3,743
Unamortized transitional (asset) obligation	-	(5,565)	-	-
ACCRUED BENEFIT ASSET (LIABILITY) AT MEASUREMENT DATE	6,733	(13,641)	(83,717)	(78,806)
Employer contributions between measurement date and year-end	6,524	13,345	553	501
ACCRUED BENEFIT ASSET (LIABILITY), END OF YEAR	\$ 13,257	\$ (296)	\$ (83,164)	\$ (78,305)
Presented as follows:				
Other long-term assets	\$ 57,111	\$ 50,183	\$ -	\$ -
Accounts payable and accrued liabilities and other long-term liabilities	(43,854)	(50,479)	(83,164)	(78,305)
	\$ 13,257	\$ (296)	\$ (83,164)	\$ (78,305)

The following table shows the allocation of the plan assets at the measurement date.

	2014	2013
ASSET CATEGORIES		
Fixed-income securities	50.4%	49.0%
Equity securities	49.6%	51.0%
	100.0%	100.0%

COMPONENTS OF THE ACCRUED BENEFIT COST

The following table presents components of the accrued benefit cost for the 2014 and 2013 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 5.

	2014	2013	2014	2013
	Pension plans	Pension plans	Other post-retirement benefits	Other post-retirement benefits
Current service cost	\$ 24,755	\$ 25,827	\$ 3,603	\$ 3,988
Interest cost	37,949	36,274	5,822	5,732
Actual return on plan assets	(94,887)	(52,178)	(4,344)	(4,788)
Actuarial losses (gains) on accrued benefit obligations	82,617	(15,763)	20,849	(11,282)
Loss on settlement	3,953	-	-	-
Cost before adjustments to recognize the long-term nature of employee future benefits	54,387	(5,840)	25,930	(6,350)
Difference between expected return and actual return on plan assets for the period	54,086	15,933	1,473	2,142
Difference between actuarial losses (gains) recognized for the period and actual actuarial losses (gains) on the accrued benefit obligations for the period	(71,533)	31,404	(20,017)	12,457
Difference between amortization of past service costs for the period and plan amendments for the period	1,978	2,020	-	-
Amortization of transitional (asset) obligation	(5,565)	(6,213)	-	1,847
Accrued benefit cost	\$ 33,353	\$ 37,304	\$ 7,386	\$ 10,096
Representing:				
Unrecognized cost (revenue) of Gaz Métro-QDA	\$ (10,509)	\$ (17,645)	\$ 5,237	\$ 6,919
Recognized cost	43,862	54,949	2,149	3,177
	\$ 33,353	\$ 37,304	\$ 7,386	\$ 10,096

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

	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
	Pension plans	Pension plans	Other post-retirement benefits	Other post-retirement benefits
ACCRUED BENEFIT OBLIGATIONS AT THE MEASUREMENT DATE				
Discount rate	4.10%	4.50%	4.10%	4.50%
Rate of compensation increase	2.75%	2.75%	2.75%	2.75%
BENEFIT COST FOR THE 12-MONTH PERIODS ENDED AT THE MEASUREMENT DATE				
Discount rate	4.50%	4.70%	4.50%	4.70%
Expected long-term rate of return on plan assets	5.80%	5.80%	6.65%	7.00%
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 2015 for certain postretirement benefits are 6.5% for Gaz Métro-QDA and 7.0% for GMP. These rates decline gradually to 3.0% in 2035 for Gaz Métro-QDA and to 4.3% in 2069 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>
SENSITIVITY ANALYSIS OF OTHER POST-RETIREMENT BENEFITS		
Impact on current service cost and interest cost	\$ 1,556	\$ (1,201)
Impact on accrued benefit obligations	\$ 20,583	\$ (16,342)

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 \$48,922,000 in 2014 and \$63,646,000 in 2013. 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.

21. INCOME TAXES

	<u>2014</u>	<u>2013</u>
Income before income taxes	\$ 221,699	\$ 209,517
Current income taxes	4,799	3,099
Future income taxes	43,105	27,550
Income taxes	\$ 47,904	\$ 30,649

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:

	2014	2013
Income before income taxes	\$ 221,699	\$ 209,517
Income from rate-regulated limited partnerships	(78,874)	(85,738)
Income from non-rate-regulated limited partnerships	2,832	(16,765)
	<u>145,657</u>	<u>107,014</u>
Statutory income tax rate	26.9%	26.9%
Income taxes at statutory rate	39,182	28,787
Increase (decrease) attributable to the following:		
Tax rate variance between jurisdictions	9,181	4,755
Net impact of non-taxable items and other	(459)	(2,893)
Income taxes	\$ 47,904	\$ 30,649
Effective income tax rate ⁽¹⁾	<u>32.9%</u>	<u>28.6%</u>

⁽¹⁾ Excluding the portion of income from limited partnerships, as their income taxes are accounted for and paid by their partners.

FUTURE INCOME TAX COMPONENTS

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

	2014	2013
Non-deductible allowances	\$ 19,208	\$ 18,573
Non-capital loss and tax credit carryforwards	65,412	48,393
Deferred charges and credits	(3,876)	(15,391)
Property, plant and equipment and intangible assets	(319,161)	(257,241)
Employee future benefits	2,444	2,375
Interests in entities subject to significant influence	(137,211)	(106,142)
Other	(1,128)	(2,038)
Net future income tax liability	<u>\$ (374,312)</u>	<u>\$ (311,471)</u>

CONSOLIDATED BALANCE SHEET PRESENTATION

	2014	2013
Future income tax assets:		
Current	\$ 37,053	\$ 16,986
Long-term	4,676	5,289
	<u>41,729</u>	<u>22,275</u>
Future income tax liabilities:		
Current	-	(1,936)
Long-term	(416,041)	(331,810)
	<u>(416,041)</u>	<u>(333,746)</u>
Net future income tax liability	<u>\$ (374,312)</u>	<u>\$ (311,471)</u>

The Partnership expects that it will be able to use its non-capital losses of \$148,956,000 before they expire, i.e., between 2019 and 2034.

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 \$80,864,000 higher as at September 30, 2014 and \$84,689,000 higher as at September 30, 2013. This balance would have consisted primarily of the following items:

	<u>2014</u>	<u>2013</u>
Non-deductible allowances	\$ 5,246	\$ 5,010
Deferred charges and credits	(22,884)	(23,804)
Property, plant and equipment and intangible assets	(61,973)	(65,368)
Financial Instruments	7,469	1,379
Other	(2,190)	(1,906)
Subtotal	<u>(74,332)</u>	<u>(84,689)</u>
Valuation allowance	<u>(6,532)</u>	-
Net future income tax liability	<u>\$ (80,864)</u>	<u>\$ (84,689)</u>

As at September 30, 2014, 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.

22. 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). These activities are subject to rate regulation by regulatory agencies located 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 fuel for transportation 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.

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 ⁽¹⁾	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

⁽¹⁾ 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).

2013

	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	\$ 1,361,135	\$ 769,853	\$ 2,130,988	\$ 38,853	\$ -	\$ 47,531	\$ (16)	\$ 2,217,356
Intersegment revenues	5,881	-	5,881	2,313	-	13,126	(21,320)	-
Total revenues	1,367,016	769,853	2,136,869	41,166	-	60,657	(21,336)	2,217,356
Direct costs	796,791	466,685	1,263,476	-	-	19,827	(51)	1,283,252
Intersegment direct costs	14,652	-	14,652	-	-	5,764	(20,416)	-
Total direct costs	811,443	466,685	1,278,128	-	-	25,591	(20,467)	1,283,252
Gross margin	555,573	303,168	858,741	41,166	-	35,066	(869)	934,104
Operating and maintenance expenses	266,815	166,411	433,226	11,089	1,721	20,018	7,155	473,209
Share in earnings of entities subject to significant influence	-	(51,856)	(51,856)	(10,160)	-	-	-	(62,016)
Net gain on disposal of an interest in a joint venture	-	-	-	-	-	(14,749)	-	(14,749)
EBITA ⁽¹⁾	288,758	188,613	477,371	40,237	(1,721)	29,797	(8,024)	537,660
Amortization	122,583	62,398	184,981	11,456	-	6,410	-	202,847
Interest on long-term debt	62,238	58,968	121,206	12,111	-	5,633	(9,955)	128,995
Financial and other expenses	(1,973)	(2,253)	(4,226)	(5,983)	1,490	(4,920)	9,940	(3,699)
Income (loss) before income taxes	105,910	69,500	175,410	22,653	(3,211)	22,674	(8,009)	209,517
Income taxes (recovered)	-	23,834	23,834	6,548	(576)	943	(100)	30,649
Net income (loss)	\$ 105,910	\$ 45,666	\$ 151,576	\$ 16,105	\$ (2,635)	\$ 21,731	\$ (7,909)	\$ 178,868
Net income (loss) attributable to:								
Non-controlling interests	\$ -	\$ -	\$ -	\$ -	\$ (1,569)	\$ -	\$ -	\$ (1,569)
Partners of Gaz Métro	\$ 105,910	\$ 45,666	\$ 151,576	\$ 16,105	\$ (1,066)	\$ 21,731	\$ (7,909)	\$ 180,437
Interests in entities subject to significant influence	\$ -	\$ 368,249	\$ 368,249	\$ 89,388	\$ -	\$ -	\$ -	\$ 457,637
Assets	\$ 2,316,357	\$ 2,371,351	\$ 4,687,708	\$ 316,160	\$ 402,428	\$ 173,869	\$ 2,663	\$ 5,582,828
Purchases of property, plant and equipment	\$ 120,171	\$ 132,480	\$ 252,651	\$ 6,242	\$ 187,950	\$ 7,349	\$ 147	\$ 454,339
Change in deferred charges and credits	166,991	4,308	171,299	(743)	-	172	-	170,728
	\$ 287,162	\$ 136,788	\$ 423,950	\$ 5,499	\$ 187,950	\$ 7,521	\$ 147	\$ 625,067

⁽¹⁾ 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

	2014		2013	
	Revenues from external customers ⁽¹⁾	Property, plant and equipment and goodwill	Revenues from external customers ⁽¹⁾	Property, plant and equipment and goodwill
Canada	\$ 1,669,847	\$ 2,605,634	\$ 1,447,503	\$ 2,426,276
United States	866,861	1,716,843	769,853	1,479,095
Total	\$ 2,536,708	\$ 4,322,477	\$ 2,217,356	\$ 3,905,371

⁽¹⁾ Revenues from external customers are presented according to the country of origin of the goods or services.

23. 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 \$16,797,000 during fiscal 2014 (\$20,539,000 in 2013) 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 \$10,078,000 in 2014 (\$12,324,000 in 2013). The non-eliminated portion of these natural gas storage costs is presented as *Direct costs* in the consolidated statement of income.

In fiscal 2014, Transco provided GMP with electricity transmission services totalling \$22,747,000 (\$19,858,000 in 2013), presented as *Direct costs* in the consolidated statement of income.

For fiscal 2014, as per the Administration and Management Support Agreement entered into with Valener, expiring in 2025, Valener charged Gaz Métro an amount of \$1,756,000 (\$1,810,000 in 2013) 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.

24. 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, 2014 and 2013, the consolidated capital structure was as follows:

	2014	2013
Bank loans	\$ -	\$ 19,700
Current portion of long-term debt	27,016	89,886
Long-term debt, net of financing costs	3,140,762	2,692,075
Total debt	3,167,778	2,801,661
Partners' equity	1,482,354	1,444,063
Total capitalization	\$ 4,650,132	\$ 4,245,724
Debt / total capitalization ratio	68.1%	66.0%

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 credit facility and trust deed covenants of the 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% of its long-term debt and leave the balance at floating rates. As at September 30, 2014, 86.0% of the long-term debt was at fixed rates compared to 88.0% as at September 30, 2013.

The Partnership's various long-term debt trust deeds include restrictive covenants, as described in Note 15.

As at September 30, 2014 and 2013, the long-term debt / total capitalization ratios under the terms of the trust deeds and loan agreements based on Gaz Métro's non-consolidated financial statements were 55.6% and 54.1%, respectively.

For fiscal years ended September 30, 2014 and 2013, the long-term debt interest coverage ratios based on Gaz Métro's non-consolidated financial statements were 3.01 times and 3.13 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, 2014, the Partnership and its subsidiaries and joint ventures were in compliance with all of the externally imposed capital requirements.

25. 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:

	2014		2013	
	Carrying amount	Fair value	Carrying amount	Fair value
LOANS AND RECEIVABLES				
Trade and other receivables	\$ 211,865	\$ 211,865	\$ 222,574	\$ 222,574
Note receivable ^(a)	-	-	1,750	1,750
	<u>\$ 211,865</u>	<u>\$ 211,865</u>	<u>\$ 224,324</u>	<u>\$ 224,324</u>
FINANCIAL LIABILITIES NOT HELD FOR TRADING				
Bank overdraft	\$ 5,422	\$ 5,422	\$ 3,376	\$ 3,376
Bank loans	-	-	19,700	19,700
Accounts payable and accrued liabilities	341,073	341,073	314,407	314,407
Distributions payable	42,503	42,503	41,628	41,628
Long-term debt ^(b)	3,201,099	3,483,768	2,815,353	3,096,082
Total	<u>\$ 3,590,097</u>	<u>\$ 3,872,766</u>	<u>\$ 3,194,464</u>	<u>\$ 3,475,193</u>

^(a) This financial instrument is presented in *Other long-term assets* on the consolidated balance sheet.

^(b) The carrying amount of long-term debt is presented before financing costs.

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, 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 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, 2014, the carrying amount of these financial liabilities designated as hedges totalled \$644,336,000 (US\$575,300,000), (\$592,732,000 (US\$575,300,000) as at September 30, 2013). 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 \$51,708,000 for the year ended September 30, 2014

(losses of \$21,217,000 in 2013) 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:

				2014
	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS HELD FOR TRADING				
Cash and cash equivalents	\$ 103,657	\$ -	\$ -	\$ 103,657
Restricted cash	45,548	-	-	45,548
	<u>\$ 149,205</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 149,205</u>
FINANCIAL ASSETS AVAILABLE FOR SALE				
Investment fund ^(a)	\$ 113,695	\$ 60,618	\$ -	\$ 174,313
	<u>\$ 113,695</u>	<u>\$ 60,618</u>	<u>\$ -</u>	<u>\$ 174,313</u>
				2013
	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS HELD FOR TRADING				
Cash and cash equivalents	\$ 59,495	\$ -	\$ -	\$ 59,495
Restricted cash	14,355	-	-	14,355
	<u>\$ 73,850</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 73,850</u>
FINANCIAL ASSETS AVAILABLE FOR SALE				
Investment fund ^(a)	\$ 132,043	\$ 26,150	\$ -	\$ 158,193
	<u>\$ 132,043</u>	<u>\$ 26,150</u>	<u>\$ -</u>	<u>\$ 158,193</u>

^(a) 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, 2014.

	Valuation model	Discount rate	Implicit price volatility	Forward price
Swaps	^(a)	2.94%	N/A	N/A
Forward exchange contracts	^(a)	2.05%	N/A	N/A
Instruments related to natural gas:				
Fixed-price swaps	^(a)	1.82%	N/A	\$3.85/GJ to \$4.25/GJ
Collars	Black-Scholes	1.41%	28% to 40%	\$3.59/GJ to \$4.26/GJ
Instruments related to electricity:				
9701 Agreement	Black-Scholes	0.23%	24%	US\$186.38/MWh

^(a) 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.

The par values, fair values and maturities of the various categories of derivative financial instruments are as follows:

	2014		
	<u>Par value</u>	<u>Fair value</u>	<u>Maturity</u>
Swaps (a)	\$ 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 (b)	53	(8,906)	2016
		\$ (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)	
	2013		
	<u>Par value</u>	<u>Fair value</u>	<u>Maturity</u>
Swaps (a)	\$ 323,613	\$ (2,592)	2014-2032
Forward exchange contracts	\$ 36,175	\$ 23	2014-2015
Instruments related to natural gas (in thousands of gigajoules):			
Fixed-price swaps	13,878	\$ (13,244)	2014-2015
Collars	31,457	(8,253)	2014-2016
Three-way collars	78	(116)	2014
Instruments related to electricity (in thousands of megawatthours):			
9701 Agreement (b)	105	(7,014)	2016
		\$ (28,627)	
Total		\$ (31,196)	
Portion presented as:			
Current assets		\$ 522	
Long-term assets		3,808	
Current liabilities		(27,646)	
Long-term liabilities		(7,880)	
Total		\$ (31,196)	

(a) These derivative financial instruments, which are sensitive to interest rates, fix interest rates on certain floating rate debts and borrowings (Notes 14 and 15), and Gaz Métro applies cash flow hedge accounting to these derivative financial instruments.

(b) The 9701 Agreement between GMP and Hydro-Québec, which expires in 2016, grants 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, 2014 and 2013, the fair value of all derivative financial instruments is measured using Level 2, as described in Note 2.

26. 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, the Partnership's 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 impact 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. For additional information about hedging relationships, refer to Note 25.

As at September 30, 2014, a 5% appreciation or depreciation of the U.S. dollar against the Canadian dollar would have had an impact of \$1,090,000 on consolidated net income and of \$32,217,000 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 \$3,440,000, whereas a 100-basis-point decrease in interest rates would have increased consolidated net income by \$2,713,000. 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 \$21,334,000, while a 100-basis-point decrease in interest rates would have decreased consolidated other comprehensive income by \$23,815,000.

Energy cost risk

Natural gas- and electricity-related derivative financial instruments are used to manage customers' exposure to natural gas and electricity price volatility. 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:

	2014	2013
Less than 30 days	\$ 178,544	\$ 153,329
30 to 60 days	7,495	7,982
61 to 90 days	2,941	2,167
Over 90 days	11,369	7,743
	200,349	171,221
Less: Allowance for doubtful accounts	(7,132)	(7,315)
	\$ 193,217	\$ 163,906

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, 2014, the Partnership has security deposits from customers amounting to \$37,759,000 compared to \$37,084,000 as at September 30, 2013.

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, 2014, 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, allow 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.

(tabular amounts are in thousands of dollars)

The following table presents the required capital and interest payments for the financial liabilities as at September 30, 2014, assuming the balances borrowed on the credit facility remain constant.

Maturity	Bank overdraft	Accounts payable and accrued liabilities	Distributions payable	Derivative financial liabilities	Long-term debt	Interest	Total
Less than 1 year	\$ 5,422	\$ 341,073	\$ 42,503	\$ 11,882	\$ 27,016	\$ 144,264	\$ 572,160
2 to 5 years	-	-	-	342	1,008,894	522,084	1,531,320
6 to 10 years	-	-	-	1,826	534,846	474,986	1,011,658
11 to 15 years	-	-	-	-	352,904	369,143	722,047
16 to 20 years	-	-	-	10,523	367,362	282,629	660,514
21 to 25 years	-	-	-	-	229,117	187,009	416,126
26 to 30 years	-	-	-	-	568,960	114,794	683,754
31 to 34 years	-	-	-	-	112,000	18,771	130,771
Total	\$ 5,422	\$ 341,073	\$ 42,503	\$ 24,573	\$ 3,201,099	\$ 2,113,680	\$ 5,728,350

Interest is presented based on contractual maturity and the rates in effect as at September 30, 2014.

27. 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, 2014, the schedule of contractual commitments related to the different types of supply, for which the duration was more than one year, was as follows:

	2015	2016	2017	2018	2019	Subsequent fiscal years	Total
Energy supply	\$ 252,849	\$ 199,335	\$ 190,544	\$ 147,798	\$ 140,098	\$ 2,378,384	\$ 3,309,008
Transportation	331,537	326,820	81,354	24,368	20,648	80,383	865,110
Storage	17,366	11,516	9,268	7,420	7,024	23,751	76,345
Total	\$ 601,752	\$ 537,671	\$ 281,166	\$ 179,586	\$ 167,770	\$ 2,482,518	\$ 4,250,463

Contractual commitments are shown according to the prices and rates prevailing on the balance sheet date, with the exception of fixed-price contracts.

The electricity supply contracts include a joint contract signed by GMP and other Vermont electricity distributors with Hydro-Québec. This contract contains several appendices 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, 2014 and the end of the contract, its additional obligation would have been approximately \$30,771,000 (US\$27,474,000). 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 2014, as a part of the measures implemented to ensure the security and diversity of gas supplies, Gaz Métro-QDA signed precedent agreements and financial backstopping agreements, in the event that these were cancelled, to increase pipeline transportation capacity from the Dawn trading hub, in Ontario. The transportation agreements will have a 15-year term and are targeted to start in November 2016. The agreements are required to meet gas supply needs in Québec and will ensure access to the affordable, diverse sources of natural gas from the Dawn hub.

OTHER COMMITMENTS

Wind power projects 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 farm operation, maintenance and administration contract that took effect on December 1, 2012. Disbursements under the contract, which will end in 2033, depend on the level of electricity generated by the wind

turbines, among other factors. As at September 30, 2014, Beupré Éole's share in the commitments made by Wind Farms 2 and 3 under this contract stood at \$11,479,000.

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 level of electricity generated by the wind turbines, among other factors. As at September 30, 2014, Beupré Éole's share in the commitments made by Wind Farms 2 and 3 under these contracts was \$20,138,000 for the first seven years of the contracts (\$80,727,000 for the entire 15 years of the contracts).

Wind power project 4

In November 2010, Beupré Éole and a wholly owned subsidiary of Boralex inc. (consortium) acquired the rights and the contract to supply electricity for a 20-year period as of the electricity delivery start date for a project with an installed capacity of 68 megawatts, assigned by Kruger Energy Bas-St-Laurent LP to the consortium with the consent of Hydro-Québec. In fiscal 2012, the rights of Beupré Éole in this contract were transferred to Beupré Éole 4, a subsidiary that is 51% indirectly owned by Gaz Métro and 49% indirectly owned by Valener. During fiscal 2013, following the creation of Wind Farm 4, Beupré Éole 4 transferred its rights to this new entity.

In August 2013, Wind Farm 4 entered into a contract for the construction and installation of the turbines for wind power project 4. Disbursements are being made based on the stage of completion of the work. Should Wind Farm 4 cancel this contract, it would be required to reimburse the contractor, in addition to the costs of work already completed, for the loss of unrealized profits on the work not carried out. As at September 30, 2014, Beupré Éole 4's share in the commitments made by Wind Farm 4 under this contract was \$6,934,000, i.e., €1,785,000 and \$4,408,000.

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 farm. Disbursements under the contract, which will end in 2034, depend on the level of electricity generated by the wind turbines, among other factors. As at September 30, 2014, Beupré Éole's share in the commitments made by Wind Farm 4 under this contract was \$4,958,000.

In September 2013, Wind Farm 4 entered into a 15-year wind turbine maintenance contract that will take effect as of the anticipated start of electricity deliveries in November 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 amount of electricity generated by the wind turbines, among other factors. As at September 30, 2014, Beupré Éole 4's share in the commitments made by Wind Farm 4 under this contract was \$5,509,000 for the first seven years of the contract (\$18,956,000 for the entire 15 years of the contract).

Expansion project to increase the capacity of the liquefaction, storage and re-gasification (LSR) plant

In August 2014, Gaz Métro entered into an engineering, supply and construction contract to expand the capacity of its liquefaction, storage and regasification (LSR) plant, whose commercial start-up is scheduled for fall 2016. Disbursements are being made based on the stage of completion of the work. Should Gaz Métro cancel this contract, it would be required to reimburse the contractor for the costs of work already completed. As at September 30, 2014, Gaz Métro's commitment under this contract was \$94,222,000.

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:

	2015	2016	2017	2018	2019	Subsequent fiscal years	Total
Leases	\$ 4,643	\$ 2,222	\$ 1,260	\$ 1,248	\$ 1,074	\$ 17,229	\$ 27,676

GUARANTEES

After the financing for wind power projects 2 and 3 was completed, certain guarantees issued in favour of Hydro-Québec against GMI's credit facility, in the form of letters of credit, were cancelled and replaced with guarantees in the form of

letters of credit issued by the lenders of Wind Farms 2 and 3. Following this transfer and under the electricity supply contracts for wind power projects 2 and 3, Wind Farms 2 and 3 issued guarantees in favour of Hydro-Québec and Enercon Canada Inc. totalling \$19,391,000 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 \$3,095,000, 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, 2014, Beaupré Éole's share in the letters of credit issued by the lenders of Wind Farms 2 and 3 stood at \$27,386,000.

After the financing for wind power project 4 was completed, certain guarantees issued in favour of Hydro-Québec against GMI's credit facility, in the form of letters of credit, were cancelled and replaced with guarantees in the form of letters of credit issued by the lenders of Wind Farm 4. Following this transfer and 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. As at September 30, 2014, Beaupré Éole 4's share in the letters of credit issued by the lenders of Wind Farm 4 stood at \$1,417,000. As at September 30, 2014, a letter of credit issued against GMI's credit facility, as General Partner of Gaz Métro, in the amount of \$3,662,000 was still in effect to guarantee Gaz Métro's share in the capital still to be injected into wind power project 4.

GMI, in its capacity as General Partner of Gaz Métro, issued letters of credit for \$34,132,000 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, 2014, 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.

28. 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.

29. SUBSEQUENT EVENTS

INVESTMENT IN GAZ MÉTRO LNG L.P.

On October 7, 2014, Gaz Métro LNG entered into an agreement with Investissement Québec, which became a partner of Gaz Métro LNG and as such will 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 stake in Gaz Métro LNG will be approximately 42%. Investissement Québec's contribution will be made gradually over the course of the project.

DECLARATION OF A DISTRIBUTION

On November 26, 2014, the board of directors of GMI, acting in its capacity as General Partner of Gaz Métro, declared a quarterly distribution of \$42,503,000, payable on January 5, 2015 to its Partners.

30. 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 ⁽¹⁾

Fiscal years ended September 30

	2014	2013	2012	2011	2010
NORMALIZED NATURAL GAS VOLUME (10⁶m³) ⁽²⁾					
Distribution					
Industrial					
Firm service	2,983	2,714	2,394	1,914	1,858
Interruptible service	498	722	941	926	840
Commercial	1,846	1,659	1,670	2,207	2,307
Residential	673	670	639	664	666
Total (10 ⁶ m ³)	6,000	5,765	5,644	5,711	5,671
Total (Bcf)	212	204	199	202	200
NATURAL GAS DELIVERIES (10⁶m³)					
Distribution					
Total (10 ⁶ m ³)	6,191	5,719	5,446	5,718	5,449
Total (Bcf)	219	202	192	202	192
Transportation ^{(3) (4)}					
Total (10 ⁶ m ³)	7,145	7,343	6,171	5,703	5,327
Total (Bcf)	252	259	218	201	188
ELECTRICITY DISTRIBUTION (gigawatthours) ⁽⁵⁾					
Residential	1,558	1,547	785	582	573
Small commercial and industrial	1,569	1,562	916	702	692
Large commercial and industrial	1,170	1,164	764	623	636
Total	4,297	4,273	2,465	1,907	1,901
CUSTOMERS ⁽⁵⁾					
Distribution of natural gas and electricity					
Industrial	7,681	7,180	5,185	2,100	2,609
Commercial	93,092	88,176	83,788	70,219	70,091
Residential	401,994	403,855	403,880	251,479	247,810
Total	502,767	499,211	492,853	323,798	320,510
SYSTEM DATA					
Length of pipelines (in km)					
Natural gas distribution					
Canada ⁽⁶⁾	10,565	10,602	10,517	10,366	10,288
United States	1,294	1,246	1,219	1,206	1,187
Total	11,859	11,848	11,736	11,572	11,475
Natural gas transportation ⁽⁴⁾					
Canada	670	670	670	670	670
United States	489	489	489	489	489
Total	1,159	1,159	1,159	1,159	1,159
Length of lines (overhead and underground) (in km)					
Electricity distribution					
United States ⁽⁵⁾	22,282	22,270	22,033	6,600	6,600
Gross property, plant and equipment ⁽⁷⁾					
(in millions of dollars)	5,719	5,182	4,667	3,877	3,696
Net property, plant and equipment ⁽⁷⁾					
(in millions of dollars)	3,974	3,584	3,249	2,531	2,408
Additions to property, plant and equipment and deferred charges (in millions of dollars)					
	568	625	603	314	229
NUMBER OF EMPLOYEES ⁽⁴⁾					
Energy Distribution					
Gaz Métro-QDA	1,413	1,408	1,373	1,335	1,318
VGS	134	122	116	122	116
GMP and CVPS ⁽⁵⁾	604	650	729	217	200
Total	2,151	2,180	2,218	1,674	1,634
Energy Production	-	-	-	-	-
Natural Gas Transportation	-	-	-	-	-
Energy Services, Storage and Other	124	112	206	239	377

⁽¹⁾ Unaudited data.

⁽²⁾ 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.

⁽³⁾ Includes volumes transported and delivered by TQM to the distribution segment and PNGTS.

⁽⁴⁾ Data not adjusted to reflect Gaz Métro's percentage interest in subsidiaries, joint ventures and entities subject to significant influence.

⁽⁵⁾ Acquisition of CVPS on June 27, 2012.

⁽⁶⁾ 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.

⁽⁷⁾ The figures for the year ended September 30, 2013 have been adjusted to reflect the presentation adopted for the current fiscal year.

GAZ MÉTRO LIMITED PARTNERSHIP
TEN-YEAR REVIEW – CONSOLIDATED FINANCIAL INFORMATION ⁽¹⁾

Fiscal years ended September 30 (in thousands of dollars)

	2014	2013
SUMMARY OF RESULTS		
Revenues	\$ 2,536,708	\$ 2,217,356
Direct costs	1,522,636	1,283,252
Gross margin	1,014,072	934,104
Operating and maintenance ⁽²⁾	471,355	473,209
Operating income before amortization	542,717	460,895
Amortization	247,770	202,847
Operating income	294,947	258,048
Interest on long-term debt, financial and other expenses	150,129	125,296
Income before the undernoted	144,818	132,752
Share in earnings of entities subject to significant influence	76,881	62,016
Net gain on disposal of interests	-	14,749
Income before income taxes	221,699	209,517
Income taxes	47,904	30,649
Net income	173,795	178,868
Net loss attributable to non-controlling interests	(889)	(1,569)
Net income attributable to Partners	\$ 174,684	\$ 180,437
CASH FLOWS		
Operating activities	\$ 605,002	\$ 487,969
Investing activities	(641,288)	(653,288)
Financing activities:		
Distributions	(169,137)	(165,112)
Other financing activities	244,390	348,245
Impact of exchange rate fluctuations ⁽³⁾	3,149	819
Net change in cash and cash equivalents, net of bank overdraft	\$ 42,116	\$ 18,633
PER UNIT DATA		
Basic and diluted net income per unit attributable to Partners (in dollars)	\$ 1.15	\$ 1.21
Distributions declared per unit to Partners (in dollars)	\$ 1.12	\$ 1.12
Partners' equity per unit attributable to Partners (in dollars)	\$ 9.50	\$ 9.24
Basic and diluted weighted average number of units outstanding (in thousands)	151,796	148,680
Number of outstanding units as at September 30 (in thousands)	151,796	151,796
FINANCIAL STRUCTURE		
Bank loans	\$ -	\$ 19,700
Current portion of long-term debt	27,016	89,886
Long-term debt	3,140,762	2,692,075
Deferred financing costs	-	-
Total debt	3,167,778	2,801,661
Partners' equity	1,482,354	1,444,063
Total capitalization	\$ 4,650,132	\$ 4,245,724
DEBT / TOTAL CAPITALIZATION RATIO	68.1 %	66.0 %
TOTAL ASSETS	\$ 6,144,214	\$ 5,582,828
FINANCIAL INFORMATION USED BY THE RÉGIE DE L'ÉNERGIE IN DETERMINING GAZ MÉTRO-QDA'S RETURN		
Rate base ⁽⁴⁾	\$ 1,897,358	\$ 1,837,496
Deemed common equity ⁽⁴⁾	38.50 %	38.50 %
Authorized rate of return including productivity gain on deemed common equity	8.90 %	8.90 %
Deemed preferred equity ⁽⁴⁾	7.50 %	7.50 %
Authorized rate of return on deemed preferred equity	6.07 %	6.14 %
Deemed tax expense	\$ 31,899	\$ 28,741

⁽¹⁾ Unaudited data.

⁽²⁾ Includes development activities.

⁽³⁾ The impact of exchange rate fluctuations has been presented separately since 2009. Comparative figures for 2008 and 2007 were therefore restated.

⁽⁴⁾ 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 ⁽¹⁾

(in thousands of dollars)

2012	2011	2010	2009	2008	2007	2006	2005
\$ 1,907,643	\$ 1,962,764	\$ 2,020,437	\$ 2,249,216	\$ 2,171,919	\$ 1,957,469	\$ 2,003,766	\$ 1,808,201
1,127,053	1,215,309	1,260,439	1,457,945	1,461,948	1,333,851	1,427,455	1,245,049
780,590	747,455	759,998	791,271	709,971	623,618	576,311	563,152
379,032	330,365	333,458	332,343	283,750	220,664	206,855	187,896
401,558	417,090	426,540	458,928	426,221	402,954	369,456	375,256
163,002	175,349	174,515	192,545	171,184	155,375	137,729	133,058
238,556	241,741	252,025	266,383	255,037	247,579	231,727	242,198
112,673	105,609	109,860	117,620	115,251	107,734	94,732	91,304
125,883	136,132	142,165	148,763	139,786	139,845	136,995	150,894
28,692	22,875	22,001	23,366	25,925	15,474	22,106	12,362
-	17,361	-	-	-	-	-	-
154,575	176,368	164,166	172,129	165,711	155,319	159,101	163,256
11,934	13,796	(14,517)	13,677	11,272	32,478	11,894	8,811
142,641	162,572	178,683	158,452	154,439	122,841	147,207	154,445
(1,203)	(1,405)	-	-	-	-	-	-
\$ 143,844	\$ 163,977	\$ 178,683	\$ 158,452	\$ 154,439	\$ 122,841	\$ 147,207	\$ 154,445
\$ 428,848	\$ 404,736	\$ 342,936	\$ 499,062	\$ 365,754	\$ 393,675	\$ 309,426	\$ 319,447
(1,105,053)	(319,236)	(245,833)	(283,165)	(362,318)	(457,464)	(176,319)	(335,677)
(141,499)	(106,125)	(186,701)	(149,361)	(149,356)	(148,430)	(156,283)	(157,749)
822,633	9,965	89,430	(46,839)	140,367	212,046	32,970	189,356
78	217	(1,274)	(73)	660	(1,301)	-	-
\$ 5,007	\$ (10,443)	\$ (1,442)	\$ 19,624	\$ (4,893)	\$ (1,474)	\$ 9,794	\$ 15,377
\$ 1.10	\$ 1.30	\$ 1.48	\$ 1.32	\$ 1.28	\$ 1.02	\$ 1.25	\$ 1.33
\$ 1.12	\$ 1.12	\$ 1.24	\$ 1.24	\$ 1.24	\$ 1.24	\$ 1.30	\$ 1.36
\$ 8.81	\$ 8.10	\$ 7.74	\$ 7.88	\$ 7.82	\$ 7.65	\$ 7.87	\$ 7.99
130,878	126,241	120,452	120,452	120,451	120,433	117,507	116,496
148,671	126,338	120,452	120,452	120,451	120,435	117,509	117,505
\$ 13,753	\$ 48,017	\$ 41,023	\$ 47,722	\$ 54,451	\$ 38,925	\$ 37,134	\$ 29,848
164,616	14,639	68,057	218,542	152,664	9,446	80,964	28,015
2,295,763	1,700,310	1,749,506	1,512,174	1,622,138	1,646,034	1,314,855	1,353,733
-	-	-	(8,602)	(8,767)	(9,604)	(9,577)	(7,181)
2,474,132	1,762,966	1,858,586	1,769,836	1,820,486	1,684,801	1,423,376	1,404,415
1,336,924	1,014,500	932,627	949,552	941,975	921,892	924,588	938,442
\$ 3,811,056	\$ 2,777,466	\$ 2,791,213	\$ 2,719,388	\$ 2,762,461	\$ 2,606,693	\$ 2,347,964	\$ 2,342,857
64.9 %	63.5 %	66.6 %	65.1 %	65.9 %	64.6 %	60.6 %	59.9 %
\$ 5,131,979	\$ 3,727,247	\$ 3,666,647	\$ 3,306,764	\$ 3,286,478	\$ 3,146,339	\$ 2,783,197	\$ 2,880,094
\$ 1,819,445	\$ 1,757,640	\$ 1,779,427	\$ 1,806,845	\$ 1,770,429	\$ 1,764,928	\$ 1,733,902	\$ 1,673,214
38.50 %	38.50 %	38.50 %	38.50 %	38.50 %	38.50 %	38.50 %	38.50 %
9.69 %	9.09 %	9.20 %	8.94 %	9.52 %	9.57 %	9.33 %	11.64 %
7.50 %	7.50 %	7.50 %	7.50 %	7.50 %	7.50 %	7.50 %	7.50 %
5.88 %	5.60 %	5.21 %	5.25 %	5.38 %	5.37 %	5.17 %	4.98 %
\$ 30,008	\$ 33,018	\$ 36,806	\$ 41,652	\$ 45,637	\$ 47,053	\$ 45,122	\$ 49,030

SHAREHOLDER INFORMATION									
VALENER MARKET INFORMATION Common shares <ul style="list-style-type: none"> Common shares are listed on the Toronto Stock Exchange under the “VNR” trading symbol. Change in common share prices over the past fiscal year (October 1, 2013 to September 30, 2014): high: \$16.15; low: \$15.17. 38.0 million common shares outstanding with a fair value of \$597.9 million as at September 30, 2014. 									
DIVIDEND REINVESTMENT PLAN 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"> dividends are reinvested automatically; share price discount of up to 5%; no brokerage and administrative fees; and plan administered for shareholders. The board of directors approved the reinvestment of dividends into additional common shares, for the dividend payable on January 15, 2015, by way of an issuance of new common shares by Valener, at a 5% 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: inquiries@canstockta.com 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 www.valener.com .									
TRANSFER AGENT AND REGISTRAR CST Trust Company Telephone: 1-800-387-0825 Email: inquiries@canstockta.com									
PUBLICATION OF RESULTS Following approval by the board of directors, the quarterly and annual results will be published around the following dates: <table> <tr> <td>1st quarter of fiscal 2015:</td><td>February 12, 2015</td></tr> <tr> <td>2nd quarter of fiscal 2015:</td><td>May 14, 2015</td></tr> <tr> <td>3rd quarter of fiscal 2015:</td><td>August 7, 2015</td></tr> <tr> <td>4th quarter of fiscal 2015:</td><td>November 27, 2015</td></tr> </table>	1 st quarter of fiscal 2015:	February 12, 2015	2 nd quarter of fiscal 2015:	May 14, 2015	3 rd quarter of fiscal 2015:	August 7, 2015	4 th quarter of fiscal 2015:	November 27, 2015	INVESTOR RELATIONS 1717 Du Havre, Montreal, Quebec H2K 2X3 Telephone: 514-598-3039 Fax: 514-521-8168 Email: investors@valener.com Quarterly and annual reports as well as press releases are available in the “Investors” section of the Company’s website (www.valener.com/investisseurs) and on the SEDAR website (www.sedar.com) managed by the Canadian Securities Administrators.
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