



Investing... Pays off!

2016
ANNUAL REPORT

HIGHLIGHTS (unaudited)

VALENER INC.		
<i>(in millions of dollars, except for share data, which is in dollars, and unless otherwise indicated)</i>		
	Fiscal years ended September 30	
	2016	2015
CONSOLIDATED INCOME AND CASH FLOWS ⁽¹⁾		
Net income attributable to common shareholders	62.2	44.8
Basic and diluted net income per common share	1.61	1.17
Adjusted net income attributable to common shareholders ⁽²⁾	49.9	45.2
Adjusted net income attributable to common shareholders per common share ⁽²⁾	1.30	1.18
Cash flows related to operating activities	56.7	62.9
Normalized operating cash flows per common share ⁽²⁾	1.36	1.53
Dividends declared per common share	1.08	1.03
Basic and diluted weighted average number of common shares outstanding <i>(in millions)</i>	38.5	38.2
OTHER INFORMATION		
Market prices of the common shares on the TSX:		
High	\$ 23.27	\$ 17.84
Low	\$ 16.50	\$ 15.00
Close	\$ 21.83	\$ 16.65
CONSOLIDATED BALANCE SHEETS ⁽¹⁾		
	September 30, 2016	September 30, 2015
Total assets	881.3	868.8
Total debt	85.2	121.0
Total equity	744.2	718.5
GAZ MÉTRO LIMITED PARTNERSHIP		
<i>(in millions of dollars, except for unit data, which is in dollars, and unless otherwise indicated)</i>		
	Fiscal years ended September 30	
	2016	2015
CONSOLIDATED INCOME AND CASH FLOWS ⁽¹⁾		
Revenues	2,587.0	2,584.4
Gross margin	982.0	936.4
IBIT	321.3	231.0
Net income attributable to Partners	277.5	181.0
Adjusted net income attributable to Partners ⁽²⁾	214.7	189.0
Basic and diluted net income per unit attributable to Partners	1.66	1.17
Basic and diluted adjusted net income per unit attributable to Partners ⁽²⁾	1.28	1.22
Cash flows related to operating activities	530.0	523.8
Purchases of property, plant and equipment	520.0	361.7
Funds from operations / debt ratio ⁽²⁾ <i>(in %)</i>	14.9	16.1
Distributions declared per unit to Partners	1.16	1.12
Weighted average number of units outstanding <i>(in millions)</i>	167.3	155.3
OTHER INFORMATION		
Credit ratings		
Corporate (S&P)	A	A
First mortgage bonds (S&P/DBRS) ⁽³⁾	A+/A	A+/A
Commercial paper (S&P/DBRS) ⁽³⁾	A-1(mid)/R-1(low)	A-1(mid)/R-1(low)
CONSOLIDATED BALANCE SHEETS ⁽¹⁾		
	September 30, 2016	September 30, 2015
Total assets	7,425.6	6,829.4
Total debt ⁽⁴⁾	3,490.3	3,140.2
Equity attributable to Partners	1,774.2	1,677.2
Equity per unit attributable to Partners	10.61	10.03

⁽¹⁾ The fiscal 2015 financial information has been adjusted to comply with U.S. GAAP. For additional information, refer to the VALENER INC. AND GAZ MÉTRO LIMITED PARTNERSHIP section of this MD&A.

⁽²⁾ These financial measures are not defined by U.S. GAAP. For additional information, refer to the Non-U.S.-GAAP Financial Measures heading in section A) OVERVIEW OF THE COMPANY AND OTHER for Valener and section L) OVERVIEW OF THE PARTNERSHIP AND OTHER for Gaz Métro.

⁽³⁾ Through its General Partner, GMI.

⁽⁴⁾ Gaz Métro's total debt is the sum of bank loans, long-term debt and the current portion of long-term debt.

TABLE OF CONTENTS

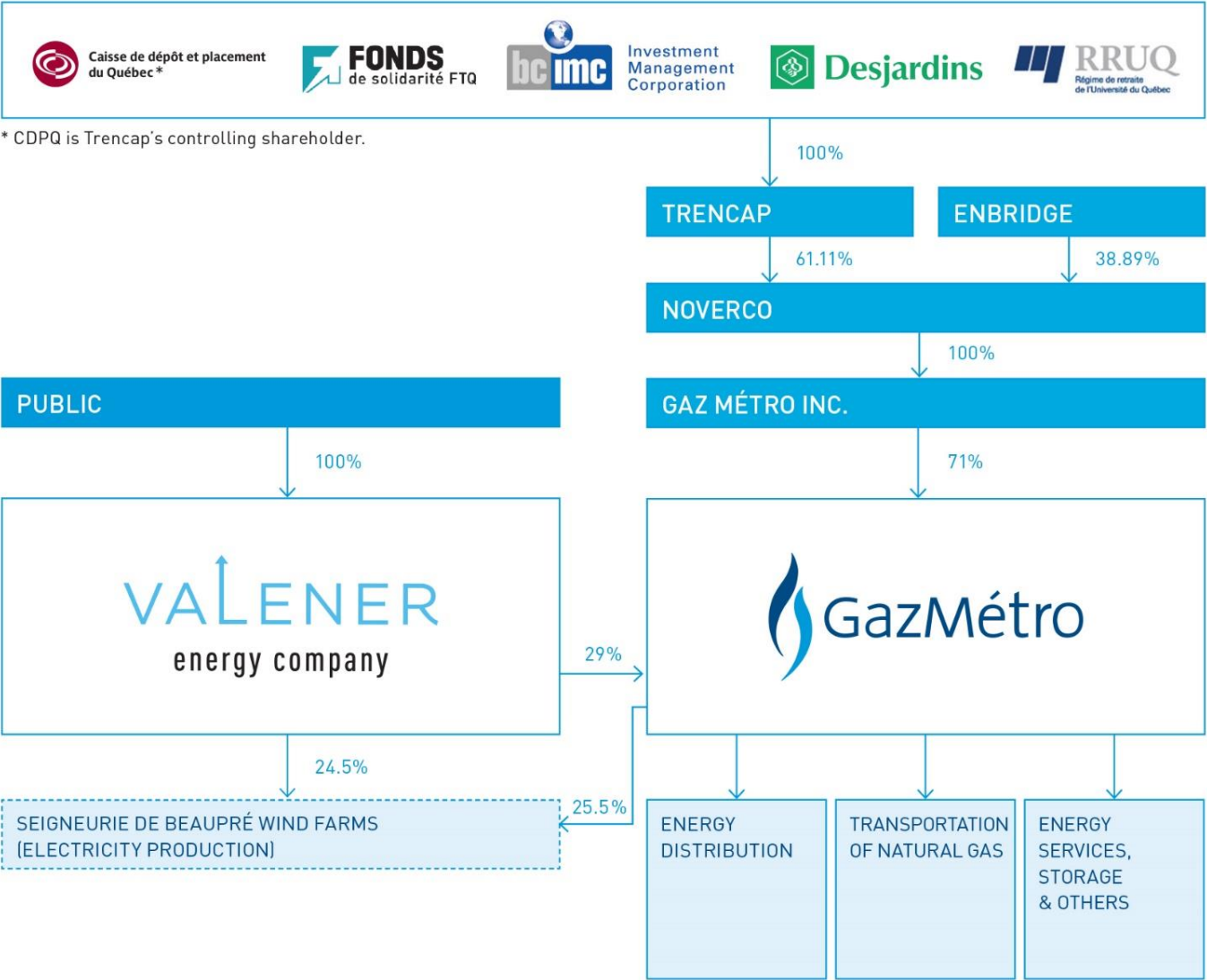
MANAGEMENT'S DISCUSSION AND ANALYSIS	
VALENER INC. AND GAZ MÉTRO LIMITED PARTNERSHIP	
Cautionary Note Regarding Forward-Looking Statements	2
Disclosure Controls and Procedures and Internal Control Over Financial Reporting	3
VALENER INC.	GAZ MÉTRO LIMITED PARTNERSHIP
A) Overview of the Company and Other.....	4
B) Consolidated Annual Financial Performance Summary	5
C) Consolidated Financial Position.....	8
D) Cash and Capital Management	9
E) Risk Factors Relating to Valener	13
F) Recent Accounting Changes	15
G) Financial Instruments	16
H) Significant Accounting Estimates.....	17
I) Additional Information.....	17
J) Quarterly Results.....	18
K) Subsequent Events	19
	L) Overview of the Partnership and Other..... 20
	M) Conditions in the Energy Market and for Gaz Métro 28
	N) Consolidated Annual Financial Performance Summary 33
	O) Segment Results..... 39
	P) Consolidated Financial Position..... 59
	Q) Cash and Capital Management 60
	R) Risk Factors Relating to Gaz Métro 66
	S) Recent Accounting Changes 74
	T) Financial Instruments 76
	U) Significant Accounting Estimates..... 78
	V) Additional Information..... 80
	W) Quarterly Results 81
	X) Subsequent Events 83
Glossary	84
Five-Year Review – Consolidated Operating Statistics	85
Ten-Year Review – Consolidated Operating Statistics.....	86
Shareholder Information	88

MANAGEMENT’S DISCUSSION AND ANALYSIS

VALENER INC. AND GAZ MÉTRO LIMITED PARTNERSHIP

Valener is incorporated under the *Canada Business Corporations Act* (CBCA). Valener’s common shares and Series A preferred shares are listed and traded on the TSX under the “VNR” and “VNR.PR.A” trading symbols, respectively. Valener owns a 29% interest in Gaz Métro, whose core business operations are natural gas distribution in Quebec and Vermont as well as electricity distribution in Vermont. The Company also owns indirect interests in wind farms through its wholly owned subsidiaries Valener Éole and Valener Éole 4. These subsidiaries respectively own an interest of 49% in Beaupré Éole and in Beaupré Éole 4, which, respectively, own an interest of 50% in Wind Farms 2 and 3 and in Wind Farm 4, whose core business operations are to own and operate wind farms.

The following diagram shows the corporate structure of Valener and of Gaz Métro as at September 30, 2016.



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, Beaupré Éole and Beaupré Éole 4. To help the Company’s shareholders better understand the results of its operations, both the audited consolidated financial statements of Valener and those of Gaz Métro are presented. 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, 2016. 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, 2016 and 2015. The reporting currency is the Canadian dollar. All amounts in this report are in millions of

MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

Change in accounting framework

On October 1, 2015, Valener and Gaz Métro retrospectively adopted U.S. GAAP. Consequently, this MD&A and the audited consolidated financial statements of Valener and Gaz Métro for the years ended September 30, 2016 and 2015 have been prepared in accordance with U.S. GAAP. The comparative financial information has also been adjusted in accordance with U.S. GAAP. For additional information on the change in accounting framework, refer to section F) RECENT ACCOUNTING CHANGES in this MD&A and to Notes 13 and 25 in Valener's and Gaz Métro's audited consolidated financial statements for the fiscal years ended September 30, 2016 and 2015, respectively.

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," "expected," "budgeted," "scheduled," "estimated," "seeks," "aims," "forecasts," "intends," "anticipates," "believes," or by statements that certain actions, events or results "may," "could," "would," "might," or "will" be taken, occur, or be achieved and other variants and similar expressions as well as the negative or conjugated forms, as they relate to the Company or Gaz Métro. The forward-looking statements in this MD&A include, in particular, statements on (i) the general development of the business, including but not limited to, the development (including production and commercialization) of LNG and CNG, particularly in the transport industry, (ii) growth or profitability outlooks, (iii) decisions made by regulatory agencies, in particular decisions made by the Régie as well as the nature and timing of these decisions, (iv) the competitive landscape, including the impact of fluctuating global oil prices, (v) Quebec's 2030 Energy Policy and Gaz Métro's positioning in relation to that policy, (vi) anticipated distribution payments by Wind Farms 2 and 3 and Wind Farm 4, (vii) the potential distribution of biomethane in the Gaz Métro-QDA and VGS networks, (viii) the liquidity position and financing capability of the Company and Gaz Métro, (ix) potential efficiency gains and synergies from the GMP-CVPS merger, (x) new energy development and system development projects, and (xi) Gaz Métro's anticipated distribution payments and Valener's anticipated dividend payments and the related growth. Such forward-looking statements reflect the current opinions of the management of the manager and are based on information currently available to the management of the manager.

Forward-looking statements involve known and unknown risks and uncertainties and other factors outside the control of the management of the manager. A number of factors could cause the actual results of the Company or of Gaz Métro to differ significantly from historical results or current expectations, as described in the forward-looking statements, including but not limited to the general nature of the aforementioned: terms of decisions rendered by regulatory agencies, uncertainty that approvals will be obtained by Gaz Métro from regulatory agencies and interested parties to carry out all of its activities and the socio-economic risks associated with such activities, uncertainty related to Quebec's 2030 Energy Policy, the competitiveness of natural gas in relation to other energy sources in the context of fluctuating global oil prices, the reliability or costs of natural gas and electricity supply, the integrity of the natural gas and electricity distribution systems, the evolution and profitability of Wind Farms 2 and 3 and Wind Farm 4 and other development projects, Valener's ability to generate sufficient cash to support its anticipated target annual dividend growth rate on its common shares, the ability to complete attractive acquisitions and the related financing and integration aspects, the ability to complete new development projects, the ability to secure future financing, general economic conditions, exchange rate and interest rate fluctuations, weather conditions and other factors described in section E) RISK FACTORS RELATING TO VALENER and in section R) RISK FACTORS RELATING TO GAZ MÉTRO of this MD&A. Although the forward-looking statements contained herein are based on what the management of the manager believes to be reasonable assumptions, the management of the manager cannot assure investors that actual results will be consistent with these forward-looking statements. Assumptions underlying the forward-looking statements contained in this MD&A include, among others, assumptions that no unforeseen changes in the legislative and regulatory framework of energy markets in Quebec and in the New England states will occur; that the applications filed with various regulatory agencies will be approved as submitted; that natural gas prices will remain competitive; that the supply of natural gas and electricity will be maintained or will be available at competitive costs; that no significant event will occur outside the ordinary course of business, such as a natural disaster or other calamity, or threat to cybersecurity (or cyberattack); that Gaz Métro can continue to distribute substantially all of its adjusted net income; that Wind Farms 2 and 3 and Wind Farm 4 will be able to make distribution payments to their partners; that Valener will be able to generate sufficient cash to support its anticipated target annual dividend growth rate on its common shares; that GMP will be able to continue achieving efficiency gains and synergies from the merger with CVPS; that the Company and Gaz Métro will be able to present their information in accordance with U.S. GAAP beyond 2018 or, after 2018, will adopt IFRS that permit the recognition of regulatory assets and liabilities; that liquidity needs for Gaz Métro's development projects will be obtained

MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

The President and Chief Executive Officer and the Executive Vice-President, Corporate Affairs and Chief Financial Officer of GMi, in its capacity as General Partner of Gaz Métro, acting as manager of Valener, are responsible for establishing and maintaining disclosure controls and procedures. The Company's disclosure controls and procedures have been designed to provide reasonable assurance that the information required to be disclosed by the Company is recorded, processed, summarized and reported within the time periods specified under Canadian provincial and territorial securities laws and that the controls and procedures are designed to ensure that this information is gathered and communicated to the management of the manager, including the President and Chief Executive Officer and the Executive Vice-President, Corporate Affairs and Chief Financial Officer of GMi, in its capacity as General Partner of Gaz Métro, acting as manager of Valener, to allow for timely decisions regarding disclosures. Based on its evaluation in accordance with *Regulation 52-109 respecting Certification of Disclosure in Issuers' Annual and Interim Filings*, the management of the manager has concluded that, at the end of the fiscal year ended September 30, 2016, 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 U.S. 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, 2016.

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, 2016, the Company made changes to its internal control over financial reporting that would have a significant impact or that would be reasonably likely to have a significant impact on its internal control over financial reporting. Their evaluation uncovered no such changes.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

NON-U.S.-GAAP FINANCIAL MEASURES

The financial information has been prepared in accordance with U.S. GAAP. In the opinion of the management of the manager, certain financial measures provide readers with additional information considered useful for analyzing Valener's financial performance. However, some of these financial measures are not defined by U.S. GAAP and should not be considered in isolation or as substitutes for other financial measures that are in accordance with U.S. GAAP. In addition, results obtained from these financial measures may not be comparable with the results of similar financial measures used by other issuers. For these reasons, non-U.S.-GAAP financial measures are presented as complementary information.

NON-U.S.-GAAP FINANCIAL MEASURES	
Adjusted net income (loss) attributable to common shareholders ⁽¹⁾	<p>The net income (loss) attributable to common shareholders, net of the specific items identified by the management of the manager as not being part of the ongoing operations of Valener and of Gaz Métro. These adjustments consist of (i) the gains or losses on derivative financial instruments (net of the related income taxes), (ii) the share in the adjustments to the net income of Gaz Métro (net of the related income taxes), and (iii) the deferred income tax expense (benefit) related to the outside-basis temporary difference on its interest in Gaz Métro. The deferred income tax expense (benefit) related to the outside-basis temporary difference is the difference between the carrying value of its interest in Gaz Métro and the tax basis assuming an eventual disposal of the investment. The management of the manager believes this assumption is not reflective of Valener's mission given the permanency of its investment in Gaz Métro.</p> <p>This measure is used by the management of the manager to measure Valener's profitability from ongoing operations and to exclude the items that could alter analyses of its performance.</p>
Adjusted net income (loss) attributable to common shareholders, per common share ⁽¹⁾	<p>The adjusted net income (loss) attributable to common shareholders divided by the basic and diluted weighted average number of common shares outstanding of Valener. This measure is used by the management of the manager to measure Valener's profitability from ongoing operations and to exclude the items that could alter analyses of its performance.</p>
Debt / total capitalization ratio ⁽²⁾	<p>This ratio corresponds to the total amount of long-term debt, net of financing costs, divided by total capitalization. Total capitalization is equal to the total amount of long-term debt, net of financing costs, and total equity. The management of the manager uses this ratio to measure Valener's accessibility to debt financing that enables it to participate in Gaz Métro's development and seize future growth opportunities.</p>
Normalized operating cash flows ⁽²⁾	<p>Normalized operating cash flows corresponds to cash flows related to operating activities less cumulative dividends paid to preferred shareholders. This measure is used by the management of the manager to evaluate the Company's financial performance and ability to pay dividends to common shareholders.</p>
Normalized operating cash flows per common share ⁽²⁾	<p>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.</p>

⁽¹⁾ Section B) CONSOLIDATED ANNUAL FINANCIAL PERFORMANCE SUMMARY provides a quantitative reconciliation of these measures with those established by Valener in accordance with U.S. GAAP.

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

The management of the manager considers these non-U.S.-GAAP financial measures to be indicators of the Company's financial performance that can be used to measure and compare, among periods, the financial performance generated by the ongoing operations of Valener. The management of the manager also believes that it is useful for investors and other users of this MD&A to be informed of non-recurring items or other items arising from specific circumstances that are not part of the ongoing operations of Valener or Gaz Métro and that had a positive or negative impact on the net income or net loss attributable to the Company's common shareholders, as defined in U.S. GAAP.

MANAGEMENT'S DISCUSSION AND ANALYSIS

B) CONSOLIDATED ANNUAL FINANCIAL PERFORMANCE SUMMARY

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

For the fiscal years ended September 30

<i>(in millions of dollars, unless otherwise indicated)</i>	2016	2015	2014
Net income	66.5	49.1	42.0
Loss on derivative financial instruments ⁽¹⁾	4.6	4.0	-
Income taxes related to loss on derivative financial instruments	(1.2)	(1.1)	-
Share in the adjustments to the net income of Gaz Métro ⁽²⁾	(18.2)	2.3	-
Deferred income taxes related to the outside-basis temporary difference on the interest in Gaz Métro	2.5	(4.8)	-
Cumulative dividends on Series A preferred shares	(4.3)	(4.3)	(4.3)
Adjusted net income attributable to common shareholders ⁽³⁾	49.9	45.2	37.7
Basic and diluted weighted average number of common shares outstanding <i>(in millions of common shares)</i>	38.5	38.2	37.9
Adjusted net income attributable to common shareholders, per common share <i>(in \$)</i> ⁽³⁾	1.30	1.18	0.99

⁽¹⁾ Unrealized loss related to swaps, entered into in October 2014 and repaid in October 2016, resulting from a change in interest rates. It should be noted that hedge accounting cannot be applied to these derivative financial instruments, as described in section G) FINANCIAL INSTRUMENTS of this MD&A.

⁽²⁾ Section N) CONSOLIDATED ANNUAL FINANCIAL PERFORMANCE SUMMARY of Gaz Métro provides information on the adjustments to the net income of Gaz Métro.

⁽³⁾ These financial measures are not defined by U.S. GAAP. For additional information, refer to the Non-U.S.-GAAP Financial Measures heading in section A) OVERVIEW OF THE COMPANY AND OTHER.

2. HIGHLIGHTS

For the fiscal years ended September 30

<i>(in millions of dollars, unless otherwise indicated)</i>	2016	2015	2014	Change 2016 vs 2015	Change 2015 vs 2014
Share in the net income of Gaz Métro	80.5	52.5	50.6	28.0	1.9
Share in the net income of Beupré Éole	2.3	5.1	0.9	(2.8)	4.2
Share in the net income (loss) of Beupré Éole 4	0.2	-	(0.3)	0.2	0.3
Net income attributable to common shareholders	62.2	44.8	37.7	17.4	7.1
Basic and diluted net income per common share <i>(in \$)</i>	1.61	1.17	0.99	0.44	0.18
Adjusted net income attributable to common shareholders ⁽¹⁾	49.9	45.2	37.7	4.7	7.5
Adjusted net income attributable to common shareholders, per common share <i>(in \$)</i> ⁽¹⁾	1.30	1.18	0.99	0.12	0.19
Cash flows related to operating activities	56.7	62.9	43.1	(6.2)	19.8
Normalized operating cash flows per common share <i>(in \$)</i> ⁽¹⁾ ⁽²⁾	1.36	1.53	1.02	(0.17)	0.51
Dividends declared per common share <i>(in \$)</i>	1.08	1.03	1.00	0.05	0.03
Dividends declared per preferred share <i>(in \$)</i>	1.09	1.09	1.09	-	-
Equity-accounted interests	865.4	853.4	750.8	12.0	102.6
Total assets	881.3	868.8	769.4	12.5	99.4
Total debt	85.2	121.0	66.8	(35.8)	54.2
Debt / total capitalization ratio <i>(in %)</i> ⁽¹⁾	10.3	14.4	8.9	(4.1)	5.5

⁽¹⁾ These financial measures are not defined by U.S. GAAP. For additional information, refer to the Non-U.S.-GAAP Financial Measures heading in section A) OVERVIEW OF THE COMPANY AND OTHER.

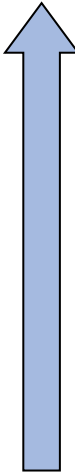
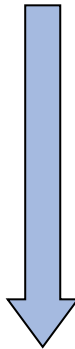
⁽²⁾ The changes in normalized operating cash flows per common share are explained in section D) CASH AND CAPITAL MANAGEMENT.

MANAGEMENT'S DISCUSSION AND ANALYSIS

3. ANALYSIS OF RESULTS

3.1 ANALYSIS OF NET INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS

The year-over-year changes in net income attributable to common shareholders between fiscal 2016 and 2015 and between fiscal 2015 and 2014 were mainly due to:

2016 vs 2015 Up \$17.4 million	2015 vs 2014 Up \$7.1 million
 <ul style="list-style-type: none"> a \$28.0 million increase in the share in the net income of Gaz Métro, including an \$18.2 million favourable impact related to the adjustments to Gaz Métro's net income, as described in section N) CONSOLIDATED ANNUAL FINANCIAL PERFORMANCE SUMMARY of Gaz Métro; 	<ul style="list-style-type: none"> a \$4.2 million increase in the share in the net income of Beauré Éole, mainly due to: <ul style="list-style-type: none"> the fact that wind parks 2 and 3 were in operation throughout fiscal 2015, whereas in fiscal 2014, they had come into commercial service only in November and December of 2013, respectively; and favourable winds during the period; a \$4.7 million decrease in income tax expense, mainly due to the favourable impact of the change in the outside-basis temporary difference on the interest in Gaz Métro; and a \$1.9 million increase in the share in the net income of Gaz Métro, as described in section N) CONSOLIDATED ANNUAL FINANCIAL PERFORMANCE SUMMARY of Gaz Métro;
 <ul style="list-style-type: none"> a \$6.0 million increase in income tax expense, mainly due to the unfavourable impact of the change in the outside-basis temporary difference on the interest in Gaz Métro; a \$2.8 million decrease in the share of the net income of Beauré Éole, mainly due to less favourable winds in fiscal 2016 than in fiscal 2015, when they had been much stronger than expected; and a \$0.6 million increase in the loss on derivative financial instruments (swaps entered into in October 2014 and settled in October 2016) given the decline in interest rates during fiscal 2016. 	<ul style="list-style-type: none"> a \$4.0 million increase in the loss on derivative financial instruments (swaps) given the decline in interest rates during fiscal 2015.

THE EXCELLENT PERFORMANCE BY GAZ MÉTRO HAD A FAVOURABLE IMPACT OF \$4.7M OR 10.4% ON ADJUSTED NET INCOME ATTRIBUTABLE TO SHAREHOLDERS ⁽¹⁾

3.2 ANALYSIS OF WIND FARM PERFORMANCE IN QUEBEC

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


⁽¹⁾ This financial measure is not defined by U.S. GAAP. For additional information, refer to the Non-U.S.-GAAP Financial Measures heading in section A) OVERVIEW OF THE COMPANY AND OTHER.

MANAGEMENT'S DISCUSSION AND ANALYSIS

To promote energies that reduce the environmental footprint, while also encouraging regional economic development, Valener and Gaz Métro invested in wind power production through multiple wind farms, namely wind parks 2 and 3 and wind park 4.

WIND FARMS 2 AND 3	WIND FARMS LOCATED ON THE PRIVATE LANDS OF SEIGNEURIE DE BEAUPRÉ IN PARTNERSHIP WITH BORALEX	WIND FARM 4
126 TURBINES 272 MW INSTALLED CAPACITY		28 TURBINES 68 MW INSTALLED CAPACITY

The following table presents an overview of the performance of the wind farms during the fiscal years ended September 30, 2016 and 2015, regardless of the ownership percentages of the partners.

		For the fiscal years ended September 30		
		2016	2015	Change
	WIND FARMS 2 AND 3			
	Actual output (in MWh)	809,283	903,431	(94,148)
	Average price (in \$/MWh) ⁽¹⁾	108.86	108.73	0.13
	Cash flows related to operating activities (in millions of \$)	50.1	60.0	(9.9)
	Utilization factor (in %) ⁽²⁾	33.9	37.9	(4.0)
	WIND FARM 4			
	Actual output (in MWh)	206,768	180,214	26,554
	Average price (in \$/MWh) ⁽¹⁾	103.03	102.34	0.69
	Cash flows related to operating activities (in millions of \$)	23.3 ⁽³⁾	5.4	17.9
	Utilization factor (in %) ⁽²⁾	34.6	36.3	(1.7)

⁽¹⁾ These prices are indexed over the term of the contracts on January 1 of each year.

⁽²⁾ The utilization factor is actual output divided by installed capacity (in MWh).

⁽³⁾ Includes a \$12.9 million payment received from Hydro-Québec related to a note receivable for the reimbursement of certain construction costs.

In fiscal 2015, the winds at Wind Farms 2 and 3 were particularly stronger than normal, whereas fiscal 2016 wind conditions were closer to the norm, which resulted in decreases in both the wind power production and operating cash flows generated in fiscal 2016 versus fiscal 2015. Conversely, Wind Farm 4 posted year-over-year increases in both wind power production and in operating cash flows, mainly because the wind park was operational during all of fiscal 2016, whereas, in fiscal 2015, it had been put into commercial service only in December 2014.

During fiscal 2016, Wind Farms 2 and 3 and Wind Farm 4 generated cash flows related to operating activities of \$73.4 million compared to \$65.4 million during fiscal 2015. These cash flows enabled Wind Farms 2 and 3 to pay its partners distributions of \$6.7 million and \$16.3 million in April and August 2016, respectively, and Wind Farm 4 to pay distributions of \$1.0 million, \$1.3 million and \$3.0 million in April, May and August 2016, respectively.



**WIND FARMS 2 AND 3:
A RETURN-OF-CAPITAL
DISTRIBUTION OF \$80.0M
TO ITS PARTNERS FOLLOWING THE
REFINANCING OF ITS DEBT**

In addition, in May 2016, given the favourable market conditions and higher than expected performance, Wind Farms 2 and 3 refinanced its long-term debt. As a result of the refinancing, Wind Farms 2 and 3 paid a return-of-capital distribution of \$80.0 million to its partners (Beaupré Éole's share: \$40.0 million), including \$19.6 million for Valener and \$20.4 million for Gaz Métro according to their respective proportionate shares. Valener used the proceeds of this distribution to reduce the borrowings on its credit facility.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Finally, Valener expects that the anticipated annual distributions from Wind Farms 2 and 3 and Wind Farm 4 will be \$8.0 million on average for the remaining term of the contracts with Hydro-Québec. According to their loan agreements, Wind Farms 2 and 3 and Wind Farm 4 expect to pay distributions two times and four times per year, respectively.

Outlook

Valener and Gaz Métro remain apprised of potential opportunities to invest in other wind power projects, particularly opportunities to further develop the wind power potential of Seigneurie de Beaupré.

C) CONSOLIDATED FINANCIAL POSITION

The following table compares the main consolidated balance sheet items as at September 30, 2016 with those of September 30, 2015.

Balance sheet items As at September 30 (in millions of dollars)	2016	2015	Increase (Decrease)	Explanation
Distributions receivable from Gaz Métro	14.1	13.0	1.1	Increase comes from the units subscribed by Valener, in proportion to its interest in Gaz Métro, during the fourth quarter of fiscal 2015 and from an increase in the quarterly distribution per unit from \$0.28 to \$0.29
Equity-accounted interests	865.4	853.4	12.0	Increase comes mainly from (i) shares in the adjustments related to other postretirement benefits, partly offset by (ii) the \$19.6 million distribution received from Wind Farms 2 and 3 following the refinancing of its long-term debt
Long-term debt	85.2	121.0	(35.8)	Decrease comes mainly from (i) distributions received from Wind Farms 2 and 3, including the \$19.6 million received following the refinancing of its long-term debt and (ii) the fact that cash flows related to operating activities were more than sufficient to cover the Company's other needs
Net deferred income tax liability	28.2	13.6	14.6	Increase comes mainly from (i) the change in the temporary differences of Gaz Métro and Beaupré Éole, partly offset by (ii) an increase in Valener Éole's deferred income tax assets related to non-capital loss carryforwards
Derivative financial instruments liability, including current portion	8.6	4.0	4.6	Increase comes from the effect of lower interest rates on the fair value of swaps
Share capital	747.5	742.2	5.3	Increase comes from the common shares issued under the DRIP
Accumulated other comprehensive income	24.1	24.2	(0.1)	Change comes mainly from the shares in the other comprehensive income (loss) of Gaz Métro and Beaupré Éole

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 2016

- CASH FLOWS RELATED TO OPERATING ACTIVITIES: **\$56.7M (↓\$6.2M)**
- DISTRIBUTIONS RECEIVED FROM GAZ MÉTRO: **\$55.2M (↑\$5.2M)**
- RETURN OF CAPITAL RECEIVED FROM BEAUPRÉ ÉOLE: **\$19.6M**

DIVIDENDS:

- COMMON SHAREHOLDERS: **\$41.2M**
(IN CASH AND SHARES)
- PREFERRED SHAREHOLDERS: **\$4.4M**
(IN CASH)

CASH FLOW SUMMARY


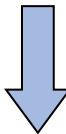
For the fiscal years ended September 30

(in millions of dollars)

		2016	2015	Change
Cash flows related to operating activities	a	56.7	62.9	(6.2)
Cash flows related to investing activities	b	19.2	(78.1)	97.3
Cash flows related to financing activities	c	(76.2)	15.9	(92.1)

a) Cash flows related to operating activities

For operating cash flows, the change between fiscal years 2016 and 2015 was mainly due to:

2016 vs 2015 Down \$6.2 million	
	<ul style="list-style-type: none">▪ a \$5.2 million increase in the distributions received from Gaz Métro in fiscal 2016 given Valener's subscription of units, in proportion to its interest in Gaz Métro, during the third and fourth quarters of fiscal 2015, and an increase in Gaz Métro's quarterly distribution from \$0.28 to \$0.29 per unit as of the second quarter of fiscal 2016;
	<ul style="list-style-type: none">▪ a \$7.3 million decrease in the distributions received from Beupré Éole and Beupré Éole 4 in fiscal 2016, mainly because the first distributions made by Wind Farms 2 and 3 and by Wind Farm 4 were paid during fiscal 2015 and included distributions related to the operations of fiscal years 2015 and 2014; and▪ a \$3.0 million income tax refund received in fiscal 2015 related to overpaid tax instalments resulting from an accelerated depreciation of wind power assets and the use of loss carryforwards.

MANAGEMENT'S DISCUSSION AND ANALYSIS

b) Cash flows related to investing activities

The change of \$97.3 million in cash flows related to investing activities for fiscal 2016 compared to that of fiscal 2015 is detailed in the following table:

For the fiscal years ended September 30

Purchases of units in entities subject to significant influence and other		2016	2015	Change
Gaz Métro	Amount (in millions of dollars)	-	74.0	(74.0)
	Number of units	-	4,482,188	
Beaupré Éole	Amount (in millions of dollars)	0.3	0.3	-
	Number of units	286,543	308,700	
Beaupré Éole 4	Amount (in millions of dollars)	0.1	3.8	(3.7)
	Number of units	128,918	3,768,399	
Return of capital from Beaupré Éole ⁽¹⁾	Amount (in millions of dollars)	(19.6)	-	(19.6)
Total (in millions of dollars)		(19.2)	78.1	(97.3)

⁽¹⁾ In May 2016, Wind Farms 2 and 3 refinanced its long-term debt, allowing it to pay a return-of-capital distribution of \$80.0 million to its partners (Beaupré Éole's share: \$40.0 million). Of this amount, \$19.6 million was distributed to Valener.

c) Cash flows related to financing activities

The change of \$92.1 million in cash flows related to financing activities for fiscal 2016 compared to that of fiscal 2015 is detailed in the following table:

For the fiscal years ended September 30

(in millions of dollars)	2016	2015	Change
Net increase (decrease) of the credit facility ⁽¹⁾	(36.0)	54.0	(90.0)
Dividends to common shareholders	(35.9)	(33.8)	(2.1)
Dividends to preferred shareholders	(4.3)	(4.3)	-
Total	(76.2)	15.9	(92.1)

⁽¹⁾ The net increase (decrease) of the credit facility consists of the sum of long-term debt issuances and repayments.

Net increase (decrease) of the credit facility

The change of \$90.0 million for fiscal 2016 was mainly a result of Valener drawing on its credit facility in April and September 2015 to finance capital contributions of \$39.2 million and \$34.8 million, respectively, to Gaz Métro and its receipt of a \$19.6 million distribution from Beaupré Éole in May 2016, as explained above. With these contributions, Gaz Métro was able to finance general needs, particularly the purchase of GHG emission allowances under the C&T Regulation and various development projects, and to restore its capital structure. In addition, the cash flows related to operating activities were more than sufficient to cover the cash dividend payments to common and preferred shareholders during fiscal 2016.

Dividends to common shareholders

The \$2.1 million increase was mainly due to a total \$0.05 per-common-share increase in the annual dividends paid in 2016 versus 2015, as explained in detail below.

The following table shows the dividends paid to common shareholders in fiscal 2016:

Dividend payment date	Dividend declaration date	Dividend amount per common share (in \$)	Cash amount (in millions of \$)
October 15, 2015	August 6, 2015	0.26	8.7
January 15, 2016	November 27, 2015	0.27	9.1
April 15, 2016	February 11, 2016	0.27	9.0
July 15, 2016	May 13, 2016	0.27	9.1

MANAGEMENT'S DISCUSSION AND ANALYSIS

Given the sustained performance by wind parks 2 and 3 since they came into commercial service in November and December 2013, respectively, the commercial coming into service of wind park 4 in December 2014, and the distributions expected from these assets in the coming years, Valener's board of directors approved, on February 12, 2015, a 4% increase in its annualized dividend and set an annual dividend growth target of approximately 4% for fiscal years 2016 to 2018, inclusively. Accordingly, on November 24, 2016, the board of directors approved an increase in the annualized dividend from \$1.08 to \$1.12 per common share and declared a quarterly dividend of \$0.28 per common share payable on January 16, 2017 to common shareholders of record at the close of business on December 31, 2016. This increase is further supported by an increase in Gaz Métro's quarterly distribution from \$0.28 to \$0.29 per unit, i.e., a 3.6% increase, since the distribution on January 5, 2016, as explained in Distributions Paid Per Unit heading of section N) CONSOLIDATED ANNUAL FINANCIAL PERFORMANCE SUMMARY.

INCREASE IN THE DECLARED
DIVIDEND FROM **\$1.08 TO \$1.12**
IN 2017 AND AN APPROXIMATE **4%**
GROWTH TARGET FOR 2018

Dividends to preferred shareholders

The following table shows the dividends paid to preferred shareholders in fiscal 2016:

Dividend payment date	Dividend declaration date	Period covered	Dividend amount per Series A preferred share (in \$)	Cash amount (in millions of \$)
October 15, 2015	August 6, 2015	July 16, 2015 to October 15, 2015	0.271875	1.1
January 15, 2016	November 27, 2015	October 16, 2015 to January 15, 2016	0.271875	1.1
April 15, 2016	February 11, 2016	January 16, 2016 to April 15, 2016	0.271875	1.1
July 15, 2016	May 13, 2016	April 16, 2016 to July 15, 2016	0.271875	1.1

Share capital

As at September 30, 2016, Valener's share capital consisted of:

- 38,633,657 issued and outstanding common shares totalling \$650.0 million, including the 273,688 common shares issued for an amount of \$5.2 million under the DRIP during fiscal 2016; and
- 4,000,000 issued and outstanding Series A preferred shares totalling \$97.5 million.

CAPITAL STRUCTURE AND DEBT RATIO

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

As at September 30

(in millions of dollars, unless otherwise indicated)	2016	2015	2014
Long-term debt, net of financing costs	85.2	121.0	66.8
Total equity ⁽¹⁾	744.2	718.5	679.6
Total capitalization	829.4	839.5	746.4
Debt / total capitalization ratio ⁽²⁾	10.3%	14.4%	8.9%

⁽¹⁾ For additional information on the composition of total equity, refer to the consolidated statements of changes in equity of the Company's audited consolidated financial statements for the fiscal years ended September 30, 2016 and 2015.

⁽²⁾ This financial measure is not defined by U.S. GAAP. For additional information, refer to the Non-U.S.-GAAP Financial Measures heading in section A) OVERVIEW OF THE COMPANY AND OTHER.

The low debt / total capitalization ratio enables Valener to turn to debt financing in order to participate in Gaz Métro's development and seize any future growth opportunities that might arise.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Credit facility and financing outlook

Valener has a credit facility with a maximum authorized amount of \$200.0 million and that contains an annual extension clause. In March 2016, a six-month extension was obtained to extend the maturity of the credit facility to March 2021. 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 the bankers' acceptance rate or 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, 2016, Valener was in compliance with all of the conditions of its credit facility. After all amounts borrowed and letters of credit issued, the unused amount of the credit facility as at September 30, 2016 was \$113.7 million.

During fiscal 2017, the Company expects to generate the cash required to meet its general needs, which will consist mainly of quarterly dividend payments to common and preferred shareholders. Should additional cash be required, the available sources of financing would be:

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

In addition, the amount of financing needs during a fiscal year is subject to volatility that is likely to be greater given, among other factors:

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

The Company must therefore:

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

Credit ratings

In January 2016, S&P downgraded Valener's corporate credit rating from BBB+ to BB+ following a change in methodology. Specifically, the S&P downgrade was the result of the application of new criteria for assigning ratings to companies with one or two non-controlling equity interests (NCEI). Also resulting from the change in methodology, S&P downgraded the credit rating on the Series A preferred shares from P-2 (low) to P-4 (high).

After reviewing the new methodology, which introduces a cap of BB+ on companies with NCEI, Valener informed S&P that the resulting credit rating did not adequately reflect the investment in Gaz Métro, which has a credit rating of A. Also, the rating would fail to provide an accurate assessment of Valener's creditworthiness, especially considering that S&P had just renewed Valener's BBB+ rating in December 2015 and its financial position had not changed, since.

In January 2016, at Valener's request, S&P withdrew all of the Company's credit ratings. Valener's preferred shares remain rated by DBRS, and their credit rating was confirmed at Pfd-2 (low) in December 2015.

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>	2016	2015	2014
Cash flows related to operating activities	56.7	62.9	43.1
Dividends to preferred shareholders	(4.3)	(4.3)	(4.3)
Normalized operating cash flows ⁽¹⁾	52.4	58.6	38.8
Weighted average number of common shares outstanding	38.5	38.2	37.9
Normalized operating cash flows per common share <i>(in \$)</i> ⁽¹⁾	1.36	1.53	1.02

⁽¹⁾ These financial measures are not defined by U.S. GAAP. For additional information, refer to the Non-U.S.-GAAP Financial Measures heading in section A) OVERVIEW OF THE COMPANY AND OTHER.

For fiscal 2016, normalized operating cash flows per common share decreased by \$0.17 year over year, due to the change in cash flows related to operating activities, as previously explained. It should be noted, however, that the normalized operating cash flows were sufficient to cover the dividend payments to common shareholders.

MANAGEMENT'S DISCUSSION AND ANALYSIS

In fiscal 2015, normalized operating cash flows per common share had increased \$0.51 compared to fiscal 2014, due to:

- the first distributions received from Beupré Éole and Beupré Éole 4 totalling \$9.9 million and \$4.3 million, respectively, following the payment of distributions made by Wind Farms 2 and 3 and Wind Farm 4 during fiscal 2015; and
- a tax advantage arising from an accelerated depreciation of wind power assets given that wind park 4 was put into service in the first quarter of 2015 and that it was the first full year of operations for Wind Farms 2 and 3.

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>	2017	2018	2019	2020	2021	Subsequent fiscal years	Total
Financial liabilities							
Accounts payable and accrued liabilities	0.4	-	-	-	-	-	0.4
Dividends payable to common shareholders	10.4	-	-	-	-	-	10.4
Dividends payable to preferred shareholders	1.1	-	-	-	-	-	1.1
Derivative financial instruments	8.6	-	-	-	-	-	8.6
Long-term debt	-	-	-	-	85.2	-	85.2
Interests related to financial liabilities ⁽¹⁾	1.5	1.5	1.5	1.5	0.6	-	6.6
Total contractual obligations	22.0	1.5	1.5	1.5	85.8	-	112.3

⁽¹⁾ Interest is presented based on contractual maturity and using the rates in effect as at September 30, 2016.

E) RISK FACTORS RELATING TO VALENER

This section should be read in conjunction with the corresponding section covering the risk factors relating to Gaz Métro, which are described in section R) RISK FACTORS RELATING TO GAZ MÉTRO.

This section describes the principal risk factors applicable to Valener that could: (i) have a significant impact on Valener's activities, financial condition, including the credit rating and issuance of long-term debt securities, and consolidated net income; (ii) result in costs, expenses and losses; (iii) cause unexpected damages that Valener might not be able to recover in full or in part; or (iv) have an unfavourable impact on the value of Valener's investments. These risk factors could also affect Valener's capacity to pay dividends to its shareholders.

This statement applies to each of the risk factors described in this section and is therefore not repeated in order to facilitate reading.

In general, risk factors are classified by category and according to severity. Other risk factors and uncertainties not currently known to Valener, or that it believes to be immaterial at this time, may also adversely affect its activities.

Valener has developed and applied practices for identifying, assessing and managing risks. However, it should be noted that the risk management strategies and measures adopted do not guarantee that events or circumstances that could adversely affect Valener's activities, financial condition, or consolidated net income will not occur.

Valener, like other companies, applies mitigation measures that it believes are necessary and reasonable as part of its activities. Readers should note that these mitigation measures are neither described in full nor explained in this section, except for those that Valener is obligated to disclose under regulations or those that are specific to its activities.

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 mainly tied to Gaz Métro's ability to invest in the development of its various networks and also tied to the rates of return on deemed common equity authorized by the various regulatory agencies. Moreover, as a special partner of Gaz Métro with only 29% of its capital units, Valener does not control Gaz Métro's strategic direction or projects.

UNCERTAINTY OF DIVIDEND PAYMENTS

There is uncertainty surrounding Valener's future dividend payments on its common shares, its Series A preferred shares and, potentially, on its Series B preferred shares and surrounding the amount of those dividends, as Valener's dividend policy and the funds available for dividend payments from time to time will depend, particularly, on (i) the distributions that Valener receives from Gaz Métro, (ii) the distributions that Valener receives indirectly from Wind Farms 2 and 3 and from Wind Farm 4,

MANAGEMENT'S DISCUSSION AND ANALYSIS

(iii) Valener's operating cash flows, (iv) the funds required to make principal repayments or interest payments under its credit facility, and (v) adherence to the solvency tests set out in the *Canada Business Corporations Act* for the declaration and payment of dividends.

Valener's credit facility imposes certain operating and financial restrictions through covenants, including restrictions on Valener's ability to contract additional debt, grant security or pay dividends if an event of default occurs 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 Beaupré Éole, to meet certain financial ratios, and to not consent to, or take any action in respect of, a limitation of Gaz Métro's ability to make distributions to its Partners that would not already be provided for in the Gaz Métro Limited Partnership Agreement.

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

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

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 within the applicable limits of its credit facility.

PERFORMANCE OF THE WIND FARMS

Because it holds an indirect interest in Wind Farms 2 and 3 and Wind Farm 4, Valener is exposed to the wind farm operational risk factors to which Gaz Métro is also exposed. If they were to materialize, these risk factors could adversely affect the financial performance of Wind Farms 2 and 3 and Wind Farm 4. These risk factors could result in Valener receiving smaller-than-anticipated cash distributions or none at all from Wind Farms 2 and 3 and Wind Farm 4.

FINANCIAL MARKETS

Access to financing

If sources of outside capital, including the issuance of additional Valener securities, were to become limited or unavailable, Valener's ability to make the investments needed to maintain its proportionate interest in Gaz Métro or to seize business opportunities could be compromised. There is no guarantee that sufficient capital would be obtainable at acceptable terms to finance such 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 common shares, Series A preferred shares, Series B preferred shares, or an additional series of preferred shares or debt securities.

Maintenance of credit ratings

The credit rating attributed to the Series A preferred shares by DBRS is an assessment, by the credit rating agency, of Valener's ability to meet its financial commitments. The rating is based on assumptions, including assumptions on Valener's future capital structure and performance that may or may not occur.

Changes in the rating attributed to the Series A preferred shares or in any future rating attributed to the Series B preferred shares or in Valener's corporate credit rating could affect Valener's financing costs, impair its ability to attract capital, have an adverse effect on its cash flows, and constrain its ability to conduct its operations. There is no assurance that the rating attributed to the Series A preferred shares or, potentially, to the Series B preferred shares or that Valener's corporate credit rating will remain in effect for a specified period or that such ratings 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 could be volatile and undergo substantial fluctuations due to numerous factors, many of which are beyond Valener's control.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Liquidity management

To meet its financial needs, Valener particularly relies on the distributions received from Gaz Métro and indirectly from Wind Farms 2 and 3 and Wind Farm 4. Liquidity risk is the risk that Valener would be unable to pay its financial commitments as they become due. Valener manages liquidity risk by forecasting cash flows to determine 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. Valener's committed credit facility and access to capital markets allow it to meet its needs. However, there can be no assurance that Valener will be able to access capital markets at acceptable conditions and appropriate financing costs or that it will not incur a significant increase in its financing cost by reason of, for example, a significant deterioration in economic conditions, the general condition of financial markets, a negative financial market perception of its financial position or outlook, or a significant downgrade to its credit rating.

Interest rate fluctuations

Valener is exposed to interest rate fluctuation risk on its long-term debt, which bears interest at floating rates. Canadian and world economic conditions that are beyond Valener's control have an influence on interest rates. In order to limit the impact of interest rate fluctuations, Valener closely monitors the evolution of interest rates on the markets and ensures it maintains an appropriate capital structure. Moreover Valener has also used interest rate swaps, as explained in greater detail in section G) FINANCIAL INSTRUMENTS.

Counterparty risk

Counterparty credit risk is the risk that a counterparty to a financial instrument entered into with Valener does not perform its obligations pursuant to the related agreements. This risk is mitigated by using credit risk management techniques that involve assessments of a counterparty's creditworthiness, monitoring of changes in creditworthiness, and entering into agreements with several counterparties.

The maximum counterparty risk exposure is the carrying amount of the financial instruments reported in assets on Valener's consolidated balance sheet.

Gaz Métro is the main counterparty to the financial instruments reported in assets on the consolidated balance sheet.

F) RECENT ACCOUNTING CHANGES

ACCOUNTING CHANGES

Valener had 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 could defer application of Part I to fiscal periods beginning on or after January 1, 2015.

Given uncertainties surrounding the publication of a final IFRS standard on RAL and the substantial impacts of applying interim standard IFRS 14, *Regulatory Deferral Accounts*, Valener instead chose to apply U.S. GAAP. To do this, in May 2015, Valener obtained a new three-year exemption from the Canadian Securities Administrators allowing it to prepare its consolidated financial statements in accordance with U.S. GAAP in order to meet its continuous disclosure requirements in Canada. This exemption is valid until the first of the following dates: (i) January 1, 2019; (ii) the first day of the fiscal year following the cessation of Valener's RRA, if applicable; and (iii) the effective date prescribed by the IASB for mandatory application of a permanent and specific IFRS standard for entities engaged in RRA. Valener is therefore using U.S. GAAP to prepare its annual and interim consolidated financial statements for fiscal years 2016 to 2018, inclusively.

Valener retrospectively adopted U.S. GAAP as of October 1, 2015, and the audited consolidated financial statements for the fiscal years ended September 30, 2016 and 2015 have therefore been prepared in accordance with U.S. GAAP. The comparative figures, which had previously been prepared under Canadian GAAP, have been adjusted as needed to comply with U.S. GAAP. Note 13 to the consolidated financial statements for fiscal years 2016 and 2015 presents the impacts of the transition from Canadian GAAP to U.S. GAAP.

In addition to the change in accounting framework, Valener recently adopted the following standards:

Issuance costs

In April 2015, FASB issued ASU 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. This standard, applied retrospectively, requires debt issuance costs to be presented on the balance sheet

MANAGEMENT'S DISCUSSION AND ANALYSIS

as a deduction from the carrying value of the related debt. Valener elected to early adopt these new requirements as of October 1, 2015, allowing for the continued use of the same accounting policy previously used under Canadian GAAP.

Deferred income taxes

In November 2015, FASB issued ASU 2015-17, *Income Taxes (Topic 740)*. This standard, applied retrospectively, requires deferred income taxes to be presented on the balance sheet as noncurrent assets or liabilities. Therefore, separately presenting the current portion is no longer required. Since Valener elected to early adopt these new requirements as of October 1, 2015, deferred income taxes are presented as noncurrent assets and liabilities on the consolidated balance sheets as at September 30, 2016 and 2015.

STANDARDS ISSUED BUT NOT YET IN EFFECT

Consolidation

In February 2015, FASB issued ASU 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis*. This standard amends the guidance applicable to entities that must apply full consolidation when preparing consolidated financial statements. This guidance will apply retrospectively to the interim and annual financial statements for fiscal years beginning on or after December 15, 2015. Subsequently, the FASB issued, in October 2016, ASU 2016-17 modifying consolidation guidance in cases of entities under common control. These new guidelines will be applied retrospectively to interim and annual financial statements relating to fiscal years beginning on or after December 15, 2016. Valener is currently reviewing the impact of these standards on its consolidated financial statements.

Financial instruments

In January 2016, FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. This standard amends certain recognition, measurement, presentation and disclosure requirements applicable to financial instruments. The guidance will apply prospectively to the interim and annual financial statements for fiscal years beginning on or after December 15, 2017. Valener is currently assessing how this standard will impact its consolidated financial statements.

Cash flows

In August 2016, FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. The purpose of this standard is to reduce the diversity in the statement of cash flow presentation of eight specific kinds of transactions. This guidance will apply retrospectively to the interim and annual financial statements for fiscal years beginning on or after December 15, 2017. Valener is currently assessing how this standard will impact its consolidated financial statements.

Income taxes

In October 2016, the FASB issued ASU 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other than inventory*. This standard amends the guidelines for the recognition of income taxes payable on transfers of assets between entities other than inventories. Under these new guidelines, the tax consequences will have to be recognized when the transfer of assets takes place. These guidelines will be applied retrospectively to interim and annual financial statements relating to fiscal years beginning on or after December 15, 2017. Valener is currently reviewing the impact of this standard on its consolidated financial statements.

INFORMATION SYSTEMS AND INTERNAL CONTROL OVER FINANCIAL REPORTING

The conversion project did not have a significant impact on Valener's information systems or its internal control over financial reporting.

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, a derivative financial instruments liability and long-term debt. Information about the accounting treatment of financial instruments is provided in Note 11 to the Company's audited consolidated financial statements for the fiscal years ended September 30, 2016 and 2015. Financial instrument risk management is discussed in Note 12.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FAIR VALUE OF FINANCIAL INSTRUMENTS

As at September 30, 2016, the Company classifies financial instruments according to the fair value hierarchy presented in Note 2 to the Company's audited consolidated financial statements. The estimated fair value of the Company's non-derivative financial instruments approximates their carrying amount given their short periods to maturity or because their terms and conditions are comparable to those of the current market for similar instruments. All non-derivative financial instruments are classified in Level 2 of the fair value hierarchy, except for cash, which is classified in Level 1. There were no transfers between Levels 1 and 2 during fiscal years 2016 and 2015.

DERIVATIVE FINANCIAL INSTRUMENTS

During fiscal 2015, Valener entered into swaps for a total nominal value of \$44.8 million with a mandatory early termination date in October 2016, to cover the risk of interest rate fluctuations on an initially planned debt issuance. Since these swaps do not meet the conditions for hedge accounting, changes in fair value are therefore recognized in income. These swaps are classified in Level 2 of the fair value hierarchy and recognized at fair value, which is determined using the forward rates at the close of markets on the balance sheet date. The fair value of these swaps was calculated using the discounted future cash flows method.

The derivative financial instruments liability as at September 30, 2016 increased by \$4.6 million since September 30, 2015. This increase was caused by a fiscal 2016 decline in interest rates that led to a higher swap-related liability. Note that these swaps were settled in October 2016 for \$7.8 million, generating a \$0.8 million gain on derivative financial instruments.

H) SIGNIFICANT ACCOUNTING ESTIMATES

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

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 for which their income is taxable to their partners.

The Company uses the asset and liability method to account for income taxes. Under this method, deferred income tax assets and liabilities are determined based on the temporary differences between the carrying amounts and the tax bases of the assets and liabilities of the Company and based on its share in the temporary differences arising from the entities subject to significant influence formed as limited partnerships. They are measured by applying, on the consolidated financial statements date, the enacted tax rates and laws of the fiscal years in which the temporary differences are expected to reverse. The impact of a change in tax rate on deferred income tax assets and liabilities is included in the income of the period during which the change came into effect. In all cases, deferred income tax assets are recognized only if they are more likely than not to be realized. The offsetting entry to deferred income taxes related to the activities of rate-regulated entities subject to significant influence is reflected in the equity-accounted interests item.

This method therefore requires management to exercise judgment in determining when the temporary differences are expected to be realized. A valuation allowance is recorded to reduce deferred income tax assets when management considers that it is more likely than not that a portion or all of the deferred income tax assets will not be realized. The Company recognizes the impact of an uncertain tax position when it is more likely than not to be realized.

Thus, accounting for deferred income tax assets requires management to make an important judgment as to whether the deductible temporary differences are more likely than not to reverse from future taxable income.

I) ADDITIONAL INFORMATION

SHARES OUTSTANDING

As at November 22, 2016, the number of common shares and Series A preferred shares outstanding totalled 38,691,000 (including the 57,343 common shares issued on October 17, 2016 under the DRIP) and 4,000,000, respectively. Only the Company's common shares are voting shares.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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), expiring 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 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 \$1.0 million for fiscal 2016 (\$1.7 million in 2015).

b) Non-Competition Agreement

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

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

J) QUARTERLY RESULTS

<i>(in millions of dollars, unless otherwise indicated)</i>	1 st	2 nd	3 rd	4 th	Fiscal 2016
Revenues	45.6	43.5	(1.8)	(3.3)	84.0
Net income (loss) attributable to common shareholders	39.1	28.7	(3.8)	(1.8)	62.2
Basic and diluted net income (loss) per common share <i>(in \$)</i>	1.02	0.74	(0.10)	(0.05)	1.61

<i>(in millions of dollars, unless otherwise indicated)</i>	1 st	2 nd	3 rd	4 th	Fiscal 2015
Revenues	21.8	42.8	1.7	(6.9)	59.4
Net income (loss) attributable to common shareholders	14.6	35.8	1.8	(7.4)	44.8
Basic and diluted net income (loss) per common share <i>(in \$)</i>	0.38	0.94	0.05	(0.19)	1.17

Results for the fourth quarter of fiscal 2016

As Valener owns an economic interest in Gaz Métro and indirectly in Wind Farms 2 and 3 and Wind Farm 4, its interim period operating results reflect the seasonal nature of the interim results of these economic interests. As such, Valener's interim period operating results are not necessarily representative of the results to be expected for the fiscal year, as seasonal temperature and wind fluctuations influence the energy consumption levels of customers and the electricity production levels of wind farms, which in turn influence Valener's interim financial results, as shown in the above table. Historically, Valener's revenues and profitability are higher in the first two quarters of a fiscal year than in the last two quarters.

The fiscal 2016 fourth-quarter net loss attributable to common shareholders decreased \$5.6 million (\$0.14 per share) year over year, mainly due to:

- a \$3.6 million higher share in the net income of Gaz Métro, as described in section w) QUARTERLY RESULTS of Gaz Métro; and
- a \$1.5 million smaller loss on derivative financial instruments (swaps entered into in October 2014).

MANAGEMENT'S DISCUSSION AND ANALYSIS

Summary of quarterly results

- **3rd quarters:** The fiscal 2016 third-quarter net income attributable to common shareholders decreased \$5.6 million (\$0.15 per share) year over year, mainly due to:
 - a \$3.4 million higher loss on derivative financial instruments (swaps entered into in October 2014);
 - a decrease of \$1.2 million in the share in the net income of Beaupré Éole, mainly because the wind conditions in the third quarter of fiscal 2016 were inferior to those in the same quarter of fiscal 2015; and
 - a \$1.9 million decrease in the share in the net income of Gaz Métro, which includes a \$4.8 million unfavourable impact related to the adjustment to Gaz Métro's net income, as described in section w) QUARTERLY RESULTS of Gaz Métro;partly offset by:
 - a \$1.4 million decrease in income tax expense, mainly due to an unfavourable impact of the change in the outside-basis temporary difference on the interest in Gaz Métro.
- **2nd quarters:** The fiscal 2016 second-quarter net income attributable to common shareholders decreased \$7.1 million (\$0.20 per share) year over year, mainly due to:
 - a \$7.3 million increase in income tax expense, mainly due to an unfavourable impact of the change in the outside-basis temporary difference on the interest in Gaz Métro;
 - a decrease of \$0.6 million in the share in the net income of Beaupré Éole mainly because the wind conditions in the second quarter of fiscal 2016 were inferior to those in the same quarter of fiscal 2015; and
 - a \$0.4 million higher loss on derivative financial instruments (swaps entered into in October 2014);partly offset by:
 - a \$1.6 million higher share in the net income of Gaz Métro, as described in section w) QUARTERLY RESULTS of Gaz Métro.
- **1st quarters:** The fiscal 2016 first-quarter net income attributable to common shareholders increased \$24.5 million (\$0.64 per share) year over year, mainly due to:
 - a \$24.7 million higher share in the net income of Gaz Métro, including a \$23.0 million favourable impact from the \$79.3 million one-time adjustment recognized by Gaz Métro in the first quarter of fiscal 2016, as described in section w) QUARTERLY RESULTS of Gaz Métro; and
 - a \$1.6 million favourable impact related to a \$1.5 million loss (before income taxes) that had been realized in the first quarter of fiscal 2015 on swaps entered into in October 2014, whereas a \$0.1 million gain was realized during the first quarter of fiscal 2016;partly offset by:
 - a \$0.8 million decrease in the share in the net income of Beaupré Éole, mainly because wind conditions in autumn 2015 were inferior to those in autumn 2014; and
 - a \$0.7 million higher income tax expense, mainly due to an unfavourable impact of the change in the outside-basis temporary difference on the interest in Gaz Métro.

K) SUBSEQUENT EVENTS

DECLARATION OF A DIVIDEND TO COMMON SHAREHOLDERS

On November 24, 2016, the board of directors declared a quarterly dividend of \$0.28 per common share for the quarter ending December 31, 2016, payable on January 16, 2017 to common shareholders of record at the close of business on December 31, 2016. The board of directors also approved the reinvestment of dividends into additional common shares, for the dividend payable on January 16, 2017, by way of an issuance of new common shares of the Company, at a 2% discount, in accordance with the terms and conditions of the DRIP.

DECLARATION OF A DIVIDEND TO PREFERRED SHAREHOLDERS

On November 24, 2016, the board of directors also declared a dividend of \$0.271875 per Series A preferred share for the period of October 16, 2016 to January 16, 2017, payable on January 16, 2017 to the preferred shareholders of record at the close of business on January 9, 2017.

MANAGEMENT'S DISCUSSION AND ANALYSIS

GAZ MÉTRO LIMITED PARTNERSHIP

L) OVERVIEW OF THE PARTNERSHIP AND OTHER

OVERVIEW OF THE PARTNERSHIP

With more than \$7 billion in assets, Gaz Métro is a leading energy provider. It is the largest natural gas distribution company in Quebec, where its network of over 10,000 km of underground pipelines serves more than 300 municipalities and more than 200,000 customers. Gaz Métro is also present in Vermont, producing and transporting electricity and distributing electricity and natural gas to meet the needs of more than 310,000 customers. Gaz Métro is actively involved in the development and operation of innovative, promising energy projects, including natural gas as fuel and liquefied natural gas as a replacement to higher emission-producing energies, the production of wind power, and the development of biomethane. Gaz Métro is a major energy sector player that takes the lead in responding to the needs of its customers, regions and municipalities, local organizations, and communities while also satisfying the expectations of its Partners (GMI and Valener) and employees.

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

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 while also respecting the community and ensuring sustainable development.

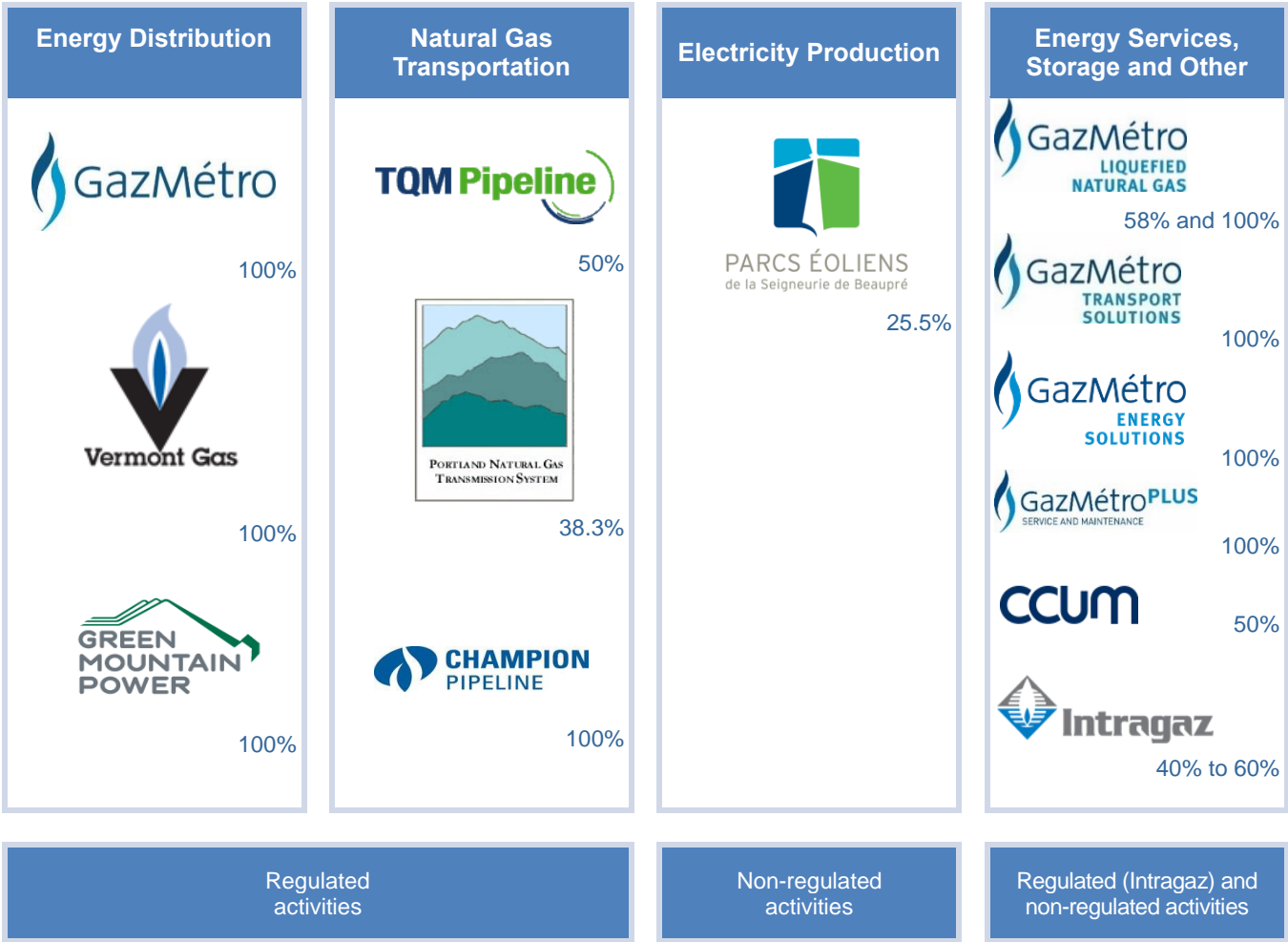
Gaz Métro's **financial objective** continues to be to provide its Partners with a stable and sound return accompanied by growth in value over the years. While achieving this objective depends largely on the performance of energy distribution activities in Quebec and Vermont, it also depends on its ability 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.

MANAGEMENT’S DISCUSSION AND ANALYSIS

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.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

1.1 NATURAL GAS DISTRIBUTION ACTIVITIES

Gaz Métro-QDA		
<p>Key player in the distribution of natural gas in Quebec, distributing approximately 97% of the natural gas</p> <p>Serves more than 300 municipalities and more than 200,000 customers</p>	<p>Owns and operates an underground pipeline network of over 10,000 km</p>	<p>Will inject renewable natural gas in its network in 2017</p> <p>Activities regulated by the Régie</p>

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

Historically, most of Gaz Métro-QDA's natural gas supply came from Western Canada. In recent years, Gaz Métro-QDA has gradually raised the portion of supply it receives from Dawn, the aim being to bring the supply receipt point closer to its service territory and thereby reduce total supply costs. In fiscal 2016, 51% of its transportation capacity was contracted at Empress in Alberta and 49% at the Dawn hub. However, in December 2016 Gaz Métro-QDA will proceed with a major supply decision, moving its main supply receipt point from Empress to Dawn, as had been recommended by Gaz Métro-QDA and further to the Régie's approval in 2012. With this move, over 87% of Gaz Métro-QDA's transportation capacity will now be contracted from Dawn and less than 13% from Empress. For additional information on Gaz Métro-QDA's natural gas supply, refer to section M) CONDITIONS IN THE ENERGY MARKET AND FOR GAZ MÉTRO.



MANAGEMENT'S DISCUSSION AND ANALYSIS

Furthermore, in fiscal 2017, Gaz Métro-QDA expects to have access to an additional supply source as it will be injecting its system with biomethane produced by the city of Saint-Hyacinthe. While the biomethane supply will represent only a small portion of its supply portfolio, Gaz Métro-QDA is working to expand this source of renewable energy by signing similar agreements with other cities. Gaz Métro-QDA's customers will therefore be able to increase their consumption of renewable natural gas.

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

Gaz Métro-QDA has close to 1,500 employees. In its pursuit of excellence with suppliers, partners and customers, Gaz Métro-QDA has developed a system of indicators to measure its organizational, operational and financial performance against objectives set at the beginning of the fiscal year. Part of this system focuses specifically on measuring Gaz Métro-QDA's performance, within the current regulatory framework, in the following areas:

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

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

In addition to the indicators related to its regulatory framework, Gaz Métro-QDA complies with 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 June 2016, Gaz Métro voluntarily published its sustainability report on its social, environmental, economic and governance activities for fiscal years 2014 and 2015. This was Gaz Métro's second sustainability report to be released under the GRI-G4 Guidelines and to obtain the *"Materiality Disclosures designation"*.

VGS		
Sole gas distributor in Vermont	Owns and operates a natural gas transportation and distribution system of more than 1,300 km in Vermont in the United States	
Subsidiary of Gaz Métro since 1986	Serves more than 50,000 customers primarily in the residential, commercial and industrial markets	Activities regulated by the VPSB

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. The VPSB annually approves the base rates, while supply rates are adjusted each quarter using the current rate adjustment mechanism.

Under the current regulatory framework, VGS must also meet certain service quality performance indicators on an annual basis ending June 30. These indicators mainly address:

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

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

MANAGEMENT’S DISCUSSION AND ANALYSIS

1.2 ELECTRICITY DISTRIBUTION ACTIVITIES

GMP			
Vermont’s largest electricity distributor , serving more than 70% of the market	More than 260,000 customers	Mostly located in Vermont but also extending into New Hampshire and New York, its system consists of close to: → 18,000 km of overhead distribution lines → 1,600 km of underground distribution lines → 1,500 km of overhead transmission lines	Activities regulated by the VPSB
Subsidiary of Gaz Métro since 2007			

GMP’s main operations consist of the distribution, transportation, production, purchase and sale of electricity in Vermont. Although it produces part of the electric power it distributes, most of it is purchased from various producers. Its supply portfolio consists of multiple generation sources, the main one being hydroelectricity and, to a lesser degree, nuclear, wind and solar power.

Largest wind and solar power producer in Vermont	2 wind farms with an installed capacity of 69 MW : only electric utility in Vermont to own and operate commercial-scale wind farms	
32 hydroelectric generating stations in Vermont (about 8% of its supply portfolio)	11 wholly- or jointly-owned solar farms with an installed capacity of 7 MW	Involved in renewable energy projects such as Cow Power - converting manure from dairy cows into electric power

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 and quarterly 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, it could face a penalty from the VPSB.



MANAGEMENT'S DISCUSSION AND ANALYSIS

Velco		Transco
Manager of Transco: manages the day-to-day operations	Operates a transmission system used to transmit the electric power that New England distributors purchase from Hydro-Québec	Owens a high-voltage electricity transmission system enabling it to offer electricity transmission service to over 17 electricity distributors in Vermont and two in New Hampshire
Entities subject to significant influence of Gaz Métro		
Activities regulated by the FERC when it comes to rate-setting and financing and by other regulatory agencies in Vermont for, among other matters, the construction of electricity transmission-related assets.		

GMP owns significant economic interests in Transco and Velco. Transco's main activities are planning, building, operating and maintaining an electricity transmission system in Vermont. It also supplies electricity to New England through ISO-NE, which manages power generation and transmission operations in that region.

VYNPC

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

2. NATURAL GAS TRANSPORTATION SEGMENT

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

TQM		
Joint venture of Gaz Métro	Owens and operates a 575 km pipeline in Quebec that connects upstream with that of TCPL and downstream with that of PNGTS and the Gaz Métro-QDA distribution system	Activities regulated by the NEB
PNGTS		
Entity subject to significant influence of Gaz Métro	Owens and operates a 489 km pipeline from the Quebec border to the suburbs of Boston	Activities regulated by the FERC
Champion		
Subsidiary of Gaz Métro	Owens and operates two pipelines totalling 98 km that cross the Ontario border and supply Gaz Métro-QDA's distribution network in northwest Quebec	Activities regulated by the NEB

MANAGEMENT'S DISCUSSION AND ANALYSIS

3. ELECTRICITY PRODUCTION SEGMENT

This segment consists of the non-regulated electric power production activities conducted by the joint ventures, Wind Farms 2 and 3 and Wind Farm 4, respectively owned by Beaupré Éole and Beaupré Éole 4, which themselves are 51%-owned by Gaz Métro and 49%-owned by Valener.

Wind Farms 2 and 3	Wind Farm 4
Owns and operates two wind farms with an installed capacity of 272 megawatts on the private lands of Seigneurie de Beaupré	Owns and operates a wind farm with an installed capacity of 68 megawatts on the private lands of Seigneurie de Beaupré
Joint ventures of Gaz Métro	
All production sold to Hydro-Québec: contracts expire in 2033 for Wind Farms 2 and 3 and in 2034 for Wind Farm 4	

4. ENERGY SERVICES, STORAGE AND OTHER SEGMENT

4.1 ENERGY SERVICES

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

Gaz Métro LNG		
Created to respond to the current and expected growth in demand in the LNG market	Offers a reliable, economic and less emissive energy solution than diesel for road and marine transport	Structures the supply of LNG and ensures the liquefaction capacity of the LSR plant
Subsidiary of Gaz Métro	Meets natural gas demand of industries at remote distances from Gaz Métro-QDA's network	
Transport Solutions		
Quebec's leader in alternative fuel , in both an advisory role to companies and as a developer of refuelling stations	Involved in developing the market to use natural gas, both liquefied and compressed, as a fuel in the heavy transport industry , a cleaner alternative to diesel fuel	Key player in the development of the Blue Road : First public network of compressed and liquefied natural gas refuelling stations for the Canadian transport industry
Subsidiary of Gaz Métro	Provides turnkey solutions to owners of vehicle fleets and guides them through their transition initiatives	
Gaz Métro Energy Solutions		
Subsidiary of Gaz Métro	Created to ensure , among other things, LNG storage, treatment and regasification to meet the peak energy needs of the TransCanada Energy power plant in Bécancour and similar projects in the future	
Gaz Métro Plus		
Leader in supplying energy products and services	Its range of products satisfy customer needs with respect to the installation, sale, rental, maintenance and repair of natural gas equipment	
Susidiary of Gaz Métro	Active in the residential, commercial and institutional markets	

MANAGEMENT'S DISCUSSION AND ANALYSIS

CCUM	
Joint venture of Gaz Métro	3 km network serving the energy needs of 1.8 million square metres of commercial space in downtown Montreal
	Three distinct steam, hot water and cold water networks used to heat and cool commercial buildings

4.2 STORAGE

Intragaz		
Joint venture of Gaz Métro	Owns and operates the only two underground natural gas storage reservoirs in Quebec	Activities regulated by the Régie

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 favouring 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-U.S.-GAAP FINANCIAL MEASURES AND ADDITIONAL U.S.-GAAP MEASURE

The financial information has been prepared in accordance with U.S. GAAP. In management's opinion, certain financial measures provide readers with additional information considered useful for analyzing Gaz Métro's financial performance. However, some of these financial measures are not defined by U.S. GAAP and should not be considered in isolation or as substitutes for other financial measures that are in accordance with U.S. GAAP. In addition, results obtained from these financial measures may not be comparable with the results of similar financial measures used by other issuers. For these reasons, non-U.S.-GAAP financial measures are presented as complementary information. This section provides a description of each of these measures as well as additional explanations about changes made to them.

During fiscal 2016, management decided to add a financial measure that it believes is useful in assessing a company's financial performance. Specifically, management now analyzes the funds from operations / debt ratio. This financial measure, which is also used by certain credit rating agencies in assigning credit ratings, measures an enterprise's financial risk and assesses its ability to repay its debts using funds from ongoing operations.

Management has also decided to replace the financial measure "net income attributable to Partners, excluding non-recurring items" with "adjusted net income attributable to Partners" and to analyze "basic and diluted adjusted net income per unit attributable to Partners." Management believes that these new measures enable users to better assess the net income and basic and diluted net income per unit generated by Gaz Métro's ongoing operations and that they provide greater period-to-period comparability of its operations and financial results because they exclude from net income items arising from specific circumstances that, in management's opinion, are not part of Gaz Métro's ongoing operations and that may alter analyses of business performance trends.

Management has also decided to stop using standardized distributable cash as a performance indicator. While the computation of this measure is consistent and comparable among all enterprises, in management's opinion it does not provide the most accurate reflection of Gaz Métro's economic reality because it does not consider certain factors that are specific to its operations.

MANAGEMENT'S DISCUSSION AND ANALYSIS

NON-U.S.-GAAP FINANCIAL MEASURES	
Adjusted net income (loss) attributable to Partners ⁽¹⁾	This item is the net income (loss) attributable to Partners, net of specific items identified by management as being outside Gaz Métro's ongoing operations. Management uses this measure to assess Gaz Métro's profitability based on its ongoing operations and to exclude items that could alter analyses of its performance.
Basic and diluted adjusted net income (loss) per unit attributable to Partners ⁽¹⁾	This item is the adjusted net income (loss) attributable to Partners, as defined above, divided by the basic and diluted weighted average number of units outstanding. Management uses this measure to assess Gaz Métro's profitability based on its ongoing operations and to exclude items that could alter analyses of its performance.
Funds from operations / debt ratio ⁽²⁾	This ratio corresponds to funds from operations for a 12-month period divided by total debt, net of cash and cash equivalents. Funds from operations consist of cash flows related to operating activities, excluding the change in other operating assets and liabilities. Total debt is the sum of bank loans, long-term debt and the current portion of long-term debt. The purpose of this measure is to assess the Partnership's financial risk relative to that of industry peers by assessing its ability to repay its debts with stable and sustainable funds generated by operating activities.
Debt / total capitalization ratio ⁽²⁾	This ratio consists of total debt divided by total capitalization. Total debt is the sum of bank loans, long-term debt and the current portion of long-term debt. Total capitalization is the sum of total debt and total equity. The Partnership uses this ratio to measure its accessibility to debt financing, which enables it to seize future growth opportunities.

⁽¹⁾ Section N) CONSOLIDATED ANNUAL FINANCIAL PERFORMANCE SUMMARY provides a quantitative reconciliation of this measure with the U.S.-GAAP-compliant measures.

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

In assessing financial performance, management also uses another financial measure that is not one of the minimum items to be included in U.S. GAAP financial statements but that is nonetheless compliant with U.S. GAAP, namely, IBIT. Management considers IBIT to be a useful indicator for measuring the financial performance of the Partnership and its business segments.

M) CONDITIONS IN THE ENERGY MARKET AND FOR GAZ MÉTRO

The environment and competitiveness of natural gas in Quebec and North America

United Nations Conference on Climate Change

In December 2015, at the conclusion of the UN Conference on Climate Change (COP 21), the 195 countries that had gathered in Paris accepted an agreement to reduce global GHG emissions.

Without setting fixed targets, the international community is aiming to keep the global temperature rise “well below 2 degrees Celsius” compared to preindustrial levels and will even try to limit the increase to 1.5 degrees Celsius. The agreement also provides for major financial contributions from the wealthiest nations to help developing countries fight climate change. This international agreement came into effect in November 2016, and its impact is expected to spread to the laws and regulations of the signatory countries.

Quebec's 2030 Energy Policy

In April 2016, the Government of Quebec launched the new 2030 Energy Policy for Quebec, which is proposing an energy transition that seeks, among other objectives, to favour a low-carbon economy, to optimally develop Quebec's energy resources, and to capitalize on the province's energy efficiency potential.

In particular, Quebec's 2030 Energy Policy will accelerate initiatives that encourage renewable natural gas (biomethane) production and distribution, support the acquisition of natural gas vehicles and the use of natural gas as fuel (both heavy freight and marine transport), and promote the deployment of fuelling stations throughout Quebec. Furthermore, the government has reaffirmed its desire to help bring natural gas access, by way of LNG or CNG, to currently unserved regions of Quebec, as a replacement energy to oil.

On June 7, 2016, Bill 106, *An act to implement the 2030 Energy Policy and to amend various legislative provisions* was tabled in the National Assembly of Quebec. It includes various measures designed to take action on the policy directions. A parliamentary committee is continuing to review this bill.

C&T Regulation

January 1, 2015 marked the start of the second three-year compliance period of the C&T Regulation, which replaced the Green Fund Regulation. Since that date, fossil fuel distributors have had to cover, through the carbon market, their own GHG emissions as well as those of customers not already subject to the C&T Regulation. Gaz Métro-QDA has therefore introduced a new C&T service that it bills to customers subject to this Regulation. It is important to note that this public awareness initiative, undertaken by the Government of Quebec, is part of the government's strategy to fight climate change and reduce Quebec's GHG emissions. The initial target is to reduce GHG emissions by 20% (from the 1990 level) by 2020. For 2030, the target is to reduce emissions

MANAGEMENT’S DISCUSSION AND ANALYSIS

by 37.5% (from the 1990 level). For additional information on the impacts of the C&T Regulation, refer to section O) SEGMENT RESULTS of this MD&A.

On October 3, 2016, the Canadian federal government announced its intention to create a similar market that sets a price for each ton of carbon emissions. Starting in 2018, provinces and territories that have no carbon pricing system in place will have to adopt the Canadian carbon prices, which will start at \$10 per ton in 2018, rising by \$10 each year to reach \$50 a ton in 2022. Given that Quebec has been a leader in this area and already has its own system in place, i.e., the C&T Regulation, this announcement is not expected to change the system currently in effect.

The environmental advantages of natural gas

The environmental advantages of natural gas offer a compelling argument in its favour and are helping to drive the growing demand for natural gas in North America. Gaz Métro believes that prioritizing natural gas over more polluting forms of energy makes sense for the environment and for helping to reach Quebec’s GHG emission reduction targets. In fact, choosing natural gas over other, more polluting forms of energy such as diesel, oil and coal immediately reduces GHG emissions by approximately 25%, 32% and 42%, respectively. When it comes to cutting air pollutant emissions, natural gas delivers remarkable performance compared to other more polluting energies and is clearly a central part of the solution for reducing smog and acid rain. For example, by favouring natural gas as a replacement to oil and diesel in Quebec’s two largest emitting sectors, i.e., transportation and industry (which account for 43% and close to 31% of GHG emissions, respectively), GHG and air pollutant emissions can be reduced by as much as 32%.



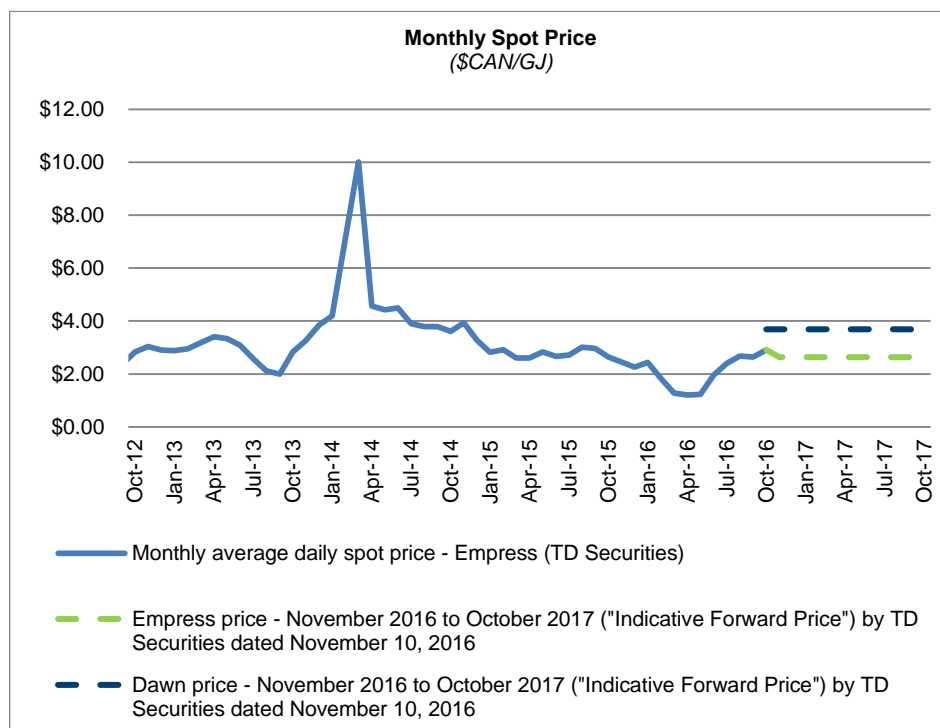
Natural gas prices

For over seven years, natural gas has held an economic advantage over other energy sources owing to an abundant continental supply that has put downward pressure on natural gas prices. This abundant North American supply has been driven by greater gas production in the United States, in particular shale gas production.

The downward trend in natural gas prices that began in 2014 continued into fiscal 2016, as winter 2016 was marked by *El Niño* conditions. As a result of this weather phenomenon, temperatures in Gaz Métro-QDA’s service area were, on average, 14% warmer than normal during the winter period (November 2015 to March 2016). The impact of *El Niño* was felt across the North American natural gas market, resulting in record high levels at natural gas storage sites for that time of the year. In Western Canada, the current storage levels remain substantial, which has had a direct influence on natural gas prices at Empress. As a result, the average monthly index at Empress was \$2.13/GJ for fiscal 2016, down nearly 32% from fiscal 2015.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The graph below shows a history of monthly natural gas prices at Empress as well as the future monthly price expectations for natural gas (from November 2016 to October 2017) at Empress as well as at the Dawn hub, given the December 2016 change in supply receipt point:



Over the long term, experts predict that natural gas supply will remain abundant in North America and will easily meet rising demand in both the United States and Canada. The financial markets also envision such a situation, as reflected in the forward contract curve for the coming years. The consensus among financial analysts is that the average annual forward price of natural gas at the Alberta border should be \$2.96/GJ or less between 2017 and 2020 and \$3.87 or less at Dawn over the same period. It should be noted that, while the price projections are higher at Dawn, Gaz Métro expects that moving supply there will reduce its annual supply cost, as the transportation cost savings expected from bringing the receipt point closer to Gaz Métro-QDA's network exceed the higher natural gas prices at Dawn.

The low price for natural gas makes it a highly competitive source of energy. In Quebec, natural gas is currently the most competitive form of energy among all those distributed in most market segments, and this holds true even with the low oil prices, which, as shown in the following table, has slightly narrowed the competitive position of natural gas versus most types of fuel oil:

MARKETS	ALTERNATIVE ENERGIES	COST SAVINGS ^(a)
Industrial (e.g., large companies in the petrochemical and metallurgy sectors)	Fuel oil (n° 6)	Up to 52%
Commercial and institutional (e.g., hospitals, schools, restaurants)	Electricity	39 to 54%
	Fuel oil (n° 2)	36 to 51%
Residential heating ^(b)	Electricity	8 to 26%
	Fuel oil (n° 2)	16 to 26%

^(a) Savings applicable to Gaz Métro-QDA's service and based on prices as of November 1, 2016.

^(b) Using high-efficiency heating systems.

In Vermont, natural gas also has a competitive advantage over other energy sources in the air and water heating markets. Its primary competitors in these markets are fuel oil and propane, as electricity is primarily used for generating and lighting purposes in the territories served by VGS. In fact, natural gas used for heating is more than 43% less expensive than propane and 7% less expensive than oil ⁽²⁾.

⁽²⁾ Based on data published by the VDPS for October 2016.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Natural gas supply dynamics

Transportation rates

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

Historically, Gaz Métro-QDA's gas supply has come largely from Western Canada, specifically from Empress in Alberta, where natural gas is purchased and then transported to Quebec through TCPL's transportation system. However, in an effort to pass on the potential savings of long-distance transportation with short-distance transportation to its customers, in 2012 Gaz Métro-QDA sought Régie approval to move its supply receipt point from Empress to the Dawn hub, which offers reliable, diversified supply at competitive prices owing to the abundant supply of natural gas. Since the Dawn hub is geographically closer to Quebec, supplying the Quebec marketplace from there helps reduce transportation costs, among other advantages. The Régie recognized the benefits of this proposal and therefore approved the move, which will take effect in December 2016.

However, this move involved a major challenge given the level of saturation of TCPL's transportation system between Dawn and Quebec, specifically the segment between Parkway and Maple.

To address this challenge, in September 2013 Gaz Métro and the Ontario gas distributors concluded an agreement-in-principle (the Agreement) with TCPL to ensure access to the diverse and affordable sources of natural gas from the Dawn hub. This Agreement reconciles the interests of all the parties, since it should give distributors in the east more long-term certainty regarding transportation availability and rates while supporting the financial viability of TCPL, which, among other things, will be able to recover the costs of building the infrastructure needed to move supply from Empress to Dawn. Approved by the NEB in December 2014, the Agreement initially resulted in an increase in TCPL's rates, as of January 1, 2015, without having a significant impact on the competitive position of natural gas. Still, given this move from Empress to Dawn, the overall supply costs for Gaz Métro-QDA's customers should decrease in an enduring fashion should market conditions remain the same.

The Agreement also calls for new infrastructure work, including TCPL's King's North project, which is intended to increase TCPL's transportation capacity between Dawn and Maple, Ontario. In June 2015, the NEB approved this project, the infrastructure for which was put into service in November 2016. Furthermore, in November 2015, TCPL had filed a request with the NEB to expand its primary network in Vaughan, Ontario, i.e., the final project set out in the Agreement. In April 2016, Gaz Métro filed evidence with the NEB supporting the approval and completion of this project that aims to make new transportation capacity available as of November 1, 2017. In August 2016, the NEB issued a decision in favour of moving forward with this project.

Energy East and Eastern Mainline projects

In October 2014, TCPL filed an application for its Energy East project with the NEB. Energy East is proposing the construction and operation of a pipeline system to carry oil from Western Canada to Eastern Canada refineries and new marine terminals, the objective being to export oil to global markets. The project seeks to convert a portion of the natural gas transportation assets (also called the "Mainline") between Alberta and Quebec to transport oil to Eastern Canada. The asset conversion project would involve a gas pipeline located between North Bay and Ottawa, a section that is critical to reliable gas supply in Quebec. TCPL has therefore planned to carry out another project, Eastern Mainline, which will build a new natural gas pipeline between Markham and Iroquois, Ontario, to partly offset the loss of natural gas transportation capacity that would result from the Energy East project. However, this partial replacement of capacity raised concerns about supply security and costs, which consumers in Quebec and Eastern Ontario would have to assume.

In October 2015, in light of a Régie notice on the matter, Gaz Métro and the Ontario distributors, Union Gas and Enbridge, concluded an agreement with TCPL, in particular regarding the Energy East and Eastern Mainline projects. This agreement helped dispel some of the uncertainties regarding the project's inherent effects on the gas market and on consumers in Quebec. Specifically, the agreement provides that TCPL will assume the construction risks related to the Energy East project and that the transportation capacity will, on one hand, be based on two calls for tenders for new capacity issued in 2014 and 2015 and, on the other, include excess capacity of 50,000 GJ/day for the Eastern Canada market. This agreement could represent a benefit valued at \$100 million between now and 2050 for consumers in Eastern Canada. In December 2015, TCPL filed the necessary amendments to the initial applications regarding the Energy East and Eastern Mainline projects with the NEB, reflecting, among other things, the parameters set out in the agreement. In June 2016, the NEB initiated a formal regulatory review of TCPL's applications and issued two procedural decisions. The first announced the implementation of a comprehensive new public consultation process throughout the regulatory review and informed stakeholders that the Energy East and Eastern Mainline projects would both be addressed at the same hearing. The purpose of the second decision was to issue a list of stakeholders recognized in the filing, including Gaz Métro. However, following certain events that occurred in summer 2016, the formal regulatory review has been suspended for an unspecified period of time. Subject to the required regulatory approvals and permits, these projects are expected to be put into service by TCPL in 2020.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Electricity in New England

In New England, the electric power market continues to have adequate supply to meet the region's demand. For fiscal 2016, electricity prices were down compared to high prices in fiscal years 2015 and 2014; during those years, cold winters had driven up electricity prices, given the limited capacity on the gas pipelines, whereas the milder winter 2016 temperatures have had the opposite effect. Note that, in New England, the price of electricity is highly correlated to that of natural gas, which is widely used to generate electricity. In addition, relatively low oil prices also reduced the costs of purchasing capacity in peak periods, since certain supply sources used during these periods are oil-fired.

Volatility in electricity prices directly affects the rates that regional electricity distributors charge to customers. However, since GMP's supply portfolio consists mainly of short- and long-term contracts and because its facilities do not generate electric power using natural gas, its customers have been protected from the significant price fluctuations observed over the last few years. In addition, the market conditions, characterized by low natural gas and oil prices, should help limit the pressure on electricity rates over the coming years.

Note that, in Vermont, GMP experienced lower demand for electricity in fiscal 2016 than in fiscal 2015, mainly due to a milder winter. While GMP expects weather-related fluctuations in demand, it is also anticipating that overall demand will fall slightly over the medium term due to continuing improvements in energy efficiency measures across the state and growing use of self-generated electricity in the residential and commercial markets. To offset this decline, GMP is offering its customers the opportunity to buy or lease various energy-efficient appliances that will help them achieve energy cost savings over time. GMP expects that these energy efficiency measures, which will translate into lower energy consumption, will help customers realize savings that will exceed the rate increases resulting from the lower consumption and from the investments required to implement these measures.

Interest rates and impact on the rate of return

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

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

Gaz Métro and some of its subsidiaries were able to benefit from favourable market conditions and this low interest rate environment; specifically, in May and October 2016, GMI issued first mortgage bonds in the amounts of \$100.0 million and \$125.0 million, respectively. The issuance proceeds were loaned to Gaz Métro at similar conditions and were used for general business purposes and to repay existing debts. In addition, in December 2015 and August 2016, VGS issued senior notes totalling US\$65.0 million while, in December 2015, GMP issued first mortgage bonds totalling US\$50.0 million. For additional information on these transactions, refer to section Q) CASH AND CAPITAL MANAGEMENT.

MANAGEMENT'S DISCUSSION AND ANALYSIS

N) CONSOLIDATED ANNUAL FINANCIAL PERFORMANCE SUMMARY

1. HIGHLIGHTS

For the fiscal years ended September 30

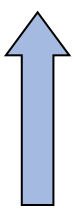
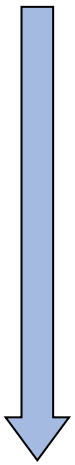
<i>(in millions of dollars, unless otherwise indicated)</i>	2016	2015	2014	Change 2016 vs 2015	Change 2015 vs 2014
Revenues	2,587.0	2,584.4	2,423.5	2.6	160.9
Gross margin	982.0	936.4	912.8	45.6	23.6
IBIT	321.3	231.0	220.5	90.3	10.5
Net income	279.8	185.9	176.2	93.9	9.7
Net income attributable to:					
Partners	277.5	181.0	175.5	96.5	5.5
Non-controlling interests	2.3	4.9	0.7	(2.6)	4.2
Basic and diluted net income per unit attributable to Partners <i>(in \$)</i>	1.66	1.17	1.16	0.49	0.01
Adjusted net income attributable to Partners ⁽¹⁾	214.7	189.0	175.5	25.7	13.5
Basic and diluted adjusted net income per unit attributable to Partners ⁽¹⁾ <i>(in \$)</i>	1.28	1.22	1.16	0.06	0.06
Distributions declared per unit to Partners <i>(in \$)</i>	1.16	1.12	1.12	0.04	-
Total assets	7,425.6	6,829.4	5,638.6	596.2	1,190.8
Total debt	3,490.3	3,140.2	2,701.5	350.1	438.7
Funds from operations / debt ratio ⁽¹⁾ <i>(in %)</i>	14.9	16.1	17.0	(1.2)	(0.9)
Debt / total capitalization ratio ⁽¹⁾ <i>(in %)</i>	65.8	64.5	66.5	1.3	(2.0)

⁽¹⁾ These financial measures are not defined by U.S. GAAP. For additional information, refer to the Non-U.S.-GAAP Financial Measures and Additional U.S. GAAP Measure heading in section L) OVERVIEW OF THE PARTNERSHIP AND OTHER.

MANAGEMENT'S DISCUSSION AND ANALYSIS

2. REVENUES

The year-over-year revenue changes between fiscal years 2016 and 2015 and between fiscal years 2015 and 2014 were mainly due to:

	2016 vs 2015 Up \$2.6 million	2015 vs 2014 Up \$160.9 million
	<ul style="list-style-type: none"> a \$75.1 million favourable exchange rate impact on the revenues generated by Vermont energy distribution activities; 	<ul style="list-style-type: none"> a \$112.0 million favourable exchange rate impact on the revenues generated by Vermont energy distribution activities; and \$69.2 million from Gaz Métro-QDA, mainly due to: <ul style="list-style-type: none"> the revenues generated by the new C&T service ⁽¹⁾ (no impact on gross margin); and the impact of its rate case parameters;
	<ul style="list-style-type: none"> a \$48.2 million decrease in Gaz Métro-QDA's revenues, mainly due to: (i) rate changes in the various services (reflecting the rate case parameters) and (ii) a decrease in deliveries due to, among other factors, warmer-than-normal temperatures in the first six months of fiscal 2016 and customer efforts to conserve energy, partly offset by (iii) an increase in C&T revenues ⁽¹⁾ since this new service was introduced at the beginning of the second quarter of fiscal 2015 (no impact on gross margin); and a \$25.3 million decrease in revenues generated by Vermont energy distribution activities (excluding the exchange rate impact), mainly because of lower consumption by GMP's and VGS's customers given the warm fiscal 2016 temperatures and the adoption of energy efficiency measures by GMP's customers. 	<ul style="list-style-type: none"> a \$32.3 million decrease in GMP's revenues (excluding the impact of exchange rate changes) stemming mainly from the electricity resale business, as less excess capacity was sold in the winter of fiscal 2015 than in the same period of 2014, during which market prices were also higher (no impact on gross margin) and also from the impact of the rate case parameters.

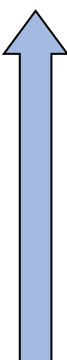
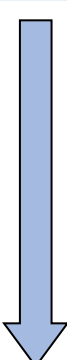
⁽¹⁾ For additional information on the C&T Regulation and its implications, refer to the Gaz Métro-QDA heading of section O) SEGMENT RESULTS.

Note 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 Gaz Métro's net income, as explained in greater detail in the Energy Distribution Segment heading of section O) SEGMENT RESULTS.

MANAGEMENT'S DISCUSSION AND ANALYSIS

3. IBIT

The year-over-year IBIT changes between fiscal years 2016 and 2015 and between fiscal years 2015 and 2014 were mainly due to:

	2016 vs 2015 Up \$90.3 million	2015 vs 2014 Up \$10.5 million
	<ul style="list-style-type: none"> ▪ a \$98.5 million increase in Gaz Métro-QDA's IBIT, mainly due to: <ul style="list-style-type: none"> ○ a \$79.3 million one-time adjustment in the first quarter of fiscal 2016 related to an employee future benefits regulatory treatment resulting from the application of U.S. GAAP ⁽¹⁾; and ○ higher capitalized interest on non-rate-base investments; and ▪ a \$7.1 million favourable exchange rate impact on the IBIT generated by Vermont energy distribution activities; 	<ul style="list-style-type: none"> ▪ a \$10.9 million favourable exchange rate impact on the IBIT generated by Vermont energy distribution activities; ▪ a \$7.9 million increase in the IBIT generated by electricity production activities, mainly due to favourable winds and because wind parks 2 and 3 came into service in November and December 2013, respectively, while wind park 4 came into service in December 2014; and ▪ a \$4.8 million increase in the IBIT generated by the Energy Services, Storage and Other segment, mainly due to Gaz Métro LNG's performance of short-term LNG supply contracts;
	<ul style="list-style-type: none"> ▪ an \$11.4 million decrease in the IBIT generated by Vermont energy distribution activities (excluding the exchange rate impact) due mainly to the net impact of recognizing a before-tax US\$20.6 million impairment of noncurrent assets related to VGS's Addison project, whereas a US\$10.3 million impairment of noncurrent assets had been recognized in fiscal 2015 ⁽¹⁾; and ▪ a \$5.1 million decrease in the IBIT generated by the electricity production segment, mainly due to less favourable wind conditions than those of fiscal 2015, which proved particularly strong compared to normal expected wind conditions. 	<ul style="list-style-type: none"> ▪ a \$14.8 million decrease in the IBIT generated by Vermont energy distribution activities (excluding the impact of exchange rate changes), mainly because VGS recorded a before-tax US\$10.3 million impairment of noncurrent assets related to the Addison project following the agreement reached with the VDPS ⁽¹⁾.

⁽¹⁾ For additional information on these adjustments, refer to the Net Income and Adjusted Net Income Attributable to Partners heading of this section.

4. INCOME TAXES

For fiscal 2016, income taxes stood at \$41.6 million, down \$3.6 million from \$45.2 million in fiscal 2015. This decrease came mainly from the lower IBIT generated by the Vermont energy distribution activities, partly offset by the unfavourable impact of the appreciation of the U.S. dollar against the Canadian dollar.

For fiscal 2015, income taxes had stood at \$45.2 million, up from \$44.3 million in fiscal 2014. This increase was mainly due to the unfavourable impact of the appreciation of the U.S. dollar against the Canadian dollar, partly offset by lower IBIT from energy distribution activities in Vermont.

MANAGEMENT'S DISCUSSION AND ANALYSIS

5. NET INCOME AND ADJUSTED NET INCOME ATTRIBUTABLE TO PARTNERS

5.1 RECONCILIATION WITH MEASURES THAT ARE COMPLIANT WITH U.S. GAAP

The following table provides a quantitative reconciliation with U.S.-GAAP-compliant measures of adjusted net income attributable to Partners and of basic and diluted adjusted net income per unit attributable to Partners:

For the fiscal years ended September 30

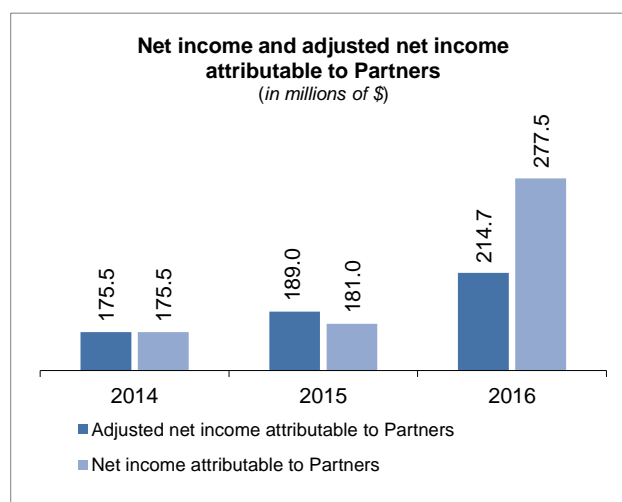
<i>(in millions of dollars, unless otherwise indicated)</i>	2016	2015	2014
Net income attributable to Partners	277.5	181.0	175.5
Adjustments:			
Impact of the regulatory treatment related to employee future benefits (a)	(79.3)	-	-
Impairment of noncurrent assets recorded for VGS's Addison project (b)	16.5	8.0	-
Adjusted net income attributable to Partners	214.7	189.0	175.5
Basic and diluted weighted average number of units outstanding <i>(in millions)</i>	167.3	155.3	151.8
Basic and diluted adjusted net income per unit attributable to Partners <i>(in \$)</i>	1.28	1.22	1.16

- (a) This item is a one-time adjustment to account for a regulatory asset of Gaz Métro-QDA. Under U.S. GAAP, this regulatory asset could not be recognized on the fiscal 2015 opening balance sheet (October 1, 2014) and was therefore written off through an adjustment to deficit. With the regulatory treatments having been changed in December 2015 following a Régie decision, this regulatory asset was re-recognized in fiscal 2016, resulting in a one-time increase in Gaz Métro's net income. Now that the regulatory treatments have been aligned with the U.S. GAAP treatment, this impact on net income is unlikely to reoccur in the future. For additional information on this adjustment, refer to Note 26 to Gaz Métro's audited consolidated financial statements for the fiscal years ended September 30, 2016 and 2015.
- (b) After the costs of the Addison project were re-estimated to be US\$165.6 million (estimated at US\$145.0 million as at September 30, 2015), VGS recognized an additional before-tax US\$20.6 million impairment of noncurrent assets (C\$26.5 million before taxes), which had a \$16.5 million unfavourable impact on Gaz Métro's fiscal 2016 net income. Remember that, in fiscal 2015, VGS had recognized a before-tax US\$10.3 million impairment of noncurrent assets (C\$13.5 million before taxes and C\$8.0 million after taxes) following the agreement signed with VDPS setting a US\$134.0 million cap on the Addison project costs that could be recovered through VGS's rates. For additional information on these items, refer to section O) SEGMENT RESULTS.

5.2 NET INCOME AND ADJUSTED NET INCOME ATTRIBUTABLE TO PARTNERS

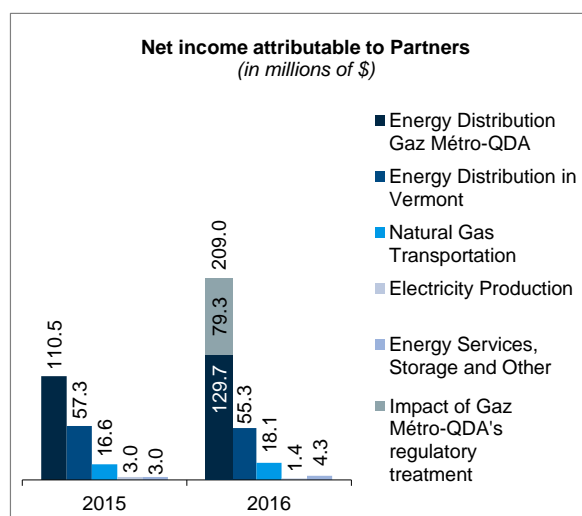
For fiscal 2016, net income attributable to Partners totalled \$277.5 million, up \$96.5 million from fiscal 2015. Adjusted net income attributable to Partners was \$214.7 million, up \$25.7 million from \$189.0 million in fiscal 2015. In fiscal 2015, net income and adjusted net income attributable to Partners were up \$5.5 million and \$13.5 million, respectively, when compared to fiscal 2014.

The fiscal 2016 and fiscal 2015 year-over-year changes in net income and adjusted net income attributable to Partners were due to the same factors as those explained in the previous headings of this section.



MANAGEMENT'S DISCUSSION AND ANALYSIS

Net income generated by Gaz Métro-QDA, which is significantly influenced by the rate of return authorized by the Régie on deemed common equity, represented slightly more than 75% of the net income attributable to Partners for fiscal 2016. Excluding the \$79.3 million favourable impact related to the recording of a regulatory asset described above, Gaz Métro-QDA generated net income of \$129.7 million, representing approximately 60% of the adjusted net income attributable to Partners ⁽³⁾, which is comparable to the 58% in fiscal 2015.



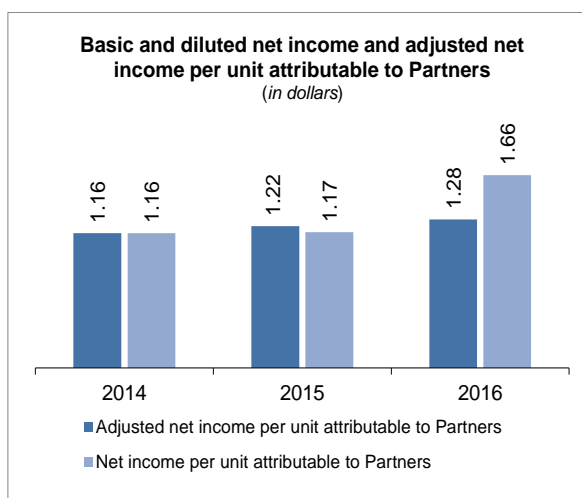
EXCELLENT PERFORMANCE BY GAZ MÉTRO-QDA AND A FAVOURABLE EXCHANGE RATE IMPACT ON VERMONT ENERGY DISTRIBUTION ACTIVITIES HAD A FAVOURABLE IMPACT ON NET INCOME AND ADJUSTED NET INCOME

5.3 BASIC AND DILUTED NET INCOME AND ADJUSTED NET INCOME PER UNIT ATTRIBUTABLE TO PARTNERS

For fiscal 2016, basic and diluted net income per unit attributable to Partners was \$1.66, up \$0.49 from fiscal 2015. Year over year, the fiscal 2016 basic and diluted adjusted net income per unit attributable to Partners ⁽³⁾ increased \$0.06.

In fiscal 2015, basic and diluted net income per unit attributable to Partners had increased \$0.01 year over year, and basic and diluted adjusted net income per unit attributable to Partners was up \$0.06 year over year.

These year-over-year changes were due to the same factors as those explained in the previous headings of this section, partly offset by the dilutive effect of the fiscal 2015 unit issuances.



6. LIQUIDITY

Gaz Métro has a strong financial position, which helped it to maintain an S&P corporate credit rating of A (stable) during fiscal 2016. As for the ratings on GMI's first mortgage bonds and commercial paper, S&P kept them at A+ and A-1 (mid), respectively. The credit ratings of the DBRS rating agency were also maintained.

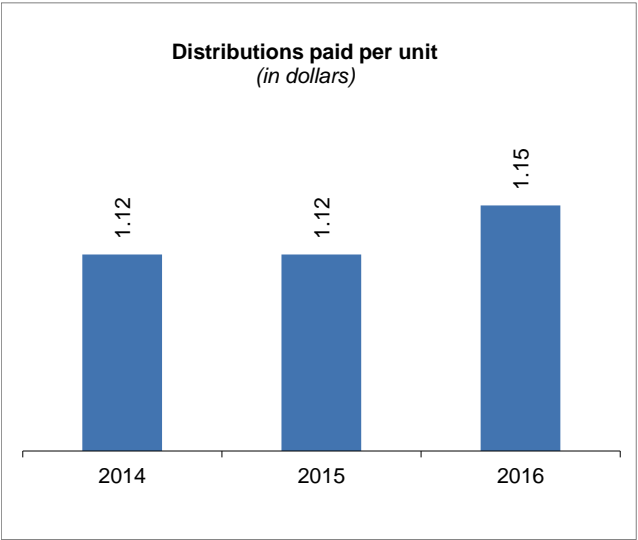
⁽³⁾ These financial measures are not defined by U.S. GAAP. For additional information, refer to the Non-U.S.-GAAP Financial Measures and Additional U.S. GAAP Measure heading in section L) OVERVIEW OF THE PARTNERSHIP AND OTHER.

MANAGEMENT’S DISCUSSION AND ANALYSIS

6.1 DISTRIBUTIONS PAID PER UNIT

In keeping with its practice of distributing virtually all of its earnings, the Partnership paid four quarterly distributions of \$0.28 per unit to its Partners in fiscal years 2014 and 2015. Thanks to the positive results of its strategic plan, the sustained growth of its rate-regulated activities, and the performance of its wind farms, Gaz Métro was able to raise its quarterly distribution from \$0.28 per unit to \$0.29 per unit during fiscal 2016, a 3.6% increase. As a result, Gaz Métro paid, in total, \$1.15 per unit in fiscal 2016, i.e., a quarterly distribution of \$0.28 per unit in October 2015 and three quarterly distributions of \$0.29 per unit in January, April and July 2016. Gaz Métro plans on maintaining a quarterly distribution of \$0.29 per unit during fiscal 2017.

INCREASE IN THE QUARTERLY DISTRIBUTION TO \$0.29 PER UNIT IN 2016; DISTRIBUTIONS TOTTALLING \$1.16 PER UNIT EXPECTED FOR FISCAL 2017



MANAGEMENT'S DISCUSSION AND ANALYSIS

O) SEGMENT RESULTS

NET INCOME AND ADJUSTED NET INCOME ATTRIBUTABLE TO PARTNERS BY SEGMENT

For the fiscal years ended September 30

<i>(in millions of dollars)</i>	2016	2015	Change
Energy Distribution			
Gaz Métro-QDA	209.0	110.5	98.5
Vermont	85.8	86.1	(0.3)
Financing costs of investments in this segment ⁽¹⁾	(30.5)	(28.8)	(1.7)
<i>Impact of the regulatory treatment related to employee future benefits ⁽²⁾</i>	<i>(79.3)</i>	<i>-</i>	<i>(79.3)</i>
<i>Impairment of noncurrent assets recorded for VGS's Addison project ⁽²⁾</i>	<i>16.5</i>	<i>8.0</i>	<i>8.5</i>
	201.5	175.8	25.7
Natural Gas Transportation			
TQM, PNGTS and Champion	20.3	18.9	1.4
Financing costs of investments in this segment ⁽¹⁾	(2.2)	(2.3)	0.1
	18.1	16.6	1.5
Electricity Production			
Gaz Métro Éole and Gaz Métro Éole 4	1.7	3.6	(1.9)
Financing costs of investments in this segment ⁽¹⁾	(0.3)	(0.6)	0.3
	1.4	3.0	(1.6)
Energy Services, Storage and Other			
Energy and storage	5.3	4.0	1.3
Financing costs of investments in this segment ⁽¹⁾	(1.0)	(1.0)	-
	4.3	3.0	1.3
Corporate Affairs			
Corporate affairs	(10.6)	(9.4)	(1.2)
	(10.6)	(9.4)	(1.2)
Adjusted net income attributable to Partners ⁽³⁾	214.7	189.0	25.7
<i>Adjustments ⁽²⁾</i>	<i>62.8</i>	<i>(8.0)</i>	<i>70.8</i>
Net income attributable to Partners	277.5	181.0	96.5

⁽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⁾ For additional information on these adjustments, refer to section N) CONSOLIDATED ANNUAL FINANCIAL PERFORMANCE SUMMARY.

⁽³⁾ This financial measure is not defined by U.S. GAAP. For additional information, refer to the Non-U.S.-GAAP Financial Measures and Additional U.S. GAAP Measure heading in section L) OVERVIEW OF THE PARTNERSHIP AND OTHER.

NET INCOME ATTRIBUTABLE TO PARTNERS
UP \$96.5M

ADJUSTED NET INCOME ATTRIBUTABLE TO PARTNERS
UP \$25.7M

MANAGEMENT'S DISCUSSION AND ANALYSIS

1. ENERGY DISTRIBUTION SEGMENT

HIGHLIGHTS

- Gaz Métro-QDA: Adjusted net income rose \$19.2 million or 17.4% to \$129.7 million in fiscal 2016;
- Gaz Métro-QDA: Application of final rates as of January 1, 2016 following Régie approval;
- Energy distribution in Vermont: A \$7.1 million favourable impact related to the appreciation of the U.S. dollar against the Canadian dollar on fiscal 2016 IBIT; and
- Energy distribution in Vermont: VGS's system development project in Addison County;
 - Recognition of an additional before-tax US\$20.6 million impairment of noncurrent assets after the estimated project costs were revised upwards to US\$165.6 million (US\$145.0 million as at September 30, 2015); and
 - Reconfirmation of the CPG and bringing into service of the first 17-km section in February 2016.

1.1 GAZ MÉTRO-QDA

For the fiscal years ended September 30

<i>(in millions of dollars)</i>	2016	2015	Change
Revenues	1,555.1	1,603.3	(48.2)
Gross margin	554.9	554.1	0.8
IBIT	209.0	110.5	98.5
Net income attributable to Partners	209.0	110.5	98.5
<i>Impact of the regulatory treatment related to employee future benefits ⁽¹⁾</i>	<i>(79.3)</i>	-	(79.3)
Adjusted net income attributable to Partners ⁽²⁾	129.7	110.5	19.2

⁽¹⁾ For additional information on this adjustment, refer to section N) CONSOLIDATED ANNUAL FINANCIAL PERFORMANCE SUMMARY.

⁽²⁾ This financial measure is not defined by U.S. GAAP. For additional information, refer to the Non-U.S.-GAAP Financial Measures and Additional U.S. GAAP Measure heading in section L) OVERVIEW OF THE PARTNERSHIP AND OTHER.

Revenues

In December 2015, the Régie approved the application of Gaz Métro-QDA's final rates for fiscal 2016. The final rates have been in effect since January 1, 2016, whereas, for the period of October 1 to December 31, 2015, the Régie had maintained the rates in effect as at September 30, 2015 on an interim basis. For the first quarter of fiscal 2016, Gaz Métro-QDA recognized its distribution revenues using the final rates approved by the Régie in December 2015 and assuming they had been applied since October 1, 2015. The difference between the distribution revenues billed to customers for the months of October to December 2015 and those that would have been generated using the final rates approved by the Régie has been recognized as a regulatory asset. Therefore, in this section, reference to the 2016 rate case refers to the final rates approved by the Régie in December 2015.

The following table highlights Gaz Métro-QDA's results for fiscal 2016, in terms of volume and revenue changes, compared with its fiscal 2015 results.

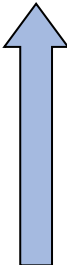
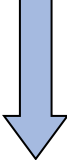
	Fiscal 2016		Revenue change (millions of \$)
	Volume change (10 ⁶ m ³)	(%)	
Distribution			
Residential and commercial	(25.4)	(1.1)	(26.0)
Industrial	(24.0)	(0.7)	(6.7)
Total distribution	(49.4)	(0.9)	(32.7)
Supply and compression	(301.6)	(10.1)	(139.8)
Transportation	(259.0)	(4.5)	40.2
Load-balancing	(279.9)	(4.8)	19.3
C&T	745.9	30.7	32.0
Other revenues			32.8
Total			(48.2)

Gaz Métro-QDA's revenues are divided into six service categories, namely, distribution, supply, compression ⁽⁴⁾, transportation, load-balancing, and C&T. The Régie authorizes a specific rate for each service and, for certain services, for each category of customer. Note that the C&T service is a new service in effect since January 1, 2015 and that the revenues from this service are used to recover the costs of purchasing emission allowances to cover the GHG emissions of Gaz Métro-QDA and those of its customers subject to the C&T Regulation.

⁽⁴⁾ Since November 1, 2015, the costs of the compression service, which has been abolished, have been allocated to the transportation service.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For fiscal 2016, the year-over-year revenue change for Gaz Métro-QDA's activities was mainly due to:

2016 vs 2015 Down \$48.2 million	
	<ul style="list-style-type: none"> ▪ a \$40.2 million increase in transportation revenues owing mainly to a 14.7% increase in average transportation rates, due to higher TCPL rates as of January 1, 2015, partly offset by a 4.5% decrease in transported volumes due to considerably warmer-than-normal temperatures during the first half of fiscal 2016;
	<ul style="list-style-type: none"> ▪ a \$32.8 million increase in other revenues stemming essentially from recovering the change in prior year shortfalls through rates;
	<ul style="list-style-type: none"> ▪ a \$32.0 million increase in C&T revenues given the introduction of this new service on January 1, 2015; and
	<ul style="list-style-type: none"> ▪ a \$19.3 million increase in load-balancing revenues owing mainly to a 19.0% increase in average load-balancing rates, as anticipated in the 2016 rate case, partly offset by a 4.8% decrease in load-balancing volumes;
	<ul style="list-style-type: none"> ▪ a \$139.8 million decrease in supply and compression revenues resulting from a 25.1% decrease in the average supply rate, given the favourable natural gas prices, and from a 10.1% decrease in supply service volume, as temperatures in the first half of fiscal 2016 were warmer than normal; and
	<ul style="list-style-type: none"> ▪ a \$26.0 million decrease in distribution revenues from the residential and commercial markets, mainly due to a 3.8% decrease in the average distribution rates authorized by the Régie combined with a 1.1% decrease in normalized natural gas deliveries to these markets.

The above-described changes in distribution revenues account for the effects of normalization. Gaz Métro-QDA applies a revenue normalization mechanism to its natural gas distribution revenues, based on normal temperature and normal wind velocity. Gaz Métro-QDA normalizes natural gas deliveries and then reflects the resulting adjustment in its revenues using rate stabilization accounts, which are later recovered from or returned to customers over a two-year period as of the fiscal year following initial recognition. In fiscal 2016, revenues were adjusted upward by \$9.5 million compared to a \$23.0 million downward adjustment in fiscal 2015 given the considerably colder-than-normal temperatures during fiscal 2015. It is important to note that the fundamentals on which application of the normalization mechanism is based are such that, given extreme temperature changes, a certain degree of inaccuracy could occur and not entirely neutralize the impacts on Gaz Métro-QDA's results.

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

Since January 1, 2015, the annual Green Fund duty has been replaced by the C&T service. For fiscal 2016, the cost of complying with the C&T Regulation had a net impact of approximately \$31 million on Gaz Métro-QDA's customers when compared to the costs for fiscal 2015. It should be pointed out that, although GHG emission allowances are purchased in Canadian dollars, the costs related to the C&T Regulation are affected by exchange rate fluctuations, since, by and large, GHG emission allowances are purchased in Canadian dollars whereas the price is indexed to the U.S. dollar. Revenues from the new C&T service are used to recover the cost of purchasing emission allowances to cover the GHG emissions of Gaz Métro-QDA and those of its customers that are not themselves subject to this regulation.

Gaz Métro-QDA's supply revenues come from the sale of the natural gas commodity to customers who subscribe to this service. These revenues have no impact on gross margin since Gaz Métro-QDA is not authorized to generate any profit from the sale of natural gas. Consequently, Gaz Métro-QDA's gross margin is mainly generated by distribution revenues since there are practically no direct costs associated with these revenues.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Normalized deliveries

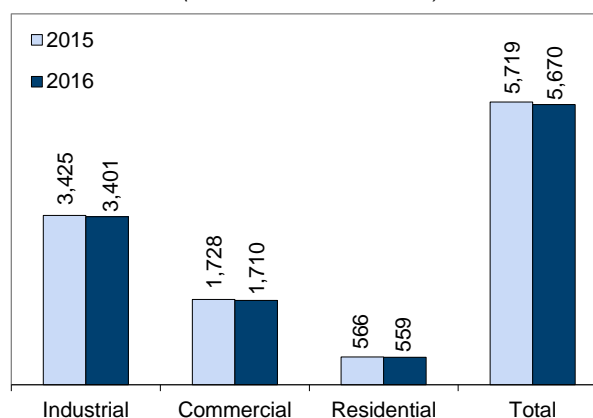
For fiscal 2016, Gaz Métro-QDA's normalized natural gas deliveries totalled 5,670 million cubic metres, down 0.9% from 5,719 million cubic metres in fiscal 2015.

The fiscal 2016 industrial market deliveries were down 0.7% year over year, mainly due to lower consumption in the metallurgy sector and lower economic growth than in fiscal 2015, partly offset by an increase in deliveries in the petrochemical sector.

The fiscal 2016 commercial market deliveries were down 1.0% year over year, mainly due to lower consumption in the institutional sector.

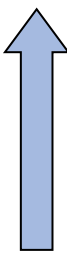
A 1.2% year-over-year decrease in residential market deliveries was essentially due to energy conservation efforts undertaken by customers.

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



IBIT

For fiscal 2016, the year-over-year change in Gaz Métro-QDA's IBIT was mainly due to:

2016 vs 2015 Up \$98.5 million	
	<ul style="list-style-type: none">a \$79.3 million ⁽¹⁾ one-time adjustment in the first quarter of fiscal 2016 to account for a regulatory asset related to employee future benefits;the various parameters in the 2016 rate case, as filed with the Régie, which had anticipated a \$13.2 million higher IBIT than in fiscal 2015, as explained below;higher capitalized interest on investments not included in the rate base and not anticipated in the 2016 rate case; andachievement of the annual energy savings objective, which enabled Gaz Métro-QDA to obtain the \$1.0 million GEEP performance incentive and that was not projected in the 2016 rate case.

⁽¹⁾ For additional information on this adjustment, refer to section N) CONSOLIDATED ANNUAL FINANCIAL PERFORMANCE SUMMARY.

It should be noted that, for fiscal 2016, Gaz Métro-QDA met all the performance indicators set by the Régie.

Impacts of Gaz Métro-QDA's 2016 rate case filed with the Régie

The 2016 rate case, as filed with the Régie, had anticipated a \$13.2 million higher IBIT than in fiscal 2015. On an annual basis, this increase stems mainly from:

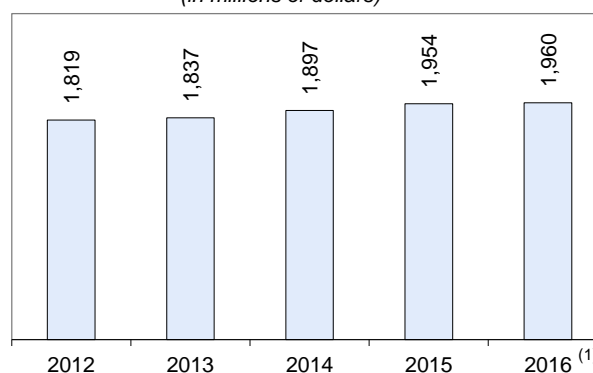
- higher capitalized interest on non-rate-base investments;
- partly offset by:
- the fact that no overearnings were projected in the 2016 rate case, whereas a \$1.0 million share had been realized for the distribution service in fiscal 2015; and
 - the fact that no GEEP performance incentive revenue was projected in the 2016 rate case, whereas \$1.0 million in revenues was realized in fiscal 2015.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Return on deemed common equity

In 2016, the actual average rate base was \$6 million higher than that of fiscal 2015. This increase stems mainly from increases in (i) investments in property, plant and equipment and (ii) regulatory assets related to the shortfalls in the transportation and load-balancing services, partly offset by decreases in (iii) regulatory assets related to temperature normalization and in (iv) regulatory working capital.

Gaz Métro-QDA
Actual average rate base evolution
(in millions of dollars)



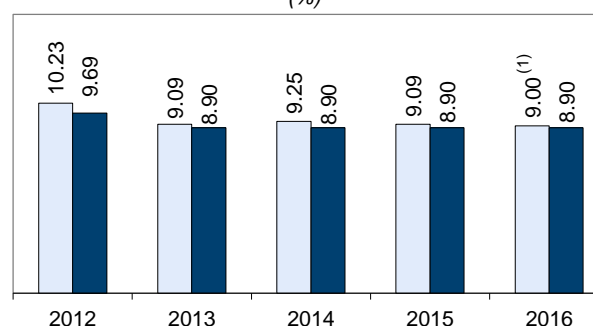
⁽¹⁾ Subject to the Régie's approval

At 8.90%, Gaz Métro-QDA's authorized base rate of return on deemed common equity for fiscal 2016 is the same as the rate authorized for fiscal years 2012 to 2015. At 9.00%, the realized rate of return on deemed common equity for fiscal 2016 was down 0.09% from the fiscal 2015 realized rate of return, as the distribution service realized less overearnings in 2016 than in 2015.

GAZ MÉTRO-QDA:

9.00% REALIZED RATE OF RETURN ON DEEMED COMMON EQUITY ATTRIBUTABLE TO OVEREARNINGS REALIZED BY THE DISTRIBUTION SERVICE

Gaz Métro-QDA
Realized and authorized rates of return on deemed common equity
(%)



□ Realized return
■ Authorized return including anticipated productivity gains

⁽¹⁾ Subject to the Régie's approval

Regulatory matters

Summary of Gaz Métro-QDA's regulatory framework

Fiscal years ended September 30 ⁽¹⁾	2017	2016	2015	2014
Authorized rate of return on deemed common equity	8.90%	8.90%	8.90%	8.90%
Capital structure (Debt; Equity) ⁽²⁾	54%; 46%	54%; 46%	54%; 46%	54%; 46%
Average rate base in rate case (in millions of \$)	2,044 ⁽³⁾	1,956	1,940	1,902

⁽¹⁾ The period covered by the rate case is October 1 to September 30.

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

⁽³⁾ For additional information, refer to the Regulatory Filings heading below.

Regulatory filings

Fiscal 2014	
2014 annual regulatory report	Gaz Métro-QDA's annual regulatory report for the fiscal year ended September 30, 2014 was filed with the Régie in December 2014, and a final decision was issued in July 2015, confirming Gaz Métro-QDA's financial results, except for certain items related to the transportation and load-balancing services. In October 2015, the Régie issued its final decision on those items, which had no impact on Gaz Métro-QDA's net income.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal 2015	
2015 annual regulatory report	Gaz Métro-QDA's annual regulatory report for the fiscal year ended September 30, 2015 was filed with the Régie in February 2016. In July 2016, the Régie issued its decision, which had no significant impact on Gaz Métro-QDA's net income.
2015 rate case - Regulatory relief and sharing mechanism	<p>Aiming for regulatory relief, and given that the incentive mechanism expired on September 30, 2012, in March 2014 Gaz Métro-QDA proposed a simplified and equitable transitional regulatory environment to the Régie for fiscal years 2015 to 2017, the aim being to fix operating expenditure increases to inflation and to equitably share potential deviations.</p> <p>In April 2015, the Régie authorized a sharing mechanism for the 2015, 2016 and 2017 rate cases that is similar to the mechanism already authorized for Hydro-Québec. During these periods, the first 100 basis points related to realized overearnings will be shared equally between Gaz Métro-QDA and its customers. Over and above these 100 basis points, 75% of the overearnings will be returned to the customers. As for the shortfalls, they will be fully borne by Gaz Métro-QDA.</p> <p>Lastly, in November 2015, the Régie issued a decision approving the terms of Gaz Métro-QDA's proposal on regulatory relief.</p>
Fiscal 2016	
2016 rate case	<p>In May 2015, the Régie approved the renewal, for fiscal years 2016 and 2017, of the 8.90% rate of return on deemed common equity, i.e., the same rate it had authorized for fiscal years 2013 to 2015.</p> <p>Also in May 2015, Gaz Métro-QDA filed a complete 2016 rate case in a streamlined format, as had been agreed to by the Régie. Pending a decision on the final rates for fiscal 2016, the Régie renewed, on an interim basis, the transportation and load-balancing rates authorized for fiscal 2015 until December 31, 2015 as well as the interim rates for the distribution service.</p> <p>In November 2015, a decision on the complete 2016 rate case was issued, and the final rates have been in effect since January 1, 2016. In that decision, the Régie approved an average decrease in distribution service rates of 3.8% compared to those in the 2015 rate case. However, this decrease for the distribution service is more than offset by TCPL's higher transportation rates and by the recovery of the shortfall realized in the transportation and load-balancing services in fiscal 2014, such that rates increased by an average of 5.9%. The Régie also authorized a projected monthly average rate base of \$1,956 million, a \$16 million increase from the 2015 rate case. This increase stems mainly from increases in (i) investments in property, plant and equipment, (ii) regulatory assets related to the shortfall in the transportation and load-balancing services, and (iii) regulatory working capital, partly offset by (iv) a decrease in regulatory assets related to temperature normalization.</p> <p>It should be noted that, in its decision, the Régie also approved the amortization of the full \$5.1 million regulatory asset that had been recognized for the costs of the studies and preparatory work for the project to serve the Côte-Nord region, given the postponement of all activities pertaining to this project.</p>
Request for accounting policy changes	In September 2015, Gaz Métro-QDA asked the Régie to approve, for rate-setting purposes, certain accounting policy changes related essentially to the treatment of employee future benefits and the rate stabilization accounts used for temperature and wind variances. The main reason for these changes had been to harmonize the rate-setting regulatory treatments with U.S. GAAP. In December 2015 and October 2016, the Régie authorized all changes proposed by Gaz Métro, notably permitting, as of October 1, 2016, regulatory assets and projected benefit liabilities related to employee future benefits to be included in the rate base. For additional information on this topic, refer to Note 26 to Gaz Métro's audited consolidated financial statements for the fiscal years ended September 30, 2016 and 2015.
Fiscal 2017	
2017 rate case	<p>Gaz Métro-QDA's complete 2017 rate case was filed with the Régie in two phases, i.e., in April and in May of 2016, in the streamlined format accepted by the Régie.</p> <p><i>Rate of return</i></p> <p>Pursuant to the Régie's May 2015 decision on the 2016 rate case, the rate of return on deemed common equity for fiscal 2017 was maintained at 8.90%, the same rate that had been authorized for fiscal years 2012 to 2016.</p>

MANAGEMENT'S DISCUSSION AND ANALYSIS

	<p><i>Rate-setting</i></p> <p>In October 2016, the Régie issued a decision approving the new rates, which have been in effect since November 1, 2016.</p> <p>Following this decision, Gaz Métro-QDA's 2017 rate case shows an average decrease in rates of 20.2% compared to fiscal 2016. This average decrease primarily reflects decreases of 41.4% in transportation rates and 28.2% in load-balancing rates. The lower rate for transportation services is essentially due to the relocation of the supply structure to Dawn, resulting in a reduction to supply costs. As for distribution rates, they are up 1.1%. The rate case also presents a projected monthly average rate base of \$2,044 million, an \$88 million increase from the 2016 rate case. This increase stems mainly from increases in (i) investments in property, plant and equipment, (ii) regulatory assets related to shortfalls in the transportation and load-balancing services, (iii) higher expenses related to the gas cost to be recovered from customers, partly offset by (iv) inclusion in the rate base of regulatory assets and projected benefit liabilities related to employee future benefits (not anticipated at the time of the initial filing), and by (v) the decline in commercial programs.</p>
Regulatory outlook	
2018 rate case	<p><u>Phase I</u></p> <p>In November 2016, Gaz Métro-QDA submitted a proposal to the Régie seeking to have the regulatory relief in effect for fiscal years 2015 to 2017 renewed in the 2018 and 2019 rate cases. This regulatory relief fixes operating expense increases to inflation, equitably shares any variances that might arise, and renews the 8.90% authorized rate of return on common equity. The procedural decision addressing this phase is expected in the coming weeks.</p>
Request from Quebec's ministry of energy and natural resources (<i>Ministère de l'Énergie et des Ressources naturelles</i>)	<p>As part of its 2030 Energy Policy, which was made public in April 2016, Quebec's ministry of energy and natural resources asked the Régie to propose rate solutions inspired by best practices in other states and territories, the aim being to simplify the options offered to customers.</p> <p>In response to this request, in July 2016 the Régie issued a public notice asking Gaz Métro-QDA to submit a report presenting its position on rate structures and options as well as on the integration of new technologies (renewable natural gas and self-generation) by December 15, 2016.</p> <p>A public hearing will be held in February 2017, and the Régie plans on submitting its response to the ministry in spring 2017.</p>

Outlook

For next year and future years, Gaz Métro plans on pursuing the 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.

Investment project - Improving and strengthening the transmission systems

In July 2015, the Régie authorized Gaz Métro-QDA to proceed with its project to improve and strengthen its Saguenay region transmission system following its January 2015 investment application to ensure reliable gas supply for customers on this section of the system. This is an estimated \$80 million project that consists of, among other work, upgrading the existing compression station in Saint-Maurice and installing a new compression station in La Tuque. Work at the sites began in May 2016 after the required authorizations and permits were obtained. Civil infrastructure work is underway and is scheduled for completion in December 2016. Detailed engineering work on equipment has been completed, and a call for tenders was launched this autumn such that the work may begin in January 2017 with the aim of bringing the system into service in November 2017.



Investment project to extend the network in the Bellechasse region

In June 2015, Gaz Métro announced a project to extend Gaz Métro-QDA's network in the Bellechasse region, between the municipalities of Lévis and Sainte-Claire, over a distance of approximately 72 km. In August 2015, Gaz Métro-QDA submitted an investment application to the Régie for this extension. The application was approved in December 2015. Work began in May 2016 and the new section is expected to be put into service in December 2016, as planned, including customer connections.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Once completed, this project could bring service to close to 100 customers and reduce GHG emissions by close to 6,000 tons and the region's energy bill by approximately \$2.5 million a year. Furthermore, the federal and Quebec governments have agreed to make a \$33 million joint investment in this project, which is valued at \$40 million. This announcement followed on the Government of Quebec's 2015-2016 budget announcement to invest \$38 million to make natural gas accessible in regions such as Bellechasse. For its part, Gaz Métro will invest \$7 million in the project.

Biomethanation

Gaz Métro believes that waste reclamation is a smart way to meet Quebec's energy requirements while helping to reduce GHG emissions. Gaz Métro is therefore very receptive to the Government of Quebec's program to process organic matter using biomethanation and composting, a program that aims to divert organic waste from landfills for reclamation purposes. Gaz Métro has therefore attached great importance to the biomethanation project; Gaz Métro-QDA worked on developing a new business model that, while adhering to the Régie's March 2013 decision, will allow renewable natural gas to be purchased and injected into its gas network.

In this context, in August 2016, Gaz Métro-QDA and the city of Saint-Hyacinthe entered into an agreement, formalizing the agreement-in-principle that had been signed in October 2014. In this agreement Gaz Métro-QDA commits to purchase 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 infrastructure to be built by Gaz Métro-QDA. Gaz Métro-QDA has obtained the necessary Régie approvals to carry out this project. It is expected that the renewable natural gas produced by the city of Saint-Hyacinthe will be purchased and injected into Gaz Métro-QDA's network starting in 2017.

Gaz Métro is pursuing its initiatives to reach agreements with other partners in order to continue developing the biomethanation process.



GAZ MÉTRO-QDA WILL INJECT
RENEWABLE NATURAL GAS INTO ITS
NETWORK IN 2017

1.2 ENERGY DISTRIBUTION IN VERMONT

For the fiscal years ended September 30

<i>(in millions of dollars)</i>	2016	2015	Exchange rate impact	Change, excluding the exchange rate impact
Revenues	1,002.9	953.1	75.1	(25.3)
Gross margin	405.2	361.4	29.5	14.3
Share in the earnings of equity-accounted interests	82.8	74.7	6.1	2.0
IBIT	82.3	86.6	7.1	(11.4)
Net income attributable to Partners	55.3	57.3	4.8	(6.8)
<i>Impairment of noncurrent assets recorded for VGS's Addison project ⁽¹⁾</i>	16.5	8.0	0.8	7.7
Adjusted net income attributable to Partners ⁽²⁾	71.8	65.3	5.6	0.9

⁽¹⁾ For additional information on this adjustment, refer to section N) CONSOLIDATED ANNUAL FINANCIAL PERFORMANCE SUMMARY.

⁽²⁾ This financial measure is not defined by U.S. GAAP. For additional information, refer to the Non-U.S.-GAAP Financial Measures and Additional U.S. GAAP Measure heading in section L) OVERVIEW OF THE PARTNERSHIP AND OTHER.

MANAGEMENT'S DISCUSSION AND ANALYSIS

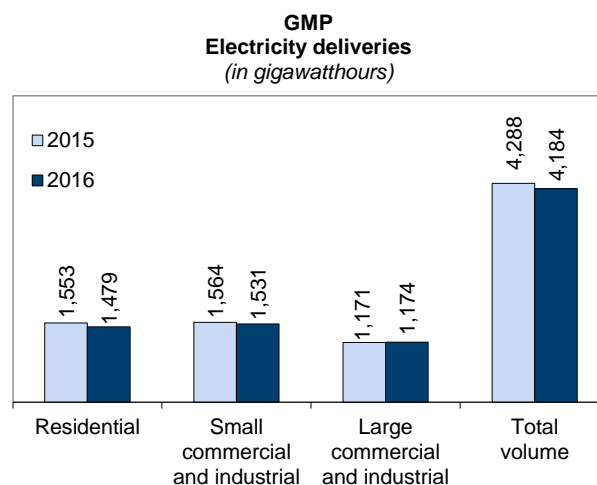
Revenues

Excluding exchange rate impacts, the year-over-year changes in this segment's 2016 revenues were mainly due to:

2016 vs 2015 GMP – Down \$11.4 million	
↑	<ul style="list-style-type: none"> the favourable impact of higher average rates resulting mainly from a decrease in customer consumption;
↓	<ul style="list-style-type: none"> the unfavourable impact on electricity deliveries arising mainly from warmer temperatures in the first six months of fiscal 2016 compared to the same period of fiscal 2015; and lower consumption from customers in the residential and small commercial and industrial markets, mainly due to the adoption of energy efficiency measures, including the use of solar power.
VGS – Down \$13.9 million	
↑	<ul style="list-style-type: none"> increase in interruptible service deliveries, mainly due to greater demand from a specific customer;
↓	<ul style="list-style-type: none"> a decrease in supply revenues due mainly to lower deliveries given the warmer temperatures in fiscal 2016 compared to 2015; and lower supply and interruptible service rates given a decrease in the supply costs anticipated in VGS's rate case.

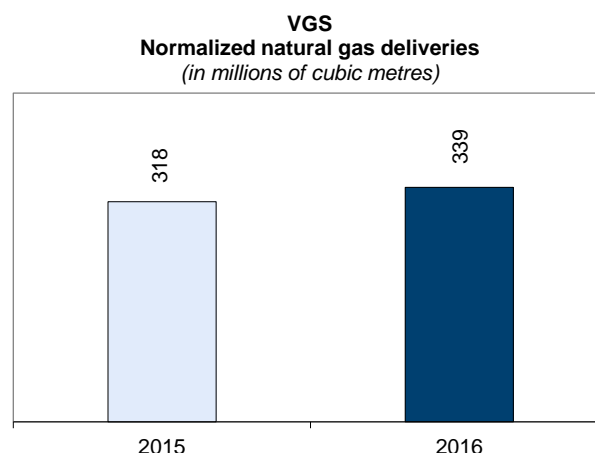
Deliveries

GMP - The electricity distributed by GMP is mainly used for generating, heating, air conditioning and lighting purposes. As such, demand is influenced by economic ups and downs, customer efforts to conserve energy, and temperature fluctuations. For fiscal 2016, GMP's electricity deliveries totalled 4,184 gigawatthours, down 2.4% from fiscal 2015. Deliveries to the residential market and to the small commercial and industrial market were down by 4.8% and 2.1%, respectively, year over year. These decreases were mainly due to an unfavourable impact of warmer temperatures in the first six months of fiscal 2016, which reduced customer consumption for heating needs in these markets, and to the adoption of energy efficiency measures (including the use of solar power).



MANAGEMENT'S DISCUSSION AND ANALYSIS

VGS - For fiscal 2016, VGS's normalized natural gas deliveries were up 6.6% year over year. This increase came mainly from greater interruptible service consumption driven by stronger demand by a specific customer. As a reminder, VGS applies a normalization mechanism to its natural gas deliveries and that, 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 the earnings of equity-accounted interests

The share in the earnings of equity-accounted interests consists of Gaz Métro's proportionate shares, through GMP, in the earnings of Velco and Transco, entities subject to significant influence. These shares in earnings are returned in full to customers through rates and therefore have a negligible impact on GMP's net income.

In September 2016, GMP invested an amount of \$50.9 million (US\$39.0 million) in Transco, raising its ownership interest from 71.5% to 72.4%, given that some of Transco's other partners invested less and thereby reduced their ownership interest in the company.

Having already invested US\$23.4 million in December 2014 and US\$3.8 million in September 2015, GMP was able to generate additional net income for fiscal 2016 compared to fiscal 2015, as these investments are included in its rate base and enable it to generate additional returns.

GMP's share in the earnings of equity-accounted interests, excluding the exchange rate impact, was up \$2.0 million compared to fiscal 2015. This increase was mainly due to the above-explained increase in its ownership of Transco.

IBIT

Excluding the exchange rate impact, the year-over-year change in this segment's fiscal 2016 IBIT was mainly due to:

2016 vs 2015 Down \$11.4 million	
↑	<ul style="list-style-type: none"> the favourable impact arising from an increase in GMP's rate base, as presented below; and the favourable impact stemming from GMP's electricity supply cost adjustment mechanism as market prices were below those of fiscal 2015;
↓	<ul style="list-style-type: none"> the net impact related to the recognition of a before-tax US\$20.6 million impairment of noncurrent assets (C\$16.5 million after taxes) in fiscal 2016, whereas a before-tax US\$10.3 million impairment of noncurrent assets (C\$8.0 million after tax) was recognized in fiscal 2015, and the unfavourable impact from no longer capitalizing the return on non-rate-base investments following a new cost estimate for VGS's Addison project ⁽¹⁾ related to the memorandum of understanding signed with the VPSB fixing recoverable project costs at US\$134.0 million; and the net effect of the synergy- sharing mechanism resulting from the merger between GMP and CVPS: although GMP realized additional operating expense savings during fiscal 2016, GMP must return 50% of those savings to customers in fiscal 2016, whereas a fixed amount of US\$8.0 million was returned in 2015.

⁽¹⁾ For additional information, refer to the Regulatory Filings heading of this section.

It should be noted that the service quality performance indicators program governed by the VPSB for GMP and VGS did not have any significant impact on their IBIT during fiscal 2016.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Regulatory matters

Summary of the regulatory framework for GMP and VGS

Fiscal years ended September 30 ⁽¹⁾	2017		2016		2015		2014	
	GMP ⁽²⁾	VGS ⁽²⁾	GMP	VGS	GMP	VGS	GMP	VGS
Authorized rate of return on common equity	9.02%	9.70%	9.44%	10.09%	9.60%	10.20%	9.58%	10.26%
Capital structure (Debt; Equity)	49.7%; 50.3%	50%; 50%	50.4%; 49.6%	45%; 55%	50%; 50%	45%; 55%	50.4%; 49.6%	45%; 55%
Average rate base in rate case (in millions of US\$)	1,353	213	1,260	200 ⁽³⁾	1,165	193 ⁽³⁾	1,159	144 ⁽³⁾

⁽¹⁾ The rate case period is from October 1 to September 30.

⁽²⁾ The VPSB approved GMP's 2017 rate case in September 2016. However, VGS's 2017 rate case is currently being examined by the VPSB, as explained in greater detail in the heading below.

⁽³⁾ Includes US\$70 million in projected return-generating investments in 2016 (US\$66 million in 2015 and US\$33 million in 2014) related to VGS's Addison County system development project. It should be noted that the return-generating amounts relating to the Addison project were revised downward during fiscal 2016 following the review of estimated project costs in line with the memorandum of understanding signed with the VDPS, which capped recoverable costs at US\$134 million, as discussed in greater detail in the Regulatory Filings heading.

Regulatory filings

Fiscal 2016	
GMP - 2016 rate case	<p>In September 2015, the VPSB approved the rate case filed by GMP in July 2015. The new rates took effect on October 1, 2015. This rate case, prepared on a cost-of-service basis, covered the period of October 1, 2015 to September 30, 2016 and sought a 9.44% rate of return on deemed common equity and a deemed common equity ratio of 49.6%. The rate case also included a projected average rate base of US\$1,260 million, a US\$95 million increase from the 2015 rate case. This increase was mainly due to an increase in property, plant and equipment investments and to the investments made in Transco during fiscal 2015.</p> <p>It should be noted that the file also includes a provision whereby 50% of the synergy savings resulting from the CVPS merger will be returned to GMP's customers; an amount of US\$13.3 million was therefore included in the rate case, in accordance with the agreement concluded with the VPSB when GMP acquired CVPS. Following the filing of an agreement letter between GMP and the VDPS in September 2015, the VDPS approved a rate decrease of 0.76% for fiscal 2016.</p>
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, among others, a proposal to allocate costs among all categories of customer. In November 2015, GMP entered into a memorandum of understanding with all parties to the proceeding, including the VDPS, with regards to this filing. This memorandum retains the terms of the new rate proposal submitted by GMP to the VPSB in May 2015, including its plan to gradually introduce the new commercial and industrial market rates over a five-year period starting on April 1, 2016. In March 2016, the VPSB approved GMP's new rate proposal in its entirety.</p>
VGS - 2016 rate case	<p>In November 2015, the VPSB approved the rate case filed by VGS in August 2015. The new rates took effect on November 1, 2015. This rate case reflected an overall rate reduction of 3.0%, composed of an 8.1% reduction in natural-gas-related rates, partly offset by a 1.5% increase in base rates. In addition, the rate case presented a 10.09% rate of return on deemed common equity and a deemed common equity ratio of 55%. It should be noted that this rate case excluded the impact of bringing into service the first section of its system development project, given that VGS was, at the time, still waiting for its CPG to be reconfirmed.</p>
Fiscal 2017	
VGS - Alternative Regulation Plan and 2017 rate case	<p>In February 2016, VGS filed an application with the VPSB to renew its Alternative Regulation Plan, which is set to expire on September 30, 2016. In its application, VGS is asking to keep most of the components of the existing plan but is proposing, among other modifications, a change in how the effects of weather normalization on deliveries is recovered from customers. Specifically, VGS is asking that, under the new plan, the effects of normalization be recovered from customers through its quarterly natural gas cost adjustment mechanism rather than through the annual base-rate-setting process, as prescribed under the current Alternative Regulation Plan.</p>

MANAGEMENT'S DISCUSSION AND ANALYSIS

	<p>In February 2016, VGS also submitted a cost-of-service proposal for fiscal 2017. The proposed cost of service, which assumes the parameters of the Alternative Regulation Plan being renewed, presents an overall rate reduction of 3.3%, which is composed of a 10.0% reduction in rates related to the cost of natural gas, partly offset by a 2.0% increase in base rates. The cost of service provides for a 9.7% rate of return on common equity and a common equity ratio of approximately 50%. In this proposal, VGS also factors an amount of US\$134 million related to the Addison project costs into its rate base and is seeking VPSB approval to begin using amounts collected in its System Expansion and Reliability Fund to reduce the rate impact of putting the Addison project in service. Also, should the final section of the Addison project be put into service before the date anticipated in the 2017 rate case, the VPSB will allow VGS to account for the project costs in a return-generating regulatory asset account once it is put into service.</p> <p>The cost-of-service proposal is being examined at the same time as, but separately from, the Alternative Regulation Plan application. The VPSB had adopted a timeline for issuing a decision such that the new rates would take effect as of February 2017. However, in order to provide the VDPS and other intervenors with more time to submit their recommendations, VGS and the parties have agreed to delay the VPSB's initial schedule by one month. A VPSB decision on these two filings is now expected in time to allow new rates to take effect in March 2017. Pending the decisions on these filings, the VPSB has maintained in effect the fiscal 2016 rates on an interim basis and has also extended the quarterly natural gas cost adjustment mechanism, as prescribed under the Alternative Regulation Mechanism in effect during fiscal 2016.</p>
GMP - 2017 rate case	<p>In August 2016, GMP filed its 2017 rate case with the VPSB. It was developed on a cost-of-service basis and covers the period of October 1, 2016 to September 30, 2017. This application provides for an authorized rate of return on common equity of 9.02% and an approximate 50.3% common equity ratio. In this rate case, GMP is proposing a 0.93% rate increase for fiscal 2017 and presents a projected average rate base of US\$1,353 million, a US\$93 million increase from the 2016 rate case. This increase in the rate base is mainly due to (i) an increase in property, plant and equipment investments, (ii) the investments made in Transco in fiscal years 2016 and 2015, (iii) the investments made in solar power projects, and (iv) the investments made to acquire small hydroelectric power plants, as mentioned in the Outlook heading of this section.</p> <p>The application also includes a provision whereby 50% of the synergy savings resulting from the CVPS merger will be returned to GMP's customers; an amount of US\$16.3 million has therefore been included in the rate case. In September 2016, the VPSB approved GMP's application, and the new rates have been in effect since October 1, 2016.</p>
Regulatory outlook	
VGS - System development project	<p><u>Granting of the CPG and memorandum of understanding between VGS and the VDPS</u></p> <p>In December 2013, the VPSB issued a CPG enabling VGS, subject to various permits being obtained, to begin construction of its project to extend its natural gas distribution system in Addison County, which was initially to serve the communities of Vergennes and Middlebury but will now also serve additional communities such as Bristol, Monkton and New Haven. After obtaining all the necessary construction and environmental permits, VGS began project construction in late June 2014. As at September 30, 2016, US\$158.6 million had been invested in the project.</p> <p>In July 2014, VGS filed an initial application with the VPSB to update the estimated costs to complete its project so as to raise the project budget from US\$86.6 million to US\$121.6 million. Following this application, in October 2014 the VPSB ruled that there was no need to review the granting of the CPG. In December 2014, VGS submitted a letter to the VPSB presenting a second update to the project-related costs, indicating that the projected costs had increased from US\$121.6 million to US\$153.6 million. Following this filing, the VPSB initiated procedures to reconfirm the CPG for the project and to review the new cost estimate.</p> <p>In October 2015, VGS and the VDPS signed a memorandum of understanding under which VGS agreed to set a US\$134.0 million cap on the amount of the project costs that could be recovered through rates, barring circumstances beyond its control or not set out in the memorandum such as vandalism, protests, other events unreasonably interfering with construction, significant delays in obtaining right-of-ways, or acts of god. In January 2016, the VPSB issued a decision approving the memorandum of understanding and stating that the order granting the CPG would not have to be reopened.</p> <p>Pursuant to this memorandum of understanding, VGS recorded a US\$10.3 million impairment of noncurrent assets on September 30, 2015 to recognize the uncertainty surrounding a portion of the project costs that could potentially not be recoverable from rates. Given this context, during the second quarter of fiscal 2016, VGS also stopped capitalizing the return on non-rate-base</p>

MANAGEMENT’S DISCUSSION AND ANALYSIS

	<p>investments related to the project. In June 2016, VGS also recognized a US\$20.6 million impairment of noncurrent assets following a review of the estimated project costs, which now stand at \$165.6 million. The higher estimated project costs mainly reflect an increase in construction costs resulting from greater drilling activities, the effect of soil composition and from higher land rights acquisition costs.</p> <p><u>Project construction</u></p> <p>In February 2016, the first 17 km of the project, out of the total 66 km, was put into service by VGS and construction on the remaining section began in spring 2016. All but approximately 0.6 km of the project is now completed. The remaining 0.6 km is currently the subject of proceedings before the Supreme Court of Vermont. While VGS land owners and has obtained all the necessary approvals from the VPSB, a group of citizens has opposed the VPSB’s decision to grant the remaining land right. The citizens’ group has appealed this decision to the Supreme Court of Vermont. Construction of the last section cannot proceed while the appeal is pending unless the Supreme Court expressly authorizes it. VGS has made such a request to the court and is waiting on a decision. This request has the support of the VPSB.</p> <p>To date, the project continues to be viewed as a beneficial solution for the State of Vermont. Aside from the environmental advantages, natural gas remains a competitive energy source compared to the other sources of fossil fuel. Lastly, the project has received broad support from industry, industry-related groups, government agencies including the VDPS, and the public in general, although it has also been contested by some citizens and interest groups.</p>
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Major snow storm in Vermont

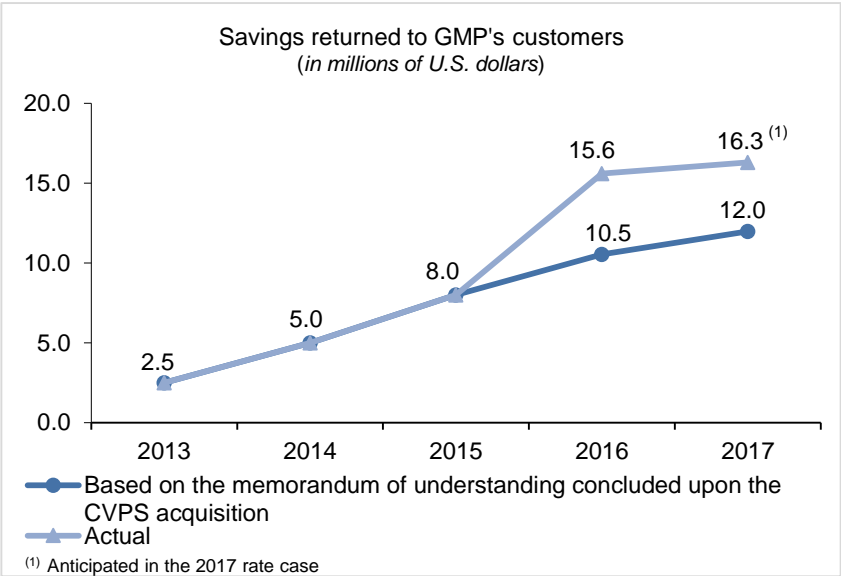
In December 2014, a major snow storm hit the State of Vermont, dumping huge amounts of snow on the entire area. In many areas, 8 to 15 centimetres of snow accumulated on electrical cables. Many large tree branches snapped under the weight of this snow, and there were damages to GMP’s entire network. The total storm-related costs for GMP were estimated to be US\$16 million. According to the regulatory mechanisms in effect, substantially all of these costs can be recovered through rates. Therefore, in April 2015, GMP submitted an application to the VPSB seeking to recover these costs over a two-year period; the application was approved in September 2015.

Operational integration of GMP and CVPS

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

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

The following table presents the annual synergy savings that have been returned to GMP’s customers since the CVPS acquisition:



MANAGEMENT'S DISCUSSION AND ANALYSIS

In fiscal 2015, the synergies realized by GMP exceeded those anticipated in its rate case, which had provided for US\$8.0 million in synergy savings to be returned to customers under the terms established. As per the memorandum of understanding, these additional savings were retained by GMP and favourably affected its net income for fiscal 2015, as was the case in fiscal years 2013 and 2014. For fiscal years 2016 and 2017, the memorandum of understanding provides for the synergy savings to be shared equally between GMP and its customers.

Outlook

Solar and wind power

Aiming to be a leader in new energies, GMP is pursuing its commercial efforts to form strategic partnerships for new energy development. These efforts fit within its commercial goal of continuing to offer the cleanest forms of energy generation to Vermont residents.

During fiscal years 2016 and 2015, GMP therefore became involved in developing solar power projects. By the end of 2016, GMP plans on completing construction of five solar farms located at five different sites throughout Vermont. When complete, these solar farms, with a total capacity of approximately 22 MW, will represent a total investment of approximately US\$40 million for GMP. At this time, regulatory approvals have been obtained for the five projects. One farm was commissioned in September 2016 and construction of a second farm is practically completed. The construction of the other three farms began in August 2016. As at September 30, 2016, GMP had invested approximately US\$20 million into these projects.



In addition, during fiscal 2015, GMP completed construction of the Stafford Hill Solar Farm, for which it won the 2015 Project of Distinction Award. With 11 wholly- or jointly-owned solar farms with an installed capacity of 7 MW and its two wind farms with a total installed capacity of 69 MW able to power over 24,000 homes, GMP is the largest wind and solar energy producer in Vermont.

GMP IS THE LARGEST PRODUCER OF SOLAR ENERGY IN VERMONT

Furthermore, in summer 2015, GMP entered into a partnership with Tesla Motors Inc. in order to offer customers the possibility to use Powerwall, a high-capacity home battery. Combined with the use of solar panels, this system allows customers to generate and store their own energy. Among other advantages, the system will help GMP better manage peak energy demand and help customers save costs and obtain a source of backup power. In May 2016, GMP announced that it had begun Powerwall installations, making it the first energy utility in the U.S. to install this technology for customers.

Cow power



Over the next few years, GMP plans to further develop its Cow Power program by investing in new facilities to convert manure from dairy cows into clean energy through the use of digesters at dairy farms.

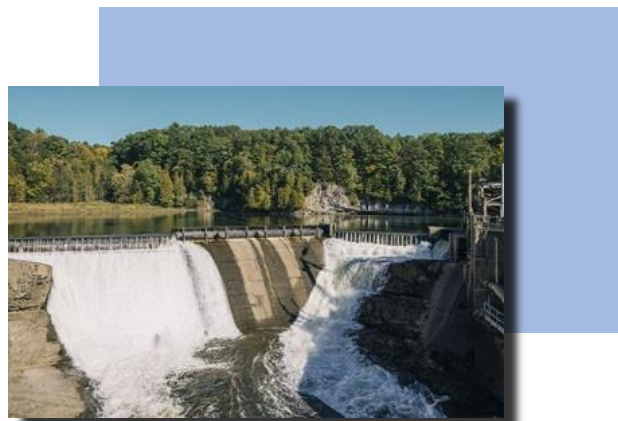
During fiscal 2016, GMP therefore submitted an application to the VPSB seeking authorization to build the necessary facilities, including an 800 KW biomethane digester in St. Albans, Vermont. The cost of this project is estimated at US\$9.4 million, and construction is expected to begin in fiscal 2017 such that it can be put into service in fiscal 2018.

This program is of great benefit to the entire State of Vermont, since, in addition to generating renewable energy, it also improves water quality by reducing the amount of phosphorus running off into lakes and streams in the Champlain Lake area, a constant challenge for the region. The system could also be used to process food waste, which will no longer be allowed in Vermont landfills following recent legislative changes. As at September 30, 2016, 13 farms were taking part in the project.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Hydroelectricity

In July 2016, GMP reached an agreement with Enel Green Power North America Inc. (Enel) to acquire small hydroelectric power plants located mainly in New England, with an approximate total capacity of 17 MW, and to purchase the output of two other Enel hydroelectric power plants (Sheldon Springs and Lachute) in accordance with 25-year power purchase agreements. This acquisition, valued at US\$20.3 million, should be completed in fiscal 2017, subject to the regulatory approval of the VPSB. In September 2016, GMP submitted the agreement reached with Enel to the VPSB for approval. With this acquisition and the power purchase agreements, GMP will raise the renewable energy proportion of its supply portfolio. In addition, the power purchase agreements will make it possible to fix the price of a portion of this renewable supply each year.



ACQUISITION BY GMP OF SMALL HYDROELECTRIC POWER PLANTS IN NEW ENGLAND

Renewable natural gas at VGS

The VGS network is expected to inject renewable natural gas into its network in 2017. The renewable natural gas will be supplied by landfills located outside Vermont. To make this product accessible to its customers, VGS filed an application with the VPSB to obtain a rate for customers who choose to purchase renewable natural gas. With these initiatives, VGS will become one of the first local distribution companies in the U.S. to offer renewable natural gas to its customers.

2. NATURAL GAS TRANSPORTATION SEGMENT

Fiscal years ended September 30

<i>(in millions of dollars)</i>	2016	2015	Change
Revenues	3.0	3.5	(0.5)
Gross margin	3.0	3.5	(0.5)
Share in the earnings of equity-accounted interests	32.0	29.5	2.5
IBIT	30.6	27.9	2.7
Net income attributable to Partners	18.1	16.6	1.5

Revenues

This segment's revenues, which are also equal to its gross margin, are stable and consist of the revenues and gross margin generated by Champion.

Share in the earnings of equity-accounted interests

For fiscal 2016, the year-over-year increase in Gaz Métro's share in the earnings of equity-accounted interests was mainly due to:

2016 vs 2015 Up \$2.5 million	
↑	<ul style="list-style-type: none"> a US\$2.3 million provision (Gaz Métro's share: US\$0.9 million) recognized by PNGTS in the second quarter of fiscal 2015 as a result of a FERC decision issued in February 2015, as discussed in greater detail in the Regulatory Filings heading of this section; and a favourable impact of the appreciation of the U.S. dollar against the Canadian dollar on Gaz Métro's share in the earnings of PNGTS;
↓	<ul style="list-style-type: none"> a decrease in PNGTS's deliveries, resulting mainly from warmer temperatures in fiscal 2016 compared to those in 2015.

MANAGEMENT'S DISCUSSION AND ANALYSIS

IBIT

For fiscal 2016, the Natural Gas Transportation segment's IBIT increased \$2.7 million year over year, mainly due to the change in the shares of the earnings of PNGTS, as explained above.

Regulatory matters

Summary of TQM's regulatory framework

Rate case period	2016-01-01 to 2016-12-31	2015-01-01 to 2015-12-31	2014-01-01 to 2014-12-31
Rate principles	Final rates based on the multiyear plan (2014-2016) negotiated with interested parties	Final rates based on the multiyear plan (2014-2016) negotiated with interested parties	Final rates based on the multiyear plan (2014-2016) negotiated with interested parties
Decision issued by the NEB	April 2016	April 2015	April 2014
Average rate base in rate case	\$345 million	\$340 million	\$353 million

Regulatory filings

Fiscal 2015	
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>The NEB therefore directed pipeline companies to begin collecting, as of 2015, the amounts to be used to finance future pipeline abandonment costs. In fiscal years 2014 and 2015, having obtained the necessary approvals from the NEB, TQM implemented a trust mechanism in order to collect and secure the funds.</p> <p>Since January 1, 2015, TQM's rates have therefore included a transportation service surcharge that will be used to finance the future abandonment costs, as approved by the NEB.</p>
PNGTS - Rate cases	<p>In May 2010, PNGTS filed a rate case with the FERC to have its rate increase recognized, and a decision on this application was issued in March 2013. In April 2013, PNGTS filed a request asking the FERC to review this decision and seeking to have certain specific aspects re-examined.</p> <p>In February 2015, the FERC issued a decision rejecting PNGTS's request and setting the rate at US\$0.8543/DTH compared to US\$0.8685/DTH, which was the rate set by the FERC in its March 2013 decision. Given this decision, in March 2015 PNGTS recorded a provision of US\$2.3 million (Gaz Métro's share: US\$0.9 million) to reflect this rate discrepancy. In April 2015, PNGTS reimbursed all amounts owed to its customers, including the interest prescribed by the FERC. Note that, since 2010, PNGTS had been billing its customers at US\$1.32/DTH and that the difference between the rates billed and those approved by the FERC was recorded as a liability.</p>
Fiscal 2016	
TQM - 2016 rate case	In November 2015, TQM filed an application with the NEB seeking approval of its interim rates for fiscal 2016, which include the transportation service surcharge that will be used to finance future pipeline abandonment costs. These interim rates, approved in December 2015, took effect on January 1, 2016 and remained in effect until the final rates were approved by the NEB in April 2016.
Fiscal 2017	
TQM - 2017 multiyear agreement	The 2014-2016 negotiated multiyear agreement will expire on December 31, 2016. TQM is currently working to conclude a new agreement negotiated with interested parties for its fiscal 2017 rates.
TQM - 2017 rate case	TQM intends to file an application with the NEB by December 1, 2016 seeking approval of the interim rates for fiscal 2017. Upon approval, the interim rates will take effect on January 1, 2017 and remain in effect until final rates are approved. Final rates are expected to be submitted in the second quarter of fiscal 2017, and NEB approval of the final rates is expected in the third quarter of fiscal 2017.

MANAGEMENT'S DISCUSSION AND ANALYSIS


3. ELECTRICITY PRODUCTION SEGMENT

Fiscal years ended September 30

(in millions of dollars)	2016	2015	Change
Revenues	-	-	-
Gross margin	-	-	-
Share in the earnings of equity-accounted interests	5.7	11.4	(5.7)
IBIT	4.7	9.8	(5.1)
Net income attributable to:			
Partners	1.4	3.0	(1.6)
Non-controlling interests	2.6	5.2	(2.6)

Share in the earnings of equity-accounted interests

In fiscal 2016, Gaz Métro's share in the earnings of its joint ventures, Wind Farms 2 and 3 and Wind Farm 4, decreased year over year, mainly due to:

2016 vs 2015 Down \$5.7 million	
	<ul style="list-style-type: none"> a year-over-year decrease in output of 10.4% (94,148 MWh) from Wind Farms 2 and 3 during fiscal 2016, mainly because this year's wind conditions were less favourable than those of fiscal 2015, which had proven especially stronger than normal.

IBIT

The Electricity Production segment's fiscal 2016 IBIT decreased by \$5.1 million year over year, mainly due to the above-explained change in the share in the earnings of Wind Farms 2 and 3. For additional information on electricity production activities, refer to 3.2 Analysis of wind farm performance in Québec heading in section B) CONSOLIDATED ANNUAL FINANCIAL PERFORMANCE SUMMARY of this MD&A.

Outlook

Gaz Métro remains apprised of potential opportunities to invest in other wind power projects, particularly opportunities to further develop the wind power potential of Seigneurie de Beauré.



4. ENERGY SERVICES, STORAGE AND OTHER SEGMENT

Fiscal years ended September 30

(in millions of dollars)	2016	2015	Change
Revenues	41.7	38.0	3.7
Gross margin	19.9	18.3	1.6
Share in the earnings of equity-accounted interests	4.0	4.1	(0.1)
IBIT	5.7	4.1	1.6
Net income (loss) attributable to:			
Partners	4.3	3.0	1.3
Non-controlling interests	(0.3)	(0.3)	-

Revenues

For fiscal 2016, this segment's revenues increased \$3.7 million year over year, essentially due to higher LNG deliveries by Gaz Métro LNG, which went from 23.9 million cubic metres in fiscal 2015 to 34.2 million cubic metres in fiscal 2016. This increase was driven by the fulfillment of new contracts, partly offset by the fulfillment of a major short-term contract during the first quarter of fiscal 2015. The segment's other business activities remained relatively stable during fiscal 2016.

MANAGEMENT'S DISCUSSION AND ANALYSIS

IBIT

This segment's fiscal 2016 IBIT increased \$1.6 million year over year, mainly due to (i) an increase in Gaz Métro LNG's gross margin resulting from the above-explained revenue increase combined with (ii) an increase in the overall profitability of Transport Solutions.

Regulatory matters

Regulatory filings

Fiscal 2016	
Intragaz - 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.

Outlook

LNG

Gaz Métro, through Gaz Métro LNG, is active in the development of new production infrastructures and in LNG commercialization activities.



In October 2014, Gaz Métro and the Government of Quebec, through Investissement Québec (IQ), entered into a partnership on a project to increase the liquefaction capacity of Gaz Métro's LSR plant. The proposed expansion, which will triple the LSR plant's liquefaction capacity, represents an estimated total investment of \$118 million. Since the production and commercialization of LNG are not rate-regulated activities, this project is being carried out through the Gaz Métro LNG subsidiary. The Government of Quebec's economic interest in the project will be a maximum \$50 million investment in Gaz Métro LNG. The work to expand the LSR plant began in June 2015 and will be completed by the end of 2016 such that the LNG generated by the new infrastructures can be made available to customers. The additional LNG volumes generated by the project will be used to meet growing demand in the road and marine transport markets and in areas remote from Gaz Métro-QDA's gas system, particularly the Nord-du-Québec and Côte-Nord regions. As at September 30, 2016, Gaz Métro and IQ had invested \$47.9 million and \$34.7 million, respectively, in the project.

In September 2013, Gaz Métro LNG concluded an agreement with the STQ for the purchase of fuel to supply three ferries with LNG. The F.-A. Gauthier, North America's very first LNG ferry, arrived in Quebec during fiscal 2015. It is currently serving the Matane/Baie-Comeau/Godbout crossing. The STQ is expected to take possession of two more LNG ferries in 2017. These two other ferries, also to be supplied by Gaz Métro LNG, will serve the Tadoussac/Baie-Ste-Catherine crossing. Each of the three new ferries will produce up to 25% less GHG emissions than comparable ships using marine diesel.

Gaz Métro LNG is also continuing to market the LNG produced by the LSR plant's current and future capacity, both inside and outside Quebec. For example, several gas distributors in New England use LNG as a supply source, especially to meet peak winter demand. Short- and medium-term contracts have been signed with several LNG wholesalers and natural gas distributors, including National Grid, for its gas distribution subsidiaries in the Boston area. In June 2016, Gaz Métro confirmed the start of LNG deliveries to Stornoway Diamonds Corporation, whose Renard diamond mine is located in northern Quebec (Nord-du-Québec) more than 1,000 km from the LSR plant.



LNG BEING SUPPLIED MORE THAN
1,000 KM FROM THE LSR PLANT

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVER 4,000 LOADS BY TANKER TRUCK
SINCE 2011 WITHOUT ANY MAJOR
INCIDENT

In March 2016, Gaz Métro announced that it would be supplying LNG to the ArcelorMittal pellet plant located in Port-Cartier as part of a pilot project to convert a portion of its manufacturing process from heavy fuel oil to LNG. In connection with this project, Quebec's ministry of energy and natural resources (the *ministère de l'Énergie et des Ressources naturelles*) announced that ArcelorMittal would receive a maximum grant of \$4.5 million, a grant that falls under the 2013-2020 Climate Change Action Plan. Once complete, the pilot project will help cut the company's

GHG emissions by over 4,945 tons of CO₂ equivalent per year, which is the same as taking 1,454 cars off Quebec's roads. This project is a first step towards the initiatives undertaken by Gaz Métro, more than 15 years ago, to make natural gas accessible to industries in Quebec's Côte-Nord region.

LNG storage and regasification site in Bécancour

Following an agreement-in-principle concluded with Hydro-Québec, Gaz Métro Energy Solutions, a subsidiary of Gaz Métro, plans to build an LNG storage and regasification site near the TransCanada Energy Ltd. (TCE) power plant in Bécancour, the aim being to generate the electric power required in winter peak periods, or the equivalent of 100 hours. To do so, there are plans to erect a storage facility that can hold 20,000 cubic metres of LNG as well as a regasification unit and the related infrastructure at Bécancour's industrial and port area (*Société du parc industriel et portuaire*).

This project was examined by Quebec's environmental public hearings office (*Bureau d'audiences publiques en environnement* or BAPE), and the project hearings were held in June and July 2016. On October 27, 2016, the BAPE's report was made public. While certain conclusions are considered inaccurate and debatable, as the BAPE commission made several omissions in analyzing alternatives to the proposed project, the BAPE nonetheless acknowledged that the social and environmental impacts of the project submitted by Gaz Métro Energy Solutions were minor.

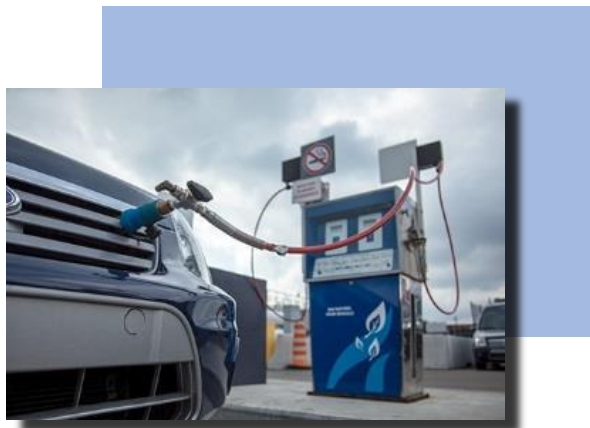
For its part, in May 2015, Hydro-Québec filed an application with the Régie seeking approval to use LNG from the LSR plant to meet demand for electricity in peak periods. In October 2015, the Régie issued a decision authorizing this request. However, in July 2016, the Régie issued a decision on a review application submitted in the Hydro-Québec filing regarding its application to use the TCE power plant in Bécancour in peak periods. This decision did not address the justification of Gaz Métro Energy Solutions' project; rather, its purpose was to interpret the applicable regulatory provisions requiring Hydro-Québec to conduct a call for tenders to purchase energy in winter peak periods. Gaz Métro Energy Solutions reiterates that the contract has not been cancelled and is still in effect between itself and the other parties. Hydro-Québec and Gaz Métro Energy Solutions still want this energy supply option to be available. On November 1, 2016, Hydro-Québec indicated, upon disclosing its supply plan, that although electric power needs had been revised downwards for the coming years, they still exist. For this reason, and although it is deliberating on how to manage these needs, Hydro-Québec has again expressed its desire to keep all options open, including that of Gaz Métro Energy Solutions, which is a flexible solution adapted to a precise energy need; it will assess the situation in the months ahead.

If the project obtains all the necessary approvals to go forward and Hydro-Québec confirms that it must use the proposed option to meet its energy supply needs, the LNG storage and regasification site in Bécancour is expected to come into service approximately two and a half years later.

Natural gas for the road transportation industry

Introduced in 2011 and promoted by Gaz Métro, the Blue Road is the first public network of compressed and liquefied natural gas refuelling stations for the Canadian transportation industry. This network has been deployed in Quebec and Ontario, where the fuelling stations are located primarily along the H-20/H-401 highway corridor between Rivière-du-Loup and Toronto. The Blue Road currently has nine public natural gas refuelling stations located in Rivière-du-Loup, Lévis, Sainte-Julie, and Cornwall (Ontario), among other cities. Transport Solutions is a key player in the Blue Road development strategy, which involves adding public compressed and liquefied natural gas fuelling stations in various strategic locations.

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



MANAGEMENT'S DISCUSSION AND ANALYSIS

Multi-fuel fuelling stations

In October 2016, Quebec's ministry of energy and natural resources announced the launch of a pilot project to install multi-fuel stations offering gasoline, biofuels, natural gas, propane, electricity and hydrogen to the general public at one point of sale. This pilot project will be conducted under the authority of the Quebec government and the Coop fédérée and will involve several other partners, including Gaz Métro. The first multi-fuel station is expected to be installed by the end of 2018, and if it proves successful, at least two more stations will be installed. The project partners have already started to identify regions where stations could be set up, namely Montreal, Quebec City, the Eastern Townships and the Outaouais region, given their strong potential. The development of this project is one of the commitments arising out of the Quebec government's 2030 Energy Policy.

5. CORPORATE AFFAIRS SEGMENT

Fiscal years ended September 30

<i>(in millions of dollars)</i>	2016	2015	Change
Revenues	(15.6)	(13.5)	(2.1)
Gross margin	(0.9)	(1.0)	0.1
IBIT	(10.8)	(7.9)	(2.9)
Net loss attributable to Partners	(10.6)	(9.4)	(1.2)

IBIT

This segment's gross margin reflects the elimination of intersegment revenues and direct costs. Its IBIT reflects, among other items, the development expenses incurred for various projects as well as the corporate expenses and revenues not allocated to other segments of Gaz Métro.

Outlook

Gaz Métro constantly strives to stay apprised of the changes in its market and to comply with the requirements, laws and regulations applicable to its operations. In all its decisions, deliberations and strategic choices, Gaz Métro is mindful of the environment and the GHG reduction targets. With the goal of increasing profitability while maintaining a similar risk profile, Gaz Métro is constantly contemplating ways to diversify natural gas applications in order to fully leverage the environmental and economic benefits of natural gas over oil while also continuing to work on various renewable energy or other projects consistent with its values.

MANAGEMENT'S DISCUSSION AND ANALYSIS

P) CONSOLIDATED FINANCIAL POSITION

The following table compares the main consolidated balance sheet items as at September 30, 2016 with those of September 30, 2015.

Balance sheet items As at September 30 (in millions of dollars)	2016	2015	Increase (Decrease)	Explanation
Trade and other receivables	193.6	204.6	(11.0)	Decrease comes from (i) lower electricity deliveries due to the adoption of energy efficiency measures by GMP's customers and (ii) the appreciation of the Canadian dollar against the U.S. dollar
Inventories	120.6	116.9	3.7	Increase comes from (i) an increase in stored gas volumes, partly offset by (ii) the appreciation of the Canadian dollar against the U.S. dollar
Property, plant and equipment	4,080.4	3,740.4	340.0	Increase comes from investments in (i) Gaz Métro-QDA's natural gas distribution system, (ii) GMP's electricity distribution system and solar power projects, (iii) VGS's system development projects (including the Addison project), and (iv) the LSR plant expansion project, partly offset by (v) the appreciation of the Canadian dollar against the U.S. dollar
Intangible assets	450.2	390.9	59.3	Increase comes mainly from Gaz Métro-QDA's purchase of GHG emission allowances under the C&T Regulation
Net regulatory assets, including current and noncurrent portions	369.7	143.4	226.3	Increase comes mainly from (i) an increase in regulatory assets related to Gaz Métro-QDA's employee future benefits following the Régie's decision, as previously explained, (ii) an increase in regulatory assets related to the share of Gaz Métro-QDA's customers in the shortfall in the transportation and load-balancing services for 2016 and 2015, as mentioned previously, partly offset by (iii) the appreciation of the Canadian dollar against the U.S. dollar
Investments	1,187.1	1,178.5	8.6	Increase comes mainly from (i) investments made by GMP in Transco, partly offset by (ii) the impact of the distributions received from Wind Farms 2 and 3 and Wind Farm 4 and (iii) the appreciation of the Canadian dollar against the U.S. dollar
Goodwill	398.7	405.7	(7.0)	Decrease comes from the appreciation of the Canadian dollar against the U.S. dollar
Bank loans	15.8	29.0	(13.2)	Decrease comes mainly from a timing difference in payments following investments in VGS's system development projects
Accounts payable and accrued liabilities	378.9	343.3	35.6	Increase comes from (i) a timing difference in payments following investments in property, plant and equipment, as mentioned previously, partly offset by (ii) the appreciation of the Canadian dollar against the U.S. dollar
Long-term debt, including current portion	3,474.5	3,111.2	363.3	Increase comes from (i) the financing of investments in the system development projects of Gaz Métro-QDA, GMP and VGS, partly offset by (ii) the appreciation of the Canadian dollar against the U.S. dollar
Net deferred income tax liability	511.6	485.4	26.2	Increase comes mainly from (i) the change in the temporary differences of U.S. companies partly offset by (ii) the appreciation of the Canadian dollar against the U.S. dollar
Other noncurrent liabilities	695.4	595.2	100.2	Increase comes mainly from (i) an increase in the projected benefit liabilities of Gaz Métro-QDA and GMP, partly offset by (ii) the appreciation of the Canadian dollar against the U.S. dollar
Capital	1,751.8	1,751.8	-	Comparable

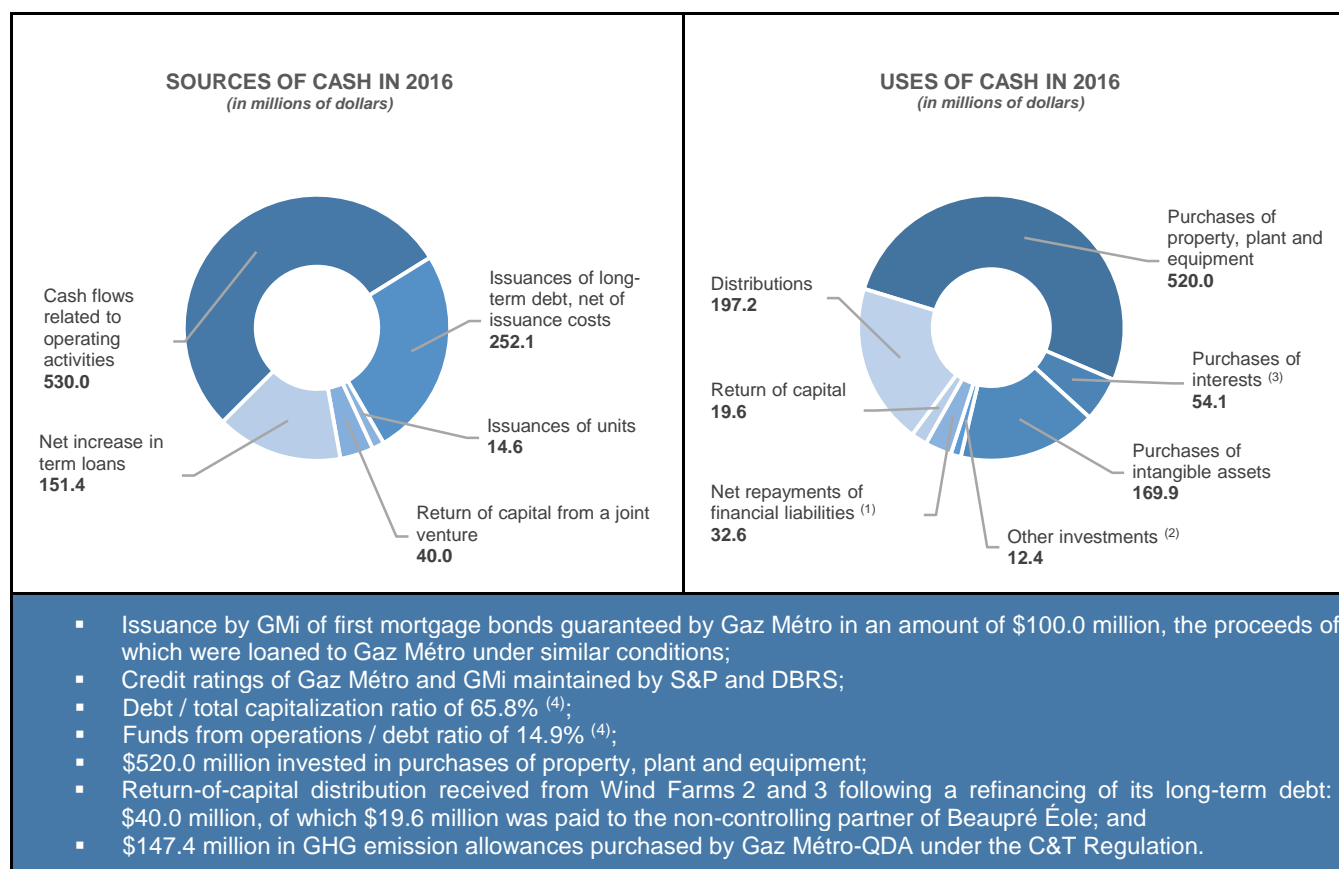
MANAGEMENT'S DISCUSSION AND ANALYSIS

Q) CASH AND CAPITAL MANAGEMENT

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

This section discusses Gaz Métro's financial position, cash flows and liquidity.

1. HIGHLIGHTS FOR FISCAL 2016



⁽¹⁾ Represents the change in bank loans, long-term debt repayments and settlements of derivative financial instruments.

⁽²⁾ Equals cash flows from investing activities excluding purchases of property, plant and equipment, intangible assets, acquisitions of equity-accounted interests and the return of capital from a joint venture.

⁽³⁾ Represents acquisitions of equity-accounted interests and other investments.

⁽⁴⁾ These financial measures are not defined by U.S. GAAP. For additional information, refer to the Non-U.S.-GAAP Financial Measures and Additional U.S. GAAP Measure heading in section L) OVERVIEW OF THE PARTNERSHIP AND OTHER.

2. CASH FLOW SUMMARY

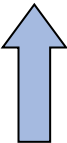
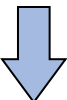
For the fiscal years ended September 30

(in millions of dollars)		2016	2015	Change
Cash flows related to operating activities	a	530.0	523.8	6.2
Cash flows related to investing activities	b	(716.4)	(776.4)	60.0
Cash flows related to financing activities	c	168.6	231.3	(62.7)

MANAGEMENT'S DISCUSSION AND ANALYSIS

a) Cash flows related to operating activities

The change in cash flows related to operating activities was due, among other factors, to:

2016 vs 2015 Up \$6.2 million	
	<ul style="list-style-type: none"> an increase in GMP's cash inflows resulting, among other factors, from amounts received in fiscal 2016 related to the major December 2014 snow storm and from unfavourable electricity supply costs in fiscal 2015; an increase in Gaz Métro-QDA's cash inflows arising from the additional revenues generated by the C&T service, partly offset by a lower recovery of prior-year shortfalls; and a favourable impact resulting from the change in average exchange rates;
	<ul style="list-style-type: none"> a \$10.1 million unfavourable impact from the change in other operating assets and liabilities, due notably to a lower drop in natural gas prices in fiscal 2016 than in fiscal 2015; and a \$30.0 million decrease in Gaz Métro-QDA's cash inflows arising mainly from the impact of warmer temperatures in the first half of fiscal 2016 compared to the same period of fiscal 2015.

b) Cash flows related to investing activities

For the fiscal years ended September 30

(in millions of dollars)	2016	2015	Change
Change in restricted cash and cash equivalents	(6.8)	(6.4)	(0.4)
Purchases of property, plant and equipment	(520.0)	(361.7)	(158.3)
Purchases of intangible assets	(169.9)	(380.3)	210.4
Net change in investment fund units	(3.6)	(1.3)	(2.3)
Purchases of equity-accounted interests and other investments	(54.1)	(40.0)	(14.1)
Return of capital from a joint venture	40.0	-	40.0
Other	(2.0)	13.3	(15.3)
Total	(716.4)	(776.4)	60.0

Purchases of property, plant and equipment

Year over year, purchases of property, plant and equipment were up \$158.3 million, mainly due to:

- a \$119.0 million increase in investments made by the Energy Distribution segment in Vermont (excluding an exchange rate impact of \$15.0 million) arising, among other factors, from investments in VGS's system development project and GMP's solar farms; and
- a \$41.9 million increase in Gaz Métro-QDA's investments to improve and develop its system;

partly offset by:

- an \$18.5 million decrease in Gaz Métro LNG's investments to expand the LSR plant, mainly due to a timing difference in the payments, which are made based on the different stages of completion of the project.

Purchases of intangible assets

Year over year, purchases of intangible assets were down \$210.4 million, mainly due to a lower amount of GHG emission allowances that Gaz Métro-QDA had to purchase under the C&T Regulation.

Purchases of equity-accounted interests and other investments

Year over year, purchases of equity-accounted interests and other investments increased \$14.1 million, mainly due to:

- the fact that GMP invested \$50.9 million (US\$39.0 million) in Transco in September 2016 compared to a total amount of \$31.6 million (US\$27.2 million) invested in fiscal 2015;

partly offset by:

- a \$7.2 million capital contribution made by Beauré Éole 4 to Wind Farm 4 during the first quarter of fiscal 2015 for the construction of wind park 4.

Other

The decrease of \$15.3 million year over year is mainly due to the receipt, in the second quarter of fiscal 2015, of an amount receivable from the provincial government for costs incurred to conduct feasibility studies for the project to provide service to Quebec's Côte-Nord region.

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>	2016	2015	Change
Issuances of units	14.6	281.6	(267.0)
Return of capital	(19.6)	-	(19.6)
Distributions to Partners	(197.2)	(186.6)	(10.6)
Other financing activities	370.8	136.3	234.5
Total	168.6	231.3	(62.7)

Issuances of units

The fiscal 2016 unit issuances were down \$267.0 million year over year, mainly due to unit issuances that Gaz Métro completed in fiscal 2015, by way of private placement, which are described in the table below:

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

During fiscal 2016, Investissement Québec subscribed 12,184,733 units of Gaz Métro LNG for a total cash consideration of \$12.2 million (22,541,680 units for a total cash consideration of \$22.5 million in fiscal 2015).

Distributions to Partners

The following table shows the distributions paid to Partners during fiscal 2016:

Distribution payment date	Distribution declaration date	Per-unit distribution amount (in \$)	Cash amount (in millions of \$)
October 1, 2015	August 6, 2015	0.28	44.8
January 5, 2016	November 26, 2015	0.29	48.5
April 1, 2016	February 11, 2016	0.29	48.5
July 4, 2016	May 12, 2016	0.29	48.5

Distributions to the Partners of Gaz Métro increased \$10.6 million year over year, mainly due to the following factors:

- the number of units outstanding increased, as described in the Issuances of Units heading of this section; and
- the quarterly distribution was raised to \$0.29 per unit as of the second quarter of fiscal 2016;

partly offset by:

- the fact that the distributions paid by Beaupré Éole and Beaupré Éole 4 to non-controlling partners, totalling \$5.6 million and \$1.3 million, respectively, were down compared to \$9.9 million and \$4.3 million in fiscal 2015.

With quarterly distributions of \$1.15 per unit having been paid in fiscal 2016, Gaz Métro kept with its practice of distributing virtually all of its income, since, as at September 30, 2016, it had distributed 98.4% of the net income it has earned since 1993, the year in which it went public. Note that Gaz Métro's units were traded on the TSX from 1993 to 2010.

**QUARTERLY DISTRIBUTIONS TOTTALLING
\$1.15 PER UNIT FOR FISCAL 2016**

Other financing activities

For fiscal 2016, other financing activities resulted in net issuances of \$370.8 million, essentially due to:

- GMI's issuance of Series S First Mortgage Bonds in the amount of \$100.0 million, which bear interest at an annual rate of 1.52% and mature on May 25, 2020. The proceeds of the issuance were loaned to Gaz Métro at similar conditions and were used to repay existing debt and for general business purposes of the Partnership;
- GMP's issuance, by way of private placement, of two series of first mortgage bonds totalling US\$50.0 million. The first series of US\$18.0 million bears interest at an annual rate of 3.31% and will mature in December 2027, and the second series of US\$32.0 million bears interest at an annual rate of 4.26% and will mature in December 2045;
- VGS's December 2015 issuance, by way of private placement, of senior notes totalling US\$35.0 million, i.e., series in amounts of US\$10.0 million and US\$25.0 million, the proceeds of which were primarily used to pay a portion of its bank loans. These senior notes will mature in December 2025 and December 2045, respectively, and bear interest at annual rates of 3.65% and 4.72%, respectively. In addition, in August 2016, VGS issued, by way of private placement, senior notes totalling US\$30.0 million, in two series of US\$15.0 million each. These senior notes will mature in August 2026 and August 2046 and bear interest at an annual rate of 3.32% and 4.25%, respectively; and
- the \$156.4 million increase in Gaz Métro-QDA's term loans used for general business purposes of the Partnership.

MANAGEMENT'S DISCUSSION AND ANALYSIS

3. FUNDS FROM OPERATIONS / DEBT RATIO

As at September 30

<i>(in millions of dollars, unless otherwise indicated)</i>	2016	2015	2014
Cash flows related to operating activities	530.0	523.8	416.5
Less: Change in other operating assets and liabilities	18.5	28.6	(27.3)
Funds from operations	511.5	495.2	443.8
Bank loans	15.8	29.0	-
Current portion of long-term debt	10.1	9.8	10.8
Long-term debt	3,464.4	3,101.4	2,690.7
Total debt	3,490.3	3,140.2	2,701.5
Less: Cash and cash equivalents	52.0	71.1	84.2
Total debt, net of cash and cash equivalents	3,438.3	3,069.1	2,617.3
Funds from operations / debt ratio ⁽¹⁾	14.9%	16.1%	17.0%

⁽¹⁾ This financial measure is not defined by U.S. GAAP. For additional information, refer to the Non-U.S.-GAAP Financial Measures and Additional U.S. GAAP Measure heading in section L) OVERVIEW OF THE PARTNERSHIP AND OTHER.

As at September 30, 2016, the funds from operations / debt ratio was 14.9%, a 1.2% decrease from fiscal 2015. This decrease was caused by an increase in investments in various development projects that have not yet been put into service and by the impact of warmer temperatures in fiscal 2016 than in fiscal 2015, which will be recovered in future years, partly offset by the exchange rate impact.

As at September 30, 2015, the ratio stood at 16.1%, down 0.9% from fiscal 2014 due to the following factors:

- an unfavourable exchange rate impact; and
- an increase in Gaz Métro-QDA's supply costs compared to fiscal 2014, which will be recovered in future years;

partly offset by:

- revenues generated by the C&T service since it came into effect on January 1, 2015; and
- the increase in distributions received from equity-accounted interests, as Wind Farms 2 and 3 and Wind Farm 4 made their first distribution payments in fiscal 2015 while no distributions were made in fiscal 2014.

4. CAPITAL STRUCTURE AND DEBT RATIO

As at September 30

<i>(in millions of dollars, unless otherwise indicated)</i>	2016	2015	2014
Bank loans	15.8	29.0	-
Current portion of long-term debt	10.1	9.8	10.8
Long-term debt	3,464.4	3,101.4	2,690.7
Total debt ⁽¹⁾	3,490.3	3,140.2	2,701.5
Total equity ⁽²⁾	1,810.3	1,728.2	1,362.5
Total capitalization	5,300.6	4,868.4	4,064.0
Debt / total capitalization ratio ⁽³⁾	65.8%	64.5%	66.5%

⁽¹⁾ The change in long-term debt is explained previously in the Other Financing Activities heading and in section P) CONSOLIDATED FINANCIAL POSITION.

⁽²⁾ For additional information on the composition of total equity, refer to the consolidated statements of changes in equity in Gaz Métro's audited consolidated financial statements for the fiscal years ended September 30, 2016 and 2015.

⁽³⁾ This financial measure is not defined by U.S. GAAP. For additional information, refer to the Non-U.S.-GAAP Financial Measures and Additional U.S. GAAP Measure heading in section L) OVERVIEW OF THE PARTNERSHIP AND OTHER.

As at September 30, 2016, the debt / total capitalization ratio was 65.8%, up 1.3% from September 30, 2015. This increase came mainly from the increase in long-term debt explained in the Other Financing Activities heading of this section and in section P) CONSOLIDATED FINANCIAL POSITION. This debt ratio falls within Gaz Métro's targeted range.

At September 30, 2015, the debt / total capitalization ratio was 64.5%, down 2.0% from September 30, 2014. This decrease was due, among other factors, to unit issuances totalling \$255.0 million carried out by Gaz Métro during fiscal 2015.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Impacts of exchange rate fluctuations on the capital structure

Gaz Métro, 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 U.S. entities subject to significant influence at the exchange rate prevailing at the end of each period and record the impact of this revaluation on equity.

During fiscal 2016, Gaz Métro decreased the value of its U.S.-dollar net assets by \$12.8 million, net of translation adjustments related to hedging activities, as a result of the depreciation of the U.S. dollar versus the Canadian dollar.

The value of Gaz Métro's U.S.-dollar net assets exposed to exchange risk after hedging stood at \$740.7 million (US\$564.7 million) as at September 30, 2016 compared to \$681.5 million (US\$510.7 million) as at September 30, 2015.

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, 2016	September 30, 2015	Decrease
U.S. dollar	\$1.3117	\$1.3345	(1.7%)

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, 2016	September 30, 2015	Increase
U.S. dollar	\$1.3369	\$1.2228	9.3%

Unused credit facilities and financing outlook

As at September 30, 2016, Gaz Métro, in part through its General Partner GMi, had term credit facilities totalling \$973.9 million and operating credit facilities totalling \$135.3 million, which can be used to finance current operations and various development activities. Given the amounts borrowed and the letters of credit issued by Gaz Métro and its subsidiaries, the unused credit facilities stood at \$527.5 million as at September 30, 2016.

On January 28, 2015, Gaz Métro, through its General Partner GMi, amended its credit facility to raise the maximum authorized amount from \$600.0 million to \$800.0 million. Subject to the approval of the lenders, its maturity can be extended by one year on an annual basis. On March 31, 2016, the maturity of this credit facility was extended to March 2021. The terms and conditions of the original credit agreement remain unchanged.

During fiscal 2017, Gaz Métro expects to require funds to finance:

- its investments in property, plant and equipment that could amount to approximately \$430 million and related mainly to extensions and improvements to be made to the energy distribution systems in Quebec and Vermont (approximately \$390 million) and to the LSR plant expansion project (approximately \$40 million);
- investment opportunities;
- capital contributions needed for its subsidiaries, joint ventures and entities subject to significant influence;
- the purchase of Gaz Métro-QDA's GHG emission allowances under the C&T Regulation;
- the refinancing or repayment of \$200.7 million in long-term debt 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; and
- if necessary, new financings in the form of debt or unit issuances.

In terms of financing, since Gaz Métro's practice is to distribute substantially all of its net income, it must turn to capital markets and its Partners to finance major investment projects that are not part of routine operations. The Partnership usually meets its financing 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 \$200.7 million in long-term debt coming due during fiscal 2017, as it has never experienced a significant reduction in its ability to access capital markets, even during the past periods of economic instability. GMi's issuance of \$100.0 million in first mortgage bonds in May 2016 and of \$125.0 million in October 2016, and the maintenance of the S&P and DBRS credit ratings attributed to Gaz Métro and GMi for fiscal 2016, are

MANAGEMENT'S DISCUSSION AND ANALYSIS

tangible evidence of the financial markets' confidence in Gaz Métro and its Partners. For Gaz Métro, this confidence reflects the following factors:

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

Restrictive covenants

As at September 30, 2016 and 2015, GMi and Gaz Métro and its subsidiaries were in compliance with all of the requirements of the various trust deeds and other term loan agreements governing long-term debt. Subject to the usual restrictions in the credit facilities of the Partnership's subsidiaries, joint ventures and entities subject to significant influence, there are no legal or practical restrictions on the ability of the subsidiaries, joint ventures and entities subject to significant influence to transfer funds to Gaz Métro.

Furthermore, it should be noted that, on the basis of Gaz Métro's non-consolidated financial statements, the trust deeds and the other agreements governing its long-term debt 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;
- 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%;
- 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; and
- as for non-energy-related activities, Gaz Métro's interests in such activities may not exceed 5% of its total non-consolidated assets.

Internal policy for the fixing of interest rates

As at September 30, 2016, 85.5% of the long-term debt was at fixed rates compared to 88.6% as at September 30, 2015. Although the Partnership's internal policy is to fix the interest rate of approximately 75% of its debt, Gaz Métro took advantage of the low interest rates in recent fiscal years to fix its financing cost.

Credit ratings

During fiscal 2016, Gaz Métro's and GMi's S&P and DBRS credit ratings were maintained.

For the fiscal years ended September 30

	2016	2015
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(mid)/R-1(low)

⁽¹⁾ Through its General Partner, GMi.

In December 2015, S&P also upgraded GMP's credit rating from BBB+ (positive) to A- (stable).

5. OFF-BALANCE-SHEET ARRANGEMENTS

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 24 to Gaz Métro's audited consolidated financial statements for the fiscal years ended September 30, 2016 and 2015.

MANAGEMENT'S DISCUSSION AND ANALYSIS

6. 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	2017	2018	2019	2020	2021	Subsequent fiscal years
Financial liabilities							
Bank overdraft	6.6	6.6	-	-	-	-	-
Bank loans	15.8	15.8	-	-	-	-	-
Accounts payable and accrued liabilities	378.9	378.9	-	-	-	-	-
Distributions payable	48.5	48.5	-	-	-	-	-
Derivative financial liabilities	1.8	0.4	0.1	0.3	0.5	0.5	-
Long-term debt	3,490.7	200.7	10.2	221.5	203.8	604.1	2,250.4
Customer deposits	36.7	-	9.4	17.7	9.6	-	-
Interest ⁽¹⁾	2,275.4	157.9	146.9	145.8	133.6	127.6	1,563.6
Total	6,254.4	808.8	166.6	385.3	347.5	732.2	3,814.0
Supply contracts ⁽²⁾							
Energy supply	4,385.5	252.0	264.2	278.8	257.2	216.0	3,117.3
Transportation	2,725.1	465.5	326.3	299.2	295.2	295.1	1,043.8
Storage	124.1	23.5	19.1	16.9	16.6	16.6	31.4
Total	7,234.7	741.0	609.6	594.9	569.0	527.7	4,192.5
Construction contracts ⁽³⁾	34.1	34.1	-	-	-	-	-
Leases ⁽⁴⁾	7.0	1.5	1.4	1.2	1.0	1.0	0.9
Total contractual obligations	13,530.2	1,585.4	777.6	981.4	917.5	1,260.9	8,007.4

⁽¹⁾ Interest is presented based on contractual maturity and using the rates in effect as at September 30, 2016.

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

⁽³⁾ Includes the contract to raise the liquefaction capacity of the LSR plant.

⁽⁴⁾ Gaz Métro and its subsidiaries are committed under operating leases to rent commercial premises and other assets used in the normal course of their operations.

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

For additional information on commitments, refer to Note 24 of Gaz Métro's audited consolidated financial statements for the fiscal years ended September 30, 2016 and 2015.

R) RISK FACTORS RELATING TO GAZ MÉTRO

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

Statement

This section describes the principal risk factors that could: (i) have a significant impact on Gaz Métro's activities, competitive position, financial condition, including credit ratings and issuance of long-term debt securities, and consolidated net income; (ii) result in costs, expenses and losses; (iii) cause unexpected damages that Gaz Métro might not be able to recover in full or in part; or (iv) have an unfavourable impact on the value of Gaz Métro's investments. All of these risk factors could, in turn, affect the financial position and consolidated net income of Valener. Such an unfavourable impact could also affect Gaz Métro's capacity to make distributions to its Partners.

This statement applies to each of the risk factors described in this section and is therefore not repeated in order to facilitate reading.

MANAGEMENT'S DISCUSSION AND ANALYSIS

In general, risk factors are classified by category and according to severity. Other risk factors and uncertainties not currently known to Gaz Métro, or that it believes to be immaterial at this time, may also adversely affect its activities.

Gaz Métro has developed and applied practices for identifying, assessing and managing risks. However, it should be noted that the risk management strategies and measures adopted do not guarantee that events or circumstances that could adversely affect Gaz Métro's competitive position, financial condition or consolidated net income will not occur.

Gaz Métro, like other companies, applies mitigation measures that it believes are necessary and reasonable as part of its activities. Readers should note that these mitigation measures are neither described in full nor explained in this section, except for those that are mandatory to disclose under regulations or those that are specific to its activities.

REGULATORY AND POLITICAL FRAMEWORKS

Regulatory framework

Gaz Métro's regulated activities depend on decisions issued by regulatory agencies, particularly decisions by the Régie and the NEB, in Canada, and by the VPSB and FERC, in the United States, on, among other matters (i) natural gas and electricity distribution and transportation rates, (ii) natural gas storage, (iii) the authorized rate of return on deemed equity, and (iv) investments to develop and maintain assets related to these activities. Substantially all of Gaz Métro's consolidated revenues are generated by regulated activities and are therefore subject to such decisions.

These regulatory agencies set rates, usually on an annual basis, using data projections provided by Gaz Métro. Gaz Métro's ability to recover actual service costs and earn the approved rates of return depends on achieving the forecasts provided in the rate case filings. For example, Gaz Métro-QDA's distribution rates are currently set using the cost-of-service method. Under this method, the projected cost of delivering these services is used to determine its rates. At year-end, a positive difference between Gaz Métro-QDA's permitted net income and earned income will be designated as overearnings to be shared with customers according to the Régie-approved parameters; a negative difference will be designated as a shortfall charged solely to Gaz Métro-QDA. Consequently, there is no assurance that Gaz Métro-QDA will be able to recover all actually incurred costs and thereby achieve the authorized rates of return.

Gaz Métro undertakes investment programs and assesses the current and future operating and maintenance expenses to be incurred for the ongoing operation of its energy distribution and transportation networks. There is no guarantee that the investment projects deemed necessary by management will be approved by the regulatory agencies, or that such approvals will not include conditions. Cost overruns might not be recoverable in rates. Moreover, failure to obtain approval to invest in asset maintenance or development could delay the start-up or scheduling of proposed investment projects.

Political environment

Changes in government or significant changes in government policies, whether at the federal, provincial, state or local levels, particularly on energy and environmental topics, could affect the regulatory and commercial framework governing Gaz Métro's activities. These changes could include changes to laws and regulations that govern Gaz Métro's activities, and to licences, authorizations, permits and other requirements. Readers may also refer to the Project Management and Climate Change headings in this section.

Change in accounting framework

Given the uncertainties surrounding publication of a final standard on RAL under IFRS and the substantial impacts of applying temporary standard IFRS 14, *Regulatory Deferral Accounts*, Gaz Métro and its Partners, GMi and Valener, have opted to apply U.S. GAAP. Consequently, in May 2015, GMi and Valener obtained new three-year exemptions from the Canadian Securities Administrators ("CSA"), allowing them to prepare their consolidated financial statements in accordance with U.S. GAAP in order to meet their continuous disclosure requirements in Canada. These exemptions are valid until the first of the following dates: (i) January 1, 2019, (ii) the first day of the fiscal year following the cessation of RRA by Gaz Métro, if applicable, or (iii) the effective date prescribed by the IASB for mandatory application of a permanent and specific IFRS standard for entities engaged in RRA. Gaz Métro, which is not a publicly accountable enterprise within the meaning of the Handbook, adopted the strategy recommended by its Partners. Therefore, Gaz Métro and its Partners are using U.S. GAAP to prepare their annual and interim consolidated financial statements for fiscal years 2016 to 2018, inclusively.

Should the CSA exemptions not be renewed, GMi and Valener would either have to become registrants with the U.S. Securities and Exchange Commission to continue using U.S. GAAP or adopt IFRS. Given the absence of a permanent and specific IFRS standard for entities having RRA that meets the needs of the industry, applying IFRS could result in volatility in the net income of Gaz Métro and its Partners compared to that which would otherwise be accounted for under U.S. GAAP.

MANAGEMENT'S DISCUSSION AND ANALYSIS

ECONOMIC ENVIRONMENT

Economic conditions

The economy in general influences the business activities of Gaz Métro. Economic factors such as the unemployment rate, housing starts, personal disposable income and energy prices could impact demand. Industrial customers are also especially exposed to commodity price fluctuations. Generally speaking, poor economic conditions have a negative impact on the business activities of the industrial and commercial customers served by Gaz Métro and, in turn, on the demand for natural gas or electricity and related services.

The ability to increase natural gas deliveries and electricity sales presents several challenges. The industrial market has reached a certain level of maturity due to moderate economic growth.

However, since many gas distribution customers must sign a contract for natural gas supply to their facilities, and since many of these customers guarantee payment of a substantial portion of the distribution service, regardless of whether or not they consume the gas, the resulting risk from any such decline in demand is mitigated. The GMP regulation plan (Alternative Regulation Plan) can also reduce this risk for electricity. The plan allows for partial deferral to future rates of the lost revenue impacts arising from lower customer consumption and includes an adjustment mechanism in the event of an unexpected cost increase.

For several years now, Gaz Métro has been working to raise the market share of natural gas and electricity in the residential market, thereby reducing its vulnerability to the industrial and commercial markets.

Competitive environment

In Quebec

In Quebec, natural gas competes with other available energy sources such as fuel oil and electricity.

Electricity has the largest share of the residential energy market for historical reasons and natural gas constantly faces strong competition from electricity in this market.

In the commercial market, natural gas competes with electricity and fuel oil (n° 2).

In the industrial market, the competition of natural gas, whether it is delivered in gas or liquid form, comes mainly from fuel oil and petroleum products. Considering that most industrial customers can use more than one energy source to cover their energy needs, a decline in oil prices adds pressure to the competitiveness of natural gas in this market. The low distribution rate charged to these customers, on a volume basis, has a positive impact on the competitive position of natural gas, but the impact of natural gas commodity price fluctuations is more significant to customers in this market than for residential or commercial customers given the large volumes they consume. Gaz Métro-QDA could offer industrial customers a rate discount based on the price of fuel oil, for periods ranging from a few days to almost a year, should its competitive position become unfavourable.

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

Moreover, delivery volume is affected by energy competition arising from technological innovation, which puts downward pressure on consumption. This trend is illustrated, in the residential and commercial markets, by the adoption of high-efficiency equipment and other technologies, such as aerothermal and geothermal heat pumps, and in the commercial and industrial sectors, by the increasing number of heat recovery systems. Technological innovation also helps customers realize energy savings by improving building envelopes to reduce heating costs or by adopting technologies to effectively manage energy consumption.

Since January 1, 2015, Gaz Métro-QDA's customers who are not directly subject to the C&T Regulation are subject to the C&T service rate based on consumption. The natural gas emission factor is lower than that of other fuels, resulting in lower costs related to the C&T system and an added competitive advantage for natural gas. The opposite is true with renewable electricity generated in Quebec, where the costs related to the C&T system reduce the competitive advantage of natural gas. In the short term, the cost of the C&T system has only a marginal impact on, and is not a significant factor to, the competitive advantage of natural gas.

Lastly, Gaz Métro-QDA is only exposed to the risk of fluctuating natural gas commodity prices in terms of the resulting impact on its competitive position, since Gaz Métro-QDA is required to sell natural gas to customers at cost, thereby eliminating the

MANAGEMENT'S DISCUSSION AND ANALYSIS

possibility of realizing a gain or loss on natural gas sales. All natural gas price fluctuations are accounted for in regulatory asset and liability accounts so that they can be reflected in future rates, as authorized by the Régie.

Electricity distribution in Vermont, U.S.A.

In addition to electricity, GMP's customers can opt to use propane, natural gas, fuel oil or wood (bulk or pelletized) to meet their space heating and water heating needs. There is also a potential for municipalities located within GMP's service territory to form and operate, with citizen approval, municipally-owned utilities that would then be competing with GMP. In addition, self-generation, electricity demand management programs, and cogeneration are potential competitive threats to network electricity sales by displacing electricity demand within GMP's service territory and potentially reducing the customer base over which GMP costs are spread. However, GMP benefits from the rise in heat pump technologies that use electricity to achieve highly efficient heating and cooling of residential and commercial spaces.

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

In Vermont, natural gas competes with sources of energy similar to those in Quebec in the residential, commercial and industrial air and water heating markets.

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 rate adjustment mechanisms that minimize the risks associated with short-term price fluctuations for these types of energy.

OPERATING ACTIVITIES

Weather conditions

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

Gaz Métro-QDA and VGS apply a revenue normalization mechanism that is related mainly to temperature fluctuations. Using this mechanism, they normalize natural gas deliveries and reflect the adjustment in their revenues using rate stabilization accounts. However, the effects of unusual or extreme temperatures might not be sufficiently reflected by the revenue normalization mechanism. As for GMP, electricity deliveries can vary significantly owing to seasonal changes, weather conditions and unusual or severe temperatures. GMP has a rate adjustment mechanism allowing it to recover, throughout the sale of electricity, certain cost and volume variations resulting from weather and temperature conditions.

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

Business relationships

Gaz Métro is exposed to the risk of business relationships in that it depends on certain key customers, suppliers and partners.

Over the past three fiscal years, all of Gaz Métro-QDA's major customers (about 400 customer accounts) consumed on average just over 50% of natural gas deliveries, which corresponds to approximately 20% of its total revenues. Some of these customer accounts can individually represent up to 10% of natural gas deliveries and up to 2% of distribution revenues. However, since many of them guarantee payment of a substantial portion of the distribution service, regardless of whether or not they consume the gas, the resulting risk from any such fluctuation in demand is mitigated. Some customers also provide a security deposit, which mitigates the risk of payment defaults. Furthermore, pursuant to a regulatory provision, the effects of major bad debts in one fiscal year can be deferred and included in the rates of a future fiscal year.

In the Natural Gas Transportation segment, Gaz Métro depends on a limited number of customers in Quebec and New England, mainly energy distributors and producers. Should alternative transportation capacities be made available to those customers, there is no guarantee that Gaz Métro will be able to continue serving them.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 or VGS's ability to distribute natural gas to their customers.

Gaz Métro also maintains contractual arrangements with a few businesses, general contractors and other service providers for the development, maintenance and improvement of its energy distribution and transportation networks. The risk of non-performance by a service provider can be assessed and, if possible, mitigated, but not completely eliminated.

Lastly, for certain projects, Gaz Métro enters into agreements with various partners. The success of these projects rests largely on the satisfactory performance by these partners of their obligations.

System integrity and service continuity

Gaz Métro's energy distribution and transportation networks require continuing maintenance, improvements and replacements. These networks are exposed to various operating risk factors, including but not limited to the general nature of the aforementioned: accidental pipeline damage, fracturing and corrosion, leaks, equipment or computer system breakdown, fires, explosions, natural disasters, power failures, acts of war or terrorism, cyber-attacks, public health issues (including an epidemic or pandemic) and other similar occurrences.

Given the importance of natural gas and electricity in Canada and the United States, Gaz Métro may face terrorist threats, which could result in the implementation of additional security measures should those threats materialize. In addition, any damage to or loss of facilities due to an act of terrorism may not always be covered in whole or in part by insurance.

Moreover, certain portions of the Gaz Métro-QDA and VGS networks have reached a high level of saturation, which could result in a shortage of network capacity for timely servicing of existing or potential customers.

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

Gaz Métro has implemented an asset management program to improve and replace aging pipelines and has very strict policies in place that it follows rigorously to safeguard assets and data. It also encourages its counterparties and other stakeholders to adopt industry best practices to minimize the risk of incidents. Gaz Métro has implemented a business continuity plan to mitigate these impacts, particularly in the case of a pandemic, and to maintain critical operations.

Gaz Métro must also anticipate asset retirement costs of certain assets during their useful life. Since, for certain rate-regulated activities, it is impossible to determine the precise scope of legal obligations or the moment when costs would have to be incurred to meet those obligations, Gaz Métro is unable to establish a reasonable estimate of the fair value of the related liability. However, if the costs of retiring such property, plant and equipment were incurred, the applicable regulatory framework for such rate-regulated activities should permit the recovery of those costs in the rates of future fiscal years. While Gaz Métro generally receives approval to recover these costs, there is no guarantee that such decisions will be made on a timely basis or permit full recovery of the costs.

Health, safety and environment

In terms of health and safety, some of Gaz Métro's networks are located close to densely populated areas, and a serious accident could jeopardize public safety. Given the natural hazards inherent in Gaz Métro's activities, workers and contractors are exposed to worker safety risks.

Steps taken by Gaz Métro to reduce the likelihood and severity of an accident jeopardizing the health and safety of the public and of its employees are implemented through an asset management and emergency response plan. Gaz Métro also informs project stakeholders of implemented measures and is attentive to their questions and concerns.

Gaz Métro also believes that employees and contractors must adhere to a culture of constant vigilance in the face of potentially hazardous situations that jeopardize health and safety, and it has set a target of zero accidents. Health and safety objectives have been incorporated into every level of Gaz Métro and as part of the compensation measures of certain categories of its employees. Contractors are selected through a strict screening process that includes a commitment to adhere to Gaz Métro's culture of safety.

The activities and facilities of Gaz Métro are also subject to environmental laws and regulations that govern, among other things, emissions of contaminants, transportation and storage of hazardous material, waste disposal, and decontamination of contaminated sites. To continue its operations, Gaz Métro must maintain a number of environmental authorizations or other permits issued by competent authorities. Any breach of these obligations could result in fines or civil or criminal penalties or the

MANAGEMENT'S DISCUSSION AND ANALYSIS

application of coercive measures, including regulatory or court action ordering or suspending certain activities or requiring that corrective measures be taken.

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

Information systems and cybersecurity

The operating efficiency of Gaz Métro depends heavily on the development, management and maintenance of complex IT systems and infrastructure, including those provided by third parties (collectively, the "systems"). These interconnected systems include controls associated with the generation of electric power and the distribution and transportation of natural gas and electricity, which are sometimes shared with third parties for operational purposes. There is no guarantee that Gaz Métro will not experience a security breach or systems breakdown.

Gaz Métro is also exposed to risks of cyberattacks and unauthorized attempts to access its or its customers', suppliers', counterparties' and employees' confidential information (particularly personally identifiable information and credit information) through hacking, viruses, malware, denial-of-service attacks (designed to render computer services inaccessible in order to harm or convey messages), vandalism, theft, alteration, destruction and otherwise (collectively "cybersecurity threats") that could cause a systems failure, disrupt or shut down key areas of activities, result in loss of service to customers, and cause the release of confidential information.

Gaz Métro's systems, assets and information can never be completely safe from cybersecurity threats, which are constantly growing and changing. Cybersecurity threats require Gaz Métro to continually adapt in order to detect and prevent them. Gaz Métro has a comprehensive cybersecurity strategy that includes a policy and guidelines, as well as control, governance and surveillance measures, particularly regarding infrastructure and network security, and cyber-risk management. It is also actively involved with the industry and governmental authorities to enhance its cybersecurity practices.

Sufficiency of insurance coverage

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

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

Wind farms

Electricity generation by Wind Farms 2 and 3 and by Wind Farm 4 depends mainly on fluctuations in wind intensity and on a number of other factors, including (i) the impact of climatic factors, such as the build-up of ice on turbine blades, (ii) site access, (iii) losses due to the 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.

Human resources

Certain employees of Gaz Métro are subject to collective agreements. If Gaz Métro is unable to negotiate a renewal of collective agreements upon expiry, this could result in labour disputes or work stoppages. There can be no assurance that the current collective agreements will be renewed on terms deemed acceptable by Gaz Métro without a work stoppage and that work stoppages will not occur before new collective agreements are reached.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL MARKETS

Liquidity management and access to financing

To satisfy its financial needs, Gaz Métro relies, among other things, on cash generated by its activities. Liquidity risk is the risk that it would be unable to pay its financial commitments as they become due. Gaz Métro 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 financial obligations as they become due. A combination of committed and demand credit facilities allows it to satisfy its financing needs.

In the course of its operations, Gaz Métro may, either directly or through GMi or Valener, access capital markets to finance its development. There can be no assurance that Gaz Métro, GMi, or Valener will be able to access capital markets at acceptable conditions and appropriate financing costs, or that they will not incur a significant increase in their financing cost, by reason of, for example, significant deterioration in economic conditions, the general condition of financial markets, a negative financial market perception of their financial position or outlook, or a significant downgrade to their credit ratings.

Exchange rate fluctuations

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

Gaz Métro has also seen a rise in its expenses and investments in foreign currencies. Currency fluctuations are partly offset by the use of derivative financial instruments.

Interest rate fluctuations

Gaz Métro is exposed to interest rate risks associated with its bank loans, its floating rate debts and the refinancing of its long-term debt. 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 and through portfolio management to spread the debt maturities.

Gaz Métro may use interest rate swaps to fix interest rates on a portion of its 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.

Counterparty risks

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

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

Pension plans

Gaz Métro's net projected benefit cost and contributions made to its defined benefit pension plans and other postretirement benefit plans are determined using actuarial estimates based on demographic and financial assumptions, including, in particular, the expected rate of return on plan assets, discount rates and future trends in wage levels.

Any difference between the assumptions used and actual results as well as any major change in the financial position of those plans could result in volatility in cost, projected benefit liability and required contributions.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Changes in tax laws

Legislative changes pertaining to the tax matters with which Gaz Métro must comply could impact the value of taxes owed by Gaz Métro in each of the jurisdictions where it operates. In the event of such changes, Gaz Métro would have to take necessary measures to comply with the new regulations.

DEVELOPMENT OF NEW PROJECTS, ACQUISITIONS AND EXPANSION

From time to time, Gaz Métro selectively seeks strategic acquisition and expansion opportunities, including the territorial diversification of its activities and the expansion of its non-regulated activities. Gaz Métro's ability to carry out future acquisitions and significant development projects and to effectively integrate them under favourable conditions may be limited by the number of attractive acquisition targets, internal demands on Gaz Métro's resources and, if necessary, Gaz Métro's ability to obtain financing at satisfactory terms. Acquisitions and development projects may expose Gaz Métro to additional risks factors, 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; (v) inability to obtain or maintain licences, permits or authorizations required by various government authorities or other, including their renewal or modification or any other delay with respect to obtaining them; (vi) difficulties in retaining key employees of the acquired businesses or assets; and (vii) 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 where synergies are expected, the synergies may not materialize.

Project management

The development, construction and future operation of production facilities and of the natural gas or energy distribution networks can be affected by changes in government policy and in laws and regulations; by delays in obtaining the required authorizations, permits and licences, including their suspension or cancellation; by environmental, social and aboriginal matters; by increases in capital expenditures and construction costs; by construction delays; by unfavourable weather conditions; and by an increase in interest rates or other factors that could be significant and over which Gaz Métro has little or no control. Should any of these factors emerge, actual results could differ significantly from projections, including projections of costs, future revenues and earnings. In addition, failure to obtain social acceptance for a project, including failure to obtain the consent of local stakeholders and communities, First Nations and aboriginal peoples, 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.

Acquisition-related commitments

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

CLIMATE CHANGE

More and more policies and regulations to limit or reduce GHG emissions from various sectors are being implemented worldwide, such as the December 2015 agreement to reduce global GHG emissions, pursuant to the UN Climate Change Conference (COP 21), the impact of which should extend to laws and regulations of each of the signatory countries. Management is following the evolution of various GHG reduction initiatives, particularly those related to the implementation of Quebec's 2030 Energy Policy (the "Energy Policy"), which could constrain its current activities.

The Canadian and U.S. governments and their respective provinces and states are therefore working to establish new requirements to reduce GHG emissions, particularly regarding methane emissions, so as to comply with international agreements.

In April 2016, the Government of Quebec launched the Energy Policy, which is proposing an energy transition that seeks, among other objectives, to favour a low-carbon economy, to promote Quebec's energy resources, and to capitalize on the province's energy efficiency potential. This policy aims to meet GHG emissions reduction targets of 20% by 2020 and 37.5% by 2030 compared to the 1990 emissions thresholds.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Moreover, under the C&T Regulation in Quebec, since January 1, 2015, Gaz Métro-QDA, like fossil fuel distributors, must cover the emissions created by its distribution network and the natural gas combustion emissions of its customers (excluding those generated by customers emitting 25,000 tons or more of GHG annually, who must cover their own emissions). To meet these obligations, Gaz Métro-QDA must purchase GHG emission allowances (the "allowances") in accordance with the Régie-approved strategy for covering GHGs or reduce its GHG emissions. To cover emissions, allowances are purchased at auctions organized by the governments of Quebec and California or obtained through mutual agreement transactions for valid allowances or for recognized offset credits. Up until now, Gaz Métro-QDA has taken the necessary measures to purchase allowances in order to achieve compliance. However, there is no assurance that in the future Gaz Métro-QDA will be able to purchase allowances at costs it deems reasonable or that it will be able to cover all the allowances required in accordance with the Régie-approved GHG strategy.

As for GMP, it is subject to a state policy that encourages the development of renewable energy resources in Vermont as well as the purchase or sale of renewable power by the state's electricity distributors. Notably, in June 2015, Vermont passed a new renewable energy law that established a mandatory renewable energy standard for Vermont utilities. The requirements under this law will take effect in 2017 and will gradually increase until 2032. GMP closely monitors the law's impact in terms of its costs and competitive position as it purchases renewable attributes to comply with the legislation. However, GMP expects to continue selling the attributes that it will not need to the New England market. GMP's revenue from the sale of attributes from its renewable energy sources partially mitigates its rate increases, although the new law is expected to reduce this benefit in future periods.

GMP also participates in the Regional Greenhouse Gas Initiative ("RGGI"), a cooperative effort among U.S. Northeastern and Mid-Atlantic states to reduce carbon dioxide ("CO₂") emissions that uses a multi-state cap-and-trade program with a market-based trading system. Accordingly, GMP must purchase CO₂ emission allowances to offset the total CO₂ emissions generated by its facility that is subject to RGGI compliance.

As for VGS, it must comply with Vermont legislation that encourages the reduction of GHG emissions. At present, the legislation does not impose any specific reduction targets but it may become more stringent with time.

Should new practices be proposed or required under a law or regulation applicable to a rate-regulated entity, Gaz Métro would seek to recover the costs of such practices in future rates. However, there is no guarantee that regulatory agencies would accept such requests.

REPUTATIONAL DAMAGE

Public opinion or reputation risk factor is the risk that Gaz Métro will be affected by changes to its reputation in the eyes of stakeholders, interest groups, political leaders, the media or other entities.

Any of Gaz Métro's business decisions could harm its reputation, and every kind of risk could also affect its reputation. Reputational damage cannot be managed independently of other kinds of risk.

S) RECENT ACCOUNTING CHANGES

ACCOUNTING CHANGES

Gaz Métro had 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 could defer application of Part I to fiscal periods beginning on or after January 1, 2015.

Given the uncertainties surrounding publication of a final IFRS standard on RAL and the substantial impacts of applying temporary standard IFRS 14, *Regulatory Deferral Accounts*, Gaz Métro and its Partners instead chose to apply U.S. GAAP. To do so, Gaz Métro's Partners, GMi and Valener, obtained new three-year exemptions from the Canadian Securities Administrators in May 2015, allowing them to prepare their consolidated financial statements in accordance with U.S. GAAP in order to meet their continuous disclosure requirements in Canada. These exemptions are valid until the first of the following dates: (i) January 1, 2019; (ii) the first day of the fiscal year following the cessation of Gaz Métro's RRA, if applicable; and (iii) the effective date prescribed by the IASB for mandatory application of a permanent and specific IFRS standard for entities engaged in RRA. GMi and Valener are therefore using U.S. GAAP to prepare their annual and interim consolidated financial statements for fiscal years 2016 to 2018, inclusively. Gaz Métro, which is not a publicly accountable enterprise within the meaning of the Handbook, adopted the strategy recommended by its Partners.

Therefore, Gaz Métro retrospectively adopted U.S. GAAP as of October 1, 2015, and the Partnership's audited consolidated financial statements for the fiscal years ended September 30, 2016 and 2015 have been prepared in accordance with U.S. GAAP. The comparative figures, which had previously been prepared under Canadian GAAP, have been adjusted as needed to comply

MANAGEMENT'S DISCUSSION AND ANALYSIS

with U.S. GAAP. Note 26 to the audited consolidated financial statements for the fiscal years ended September 30, 2016 and 2015 presents the impacts of the conversion from Canadian GAAP to U.S. GAAP.

In addition to the change in accounting framework, Gaz Métro recently adopted the following standards:

Issuance costs

In April 2015, FASB issued ASU 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. This standard, applied retrospectively, requires debt issuance costs to be presented on the balance sheet as a deduction from the carrying value of the related debt. Gaz Métro elected to early adopt these new requirements as of October 1, 2015, allowing for the continued use of the same accounting policy previously used under Canadian GAAP.

Inventories

In July 2015, FASB issued ASU 2015-11, *Inventory (Topic 330): Simplifying the Measure of Inventory*. This standard, applied prospectively, requires inventory whose cost is determined using the weighted average cost method or the first in, first out method to be measured at the lower of cost and net realizable value. Gaz Métro elected to early adopt this standard as of October 1, 2015, allowing for the continued use of the same accounting policy previously used under Canadian GAAP.

Deferred income taxes

In November 2015, FASB issued ASU 2015-17, *Income Taxes (Topic 740)*. This standard, applied retrospectively, requires deferred income taxes to be presented on the balance sheet as noncurrent assets or liabilities. Therefore, separately presenting the current portion is no longer required. Since Gaz Métro elected to early adopt these new requirements as of October 1, 2015, deferred income taxes are presented as noncurrent assets and liabilities on the consolidated balance sheets as at September 30, 2016 and 2015.

STANDARDS ISSUED BUT NOT YET IN EFFECT

Consolidation

In February 2015, FASB issued ASU 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis*. This standard amends the guidance applicable to entities that must apply full consolidation when preparing consolidated financial statements. This guidance will apply retrospectively to the interim and annual financial statements for fiscal years beginning on or after December 15, 2015. Subsequently, the FASB issued, in October 2016, ASU 2016-17 modifying consolidation guidance in cases of entities under common control. These new guidelines will be applied retrospectively to interim and annual financial statements relating to fiscal years beginning on or after December 15, 2016. Gaz Métro is currently reviewing the impact of these standards on its consolidated financial statements.

Revenues

In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This standard provides revenue recognition guidance whereby revenues are to be recognized with the transfer of goods or services to customers in amounts that reflect the payment that the entity expects to receive in exchange for those goods or services. To clarify some of the guidance in ASU 2014-09, FASB then issued ASU 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*; ASU 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*; and ASU 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*. This guidance will apply retrospectively to the interim and annual financial statements for fiscal years beginning on or after January 1, 2018. Gaz Métro is currently assessing how these standards will impact its consolidated financial statements.

Financial instruments

In January 2016, FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. This standard amends certain recognition, measurement, presentation and disclosure requirements applicable to financial instruments. The guidance will apply prospectively to the interim and annual financial statements for fiscal years beginning on or after December 15, 2017. Gaz Métro is currently assessing how this standard will impact its consolidated financial statements.

Leases

In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)*. This standard amends the accounting requirements for operating leases. Entities will now have to recognize the assets and liabilities arising from operating leases, except for leases with a term of 12 months or less, for which a choice of accounting policy will be possible. The guidance will apply retrospectively

MANAGEMENT'S DISCUSSION AND ANALYSIS

to the interim and annual financial statements for fiscal years beginning on or after December 15, 2018. Gaz Métro is currently assessing how this standard will impact its consolidated financial statements.

Cash flows

In August 2016, FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. The purpose of this standard is to reduce the diversity in statement of cash flow presentation of eight specific kinds of transactions. The guidance will apply retrospectively to the interim and annual financial statements for fiscal years beginning on or after December 15, 2017. Gaz Métro is currently assessing how this standard will impact its consolidated financial statements.

Income taxes

In October 2016, the FASB issued ASU 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other than Inventory*. This standard amends the guidelines for the recognition of income taxes payable on transfers of assets between entities other than inventories. Under these new guidelines, the tax consequences will have to be recognized when the transfer of assets takes place. These guidelines will be applied retrospectively to interim and annual financial statements relating to fiscal years beginning on or after December 15, 2017. Gaz Métro is currently reviewing the impact of this standard on its consolidated financial statements.

REGULATORY MATTERS

In December 2015, the Régie authorized Gaz Métro-QDA's request to modify certain treatments to align them with U.S. GAAP requirements. For additional information on these changes, refer to the Regulatory Filings subheading applicable to Gaz Métro-QDA under the Energy Distribution Segment heading of section O) SEGMENT RESULTS.

INFORMATION SYSTEMS AND INTERNAL CONTROL OVER FINANCIAL REPORTING

The conversion project had no significant impact on Gaz Métro's information systems or its internal control over financial reporting.

T) FINANCIAL INSTRUMENTS

A significant portion of the Partnership's consolidated balance sheet contains financial instruments. The Partnership's financial assets include cash and cash equivalents, cash equivalents subject to short-term restrictions, trade and other receivables, cash subject to long-term restrictions, investment funds and derivative financial instruments with a positive fair value. The Partnership's financial liabilities include the bank overdraft, bank loans, accounts payable and accrued liabilities, distributions payable, derivative financial instruments with a negative fair value, long-term debt, the contractual liability related to the elimination of spent nuclear fuel, and customer deposits. Information on the accounting treatment of financial instruments is presented in Notes 2 and 22 of the Partnership's audited consolidated financial statements for the fiscal years ended September 30, 2016 and 2015. Financial instrument risk management is presented in Note 23 to the Partnership's audited consolidated financial statements for the fiscal years ended September 30, 2016 and 2015.

RISKS RELATED TO FINANCIAL INSTRUMENTS

As mentioned in Note 23 to Gaz Métro's audited consolidated financial statements for the fiscal years ended September 30, 2016 and 2015, Gaz Métro is exposed to the risk of exchange rate fluctuations since it holds secured senior notes and term loans denominated in U.S. dollars. However, since a portion of these debts have been designated as a hedge of the net investment in U.S. foreign operations, the impact of exchange rate changes on these debts is recognized in consolidated other comprehensive income, thereby reducing the impact on Gaz Métro's net income.

On September 30, 2016, a 5% appreciation or depreciation of the U.S. dollar against the Canadian dollar related to these debts would have had a \$1.5 million impact on Gaz Métro's net income.

In addition, Gaz Métro is exposed to the risk of interest rate fluctuations on its bank loans and on the floating-rate portion of its long-term debt. However, as mentioned in section R) RISK FACTORS RELATING TO GAZ MÉTRO, this risk is mitigated by the fact that Gaz Métro may use interest rate swaps, allowing it to fix interest rates on a portion of its floating rate long-term debt. Furthermore, Gaz Métro-QDA also has a regulatory mechanism through which it can defer, for a given year, the differences between actual interest rates and those used to establish the distribution rates to a later year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Therefore, as at September 30, 2016, 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 net income by \$2.7 million, whereas a 100-basis-point decrease in the interest rate would have increased net income by \$2.2 million.

RISKS RELATED TO DERIVATIVE FINANCIAL INSTRUMENTS

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

Derivative financial instruments related to rate-regulated activities

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

The derivative financial instruments related to rate-regulated activities are not designated as hedging instruments eligible for hedge accounting. Unrealized gains and losses arising from changes in the fair value of these financial instruments are recognized as adjustments to RAL, as approved by the regulatory agencies, 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 foreign operations.

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.

To offset the exchange risk on the net investment in foreign operations, certain U.S.-dollar-denominated debts are designated as hedges of an equivalent portion of the net investment in foreign operations whose functional currency is the U.S. dollar. In the case of a hedge of the net investment in foreign operations, the effective portion of translation exchange gains and losses on debts designated as hedging items is included in other comprehensive income, and the ineffective portion is immediately recognized in income. The unrealized exchange gains or losses on these hedging items recognized in accumulated other comprehensive income are reclassified to income when the corresponding net investment is reduced because the subsidiary is sold or is substantively liquidated.

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, 2016, the carrying amount of these financial liabilities designated as hedges totalled \$758.3 million (US\$578.1 million) (\$771.5 million (US\$578.1 million) as at September 30, 2015). The Partnership applied hedge accounting to these designations. The effective portion of the unrealized exchange gains on the hedge of the net investment in self-sustaining foreign operations was \$13.2 million for the year ended September 30, 2016 (losses of \$124.0 million in 2015) and was recognized in other comprehensive income.

In the case of a cash flow hedge, the effective portion of changes in the fair value of a derivative financial instrument designated as a hedging item is recognized in other comprehensive income, and the ineffective portion is immediately recognized in income. Amounts previously recognized in accumulated other comprehensive income 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Forward exchange contracts are used to manage the exchange risk exposure arising from the U.S.-dollar-denominated revenues in some Gaz Métro LNG contracts.

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, 2016, the credit risk relating to counterparties of derivative financial instruments was low since the fair value of the derivative financial instrument asset was not significant. 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, 2015. The Partnership is therefore continuing to carefully monitor and manage the credit risk relating to these counterparties. The Partnership may be exposed to liquidity risk if an event resulting in cancellation occurred, forcing Gaz Métro and its subsidiaries to settle the derivative financial instrument liability balance prior to maturity. However, this risk was low as at September 30, 2016, since the fair value of the financial instrument liability is not significant.

Fair value of financial instruments

All financial instruments reported on Gaz Métro's consolidated balance sheet as at September 30, 2016 reflect the current financial market situation. Non-derivative financial instruments are reported at their carrying value. However, the fair value of these non-derivative financial instruments, except for long-term debt, approximates their carrying amounts given the short periods to maturity or because their terms and conditions are comparable to those of the current market for similar instruments. The derivative financial instruments are accounted for at fair value on the consolidated balance sheet. The 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. The Partnership classifies financial instruments according to the fair value hierarchy presented in Notes 2 and 22 to the financial statements. Furthermore, changes in the fair value of most of the derivative financial instruments appearing in Gaz Métro's consolidated balance sheet as at September 30, 2016 are either recognized as regulatory assets and liabilities, in accordance with regulatory treatments, or in other comprehensive income because they qualify for hedge accounting, rather than being recognized in the consolidated statement of income.

The following table presents the main assumptions underlying the fair value calculation of derivative financial instruments as at September 30, 2016:

	Valuation model	Discount rate	Risk-free rate	Implicit price volatility	Forward price
Forward exchange contracts	(1)	1.05%	0.29% to 0.52%	N/A	N/A
Instruments related to natural gas:					
Fixed-price swaps	(1)	0.76%	0.29% to 0.60%	N/A	\$2.46/GJ to \$2.87/GJ
Instruments related to electricity:					
Fixed-price capacity swaps	(1)	1.52%	0.68% to 1.12%	N/A	US\$7.03/kW

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

As at September 30, 2016, the derivative financial instruments asset, net of the liability (including the current portion) stood at \$0.4 million, a change of \$5.8 million since September 30, 2015. This situation was primarily due to:

- a decrease in electricity prices, which reduced the fair market value of the fixed-price capacity swaps by \$16.8 million; and
- a decrease in natural gas forward prices, which resulted in a \$2.5 million increase in fixed-price swap liabilities;

partly offset by:

- the settlement of natural gas financial instruments for \$5.8 million;
- the settlement of swap financial instruments, net of the change in fair value, for \$4.1 million; and
- the settlement of forward exchange contracts for \$3.6 million.

U) SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of the Partnership's consolidated financial statements in accordance with U.S. 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Regulation

Gaz Métro-QDA as well as certain subsidiaries of Gaz Métro have business activities that are regulated by various regulatory agencies. 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.

Estimates are sometimes needed to determine the probability of certain amounts being recoverable or reimbursable through future rates, as a result of decisions by regulatory agencies, in order to consequently adjust the carrying value of the regulatory assets and liabilities. Any adjustment of the initial estimates are reported in the income of the period during which it is confirmed. The nature of the regulatory assets and liabilities is described in Note 4 to the Partnership's audited consolidated financial statements for the fiscal years ended September 30, 2016 and 2015.

Amortization of property, plant and equipment

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

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

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 present value of expected costs and is subsequently adjusted to reflect any change resulting from the passage of time and any change in the expected 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 and/or when they would have to incur the cost of meeting such obligations. Consequently, it is impossible to make a reasonable estimate of the fair value of the related liability, and no liability has been recognized.

Impairment of noncurrent assets

The noncurrent assets that are tested for impairment include property, plant and equipment, regulatory assets, and finite life intangible assets. These assets are tested for impairment if events or changes in circumstances indicate their carrying amount might not be recoverable. When testing for impairment, the fair value of the assets is used. The fair value is determined using valuation techniques such as market price, if available, or is based on the total discounted future cash flows expected to result from the use and eventual disposition of the group of assets, which requires management's judgment in establishing the assumptions used. For additional information on the calculation method, refer to Note 2 to the audited consolidated financial statements of Gaz Métro for the fiscal years ended September 30, 2016 and 2015.

In addition, if the Partnership believes, following interventions from regulatory agencies, that certain costs of property, plant and equipment and of intangible assets relating to rate-regulated activities are no longer likely to be recovered or returned through future rate adjustments, the carrying amounts of these assets would be adjusted accordingly.

In connection with its system development project, VGS signed a memorandum of understanding with the VDPS whereby VGS agreed to set a US\$134.0 million cap on the amount of Addison project costs that could be recovered through rates, as explained in greater detail in the GMP and VGS Regulatory Filings heading of section O) SEGMENT RESULTS.

Pursuant to this memorandum of understanding and given the revised cost estimate of the project, VGS recorded a US\$20.6 million impairment of noncurrent assets during fiscal 2016 to recognize the uncertainty surrounding a portion of the project costs that could potentially not be recoverable from rates (US\$10.3 million recorded in fiscal 2015). This allowance was calculated using the estimated project costs, which therefore required management to exercise judgment regarding the total anticipated project costs.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 either 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 value measurements 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. No impairment was recorded during fiscal years 2016 and 2015 following these impairment tests. For additional information on the calculation method, refer to Note 2 to the audited consolidated financial statements of Gaz Métro for the fiscal years ended September 30, 2016 and 2015.

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 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 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 18 to the Partnership's audited consolidated financial statements for the fiscal years ended September 30, 2016 and 2015 for the assumptions used to perform the actuarial calculation and a sensitivity analysis for some of these assumptions.

It is important to remember that Gaz Métro applies regulatory treatments to account for defined benefit plan and other postretirement benefit plan expenses. These regulatory treatments mitigate the impact of fluctuations in the assumptions on the expense recognized in Gaz Métro's consolidated statement of income. For additional information about these regulatory treatments, refer to Note 4 to the Partnership's audited consolidated financial statements for the fiscal years ended September 30, 2016 and 2015.

Income taxes

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

Under this method, deferred income tax assets and liabilities are determined based on the differences between the carrying amounts and the tax bases of the assets and liabilities. They are measured by applying, on the consolidated financial statements date, the enacted tax rates and laws of the fiscal years in which the temporary differences are expected to reverse. The impact of a change in tax rate on deferred income tax assets and liabilities is included in the income of the period during which the change came into effect. This method therefore requires management to exercise judgment in determining when the temporary differences are expected to be realized. A valuation allowance is recorded to reduce deferred income tax assets when management considers that it is more likely than not that a portion or all of the deferred income tax assets will not be realized. The Partnership recognizes the impact of an uncertain tax position when it is more likely than not to be realized.

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

V) ADDITIONAL INFORMATION

Units outstanding

As at November 22, 2016, a total of 167,250,908 units were outstanding.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Related party transactions

Gaz Métro-QDA incurred natural gas storage costs with Intragaz, presented as direct costs in the consolidated statement of income, totalling \$16.8 million for fiscal 2016 (\$16.8 million in 2015).

In fiscal 2016, Transco provided GMP with electricity transmission services totalling \$25.4 million (\$34.2 million in 2015), presented as direct costs in the consolidated statement of income.

These related party transactions were carried out in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

GMI, acting in its capacity as General Partner of Gaz Métro, has loaned amounts to the Partnership and guaranteed certain Gaz Métro commitments. For additional information, refer to Note 13, Long-Term Debt and Note 24, Commitments and Guarantees in the notes to Gaz Métro's audited consolidated financial statements for the fiscal years ended September 30, 2016 and 2015.

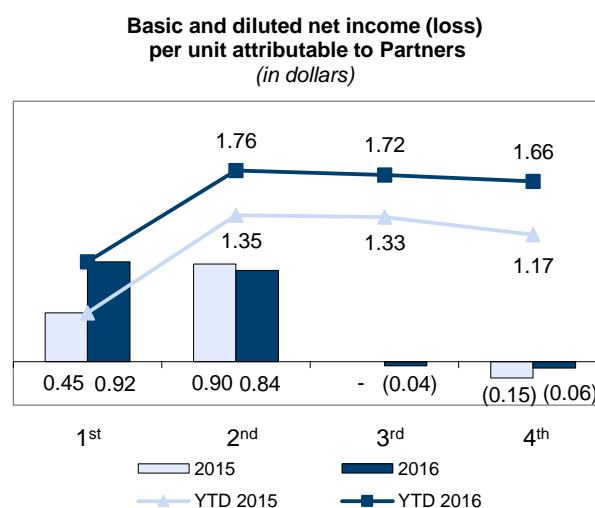
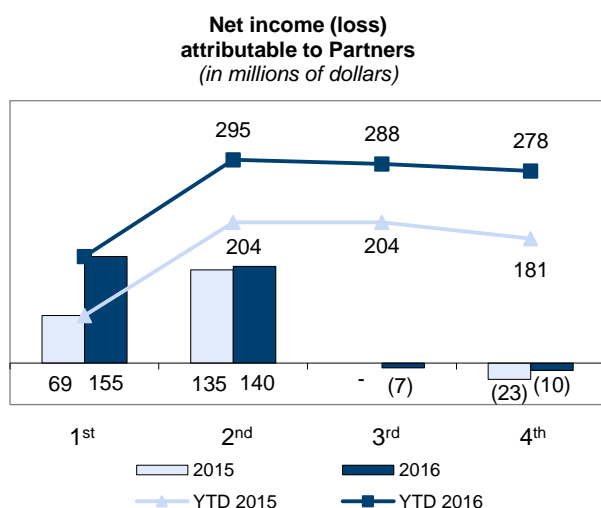
Litigation

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

W) QUARTERLY RESULTS

<i>(in millions of dollars, unless otherwise indicated)</i>	1 st	2 nd	3 rd	4 th	Fiscal 2016
Revenues	692.9	911.0	517.5	465.6	2,587.0
Net income (loss) attributable to Partners	154.6	140.5	(6.7)	(10.9)	277.5
Basic and diluted net income (loss) per unit attributable to Partners <i>(in \$)</i>	0.92	0.84	(0.04)	(0.06)	1.66

<i>(in millions of dollars, unless otherwise indicated)</i>	1 st	2 nd	3 rd	4 th	Fiscal 2015
Revenues	659.7	962.6	502.9	459.2	2,584.4
Net income (loss) attributable to Partners	68.8	135.6	(0.1)	(23.3)	181.0
Basic and diluted net income (loss) per unit attributable to Partners <i>(in \$)</i>	0.45	0.90	-	(0.15)	1.17



MANAGEMENT'S DISCUSSION AND ANALYSIS

Results for the fourth quarter of fiscal 2016

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 of Gaz Métro, and the impact of fluctuations of the U.S. dollar versus the Canadian dollar. Given the seasonal nature of its activities 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 2016, the net loss attributable to Partners decreased \$12.4 million (\$0.09 per unit) year over year, mainly due to:

- a \$15.0 million increase in the IBIT generated by Vermont energy distribution activities, excluding the impact of exchange rate changes, mainly because a before-tax US\$10.3 million allowance had been recorded in the fourth quarter of fiscal 2015 related to the costs of the Addison project following an agreement concluded with the VDPS.

Summary of quarterly results

The significant items that affected the results of the other quarters of fiscal years 2016 and 2015 were as follows:

- **3rd quarters:** The 2016 third-quarter net loss attributable to Partners increased \$6.6 million (\$0.04 per unit) year over year, mainly due to:
 - a \$19.9 million decrease in the IBIT generated by Vermont energy distribution activities, excluding the exchange rate impact, mainly due to (i) the recognition of a before-tax US\$20.6 million impairment of noncurrent assets related to VGS's Addison project, following a new project cost estimate, as previously explained, and (ii) a decrease in GMP's revenues resulting from lower customer consumption due, among other factors, to the adoption of energy efficiency measures such as solar power;partly offset by:
 - a \$6.8 million decrease in income tax expense, mainly due to the decrease in the IBIT generated by Vermont energy distribution activities; and
 - a \$6.0 million increase in Gaz Métro-QDA's IBIT, mainly due to (i) higher capitalized interest on non-rate-base investments, and (ii) higher distribution revenues resulting from an increase in deliveries due, among other factors, to greater consumption in the metallurgy sector and higher LNG deliveries.
- **2nd quarters:** The 2016 second-quarter net income attributable to Partners increased \$4.9 million (decrease of \$0.06 per unit) year over year, mainly due to:
 - a \$7.2 million increase in Gaz Métro-QDA's IBIT, mainly due to (i) higher capitalized interest on non-rate-base investments and (ii) a timing difference between the revenue recognition profile, which follows the customers' consumption profile, and that of costs; and
 - a \$3.1 million increase from a favourable exchange rate impact on the IBIT generated by Vermont energy distribution activities;partly offset by:
 - a \$6.2 million decrease in the IBIT generated by Vermont energy distribution activities, excluding the exchange rate impact, mainly because of a decrease in GMP's revenues given the warm temperatures in the second quarter of fiscal 2016.

The year-over-year decrease in second-quarter net income per unit attributable to Partners is explained mainly by the fact that the higher net income attributable to Partners, as explained above, was more than offset by the dilutive effect of the unit issuances that occurred during the third and fourth quarters of fiscal 2015.

- **1st quarters:** The 2016 first-quarter net income attributable to Partners increased \$85.8 million (\$0.47 per unit) year over year, mainly due to:
 - an \$84.0 million increase in Gaz Métro-QDA's IBIT, mainly due to (i) a one-time adjustment of \$79.3 million related to the regulatory treatment of employee future benefits ⁽⁵⁾, (ii) a timing difference between the revenue recognition profile, which follows the customers' consumption profile, and that of costs, and (iii) higher capitalized interest on non-rate-base investments; and
 - a \$4.4 million increase from a favourable exchange rate impact on the IBIT generated by Vermont energy distribution activities;partly offset by:
 - a \$2.0 million decrease in the IBIT generated by Gaz Métro LNG, mainly because a major short-term contract had been carried out in the first quarter of fiscal 2015.

⁽⁵⁾ For additional information on this adjustment, refer to section N) CONSOLIDATED ANNUAL FINANCIAL PERFORMANCE SUMMARY.

MANAGEMENT'S DISCUSSION AND ANALYSIS

X) SUBSEQUENT EVENTS

Declaration of a distribution

On November 23, 2016, the board of directors of GMi, acting in its capacity as General Partner of Gaz Métro, declared a quarterly distribution of \$48.5 million, payable on January 4, 2017 to its Partners.

GMi's private placement

On October 6, 2016, GMi issued, by way of private placement, \$125.0 million in first mortgage bonds. These bonds bear interest at an annual rate of 3.28% and will mature on October 9, 2046. The issuance proceeds were loaned to Gaz Métro under similar terms and are to be used to repay existing debts and for general business purposes.

NNEEC's credit facility

On October 12, 2016, NNEEC entered into a US\$40.0 million credit agreement, which will mature on September 30, 2017.

This MD&A has been prepared as of November 24, 2016.

Additional information about Valener, including its Annual Information Form, MD&A, and Annual Report for the fiscal year ended September 30, 2016, can be found on SEDAR at www.sedar.com and on Valener's website at www.valener.com/investisseurs.

MANAGEMENT'S DISCUSSION AND ANALYSIS

GLOSSARY

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

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

GAZ MÉTRO LIMITED PARTNERSHIP
FIVE-YEAR REVIEW – CONSOLIDATED OPERATING STATISTICS ⁽¹⁾

Fiscal years ended September 30

	2016	2015	2014	2013	2012
NORMALIZED NATURAL GAS VOLUME (10⁶m³) ⁽²⁾					
Distribution					
Industrial					
Firm service	3,126	3,133	2,983	2,714	2,394
Interruptible service	430	425	498	722	941
Commercial	1,790	1,808	1,846	1,659	1,670
Residential	663	671	673	670	639
Total (10 ⁶ m ³)	6,009	6,037	6,000	5,765	5,644
Total (Bcf)	212	213	212	204	199
NATURAL GAS DELIVERIES (10⁶m³)					
Distribution					
Total (10 ⁶ m ³)	5,868	6,210	6,191	5,719	5,446
Total (Bcf)	207	219	219	202	192
Transportation ^{(3) (4)}					
Total (10 ⁶ m ³)	7,292	7,709	7,145	7,343	6,171
Total (Bcf)	257	272	252	259	218
ELECTRICITY DISTRIBUTION (gigawatthours) ⁽⁵⁾					
Residential	1,479	1,553	1,558	1,547	785
Small commercial and industrial	1,531	1,564	1,569	1,562	916
Large commercial and industrial	1,174	1,171	1,170	1,164	764
Total	4,184	4,288	4,297	4,273	2,465
CUSTOMERS ⁽⁵⁾					
Distribution of natural gas and electricity					
Industrial	7,983	7,878	7,681	7,180	5,185
Commercial	99,225	95,102	93,092	88,176	83,788
Residential	405,913	404,280	401,994	403,855	403,880
Total	513,121	507,260	502,767	499,211	492,853
SYSTEM DATA					
Length of pipelines (in km)					
Natural gas distribution					
Canada ⁽⁶⁾	10,727	10,657	10,565	10,602	10,517
United States	1,375	1,324	1,294	1,246	1,219
Total	12,102	11,981	11,859	11,848	11,736
Natural gas transportation ⁽⁴⁾					
Canada	673	673	670	670	670
United States	489	489	489	489	489
Total	1,162	1,162	1,159	1,159	1,159
Length of lines (overhead and underground) (in km)					
Electricity distribution					
United States ^{(5) (7)}	20,956	22,398	22,282	22,270	22,033
Gross property, plant and equipment ⁽⁸⁾ (in millions of dollars)	5,696	5,254	5,666	5,182	4,667
Net property, plant and equipment ⁽⁸⁾ (in millions of dollars)	4,080	3,740	3,971	3,584	3,249
Additions to property, plant and equipment and change in regulatory assets and liabilities ⁽⁸⁾ (in millions of dollars)	595	401	568	625	603
NUMBER OF EMPLOYEES ⁽⁴⁾					
Energy Distribution					
Gaz Métro-QDA	1,465	1,449	1,413	1,408	1,373
NNEEC and VGS	139	150	134	122	116
GMP and CVPS ⁽⁵⁾	540	566	604	650	729
Total	2,144	2,165	2,151	2,180	2,218
Electricity Production	-	-	-	-	-
Natural Gas Transportation	-	-	-	-	-
Energy Services, Storage and Other	113	115	124	112	206

⁽¹⁾ Unaudited data.

⁽²⁾ Normalized volumes based on normal temperatures and wind velocities for natural gas distribution in Quebec (Gaz Métro-QDA) and on normal temperatures for VGS since October 1, 2012.

⁽³⁾ Includes volumes transported and delivered by TQM to the distribution segment and to 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 in Canada to determine pipeline length was modified. Prior year figures have not been changed.

⁽⁷⁾ In 2016, the method used to determine the length of overhead and underground electric power distribution lines in the United States was modified. Prior year figures have not been adjusted.

⁽⁸⁾ The financial information for fiscal years 2016 and 2015 is presented in accordance with U.S. GAAP. For additional information, refer to the VALENER INC. AND GAZ METRO LIMITED PARTNERSHIP section of this MD&A. Prior year figures have not been adjusted.

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

Fiscal years ended September 30 (in thousands of dollars)

	2016	2015
SUMMARY OF RESULTS ⁽²⁾		
Revenues	\$ 2,587,029	\$ 2,584,353
Direct costs	1,605,075	1,648,003
Gross margin	981,954	936,350
Operating and maintenance ⁽³⁾	397,763	464,055
Share in the earnings of equity-accounted interests	(124,303)	(119,410)
Adjusted EBITDA ⁽⁴⁾	708,494	591,705
Net gain on disposals of interests	-	-
Impairment of noncurrent assets	26,545	13,486
Amortization	231,927	211,361
Interest on long-term debt, financial and other expenses	128,686	135,825
Income before income taxes	321,336	231,033
Income taxes (recovered)	41,560	45,167
Net income	279,776	185,866
Net income (loss) attributable to non-controlling interests	2,257	4,884
Net income attributable to Partners	\$ 277,519	\$ 180,982
CASH FLOWS ⁽²⁾		
Operating activities	\$ 529,946	\$ 523,834
Investing activities	(716,364)	(776,381)
Financing activities:		
Distributions	(197,236)	(186,562)
Other financing activities	365,875	417,882
Impact of exchange rate fluctuations ⁽⁵⁾	(1,563)	7,176
Net change in cash and cash equivalents, net of bank overdraft	\$ (19,342)	\$ (14,051)
PER UNIT DATA ⁽²⁾		
Basic and diluted net income per unit attributable to Partners (in dollars)	\$ 1.66	\$ 1.17
Distributions declared per unit to Partners (in dollars)	\$ 1.16	\$ 1.12
Equity per unit attributable to Partners (in dollars)	\$ 10.61	\$ 10.03
Basic and diluted weighted average number of units outstanding (in thousands)	167,251	155,268
Number of outstanding units as at September 30 (in thousands)	167,251	167,251
FINANCIAL STRUCTURE ⁽²⁾		
Bank loans	\$ 15,808	\$ 28,972
Current portion of long-term debt	10,133	9,792
Long-term debt ⁽⁶⁾	3,464,384	3,101,361
Total debt	3,490,325	3,140,125
Total Equity	1,810,340	1,728,236
Total capitalization	\$ 5,300,665	\$ 4,868,361
DEBT / TOTAL CAPITALIZATION RATIO ⁽²⁾	65.8%	64.5%
TOTAL ASSETS	\$ 7,425,613	\$ 6,829,425
FINANCIAL INFORMATION USED BY THE RÉGIE DE L'ÉNERGIE IN DETERMINING GAZ MÉTRO-QDA'S RETURN		
Rate base ⁽⁷⁾	\$ 2,030,323	\$ 2,011,057
Deemed common equity ⁽⁷⁾	38.50%	38.50%
Authorized rate of return including productivity gains on deemed common equity ⁽⁷⁾	8.90%	8.90%
Deemed preferred equity ⁽⁷⁾	7.50%	7.50%
Authorized rate of return on deemed preferred equity	5.60%	5.95%
Deemed tax expense	\$ 38,527	\$ 32,745

⁽¹⁾ Unaudited data.

⁽²⁾ The financial information for fiscal years 2016 and 2015 is presented in accordance with U.S. GAAP. For additional information, refer to the VALENER INC. AND GAZ MÉTRO LIMITED PARTNERSHIP section of this MD&A. Prior year figures have not been adjusted.

⁽³⁾ Includes development activities and the impact of recognizing regulatory assets related to employee future benefits in an amount of \$79,287 in fiscal 2016 following a decision by the Régie de l'énergie.

⁽⁴⁾ Adjusted EBITDA is not a measurement defined by U.S. GAAP. Gaz Métro defines it as income before net gain on the disposal of interests, impairment of noncurrent assets, depreciation, amortization (excluding the amortization of GHG emission allowances), interest on long-term debt, financial and other expenses, and income taxes (recoveries).

⁽⁵⁾ The impact of exchange rate fluctuations has been presented separately since 2009. Comparative figures for 2008 and 2007 were restated.

⁽⁶⁾ Long-term debt is presented net of deferred financing charges.

⁽⁷⁾ 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)

2014	2013	2012	2011	2010	2009	2008	2007
\$ 2,536,708	\$ 2,217,356	\$ 1,907,643	\$ 1,962,764	\$ 2,020,437	\$ 2,249,216	\$ 2,171,919	\$ 1,957,469
1,522,636	1,283,252	1,127,053	1,215,309	1,260,439	1,457,945	1,461,948	1,333,851
1,014,072	934,104	780,590	747,455	759,998	791,271	709,971	623,618
471,355	473,209	379,032	330,365	333,458	332,343	283,750	220,664
(76,881)	(62,016)	(28,692)	(22,875)	(22,001)	(23,366)	(25,925)	(15,474)
619,598	522,911	430,250	439,965	448,541	482,294	452,146	418,428
-	(14,749)	-	(17,361)	-	-	-	-
-	-	-	-	-	-	-	-
247,770	202,847	163,002	175,349	174,515	192,545	171,184	155,375
150,129	125,296	112,673	105,609	109,860	117,620	115,251	107,734
221,699	209,517	154,575	176,368	164,166	172,129	165,711	155,319
47,904	30,649	11,934	13,796	(14,517)	13,677	11,272	32,478
173,795	178,868	142,641	162,572	178,683	158,452	154,439	122,841
(889)	(1,569)	(1,203)	(1,405)	-	-	-	-
\$ 174,684	\$ 180,437	\$ 143,844	\$ 163,977	\$ 178,683	\$ 158,452	\$ 154,439	\$ 122,841
\$ 605,002	\$ 487,969	\$ 428,848	\$ 404,736	\$ 342,936	\$ 499,062	\$ 365,754	\$ 393,675
(641,288)	(653,288)	(1,105,053)	(319,236)	(245,833)	(283,165)	(362,318)	(457,464)
(169,137)	(165,112)	(141,499)	(106,125)	(186,701)	(149,361)	(149,356)	(148,430)
244,390	348,245	822,633	9,965	89,430	(46,839)	140,367	212,046
3,149	819	78	217	(1,274)	(73)	660	(1,301)
\$ 42,116	\$ 18,633	\$ 5,007	\$ (10,443)	\$ (1,442)	\$ 19,624	\$ (4,893)	\$ (1,474)
\$ 1.15	\$ 1.21	\$ 1.10	\$ 1.30	\$ 1.48	\$ 1.32	\$ 1.28	\$ 1.02
\$ 1.12	\$ 1.12	\$ 1.12	\$ 1.12	\$ 1.24	\$ 1.24	\$ 1.24	\$ 1.24
\$ 9.50	\$ 9.24	\$ 8.81	\$ 8.10	\$ 7.74	\$ 7.88	\$ 7.82	\$ 7.65
151,796	148,680	130,878	126,241	120,452	120,452	120,451	120,433
151,796	151,796	148,671	126,338	120,452	120,452	120,451	120,435
\$ -	\$ 19,700	\$ 13,753	\$ 48,017	\$ 41,023	\$ 47,722	\$ 54,451	\$ 38,925
27,016	89,886	164,616	14,639	68,057	218,542	152,664	9,446
3,140,762	2,692,075	2,295,763	1,700,310	1,749,506	1,503,572	1,613,371	1,646,034
3,167,778	2,801,661	2,474,132	1,762,966	1,858,586	1,769,836	1,820,486	1,694,405
1,482,354	1,444,063	1,336,924	1,014,500	932,627	949,552	941,975	921,892
\$ 4,650,132	\$ 4,245,724	\$ 3,811,056	\$ 2,777,466	\$ 2,791,213	\$ 2,719,388	\$ 2,762,461	\$ 2,616,297
68.1%	66.0%	64.9%	63.5%	66.6%	65.1%	65.9%	64.6%
\$ 6,144,214	\$ 5,582,828	\$ 5,131,979	\$ 3,727,247	\$ 3,666,647	\$ 3,306,764	\$ 3,286,478	\$ 3,146,339
\$ 1,897,358	\$ 1,837,496	\$ 1,819,445	\$ 1,757,640	\$ 1,779,427	\$ 1,806,845	\$ 1,770,429	\$ 1,764,928
38.50%	38.50%	38.50%	38.50%	38.50%	38.50%	38.50%	38.50%
8.90%	8.90%	9.69%	9.09%	9.20%	8.94%	9.52%	9.57%
7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
6.07%	6.14%	5.88%	5.60%	5.21%	5.25%	5.38%	5.37%
\$ 31,899	\$ 28,741	\$ 30,008	\$ 33,018	\$ 36,806	\$ 41,652	\$ 45,637	\$ 47,053

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, 2015 to September 30, 2016): high: \$23.27; low: \$16.50. 38.6 million common shares outstanding with a fair value of \$843.4 million as at September 30, 2016. 	
DIVIDEND REINVESTMENT PLAN <p>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.</p> <p>The DRIP enables shareholders to increase their investment in Valener common shares thanks to the conveniences and attractive cost savings it offers:</p> <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. <p>The board of directors approved the reinvestment of dividends into additional common shares, for the dividend payable on January 16, 2017, by way of an issuance of new common shares by Valener at a 2% discount compared to the weighted average price for the five trading days immediately preceding the dividend payment date.</p> <p>The process of enrolling in the DRIP is different for registered shareholders and non-registered shareholders (also called beneficial shareholders).</p> <p>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.</p> <p>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.</p> <p>The complete text of the DRIP is available in the “Investors” section of Valener’s website at www.valener.com/investisseurs-2/shares-and-dividendes.</p>	
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:	INVESTOR RELATIONS 1717 Du Havre, Montreal, Quebec H2K 2X3 Telephone: 514-598-3253 Fax: 514-521-8168 Email: investors@valener.com Quarterly and annual reports as well as the press releases announcing results are available in the “Investors” and “News” sections of Valener’s website: (www.valener.com/investisseurs-2/financial-documents) and (www.valener.com/news) and on the SEDAR website (www.sedar.com) managed by the Canadian Securities Administrators.
1 st quarter of fiscal 2017: February 8, 2017 2 nd quarter of fiscal 2017: May 10, 2017 3 rd quarter of fiscal 2017: August 9, 2017 4 th quarter of fiscal 2017: November 24, 2017	



VALENER INC.
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED
SEPTEMBER 30, 2016 AND 2015



GAZ MÉTRO LIMITED PARTNERSHIP
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED
SEPTEMBER 30, 2016 AND 2015

CONSOLIDATED FINANCIAL STATEMENTS FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2016 AND 2015	
VALENER INC. Manager's Management Report 91 Independent Auditors' Report..... 92 CONSOLIDATED FINANCIAL STATEMENTS CONSOLIDATED STATEMENTS OF INCOME AND CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME 93 CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY 94 CONSOLIDATED BALANCE SHEETS 95 CONSOLIDATED STATEMENTS OF CASH FLOWS 96 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 97	GAZ MÉTRO LIMITED PARTNERSHIP Management's Report 110 Independent Auditors' Report 111 CONSOLIDATED FINANCIAL STATEMENTS CONSOLIDATED STATEMENTS OF INCOME 112 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME 113 CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY 114 CONSOLIDATED BALANCE SHEETS 115 CONSOLIDATED STATEMENTS OF CASH FLOWS 116 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 117

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 U.S. 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, 2016 and 2015 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, 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 24, 2016

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, 2016 and September 30, 2015, and the consolidated statements of income, comprehensive income, changes in 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 U.S. 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, 2016 and September 30, 2015, and the consolidated results of its operations and its consolidated cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

(signed)

KPMG LLP ¹

Montreal, Canada
November 24, 2016

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

CONSOLIDATED STATEMENTS OF INCOME

	<u>2016</u>	<u>2015</u> (Note 13)
REVENUES		
Share in the net income of Gaz Métro	\$ 80,486	\$ 52,493
Share in the net income of Beauré Éole	2,317	5,109
Share in the net income of Beauré Éole 4	192	8
Other revenues related to the Administration and Management Support Agreement (Note 10)	<u>1,000</u>	<u>1,747</u>
	<u>83,995</u>	<u>59,357</u>
EXPENSES		
General and administrative expenses	2,091	2,127
Interest on long-term debt	1,948	1,593
Financial and other expenses	795	483
Losses on derivative financial instruments (Note 11)	<u>4,623</u>	<u>3,951</u>
	<u>9,457</u>	<u>8,154</u>
INCOME BEFORE INCOME TAXES	<u>74,538</u>	<u>51,203</u>
Income taxes (Note 8)	<u>8,039</u>	<u>2,064</u>
NET INCOME	<u>\$ 66,499</u>	<u>\$ 49,139</u>
BASIC AND DILUTED NET INCOME PER COMMON SHARE (in dollars) (Note 6)	<u>\$ 1.61</u>	<u>\$ 1.17</u>

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	<u>2016</u>	<u>2015</u> (Note 13)
NET INCOME	\$ 66,499	\$ 49,139
OTHER COMPREHENSIVE (LOSS) INCOME		
Share in the other comprehensive income of Gaz Métro, net of income taxes	3,806	33,307
Share in the other comprehensive loss of Beauré Éole, net of income taxes	(3,903)	(4,850)
Share in the other comprehensive loss of Beauré Éole 4, net of income taxes	-	(4)
OTHER COMPREHENSIVE (LOSS) INCOME	<u>(97)</u>	<u>28,453</u>
COMPREHENSIVE INCOME	<u>\$ 66,402</u>	<u>\$ 77,592</u>

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

VALENER INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
Fiscal years ended September 30, 2016 and 2015
(in thousands of dollars)

	Share capital (Note 6)	Deficit (Note 13)	Accumulated other comprehensive income (loss) (Notes 7 and 13)	Total equity
Balance as at September 30, 2015	\$ 742,231	\$ (47,936)	\$ 24,232	\$ 718,527
Net income	-	66,499	-	66,499
Other comprehensive loss	-	-	(97)	(97)
Dividend Reinvestment Plan	5,224	-	-	5,224
Dividends to common shareholders	-	(41,622)	-	(41,622)
Dividends to preferred shareholders	-	(4,350)	-	(4,350)
Balance as at September 30, 2016	\$ 747,455	\$ (27,409)	\$ 24,135	\$ 744,181
Balance as at September 30, 2014	\$ 737,126	\$ (53,339)	\$ (4,221)	\$ 679,566
Net income	-	49,139	-	49,139
Other comprehensive income	-	-	28,453	28,453
Dividend Reinvestment Plan	5,105	-	-	5,105
Dividends to common shareholders	-	(39,386)	-	(39,386)
Dividends to preferred shareholders	-	(4,350)	-	(4,350)
Balance as at September 30, 2015	\$ 742,231	\$ (47,936)	\$ 24,232	\$ 718,527

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

VALENER INC.
CONSOLIDATED BALANCE SHEETS
As at September 30
(in thousands of dollars)

	<u>2016</u>	<u>2015</u> (Note 13)
ASSETS		
Current assets		
Cash	\$ 1,156	\$ 1,449
Amount receivable from Gaz Métro	230	294
Distributions receivable from Gaz Métro	14,067	12,991
Income taxes receivable	339	427
Other assets	3	3
Total current assets	<u>15,795</u>	<u>15,164</u>
Noncurrent assets		
Equity-accounted interests (Note 4)	865,369	853,440
Deferred income taxes (Note 8)	129	187
Total noncurrent assets	<u>865,498</u>	<u>853,627</u>
TOTAL ASSETS	<u>\$ 881,293</u>	<u>\$ 868,791</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 383	\$ 450
Dividends payable to common shareholders	10,431	9,973
Dividends payable to preferred shareholders	1,088	1,088
Derivative financial instruments (Note 11)	8,574	-
Total current liabilities	<u>20,476</u>	<u>11,511</u>
Noncurrent liabilities		
Long-term debt (Note 5)	85,225	121,038
Equity-accounted interest (Note 4)	3,113	-
Deferred income taxes (Note 8)	28,298	13,764
Derivative financial instruments (Note 11)	-	3,951
Total noncurrent liabilities	<u>116,636</u>	<u>138,753</u>
TOTAL LIABILITIES	<u>137,112</u>	<u>150,264</u>
EQUITY		
Share capital (Note 6)	747,455	742,231
Deficit	(27,409)	(47,936)
Accumulated other comprehensive income (Note 7)	24,135	24,232
TOTAL EQUITY	<u>744,181</u>	<u>718,527</u>
TOTAL LIABILITIES AND EQUITY	<u>\$ 881,293</u>	<u>\$ 868,791</u>

Subsequent events (Note 14)

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

On behalf of the board of directors,

(signed)

FRANÇOIS GERVAIS, CPA, CA
Director

(signed)

PIERRE MONAHAN
Director

	<u>2016</u>	<u>2015</u> (Note 13)
OPERATING ACTIVITIES		
Net income	\$ 66,499	\$ 49,139
Adjustments to reconcile net income and operating cash flows:		
Distributions received from equity-accounted interests	62,129	64,231
Share in the net income of Gaz Métro	(80,486)	(52,493)
Share in the net income of Beauré Éole	(2,317)	(5,109)
Share in the net income of Beauré Éole 4	(192)	(8)
Losses on derivative financial instruments (Note 11)	4,623	3,951
Deferred income taxes (Note 8)	5,505	(26)
Other	138	236
Change in operating assets and liabilities (Note 9)	869	2,977
Cash flows related to operating activities	<u>56,768</u>	<u>62,898</u>
INVESTING ACTIVITIES		
Purchase of units in Gaz Métro (Note 4)	-	(73,956)
Purchase of units in Beauré Éole (Note 4)	(287)	(309)
Purchase of units in Beauré Éole 4 (Note 4)	(129)	(3,768)
Return of capital from Beauré Éole (Note 4)	19,600	-
Other	-	(27)
Cash flows related to investing activities	<u>19,184</u>	<u>(78,060)</u>
FINANCING ACTIVITIES		
Issuances of long-term debt	575,045	356,021
Repayments of long-term debt	(611,000)	(302,000)
Dividends to common shareholders	(35,940)	(33,817)
Dividends to preferred shareholders	(4,350)	(4,350)
Cash flows related to financing activities	<u>(76,245)</u>	<u>15,854</u>
NET CHANGE IN CASH	<u>(293)</u>	<u>692</u>
CASH AT BEGINNING	<u>1,449</u>	<u>757</u>
CASH AT END	<u>\$ 1,156</u>	<u>\$ 1,449</u>

Supplemental disclosure of cash information (Note 9)

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) is incorporated under the *Canada Business Corporations Act*.

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

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

Valener's consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP). Comparative information, which had previously been presented in accordance with the Canadian GAAP included in Part V of the CPA Canada Handbook – Accounting, *Pre-Changeover Accounting Standards* (Canadian GAAP), has been adjusted as required to comply with the Partnership's accounting policies under U.S. GAAP.

Valener obtained a three-year exemption from the Canadian Securities Administrators allowing it to prepare its annual and interim consolidated financial statements for fiscal years 2016 to 2018, inclusively, in accordance with U.S. GAAP in order to meet its continuous disclosure requirements in Canada.

Note 13 to these consolidated financial statements, First-Time Adoption of U.S. GAAP, presents the impact of the conversion to U.S. GAAP on the comparative period consolidated financial positions and consolidated operating results as well as reconciliations with financial information initially prepared in accordance with Canadian GAAP.

PRINCIPLES OF CONSOLIDATION

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

USE OF ESTIMATES

In preparing its 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 on the consolidated balance sheets, 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 noncurrent asset valuations (particularly the valuation of equity-accounted interests), income taxes, and the fair value of derivative financial instruments.

EQUITY-ACCOUNTED INTERESTS

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. Valener recognized the distributions received from its equity-accounted interests by type; distributions generated by operating activities are reported in operating activities, whereas return-of-capital distributions are reported in investing activities.

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.

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 for which their income is taxable to their partners.

The Company uses the asset and liability method to account for income taxes. Under this method, deferred income tax assets and liabilities are determined based on the temporary differences between the carrying amounts and the tax bases of the assets and liabilities of the Company and on its share in the temporary differences arising from the entities subject to significant influence formed as limited partnerships. They are measured by applying, on the consolidated financial statements date, the enacted tax rates and laws of the fiscal years in which the temporary differences are expected to reverse. The impact of a change in tax rate on deferred income tax assets and liabilities is included in the income of the period during which the change came into effect. In all cases, deferred income tax assets are recognized only if they are more likely than not to be realized. The offsetting entry to deferred income taxes related to the activities of rate-regulated entities subject to significant influence is reflected in the equity-accounted interests item.

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 measured at fair value are categorized into a three-level hierarchy that is based on the observable nature of the data inputs used to measure the fair value. The three levels of the fair value hierarchy are as follows:

- Level 1 – Assets and liabilities measured at fair value using the unadjusted quoted prices of identical assets and liabilities in active and accessible markets at the measurement date.
- Level 2 – Measurements that use directly or indirectly observable data inputs other than the quoted prices included in Level 1.
- Level 3 – Measurements using data inputs that are not observable in the market (unobservable inputs).

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

TRANSACTION COSTS

The Company primarily incurs transaction costs when issuing debt securities or shares. These costs are deducted from the carrying amount of the related debt and are then amortized using the effective interest 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, 2016 and 2015, no instrument had a dilutive effect on the basic net income per common share.

3. ACCOUNTING CHANGES

RECENTLY ADOPTED STANDARDS

Issuance costs

In April 2015, the Financial Accounting Standards Board (FASB) issued ASU 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. This standard, applied retrospectively, requires debt issuance costs to be presented on the balance sheet as a deduction from the carrying value of the related debt. Valener elected to early adopt these new requirements as of October 1, 2015, allowing for the continued use of the same accounting policy previously used under Canadian GAAP.

Deferred income taxes

In November 2015, FASB issued ASU 2015-17, *Income Taxes (Topic 740)*. This standard, applied retrospectively, requires deferred income taxes to be presented on the balance sheet as noncurrent assets or liabilities. Therefore, separately presenting the current portion is no longer required. Since Valener elected to early adopt these new requirements as of October 1, 2015, deferred income taxes are presented as noncurrent assets and liabilities on the consolidated balance sheets as at September 30, 2016 and 2015.

STANDARDS ISSUED BUT NOT YET IN EFFECT

Consolidation

In February 2015, FASB issued ASU 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis*. This standard amends the guidance applicable to entities that must apply full consolidation when preparing consolidated financial statements. This guidance will apply retrospectively to the interim and annual financial statements for fiscal years beginning on or after December 15, 2015. Subsequently, the FASB issued, in October 2016, ASU 2016-17 modifying consolidation guidance in cases of entities under common control. These new guidelines will be applied retrospectively to interim and annual financial statements relating to fiscal years beginning on or after December 15, 2016. Valener is currently reviewing the impact of these standards on its consolidated financial statements.

Financial instruments

In January 2016, FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. This standard amends certain recognition, measurement, presentation and disclosure requirements applicable to financial instruments. The guidance will apply prospectively to the interim and annual financial statements for fiscal years beginning on or after December 15, 2017. Valener is currently assessing how this standard will impact its consolidated financial statements.

Cash flows

In August 2016, FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. The purpose of this standard is to reduce the diversity in the statement of cash flow presentation of eight specific kinds of transactions. This guidance will apply retrospectively to the interim and annual financial statements for fiscal years beginning on or after December 15, 2017. Valener is currently assessing how this standard will impact its consolidated financial statements.

Income taxes

In October 2016, the FASB issued ASU 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other than inventory*. This standard amends the guidelines for the recognition of income taxes payable on transfers of assets between entities other than inventories. Under these new guidelines, the tax consequences will have to be recognized when the transfer of assets takes place. These guidelines will be applied retrospectively to interim and annual financial statements relating to fiscal years beginning on or after December 15, 2017. Valener is currently reviewing the impact of this standard on its consolidated financial statements.

4. EQUITY-ACCOUNTED INTERESTS

	Ownership interest	2016	2015
Interest in Gaz Métro (a)	29.0%	\$ 858,447	\$ 820,679
Interest in Beaurpré Éole (b)	49.0%	-	24,860
Interest in Beaurpré Éole 4 (c)	49.0%	6,922	7,901
		\$ 865,369	\$ 853,440

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

The interest in Gaz Métro includes \$349,824 in goodwill as at September 30, 2016 (\$351,262 as at September 30, 2015).

- (b) During fiscal 2016, Valener subscribed, in proportion to its current interest in Beaurpré Éole, 286,543 Beaurpré Éole units for a total cash consideration of \$287 (308,700 Beaurpré Éole units for a total cash consideration of \$309 in 2015).

In May 2016, Wind Farms 2 and 3 refinanced its long-term debt, permitting it to pay a return-of-capital distribution of \$80,000 to its partners. Valener received its \$19,600 proportionate share of this distribution. The balance of the investment in Beaurpré Éole, which became a credit following this and subsequent distributions, was reclassified to noncurrent liabilities.

- (c) During fiscal 2016, Valener subscribed, in proportion to its current interest in Beaurpré Éole 4, 128,918 Beaurpré Éole 4 units for a total cash consideration of \$129 (3,768,399 Beaurpré Éole 4 units for a total cash consideration of \$3,768 in 2015).

5. LONG-TERM DEBT

	Maximum authorized amount	Maturity	2016	2015
Credit facility	\$ 200,000	2021	\$ 85,225	\$ 121,038

On March 31, 2016, Valener extended the maturity of its credit facility to March 2021. 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 the bankers' acceptance rate or the prime rate, adjusted according to the terms of this credit facility. The effective interest rate for the fiscal year ended September 30, 2016 was 1.74% (1.77% in 2015). After all amounts borrowed and letters of credit issued, the unused credit facility as at September 30, 2016 was \$113,667 (\$77,667 as at September 30, 2015).

The amount drawn on the credit facility as at September 30, 2016 is presented net of \$563 in financing costs (\$705 as at September 30, 2015). The amortization of deferred financing charges was \$142 for fiscal 2016 and \$238 for fiscal 2015.

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 distributions and dividends received less general and administrative expenses and (ii) the total interest on long-term debt. For the fiscal year ended September 30, 2016, these ratios were 30.54 times (33.96 times in 2015) and 1.20 times (2.18 times in 2015), respectively. The Company was in compliance with all of the conditions of its credit facility as at September 30, 2016 and 2015.

6. SHARE CAPITAL

AUTHORIZED

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

DECLARED

	2016	2015
38,633,657 common shares (38,359,969 as at September 30, 2015)	\$ 649,975	\$ 644,751
4,000,000 Series A preferred shares	97,480	97,480
	<u>\$ 747,455</u>	<u>\$ 742,231</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. Valener shares thus purchased can, at Valener's option, be either newly issued from treasury or acquired on the open market. If the Valener shares to be purchased under the DRIP are newly issued from treasury, the price of these shares is the weighted average price of Valener's shares on the TSX for the five trading days immediately preceding the dividend payment date on Valener's shares (weighted average price) and could include, at Valener's option, a discount of up to 5%. If the shares are purchased on the open market through the TSX, the transfer agent purchases the shares in question within ten business days of the dividend payment date.

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

During fiscal 2016, 273,688 common shares were issued under the DRIP (322,683 in 2015) for a total amount of \$5,224 (\$5,105 in 2015).

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

	2016	2015
Net income	\$ 66,499	\$ 49,139
Less:		
Cumulative dividends on Series A preferred shares	4,350	4,350
Net income attributable to common shareholders	<u>\$ 62,149</u>	<u>\$ 44,789</u>
Basic and diluted weighted average number of common shares outstanding (in thousands)	38,528	38,226
Basic and diluted net income per common share (in dollars)	<u>\$ 1.61</u>	<u>\$ 1.17</u>

7. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table presents the changes in accumulated other comprehensive income (loss):

	Proportionate shares in other comprehensive income (loss)		
	Gaz Métro	Beaupré Éole ⁽¹⁾	Total
Balance as at September 30, 2015	\$ 33,113	\$ (8,881)	\$ 24,232
Other comprehensive loss before reclassifications to income	(8,296)	(5,340)	(13,636)
Other comprehensive income reclassified to income	10,774	-	10,774
	2,478	(5,340)	(2,862)
Income taxes	1,328	1,437	2,765
	3,806	(3,903)	(97)
Balance as at September 30, 2016	\$ 36,919	\$ (12,784)	\$ 24,135

	Proportionate shares in other comprehensive income (loss)		
	Gaz Métro	Beaupré Éole ⁽¹⁾	Total
Balance as at September 30, 2014	\$ (194)	\$ (4,027)	\$ (4,221)
Other comprehensive income (loss) before reclassifications to income	39,852	(6,645)	33,207
Other comprehensive income reclassified to income	948	-	948
	40,800	(6,645)	34,155
Income taxes	(7,493)	1,791	(5,702)
	33,307	(4,854)	28,453
Balance as at September 30, 2015	\$ 33,113	\$ (8,881)	\$ 24,232

⁽¹⁾ Beaupré Éole General Partnership and Beaupré Éole 4 General Partnership.

8. INCOME TAXES

	2016	2015
Income before income taxes	\$ 74,538	\$ 51,203
Current income taxes	2,534	2,090
Deferred income taxes	5,505	(26)
Income taxes	\$ 8,039	\$ 2,064

RECONCILIATION OF INCOME TAX RATES

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

	<u>2016</u>	<u>2015</u>
Income before income taxes	\$ 74,538	\$ 51,203
Statutory income tax rate	<u>26.9%</u>	<u>26.9%</u>
Income taxes at statutory rate	20,051	13,774
Increase (decrease) attributable to the following:		
Deferred income taxes related to rate-regulated activities	(4,964)	1,342
Income taxes on income from corporations held by an entity subject to significant influence	(8,681)	(8,793)
Deferred income taxes related to the outside-basis difference on an interest in an entity subject to significant influence	2,524	(4,769)
Net impact of non-taxable items and other	<u>(891)</u>	<u>510</u>
Income taxes	\$ <u>8,039</u>	\$ <u>2,064</u>
Effective income tax rate	<u>10.8%</u>	<u>4.0%</u>

COMPONENTS OF DEFERRED INCOME TAXES

	<u>2016</u>	<u>2015</u>
Interest in Gaz Métro	\$ (24,852)	\$ (12,773)
Interest in Beauré Éole	(14,999)	(6,115)
Interest in Beauré Éole 4	(1,244)	(278)
Non-capital losses	10,759	4,736
Derivative financial instruments	2,307	1,063
Other	<u>(140)</u>	<u>(210)</u>
Net deferred income tax liability	\$ <u>(28,169)</u>	\$ <u>(13,577)</u>

As at September 30, 2016, a valuation allowance of \$6,064 (\$6,482 as at September 30, 2015) was recognized for deferred tax assets related to capital loss carryforwards on the financial instruments of an entity subject to significant influence for which the changes in fair value are recognized in other comprehensive income.

The non-capital losses consist mainly of losses realized by the Company's subsidiaries, which have deemed it more likely than not that they will be able to use their non-capital losses of \$39,989 before they expire, i.e., between 2032 and 2036, factoring in reversals of deductible temporary differences and expected future taxable income.

As at September 30, 2016, Valener's net deferred income tax liability related to its interest in Gaz Métro included a deferred income tax liability of \$5,013 (deferred income tax liability of \$3,366 as at September 30, 2015) related to the excess of the tax basis of its interest in Gaz Métro over the carrying amount (outside-basis temporary difference). The deferred income taxes related to the outside-basis temporary difference were recorded partly in the consolidated statement of income for an expense of \$2,524 (savings of \$4,769 in 2015) and partly in the consolidated statement of comprehensive income for savings of \$877 (expense of \$8,123 in 2015).

9. SUPPLEMENTAL DISCLOSURE OF CASH INFORMATION

	2016	2015
Change in operating assets and liabilities:		
Amount receivable from Gaz Métro	\$ 64	\$ 93
Other assets	-	78
Accounts payable and accrued liabilities	(67)	(471)
Income taxes payable and receivable	872	3,277
	<u>\$ 869</u>	<u>\$ 2,977</u>
Other information:		
Interest received	\$ 51	\$ 35
Interest paid	\$ 1,948	\$ 1,593
Income taxes paid	\$ (1,680)	\$ (1,186)

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), expiring 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 \$1,000 for fiscal 2016 (\$1,747 for fiscal 2015).

11. FINANCIAL INSTRUMENTS

NON-DERIVATIVE FINANCIAL INSTRUMENTS

Non-derivative financial instruments include cash, the amount receivable from Gaz Métro, distributions receivable from Gaz Métro, accounts payable and accrued liabilities, dividends payable to common and preferred shareholders, and long-term debt. The estimated fair value of non-derivative financial instruments approximates their carrying amount given their short periods to maturity or because their terms and conditions are comparable to those of the current market for similar instruments. All non-derivative financial instruments are classified in Level 2 of the fair value hierarchy, except for cash, which is classified in Level 1. There were no transfers between Levels 1 and 2 during fiscal years 2016 and 2015.

DERIVATIVE FINANCIAL INSTRUMENTS

During fiscal 2015, Valener entered into swaps for a total nominal value of \$44,757 with a mandatory early termination date in October 2016, to cover the risk of interest rate fluctuations on an initially planned debt issuance. Since these swaps do not meet the conditions for hedge accounting, changes in fair value are therefore recognized in income. Losses arising from changes in the fair value of derivative financial instruments recognized in the consolidated statement of income stood at \$4,623 for fiscal 2016 (\$3,951 in fiscal 2015).

As at September 30, 2016 and 2015, the fair value of these swaps was measured using Level 2 inputs and calculated using the discounted future cash flows method.

12. FINANCIAL INSTRUMENT RISK MANAGEMENT

OVERVIEW OF RISK MANAGEMENT

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

MARKET RISK

Valener is exposed to interest-rate-related market risk resulting from its long-term debt, which bears interest at variable rates, and from the fair value of swaps, which varies according to interest rates. The Company seeks to maintain an appropriate debt structure in order to reduce the impact of interest rate fluctuations.

CREDIT RISK

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

LIQUIDITY RISK

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

13. FIRST-TIME ADOPTION OF U.S. GAAP

Valener's consolidated financial statements have been prepared in accordance with U.S. GAAP since October 1, 2015. Prior to that, they had been prepared in accordance with Canadian GAAP. The new accounting framework was applied retrospectively.

The following tables and notes describe the impact of the conversion from Canadian GAAP to U.S. GAAP.

RECONCILIATION OF NET INCOME

Fiscal year ended September 30, 2015

	Notes	
Net income under Canadian GAAP		\$ 47,147
Adjustments:		
Share in the net income of Gaz Métro	a	(995)
Other adjustments	a	1,608
Income taxes	b	1,379
		<u>1,992</u>
Net income under U.S. GAAP		\$ 49,139

RECONCILIATION OF COMPREHENSIVE INCOME

Fiscal year ended September 30, 2015

	Notes	
Comprehensive income under Canadian GAAP		\$ 78,851
Adjustments:		
Net income	a, b	1,992
Share in the other comprehensive income of Gaz Métro	a	(6)
Other adjustments	a	(1,592)
Income taxes	b	(1,653)
		<u>(1,259)</u>
Comprehensive income under U.S. GAAP		\$ 77,592

RECONCILIATION OF THE DEFICIT AND ACCUMULATED OTHER COMPREHENSIVE INCOME

	Notes	October 1, 2014	September 30, 2015
Deficit under Canadian GAAP		\$ (18,476)	\$ (15,065)
Adjustments:			
Share in the net income of Gaz Métro	a	(24,984)	(25,978)
Other adjustments	a	(12,428)	(12,433)
Income taxes	b	2,549	5,540
		<u>(34,863)</u>	<u>(32,871)</u>
Deficit under U.S. GAAP		\$ (53,339)	\$ (47,936)

	Notes	October 1, 2014	September 30, 2015
Accumulated other comprehensive (loss) income under Canadian GAAP		\$ (5,187)	\$ 26,517
Adjustments:			
Share in the net income of Gaz Métro	a	(9,767)	(9,776)
Other adjustments	a	12,428	12,433
Income taxes	b	(1,695)	(4,942)
		<u>966</u>	<u>(2,285)</u>
Accumulated other comprehensive (loss) income under U.S. GAAP		\$ (4,221)	\$ 24,232

RECONCILIATION OF CONSOLIDATED BALANCE SHEETS

October 1, 2014	Notes	Canadian GAAP	Adjustments	U.S. GAAP
ASSETS				
Current assets				
Cash		\$ 757	\$ -	\$ 757
Amount receivable from Gaz Métro		387	-	387
Distributions receivable from Gaz Métro		12,327	-	12,327
Income taxes receivable	b	3,001	286	3,287
Deferred income taxes	b	50	(50)	-
Other assets		81	-	81
Total current assets		<u>16,603</u>	<u>236</u>	<u>16,839</u>
Noncurrent assets				
Equity-accounted interests	a	797,121	(46,370)	750,751
Deferred income taxes	b	2,018	(242)	1,776
Total noncurrent assets		<u>799,139</u>	<u>(46,612)</u>	<u>752,527</u>
TOTAL ASSETS		<u>\$ 815,742</u>	<u>\$ (46,376)</u>	<u>\$ 769,366</u>
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities		\$ 921	\$ -	\$ 921
Dividends payable to common shareholders		9,509	-	9,509
Dividends payable to preferred shareholders		1,088	-	1,088
Deferred income taxes	b	292	(292)	-
Total current liabilities		<u>11,810</u>	<u>(292)</u>	<u>11,518</u>
Noncurrent liabilities				
Long-term debt		66,780	-	66,780
Deferred income taxes	b	23,689	(12,187)	11,502
Total noncurrent liabilities		<u>90,469</u>	<u>(12,187)</u>	<u>78,282</u>
TOTAL LIABILITIES		<u>102,279</u>	<u>(12,479)</u>	<u>89,800</u>
EQUITY				
Share capital		737,126	-	737,126
Deficit	a, b	(18,476)	(34,863)	(53,339)
Accumulated other comprehensive loss	a, b	(5,187)	966	(4,221)
TOTAL EQUITY		<u>713,463</u>	<u>(33,897)</u>	<u>679,566</u>
TOTAL LIABILITIES AND EQUITY		<u>\$ 815,742</u>	<u>\$ (46,376)</u>	<u>\$ 769,366</u>

September 30, 2015	Notes	Canadian GAAP	Adjustments	U.S. GAAP
ASSETS				
Current assets				
Cash		\$ 1,449	\$ -	\$ 1,449
Amount receivable from Gaz Métro		294	-	294
Distributions receivable from Gaz Métro		12,991	-	12,991
Income taxes receivable		427	-	427
Deferred income taxes	b	750	(750)	-
Other assets		3	-	3
Total current assets		<u>15,914</u>	<u>(750)</u>	<u>15,164</u>
Noncurrent assets				
Equity-accounted interests	a	901,551	(48,111)	853,440
Deferred income taxes	b	229	(42)	187
Total noncurrent assets		<u>901,780</u>	<u>(48,153)</u>	<u>853,627</u>
TOTAL ASSETS		<u>\$ 917,694</u>	<u>\$ (48,903)</u>	<u>\$ 868,791</u>
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities		\$ 450	\$ -	\$ 450
Dividends payable to common shareholders		9,973	-	9,973
Dividends payable to preferred shareholders		1,088	-	1,088
Deferred income taxes	b	1,006	(1,006)	-
Total current liabilities		<u>12,517</u>	<u>(1,006)</u>	<u>11,511</u>
Noncurrent liabilities				
Long-term debt		121,038	-	121,038
Deferred income taxes	b	26,505	(12,741)	13,764
Derivative financial instruments		3,951	-	3,951
Total noncurrent liabilities		<u>151,494</u>	<u>(12,741)</u>	<u>138,753</u>
TOTAL LIABILITIES		<u>164,011</u>	<u>(13,747)</u>	<u>150,264</u>
EQUITY				
Share capital		742,231	-	742,231
Deficit	a, b	(15,065)	(32,871)	(47,936)
Accumulated other comprehensive income	a, b	26,517	(2,285)	24,232
TOTAL EQUITY		<u>753,683</u>	<u>(35,156)</u>	<u>718,527</u>
TOTAL LIABILITIES AND EQUITY		<u>\$ 917,694</u>	<u>\$ (48,903)</u>	<u>\$ 868,791</u>

ADJUSTMENTS

The accounting policy changes arising from the changeover to U.S. GAAP had the following impacts on Valener's consolidated financial statements.

a) Equity-accounted interests

The equity-accounted interests on the consolidated balance sheets as at October 1, 2014 and September 30, 2015 were adjusted based on Valener's shares in the adjustments recorded in the accounts of entities subject to significant influence upon the conversion to U.S. GAAP, including the related income taxes. As offsetting entries, accumulated other comprehensive income and the deficit were adjusted accordingly.

b) Income taxes

Reversal of a valuation allowance

Under Canadian GAAP, the effect of reversing a valuation allowance related to deferred tax assets must be recognized in net income, regardless of the classification of the item that gave rise to the deferred tax asset provisioned in the previous periods.

Under U.S. GAAP, the effect of this reversal must be recognized using the same classification as the items that gave rise to the change in the assessment of the likelihood of realizing the deferred income tax assets. This adjustment did not have any impact on the consolidated balance sheet as at October 1, 2014, whereas the consolidated financial statements for the year ended September 30, 2015 were adjusted to recognize, in other comprehensive income, a portion of the deferred tax benefits that had previously been recognized in net income. The deficit and accumulated other comprehensive income on the consolidated balance sheet as at September 30, 2015 were adjusted accordingly.

Other adjustments

As described in Note 3, Valener retrospectively adopted the new standard on deferred income taxes. Consequently, the deferred income taxes that were previously presented as current under Canadian GAAP were reclassified as noncurrent on the consolidated balance sheets as at October 1, 2014 and as at September 30, 2015.

Other adjustments were made to the deferred income tax balances to reflect the tax impacts of other accounting changes related to the changeover to U.S. GAAP.

14. SUBSEQUENT EVENTS

These consolidated financial statements and the accompanying notes reflect the Company's evaluation of events occurring between the balance sheet date and November 24, 2016, the issuance date of these consolidated financial statements.

DECLARATION OF A DIVIDEND TO COMMON SHAREHOLDERS

On November 24, 2016, the board of directors declared a quarterly dividend of \$0.28 per common share for the quarter ending December 31, 2016, payable on January 16, 2017 to common shareholders of record at the close of business on December 31, 2016.

DECLARATION OF A DIVIDEND TO PREFERRED SHAREHOLDERS

On November 24, 2016, the board of directors also declared a dividend of \$0.271875 per Series A preferred share for the period of October 16, 2016 to January 16, 2017, payable on January 16, 2017 to the preferred shareholders of record at the close of business on January 9, 2017.

15. COMPARATIVE INFORMATION

In addition to the changes presented in Note 13, certain prior year comparative figures have been reclassified to conform to the current year's presentation.

MANAGEMENT'S REPORT

ON THE CONSOLIDATED FINANCIAL STATEMENTS OF GAZ MÉTRO LIMITED PARTNERSHIP

The consolidated financial statements of Gaz Métro Limited Partnership (Gaz Métro) and all of the information in this report are the responsibility of the management of Gaz Métro inc. (GMI), acting in its capacity as General Partner of Gaz Métro. It is the responsibility of GMI's management to select the appropriate accounting policies and to exercise its best judgment in determining reasonable and fair estimates based on U.S. generally accepted accounting principles and decisions by bodies that govern the various rate-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 in the annual consolidated financial statements and has recommended they be approved by the board. The audit committee also examines, on a continuous basis, the quarterly financial results and the results of internal auditors and external independent auditors of accounting policies and internal control systems. The audit committee also recommends the choice of external auditor to the board. External and internal auditors are free to communicate with the audit committee.

The consolidated financial statements of Gaz Métro as at September 30, 2016 and 2015 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, CA
Executive Vice-President,
Corporate Affairs and Chief Financial Officer
of GMI, in its capacity as General Partner of Gaz Métro

Montreal, Canada
November 23, 2016

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, 2016 and September 30, 2015, and the consolidated statements of income, comprehensive income, changes in 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 U.S. 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, 2016 and September 30, 2015, and the consolidated results of its operations and its consolidated cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

(signed)

KPMG LLP ¹

Montreal, Canada
November 23, 2016

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

	<u>2016</u>	<u>2015</u> (Note 26)
REVENUES	\$ 2,587,029	\$ 2,584,353
DIRECT COSTS	<u>1,605,075</u>	<u>1,648,003</u>
GROSS MARGIN	<u>981,954</u>	<u>936,350</u>
EXPENSES		
Operating and maintenance	477,050	464,055
Impact of recognizing regulatory assets related to employee future benefits (Note 26)	(79,287)	-
Impairment of noncurrent assets (Note 7)	26,545	13,486
Amortization (Notes 4, 7 and 8)	231,927	211,361
Interest on long-term debt	129,616	132,940
Financial and other expenses	(930)	2,885
	<u>784,921</u>	<u>824,727</u>
INCOME BEFORE THE UNDERNOTED	197,033	111,623
Share in the earnings of equity-accounted interests	<u>124,303</u>	<u>119,410</u>
INCOME BEFORE INCOME TAXES	<u>321,336</u>	<u>231,033</u>
Income taxes (Note 19)	<u>41,560</u>	<u>45,167</u>
NET INCOME	\$ <u>279,776</u>	\$ 185,866
NET INCOME ATTRIBUTABLE TO:		
Partners	\$ 277,519	\$ 180,982
Non-controlling interests	<u>2,257</u>	<u>4,884</u>
	\$ <u>279,776</u>	\$ 185,866
BASIC AND DILUTED NET INCOME PER UNIT ATTRIBUTABLE TO PARTNERS (in dollars)	\$ <u>1.66</u>	\$ 1.17
BASIC AND DILUTED WEIGHTED AVERAGE NUMBER OF UNITS OUTSTANDING (in thousands)	<u>167,251</u>	<u>155,268</u>

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

	<u>2016</u>	<u>2015</u>
		(Note 26)
NET INCOME	\$ 279,776	\$ 185,866
OTHER COMPREHENSIVE INCOME (LOSS)		
Change in translation adjustments of foreign operations	(25,982)	227,526
Change in translation adjustments related to net investment hedging activities	13,181	(124,029)
Change in the fair value of derivative financial instruments designated as cash flow hedges, net of income taxes	(3,998)	(4,496)
Change in the funded status of employee future benefit plans (Note 18)	33,650	868
Other comprehensive loss related to equity-accounted interests, net of income taxes	(8,562)	(12,806)
OTHER COMPREHENSIVE INCOME	8,289	87,063
COMPREHENSIVE INCOME	\$ 288,065	\$ 272,929
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:		
Partners	\$ 290,962	\$ 275,019
Non-controlling interests	(2,897)	(2,090)
	\$ 288,065	\$ 272,929

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

	Attributable to Partners (Note 26)			Total	Non-controlling interests (Note 26)	Total equity
	Capital	Deficit	Accumulated other comprehensive income (loss) (Note 16)			
Balance as at September 30, 2015	\$ 1,751,825	\$ (105,540)	\$ 30,954	\$ 1,677,239	\$ 50,997	\$ 1,728,236
Net income	-	277,519	-	277,519	2,257	279,776
Other comprehensive income (loss)	-	-	13,443	13,443	(5,154)	8,289
Issuances of units	-	-	-	-	14,584	14,584
Return of capital	-	-	-	-	(19,600)	(19,600)
Distributions	-	(194,011)	-	(194,011)	(6,934)	(200,945)
Balance as at September 30, 2016	\$ 1,751,825	\$ (22,032)	\$ 44,397	\$ 1,774,190	\$ 36,150	\$ 1,810,340
Balance as at September 30, 2014	\$ 1,496,825	\$ (111,928)	\$ (63,083)	\$ 1,321,814	\$ 40,727	\$ 1,362,541
Net income	-	180,982	-	180,982	4,884	185,866
Other comprehensive income (loss)	-	-	94,037	94,037	(6,974)	87,063
Issuances of units (Note 15)	255,000	-	-	255,000	26,619	281,619
Distributions	-	(174,594)	-	(174,594)	(14,259)	(188,853)
Balance as at September 30, 2015	\$ 1,751,825	\$ (105,540)	\$ 30,954	\$ 1,677,239	\$ 50,997	\$ 1,728,236

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

	2016	2015 (Note 26)
ASSETS		
Current assets		
Cash and cash equivalents	\$ 51,952	\$ 71,133
Restricted cash equivalents	31,959	26,497
Trade and other receivables (Note 5)	193,586	204,555
Regulatory assets (Note 4)	196,607	115,249
Income taxes receivable	1,859	3,889
Inventories (Note 6)	120,637	116,907
Prepaid expenses	13,940	15,677
Derivative financial instruments (Note 22)	1,614	2
Other current assets	2,963	-
Total current assets	615,117	553,909
Noncurrent assets		
Property, plant and equipment (Note 7)	4,080,444	3,740,378
Restricted cash	37,387	36,164
Intangible assets (Note 8)	450,224	390,927
Regulatory assets (Note 4)	653,352	502,332
Investments (Note 9)	1,187,119	1,178,544
Goodwill (Note 11)	398,729	405,656
Deferred income taxes (Note 19)	-	1,589
Derivative financial instruments (Note 22)	647	16,220
Other noncurrent assets	2,594	3,706
Total noncurrent assets	6,810,496	6,275,516
TOTAL ASSETS	\$ 7,425,613	\$ 6,829,425
LIABILITIES		
Current liabilities		
Bank overdraft	\$ 6,582	\$ 6,421
Bank loans (Note 12)	15,808	28,972
Accounts payable and accrued liabilities	378,929	343,277
Regulatory liabilities (Note 4)	160,040	87,894
Income taxes payable	1,787	164
Distributions payable	48,503	44,794
Derivative financial instruments (Note 22)	375	5,198
Current portion of long-term debt (Note 13)	10,133	9,792
Total current liabilities	622,157	526,512
Noncurrent liabilities		
Long-term debt (Note 13)	3,464,384	3,101,361
Regulatory liabilities (Note 4)	320,236	386,260
Deferred income taxes (Note 19)	511,608	486,978
Derivative financial instruments (Note 22)	1,466	4,829
Other noncurrent liabilities (Note 14)	695,422	595,249
Total noncurrent liabilities	4,993,116	4,574,677
TOTAL LIABILITIES	5,615,273	5,101,189
EQUITY		
Capital (Note 15)	1,751,825	1,751,825
Deficit	(22,032)	(105,540)
Accumulated other comprehensive income (Note 16)	44,397	30,954
	1,774,190	1,677,239
Non-controlling interests	36,150	50,997
TOTAL EQUITY	1,810,340	1,728,236
TOTAL LIABILITIES AND EQUITY	\$ 7,425,613	\$ 6,829,425

Commitments and guarantees (Note 24)
Contingencies (Note 25)
Subsequent events (Note 27)

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

On behalf of the board of directors of Gaz Métro inc. in its capacity as General Partner,

(signed)

SOPHIE BROCHU
Director

(signed)

PIERRE MONAHAN
Director

	<u>2016</u>	<u>2015</u> (Note 26)
OPERATING ACTIVITIES		
Net income	\$ 279,776	\$ 185,866
Adjustments to reconcile net income to operating cash flows:		
Distributions received from equity-accounted interests	112,153	122,440
Amortization of property, plant and equipment (Note 7)	177,002	161,438
Amortization of regulatory assets and liabilities, intangible assets and financing costs (Notes 4, 8 and 13)	146,324	122,860
Share in the earnings of equity-accounted interests	(124,303)	(119,410)
Deferred income taxes (Note 19)	38,030	42,147
Impact of recognizing regulatory assets related to employee future benefits (Note 26)	(79,287)	-
Impairment of noncurrent assets (Note 7)	26,545	13,486
Change in regulatory assets and liabilities related to the cost of energy	12,930	16,840
Change in other regulatory assets and liabilities	(87,540)	(55,976)
Change in other operating assets and liabilities (Note 17)	18,495	28,613
Other	9,821	5,530
Cash flows related to operating activities	<u>529,946</u>	<u>523,834</u>
INVESTING ACTIVITIES		
Change in restricted cash and cash equivalents	(6,745)	(6,350)
Purchases of property, plant and equipment	(520,023)	(361,720)
Purchases of intangible assets (Note 8)	(169,903)	(380,334)
Purchases of investment fund units	(353,165)	(284,585)
Disposals of investment fund units	349,540	283,292
Purchases of equity-accounted interests and other investments	(54,096)	(40,004)
Return of capital from a joint venture (Note 9)	40,000	-
Other	(1,972)	13,320
Cash flows related to investing activities	<u>(716,364)</u>	<u>(776,381)</u>
FINANCING ACTIVITIES		
Change in bank loans	(13,266)	28,428
Increase in term loans	2,499,037	3,124,553
Repayments of term loans	(2,347,616)	(3,217,455)
Issuances of long-term debt	254,123	214,400
Long-term debt issuance expenses	(2,008)	(2,309)
Repayments of long-term debt	(10,335)	(11,354)
Settlements of derivative financial instruments	(9,044)	-
Issuances of units	14,584	281,619
Return of capital (Note 9)	(19,600)	-
Distributions	(197,236)	(186,562)
Cash flows related to financing activities	<u>168,639</u>	<u>231,320</u>
IMPACT OF EXCHANGE RATE FLUCTUATIONS ON CASH AND CASH EQUIVALENTS	<u>(1,563)</u>	<u>7,176</u>
NET CHANGE IN CASH, CASH EQUIVALENTS AND BANK OVERDRAFT	<u>(19,342)</u>	<u>(14,051)</u>
CASH, CASH EQUIVALENTS AND BANK OVERDRAFT, AT BEGINNING ⁽¹⁾	<u>64,712</u>	<u>78,763</u>
CASH, CASH EQUIVALENTS AND BANK OVERDRAFT, AT END ⁽¹⁾	<u>\$ 45,370</u>	<u>\$ 64,712</u>

⁽¹⁾ As at September 30, 2016, the cash, cash equivalents and bank overdraft balance consisted of \$50,963 in cash, \$989 in short-term investments, and \$6,582 in bank overdraft. As at September 30, 2015, these amounts were, respectively, \$70,395, \$738 and \$6,421.

Supplemental disclosure of cash information (Note 17)

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). Gaz Métro also distributes energy in Vermont, U.S.A., through its wholly owned subsidiary Northern New England Energy Corporation (NNEEC), which is the sole shareholder of Vermont Gas Systems, Inc. (VGS), the sole gas distributor in Vermont, and of Green Mountain Power Corporation (GMP), the largest electricity distributor in Vermont. In addition, through its subsidiaries, jointly controlled companies (joint ventures) and entities subject to significant influence, Gaz Métro is active in other, mostly regulated activities in natural gas transportation and natural gas storage. Gaz Métro is also active in non-regulated energy development and operating projects such as the generation of wind power and the use of liquefied and compressed natural gas as a fuel or energy product. The regulatory context applicable to Gaz Métro, including the regulatory context of some of its subsidiaries, joint ventures and entities subject to significant influence, and the impact of that context on the consolidated financial statements, are described in Note 4.

2. ACCOUNTING POLICIES**PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS**

The consolidated financial statements of Gaz Métro are prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP). Comparative information, which had previously been presented in accordance with the Canadian GAAP included in Part V of the CPA Canada Handbook – Accounting, *Pre-Changeover Accounting Standards* (Canadian GAAP), have been adjusted as required to comply with the Partnership's accounting policies under U.S. GAAP.

Gaz Métro elected to apply U.S. GAAP in order to carry out the strategy recommended by its Partners, Gaz Métro inc. (GMI) and Valener Inc. (Valener), both of which obtained three-year exemptions from the Canadian Securities Administrators. These exemptions permit GMI and Valener to prepare their annual and interim consolidated financial statements for fiscal years 2016 to 2018, inclusively, in accordance with U.S. GAAP in order to meet their continuous disclosure requirements in Canada.

Note 26 presents the impact of the conversion to U.S. GAAP on the comparative period consolidated balance sheet and consolidated results as well as reconciliations with financial information initially prepared in accordance with Canadian GAAP.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements of the Partnership include the accounts of Gaz Métro and all its subsidiaries as well as those of variable interest entities (VIEs) for which the Partnership is the primary beneficiary. When a contractual agreement is signed, the Partnership performs an analysis to assess whether it has a VIE. The primary beneficiary has the power to direct the entity activities that most significantly impact its economic performance and has the obligation to absorb the entity's losses or receive its benefits. All intercompany transactions and balances are eliminated.

Gaz Métro accounts for its interests in joint ventures and entities subject to significant influence using the equity method. The equity method is an accounting method whereby the investment is initially recognized at cost, and the carrying amount is thereafter adjusted by recording the share in the earnings and the share in the transactions affecting the equity of the joint venture or entity subject to significant influence. On its statement of cash flows, Gaz Métro presented the distributions received from its equity-accounted interests by nature; distributions generated by operating activities are reported in operating activities, whereas return-of-capital distributions are reported in investing activities. When there's a credit balance for an interest in a joint venture or an entity subject to significant influence, the investment is reported in other noncurrent liabilities.

The Partnership owns proportionate shares in jointly controlled power generation and transmission assets. The Partnership accounts for these assets proportionally according to the ownership interest. Its proportionate share in the assets is included on the consolidated balance sheet and its proportionate share in the expenses is included in the consolidated statement of income. The Partnership is responsible for its proportionate share of the financing.

Management periodically examines its interests in joint ventures and in entities subject to significant influence on an individual basis, and whenever these interests experience an other-than-temporary loss in value, the carrying amount is written down to fair value and the loss recorded in income.

Investissement Québec's economic interest in Gaz Métro LNG

Gaz Métro owns a 58% economic interest in Gaz Métro LNG, L.P. (Gaz Métro LNG), and the other 42% is owned by Investissement Québec. The participation agreement includes an option for Gaz Métro to purchase Investissement Québec units that can be exercised as of the 8th year following the project in-service date at an amount that provides Investissement Québec with an internal rate of return on invested capital equal to 10%. Investissement Québec has an option to sell its units that can be exercised as of the 15th year after the project in-service date at an amount equal to 90% of their fair market value, inasmuch as Gaz Métro decides not to use its purchase option, which takes precedence at all times.

Investissement Québec's interest in Gaz Métro LNG was recorded as a non-controlling interest, a method whereby the sell option has no impact on the amount recognized. The amount at which the units would be repurchased if Investissement Québec's option had been available as at September 30, 2016 is \$39,537 (\$24,034 as at September 30, 2015).

USE OF ESTIMATES

In preparing the consolidated financial statements, the management of GMi (the management), in its capacity as General Partner of Gaz Métro, must make estimates and assumptions that have an impact on the consolidated balance sheet asset and liability amounts, on the contingent liabilities reported on the date of the consolidated financial statements, and on the amounts of the consolidated income statement items and consolidated comprehensive income statement items 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 account for employee pension plans and other post-retirement benefits (employee future benefits); amortization; goodwill and noncurrent asset impairment measurements; estimates of unbilled deliveries for revenue recognition purposes; impacts of regulatory decisions and other proceedings on regulatory assets and liabilities, on property plant and equipment, and on intangible assets; the future cost of retiring property, plant and equipment; income taxes; the fair value of derivative financial instruments; and the determination of provisions such as legal contingencies.

REGULATION

Gaz Métro-QDA as well as certain subsidiaries of Gaz Métro have business activities that are regulated by various regulatory agencies, including the Régie de l'énergie (the Régie), the National Energy Board (NEB), the Vermont Public Service Board (VPSB) and the Federal Energy Regulatory Commission (FERC).

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.

Regulatory assets and liabilities (RAL) arise due to the rate-setting process applicable to rate-regulated enterprises. Regulatory assets consist of incurred costs that rate-regulated entities expect to recover from customers in future years through the rate-setting process. Regulatory liabilities consist of amounts that rate-regulated entities expect to return to customers in future years through the rate-setting process. The amounts eligible for deferral depend on decisions made by the various regulatory agencies and on the accounting standards applicable to rate-regulated activities.

Under existing regulations, RAL are recovered or returned through the rate-setting process over various periods, depending on their nature. RAL are periodically checked and measured. Should, following interventions by regulatory agencies, Gaz Métro deem certain amounts to no longer likely be recoverable or refundable through future rates, the carrying amount of the underlying RAL would be adjusted accordingly.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash and investments with an initial maturity of three months or less from the acquisition date.

RESTRICTED CASH AND CASH EQUIVALENTS

Restricted cash and cash equivalents consist mainly of Treasury bonds reserved for specific uses under system extension financing arrangements or under activity development financing arrangements. Restricted cash and cash equivalents are reported in current assets or noncurrent assets according to the maturity of the liabilities to which they relate to.

TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable are recorded at the invoiced amount and adjusted as required to reflect any allowances for doubtful accounts.

INVENTORIES

Inventories consist mainly of natural gas and also include supplies and materials inventories. Inventories are measured at the lower of cost and net realizable value. Cost is determined using the weighted average cost method. The Partnership is not authorized to profit from the sale of natural gas. As such, the difference between the supply rates approved by regulatory agencies, as necessary, and the actual cost of supplying natural gas is recognized as an adjustment to direct costs with an offsetting regulatory asset or liability created 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. Contributions received from third parties are applied against the cost of the related property, plant and equipment. Project costs consist of direct costs and general expenses. Gaz Métro capitalizes the interest incurred during the construction of non-regulated activity projects until the asset is ready for its intended use. As for rate-regulated activity construction projects, Gaz Métro capitalizes interest 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. The interest component is recorded as a reduction in the interest on long-term debt item, and the equity component is recognized as revenue in financial and other expenses. The capitalized return on projects related to rate-regulated activities will be recovered through future rates during the amortization of property, plant and equipment.

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. These future asset retirement costs, which are not related to the retirement obligations for property, plant and equipment, are accounted for as an increase to regulatory liabilities, while the actual costs of retiring assets are accounted for as a decrease to regulatory liabilities. The impact of this practice is presented in Note 4.

Property, plant and equipment is amortized according to the following periods:

Storage	15 to 44 years
Transportation	29 to 70 years
Distribution	8 to 70 years
General plant and other	2 to 61 years
Production	11 to 110 years

RETIREMENT OBLIGATIONS FOR PROPERTY, PLANT AND EQUIPMENT

The fair value of an obligation to retire property, plant and equipment is recorded, when a legal obligation exists, as a liability in the period in which it is incurred, provided that a reasonable estimate of fair value can be made. The obligation is initially measured at fair value using the present value of expected costs and is subsequently adjusted to reflect any change resulting from the passage of time and any change in the expected 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 and/or when they would have to incur the cost of meeting such obligations. Consequently, it is impossible to make a reasonable estimate of the fair value of the related liability, and no liability has been recognized.

INTANGIBLE ASSETS

Intangible assets consist mainly of greenhouse gas (GHG) emission allowances and the costs of developing information technology.

GHG emission allowances are recorded at cost less accumulated amortization. Amortization is determined on a first-in, first-out basis. GHG emission allowances are purchased under the Government of Quebec's cap-and-trade system for GHG emission allowances and are recognized, as the GHG emissions are produced, in the direct costs item. If GHG

emissions were to exceed allowance holdings, a liability for the insufficient allowance amount would be recorded and measured at the price in effect for GHG emission allowances at the consolidated balance sheet date.

The costs of developing information technology include the costs incurred at the information systems development stage, i.e., those related to direct labour, general expenses, software purchased from external suppliers, as well as the costs of licences and software acquired for internal use. Maintenance and training expenses are recognized, as incurred, in the operating and maintenance item. The costs of developing information technology are recorded at cost less accumulated amortization. Amortization is calculated using the straight-line method over five- and 10-year estimated useful lives.

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. The Partnership has the option to first assess qualitative factors to determine whether the fair value of a reporting unit is more likely than not to be less than its carrying amount in order to decide whether to test goodwill using the two-step impairment test. This first step in the test consists of comparing 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 loss 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 NONCURRENT ASSETS

The noncurrent assets that are tested for impairment include property, plant and equipment, regulatory assets, and finite life intangible assets. These assets are tested for impairment if events or changes in circumstances indicate their carrying amount might not be recoverable. When testing for impairment, assets are grouped according to the smallest group of assets for which independent cash flows 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 is based on the total discounted future cash flows expected to result from the use and eventual disposition of the group of assets.

In addition, if the Partnership believes, following interventions from regulatory agencies, that certain costs of property, plant and equipment and of intangible assets relating to rate-regulated activities are no longer likely to be recovered or returned through future rate adjustments, the carrying amounts of these assets would be adjusted accordingly.

FOREIGN CURRENCY TRANSLATION

Foreign currency monetary assets and liabilities are translated at the rate of exchange prevailing on the balance sheet date, whereas other items are translated at the rate of exchange prevailing on the transaction date. Exchange gains and losses arising from translation are recognized in the consolidated statement of income of the current fiscal year.

The assets and liabilities of foreign operations whose functional currency is not the Canadian dollar 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. Unrealized exchange gains and losses resulting from translation are presented in other comprehensive income.

REVENUE RECOGNITION

The Partnership's revenues are generated mostly from rate-regulated activities and, to a lesser extent, from non-rate-regulated activities.

Revenues from rate-regulated activities come mainly from natural gas and electricity distribution and transportation activities in Canada and the United States. These revenues are recognized in accordance with underlying agreements

approved by the various regulatory agencies. More specifically, energy distribution revenues are recognized once delivery has occurred and based on meter readings and other methods of estimating customer consumption. Cash received from clients consisting of security deposits is accounted for as restricted cash for Gaz Métro-QDA and as cash for VGS and GMP. An offsetting liability is recorded in accounts payable and accrued liabilities or in other noncurrent liabilities, according to the reimbursement due date.

Revenues from non-rate-regulated activities come mainly from energy services and are recognized as 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.

Contributions received from customers in connection with rate-regulated activities are recognized as a reduction to the cost of the property, plant and equipment to which they relate.

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 formed as limited partnerships do not present income tax expense, since, under existing tax legislation, their income is taxable to the Partners.

Subsidiaries formed as corporations use the asset and liability method to account for income taxes. Under this method, deferred income tax assets and liabilities are determined based on the differences between the carrying amounts and the tax bases of the assets and liabilities. They are measured by applying, on the consolidated financial statements date, the enacted tax rates and laws of the fiscal years in which the temporary differences are expected to reverse. The impact of a change in tax rate on deferred income tax assets and liabilities is included in the income of the period during which the change came into effect. A valuation allowance is recorded to reduce deferred income tax assets when management considers that it is more likely than not that a portion or all of the deferred income tax assets will not be realized. The Partnership recognizes the impact of an uncertain tax position when it is more likely than not to be realized.

According to the regulatory treatments, certain subsidiaries owned by Gaz Métro recover income-tax-related costs through their rates using a different method than that set out by the *Financial Accounting Standards Board* (FASB) in ASC 740, *Income Taxes*. The cumulative differences between the regulatory treatments and ASC 740 method are recognized as RAL.

EMPLOYEE FUTURE BENEFITS

Virtually all employees are offered defined benefit pension (DBP) plans and defined contribution pension plans as well as other post-retirement benefit (PRB) plans, including supplemental health care and life insurance coverage.

DBP plans and PRB plans

The projected benefit obligation and the cost of the DBP plans and of the PRB plans are actuarially determined using the projected benefit method prorated on eligible years of service (actuarial method). These actuarial calculations are based on 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. DBP plan and PRB plan assets are measured at fair value, which is determined using 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 projected benefit cost.

Net actuarial gains and losses that exceed 10% of the higher of the amount between the projected 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 six and 13 years, depending on the plan. This amortization is included in the net projected benefit cost.

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. This amortization is included in the net projected benefit cost.

Under regulatory treatments, Gaz Métro, with respect to Gaz Métro-QDA's activities, recovers the costs of its DBP plans and PRB plans through rates when these amounts are disbursed (disbursement method), and it will continue to do so until September 30, 2016. As of October 1, 2016, under a new regulatory treatment approved by the Régie in December 2015, the cost of these plans will be recovered through rates using the actuarial method.

The cumulative differences up to September 30, 2016 between the costs of Gaz Métro-QDA's DBP plans and PRB plans determined using the disbursement method and those determined using the actuarial method will be recognized as RAL, since they are amounts that are expected to be recovered or reimbursed through future rates. These RAL will be amortized on a straight-line basis over 20 years starting on October 1, 2016. The amortization of these RAL will be included as amortization. For additional information, refer to Note 26.

Unamortized balances related to the net actuarial gains and losses and to the past service costs of the DBP plans and of the PRB plans of the rate-regulated enterprises are recognized as regulatory assets or liabilities (Note 26). Unamortized balances related to non-rate-regulated enterprises are recognized in accumulated other comprehensive income. Unamortized balances for the two types of activities are then amortized in the consolidated statement of income using the previously presented methods.

Since October 1, 2015, Gaz Métro has adopted a new methodology for estimating the current service cost and interest cost of the DBP and PRB plans. Prior to October 1, 2015, the method applied had used a single weighted average discount rate derived from the yield curve used to determine the projected benefit obligation amount at the beginning of the fiscal year. Under the new methodology, different discount rates on the yield curve are used for current services and past services in order to consider the timing differences in the payment of benefits and thereby to more accurately determine cost. Gaz Métro applied this new estimation method on a prospective basis, which had no significant impact on its consolidated financial statements.

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.

The investment funds are classified as available-for-sale financial assets and are related to rate-regulated activities. These available-for-sale financial assets are recognized at fair value on the consolidated balance sheet. Gains and losses arising from changes in fair value are recognized as RAL in the period in which they arise. Life insurance policies are recorded at their surrender 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 inputs used to measure the fair value. The three levels of the fair value hierarchy are as follows:

- Level 1 - Assets and liabilities measured at fair value using the unadjusted quoted prices of identical assets and liabilities in active and accessible markets at the measurement date.
- Level 2 - Measurements that use directly or indirectly observable data inputs other than the quoted prices included in Level 1.
- Level 3 - Measurements using data inputs that are not observable in the market (unobservable inputs).

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

HEDGING RELATIONSHIPS

Derivative financial instruments are used to reduce or eliminate the inherent risks in certain transactions and identifiable balances that arise in the normal course of operations. The inherent risks related to those transactions and identifiable

balances arise from fluctuations in natural gas and electricity prices, in interest rates and in foreign exchange rates. Derivative financial instruments are therefore used to ensure that fluctuations in the cash flows from these transactions and balances are offset by changes in the cash flows from the derivative financial instruments. No derivative financial instruments are held or have been issued for speculative purposes.

Derivative financial instruments 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.

Rate-regulated activities

Derivative financial instruments related to the cost of energy are used to manage exposure to the volatility of natural gas and electricity prices. The prices paid are based on indices and are therefore variable. These tools make it possible to either fix prices or to contain them in accordance with temporal, volumetric and financial limits approved by the respective regulatory agencies. GMP uses fixed-price swaps to manage its risk related to capacity price fluctuations. Forward exchange contracts are also used to manage the exchange risk exposure related to a portion of VGS's Canadian-dollar natural gas purchases and to certain Gaz Métro expenses denominated in U.S. dollars.

The derivative financial instruments related to rate-regulated activities are not designated as hedging instruments eligible for hedge accounting. Unrealized gains and losses arising from changes in the fair value of these financial instruments are recognized as adjustments to RAL, as approved by the regulatory agencies, as they will be reimbursed or recovered through future rates.

Hedging relationships eligible for hedge accounting

Hedge accounting is applied to eligible transactions, which include cash flow hedges and hedging of the net investment in foreign operations.

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

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

Forward exchange contracts are used to manage the exchange risk exposure arising from the U.S.-dollar-denominated revenues in some Gaz Métro LNG contracts.

Certain U.S.-dollar-denominated debts are designated as hedges of an equivalent portion of net investments in foreign operations whose functional currency is the U.S. dollar in order to mitigate the related exchange risk. The effective portion of translation exchange gains and losses on conversion of debts designated as hedging items is included in other comprehensive income, and the ineffective portion is immediately recognized in income. The unrealized exchange gains and losses on these hedging items recognized in accumulated other comprehensive income are reclassified to income when there is a reduction to the hedged net investment upon the sale of the subsidiary or when it is practically liquidated.

TRANSACTION COSTS

The Partnership primarily incurs transaction costs when issuing debt securities. These costs are deducted from the carrying amount of the related debt and are amortized using the effective interest rate method.

BASIC AND DILUTED NET INCOME PER UNIT

Basic net income per unit is calculated based on the weighted average number of units outstanding. As at September 30, 2016 and 2015, no instrument had a dilutive effect on basic net income per unit.

3. ACCOUNTING CHANGES

RECENTLY ADOPTED STANDARDS

Issuance costs

In April 2015, FASB issued ASU 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. This standard, applied retrospectively, requires debt issuance costs to be presented on the balance sheet as a deduction from the carrying value of the related debt. Gaz Métro elected to early adopt these new requirements as of October 1, 2015, allowing for the continued use of the same accounting policy previously used under Canadian GAAP.

Inventories

In July 2015, FASB issued ASU 2015-11, *Inventory (Topic 330): Simplifying the Measure of Inventory*. This standard, applied prospectively, requires inventory whose cost is determined using the weighted average cost method or the first in, first out method to be measured at the lower of cost and net realizable value. Gaz Métro elected to early adopt this standard as of October 1, 2015, allowing for the continued use of the same accounting policy previously used under Canadian GAAP.

Deferred income taxes

In November 2015, FASB issued ASU 2015-17, *Income Taxes (Topic 740)*. This standard, applied retrospectively, requires deferred income taxes to be presented on the balance sheet as noncurrent assets or liabilities. Therefore, separately presenting the current portion is no longer required. Since Gaz Métro elected to early adopt these new requirements as of October 1, 2015, deferred income taxes are presented as noncurrent assets and liabilities on the consolidated balance sheets as at September 30, 2016 and 2015.

STANDARDS ISSUED BUT NOT YET IN EFFECT

Consolidation

In February 2015, FASB issued ASU 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis*. This standard amends the guidance applicable to entities that must apply full consolidation when preparing consolidated financial statements. This guidance will apply retrospectively to the interim and annual financial statements for fiscal years beginning on or after December 15, 2015. Subsequently, the FASB issued, in October 2016, ASU 2016-17 modifying consolidation guidance in cases of entities under common control. These new guidelines will be applied retrospectively to interim and annual financial statements relating to fiscal years beginning on or after December 15, 2016. Gaz Métro is currently reviewing the impact of these standards on its consolidated financial statements.

Revenues

In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This standard provides revenue recognition guidance whereby revenues are to be recognized with the transfer of goods or services to customers in amounts that reflect the payment that the entity expects to receive in exchange for those goods or services. To clarify some of the guidance in ASU 2014-09, FASB then issued ASU 2016-08 *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, ASU 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*, and ASU 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*. This guidance will apply retrospectively to the interim and annual financial statements for fiscal years beginning on or after January 1, 2018. Gaz Métro is currently assessing how these standards will impact its consolidated financial statements.

Financial instruments

In January 2016, FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. This standard amends certain recognition, measurement, presentation and disclosure requirements applicable to financial instruments. The guidance will apply prospectively to the interim and annual financial statements for fiscal years beginning on or after December 15, 2017. Gaz Métro is currently assessing how this standard will impact its consolidated financial statements.

Leases

In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)*. This standard amends the accounting requirements for operating leases. Entities will now have to recognize the assets and liabilities arising from operating leases, except for leases with a term of 12 months or less, for which a choice of accounting policy will be possible. The guidance will apply retrospectively to the interim and annual financial statements for fiscal years beginning on or after December 15, 2018. Gaz Métro is currently assessing how this standard will impact its consolidated financial statements.

Cash flows

In August 2016, FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. The purpose of this standard is to reduce the diversity in the statement of cash flow presentation of eight specific kinds of transactions. This guidance will apply retrospectively to the interim and annual financial statements for fiscal years beginning on or after December 15, 2017. Gaz Métro is currently assessing how this standard will impact its consolidated financial statements.

Income taxes

In October 2016, the FASB issued ASU 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other than inventory*. This standard amends the guidelines for the recognition of income taxes payable on transfers of assets between entities other than inventories. Under these new guidelines, the tax consequences will have to be recognized when the transfer of assets takes place. These guidelines will be applied retrospectively to interim and annual financial statements relating to fiscal years beginning on or after December 15, 2017. Gaz Métro is currently reviewing the impact of this standard on its consolidated financial statements.

4. RATE REGULATION

APPROVAL OF RATES

The Partnership operates in various regulated industries where the costs of energy and of 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 Canada

Gaz Métro-QDA

The activities of Gaz Métro-QDA are regulated by the *Act respecting the Régie de l'énergie*. The rates for fiscal years 2016 and 2015 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.

The weighted average cost of capital on the rate base must be fixed using a "deemed" capital structure, in which deemed Partners' equity is 46.0%, comprising 38.5% that is compensated as if it were common shares and 7.5% as if it were preferred shares.

The authorized base rate of return on deemed common equity is usually determined using an automatic adjustment formula approved by the Régie. For fiscal years 2016 and 2017, the Régie agreed to not apply the automatic adjustment formula and to set the rate at 8.90%, as it had done for 2012 to 2015.

With respect to supply service, meaning the supply of natural gas, the *Act respecting the Régie de l'énergie* states that distributors shall resell natural gas at the actual supply cost. The natural gas supply rate is adjusted monthly using the rate adjustment mechanism in place.

Regulated establishments in the United States

VGS and GMP

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 for 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 applicable to each of these subsidiaries for the fiscal years ended September 30, 2016 and 2015.

	2016		2015	
	Deemed shareholders' equity	Authorized rate of return on common equity	Deemed shareholders' equity	Authorized rate of return on common equity
VGS	55.0%	10.09%	55.0%	10.20%
GMP	49.6%	9.44%	50.0%	9.60%

REGULATORY ASSETS AND LIABILITIES

The following table presents the net carrying amounts of the regulatory assets and liabilities as at September 30, 2016 and 2015:

	Remaining recovery/ settlement period (in years)	2016	2015
Regulatory assets ⁽¹⁾			
Rate stabilization account related to temperature and wind (a)	1 to 2	\$ 34,330	\$ 38,610
Rate stabilization account related to inventory variances (a)	1 to 2	-	1,330
Charges related to the cost of energy (b)	1	73,395	80,404
Grants paid (c)	1 to 10	99,335	105,648
Charges related to financial instruments (d)	1	1,515	5,154
Charges related to energy efficiency programs (e)	1 to 10	28,953	26,215
Charges related to employee future benefits (f)	Indeterminable	415,404	192,252
Site decontamination and dismantling costs in the United States (g)	1 to 20	13,924	15,905
Vacation allowance	1	1,742	3,482
Charges related to mechanisms for sharing profits and losses (h)	1 to 2	104,372	66,252
Charges related to income taxes (i)	Indeterminable	11,117	12,042
Charges related to replenishing the meter fleet (j)	1 to 2	5,877	8,969
Charges related to storms (k)	1	2,879	25,991
Charges related to the share payable to the <i>Agence de l'efficacité énergétique</i> (l)	1 to 3	16,954	6,963
Other	Indeterminable	40,162	28,364
		\$ 849,959	\$ 617,581
Portions presented on the balance sheet:			
Current		\$ 196,607	\$ 115,249
Noncurrent		653,352	502,332
		\$ 849,959	\$ 617,581
Regulatory liabilities ⁽¹⁾			
Rate stabilization account related to temperature and wind (a)	1 to 2	\$ 45,506	\$ 53,711
Rate stabilization account related to inventory variances (a)	1 to 2	4,743	-
Credits related to the cost of energy (b)	1	49,274	37,795
Credits related to financial instruments (d)	1	2,250	16,220
Credits related to mechanisms for sharing profits and losses (h)	1 to 2	12,610	24,394
Credits related to energy efficiency programs (e)	1 to 10	3,391	-
Credits related to the System Expansion and Reliability Fund (m)	Indeterminable	32,075	26,262
Credits related to the Electrical Assistance program (n)	1 to 2	4,671	11,705
Future costs of retiring property, plant and equipment (o)	Indeterminable	305,057	277,843
Other	Indeterminable	20,699	26,224
		\$ 480,276	\$ 474,154
Portions presented on the balance sheet:			
Current		\$ 160,040	\$ 87,894
Noncurrent		320,236	386,260
		\$ 480,276	\$ 474,154

⁽¹⁾ The net amortization of regulatory assets and liabilities was \$32,119 in 2016 (\$32,677 in 2015).

- (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. The Régie has authorized Gaz Métro's request to amend the amortization periods of these RAL as of October 1, 2016 such that they are amortized over a two-year period as of the year following their initial recognition. For additional information, refer to Note 26.

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.

- (b) The impact of rate regulation on the accounting treatment of these assets is described under the Inventories heading in Note 2. The RAL 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 regulatory agencies.
- (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.
- (d) The assets and liabilities related to financial instruments represent the net impacts of remeasurements of the derivative financial instruments of companies in the Energy Distribution segment.
- (e) The Partnership created energy efficiency programs in which customers could participate by meeting certain criteria. The Partnership is therefore committed to making disbursements to develop programs and pay grants to participating customers.

Assets and liabilities related to Gaz Métro-QDA's energy efficiency programs consist of the differences between actual disbursements and those projected in the rate case at the start of the fiscal year as well as the amounts related to the Global Energy Efficiency Plan (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 regulatory asset 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 energy efficiency funds 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.

- (f) Regulatory assets pertaining to employee future benefits relate to certain DBP plans and PRB plans. Note 26 provides additional information about the change in Gaz Métro-QDA's regulatory treatments, and Note 18 provides additional information about the composition of these RAL.
- (g) Regulatory assets related to site decontamination and dismantling costs in the United States consist of, as at September 30, 2016, \$9,303 in costs already incurred (\$10,349 in 2015) and \$4,621 in estimated future disbursements (\$5,556 in 2015) to decontaminate the land on which a manufactured gas plant that ceased operations in 1966 was located. They are amortized by VGS and GMP over a period of 10 to 20 years. The offsetting entry to estimated future disbursements is reported in other noncurrent liabilities on the consolidated balance sheet. As approved by the VPSB, the assets 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.
- (h) The regulatory assets and liabilities 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 mechanisms, the regulatory agencies require overearnings or shortfalls attributable to customers to be returned or recovered, primarily in the form of rate adjustments in the fiscal year following their approval. These regulatory assets and liabilities are recorded in the fiscal years in which they arise.
- (i) The regulatory assets related to income taxes consist mainly of amounts recoverable through 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 ASC 740, *Income Taxes*, by FASB.
- (j) The regulatory assets related to replenishing the meter fleet consist of amounts incurred by GMP to remove the meters replaced by next-generation meters as part of the deployment of its smart power distribution system. These meter fleet regulatory assets will be amortized until 2018 so as to be recovered in future rates.

- (k) Regulatory assets related to storms are expenses caused by exogenous events that affect GMP's system, that exceed the US\$1,200 amount authorized by the Alternative Regulation Plan, and that are recoverable from customers over a 24-month period.
- (l) Regulatory assets related to the share payable to the *Agence de l'efficacité énergétique* (AEE), a Quebec energy efficiency agency, consist of amounts recoverable through Gaz Métro-QDA's future rates and represent the difference between the actual payment made to the AEE and the amount anticipated in the rate case. These regulatory assets are amortized over a two-year period starting in the second subsequent year.
- (m) Regulatory liabilities related to the System Expansion and Reliability Fund consist of rate reductions given to customers related to the decreases in natural gas prices relative to the price anticipated in the rate case. With this fund, VGS can deposit, in a restricted cash equivalents 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 customers. As an offsetting entry to this regulatory liability, assets of \$31,959 and \$26,497 were recognized as restricted cash equivalents on the consolidated balance sheets as at September 30, 2016 and 2015, respectively.
- (n) GMP's energy assistance program is funded through a meter charge applied to every category of customer. Collected amounts are used to provide a 25% discount rate to eligible low-income residential customers and cover the program administration costs. Regulatory liabilities related to the energy assistance program consist of surplus amounts collected over the costs incurred by GMP as at September 30, 2016 and 2015. If excess amounts are collected, they could either be reattributed to customers by applying a credit to their bill or used for program development, as decided by the VPSB.
- (o) Under regulatory treatments, the Partnership recognizes the estimated future costs of retiring property, plant and equipment used in energy distribution activities. These costs are recovered through rates mainly by using amortization rates, by adding them to regulatory liabilities, while actual retirement costs are applied against regulatory liabilities.

5. TRADE AND OTHER RECEIVABLES

	<u>2016</u>	<u>2015</u>
Trade accounts receivable	\$ 183,162	\$ 192,106
Taxes receivable	-	3,004
Other receivables	10,424	9,445
	<u>\$ 193,586</u>	<u>\$ 204,555</u>

6. INVENTORIES

	<u>2016</u>	<u>2015</u>
Natural gas	\$ 98,367	\$ 95,306
Supplies and materials	22,270	21,601
	<u>\$ 120,637</u>	<u>\$ 116,907</u>

7. PROPERTY, PLANT AND EQUIPMENT

	2016			
	Cost	Accumulated amortization	Construction in progress	Total
Distribution	\$ 3,847,485	\$ 1,279,541	\$ 110,884	\$ 2,678,828
Production	506,717	101,299	85,688	491,106
Transportation	371,913	38,866	153,947	486,994
Storage	51,175	18,271	1,203	34,107
General plant and other	465,278	177,954	102,085	389,409
	<u>\$ 5,242,568</u>	<u>\$ 1,615,931</u>	<u>\$ 453,807</u>	<u>\$ 4,080,444</u>

	2015			
	Cost	Accumulated amortization	Construction in progress	Total
Distribution	\$ 3,684,358	\$ 1,208,026	\$ 70,986	\$ 2,547,318
Production	501,264	78,530	11,794	434,528
Transportation	319,088	40,581	100,358	378,865
Storage	46,940	18,193	4,829	33,576
General plant and other	438,780	168,298	75,609	346,091
	<u>\$ 4,990,430</u>	<u>\$ 1,513,628</u>	<u>\$ 263,576</u>	<u>\$ 3,740,378</u>

Distribution: These assets are used in low-voltage electric power distribution (generally less than 34.5 kilovolts) and in low pressure natural gas distribution (generally less than 5,000 kilopascals).

Production: These assets include hydroelectric power plants, dams, solar facilities and the related equipment used in electric power generation.

Transportation: These assets are used in high pressure natural gas transportation (generally 5,000 kilopascals or more) and in high-voltage electric power transmission (generally 34.5 kilovolts and higher).

Storage: These assets include the land, buildings, reservoirs and equipment used in natural gas storage.

General plant and other: These assets include the land, buildings, equipment, vehicles, LNG production infrastructure related to non-rate-regulated activities, and property related to information technologies and corporate offices.

The cost of property, plant and equipment not subject to amortization, excluding construction in progress, as at September 30, 2016 and 2015 was \$29,343 and \$26,098, respectively, and is primarily the cost of land and the related rights.

The Partnership owns appliances that it leases under operating leases. The cost and accumulated amortization of these leased appliances stood at \$70,660 and \$41,744, respectively, as at September 30, 2016 compared to \$67,052 and \$40,857 as at September 30, 2015. Revenues from these operating leases totalled \$9,897 and \$8,993 for fiscal years 2016 and 2015, respectively.

Amortization expense was \$177,002 in 2016 compared with \$161,438 in 2015.

During fiscal 2016, interest in the amount of \$2,896 was capitalized to the construction in progress of certain non-rate-regulated activities (\$1,431 in 2015). As for the construction in progress of rate-regulated activities, interest in an amount of \$3,746 was capitalized (\$3,251 in 2015).

JOINTLY CONTROLLED ASSETS

The following table presents summary financial information on the Partnership's interest level in each of its jointly controlled assets as at September 30, 2016 and 2015:

2016					
	Interest level	Proportionate share of capacity (in MWh)		Proportionate share of assets	Proportionate share of accumulated amortization
Joseph C. McNeil	31.0%	16.7	\$	37,533	\$ 33,127
Wyman #4	2.9%	17.6	\$	8,291	\$ 7,729
Stony Brook #1	8.8%	31.0	\$	15,213	\$ 14,619
Highgate Transmission Facility	82.3%	162.6	\$	54,925	\$ 12,249
Metallic Neutral Return ⁽¹⁾	59.4%	-	\$	2,050	\$ 1,998
Millstone Unit #3	1.7%	21.4	\$	107,515	\$ 62,480

2015					
	Interest level	Proportionate share of capacity (in MWh)		Proportionate share of assets	Proportionate share of accumulated amortization
Joseph C. McNeil	31.0%	16.7	\$	38,435	\$ 32,709
Wyman #4	2.9%	17.6	\$	8,435	\$ 7,612
Stony Brook #1	8.8%	31.0	\$	15,200	\$ 14,689
Highgate Transmission Facility	82.3%	162.6	\$	63,698	\$ 19,129
Metallic Neutral Return ⁽¹⁾	59.4%	-	\$	2,086	\$ 2,003
Millstone Unit #3	1.7%	21.4	\$	109,384	\$ 62,162

⁽¹⁾ Metallic Neutral Return is a neutral conductor for an electricity interconnection.

ADDISON PROJECT

In June 2014, Vermont Gas Systems, Inc. (VGS) began construction of Phase I of its development project to extend its natural gas distribution network to serve the communities of Vergennes and Middlebury in Addison County (Addison project). In October 2015, VGS and the Vermont Department of Public Service signed a memorandum of understanding under which VGS agreed to set a US\$134,000 cap on the amount of the Phase I costs that could be recovered through rates, barring circumstances beyond its control or not set out in the memorandum such as vandalism, protests, other events unreasonably interfering with construction, significant delays in obtaining right-of-ways, or acts of god.

Pursuant to this memorandum of understanding and given the revised cost estimate of the Addison project, VGS recorded a \$26,545 (US\$20,600) impairment of noncurrent assets during fiscal 2016 to recognize the uncertainty surrounding a portion of the project costs that could potentially not be recoverable from rates (\$13,486 (US\$10,300) for fiscal 2015).

The cost of property, plant and equipment under construction related to the Addison project, net of impairment, was \$110,380 (US\$84,150) as at September 30, 2016 (\$94,118 (US\$70,527) as at September 30, 2015). The Addison project is expected to be put into service in fiscal 2017, and the transmission network, the project's largest asset, will be amortized on a straight-line basis over a period of approximately 65 years.

8. INTANGIBLE ASSETS

	2016			
	<u>GHG emission allowances</u>	<u>Development of information technology</u>	<u>Rights and licences</u>	<u>Total</u>
Cost	\$ 512,740	\$ 209,863	\$ 14,896	\$ 737,499
Accumulated amortization	160,880	117,151	9,244	287,275
Net carrying amount	<u>\$ 351,860</u>	<u>\$ 92,712</u>	<u>\$ 5,652</u>	<u>\$ 450,224</u>

	2015			
	<u>GHG emission allowances</u>	<u>Development of information technology</u>	<u>Rights and licences</u>	<u>Total</u>
Cost	\$ 365,322	\$ 189,064	\$ 14,890	\$ 569,276
Accumulated amortization	67,391	97,144	13,814	178,349
Net carrying amount	<u>\$ 297,931</u>	<u>\$ 91,920</u>	<u>\$ 1,076</u>	<u>\$ 390,927</u>

Capitalized intangible assets totalled \$169,903 in 2016 and \$380,334 in 2015. Of this 2016 amount, \$155,488 relates to assets acquired and \$14,415 relates to internally generated assets (\$372,962 and \$7,372, respectively in 2015).

The amortization expense for intangible assets was \$112,063 in 2016 and \$82,003 in 2015, including the amortization related to the GHG emission allowances, recorded in the direct costs item of the consolidated statement of income and totalling \$93,489 in 2016 (\$67,391 in 2015).

The average annual amortization for each of the next five years is expected to be as follows:

2017	\$ 113,234
2018	\$ 122,269
2019	\$ 125,804
2020	\$ 66,354
2021	\$ 17,664

9. INVESTMENTS

	Ownership interest	September 30, 2016	September 30, 2015
Equity-accounted interests			
Interests in joint ventures			
Trans Québec & Maritimes Pipeline Inc.	50.0%	\$ 87,350	\$ 89,980
CDH Solutions & Operations Inc.	50.0%	12,422	11,757
Intragaz Group (Intragaz)	40.0 to 60.0%	64,541	62,133
Seigneurie de Beaupré Wind Farms 2 and 3 General Partnership (Wind Farms 2 and 3) (a)	50.0%	-	49,420
Seigneurie de Beaupré Wind Farm 4 General Partnership (Wind Farm 4)	50.0%	12,272	14,356
Other		4,646	4,510
		181,231	232,156
Interests in entities subject to significant influence			
Portland Natural Gas Transmission System (b)	38.3%	123,541	121,654
Vermont Transco LLC (Transco) (71.5% in 2015) (c)	72.4%	623,886	566,975
Vermont Electric Power Company, Inc.	38.8%	13,428	13,965
Other		3,929	2,409
		764,784	705,003
Total equity-accounted interests		946,015	937,159
Investment funds		190,693	192,797
Other investments		16,802	16,005
Surrender value of life insurance policies ⁽¹⁾		33,609	32,583
		\$ 1,187,119	\$ 1,178,544

⁽¹⁾ These are life insurance policies on the lives of active and retired officers.

INTERESTS IN JOINT VENTURES AND ENTITIES SUBJECT TO SIGNIFICANT INFLUENCE

- (a) In May 2016, Wind Farms 2 and 3 refinanced its long-term debt, permitting it to pay a return-of-capital distribution of \$80,000 to its partners, of which \$40,000 was received by Beaupré Éole General Partnership. Of that amount, \$19,600 was distributed to the non-controlling partner and has been presented as a return of capital in cash flows related to financing activities. The balance of the investment, which became a credit following this and subsequent distributions, was reclassified to other noncurrent liabilities.
- (b) The investment in PNGTS has been pledged as security for senior notes in the amount of \$68,366 (US\$52,120) to the creditors of this company as at September 30, 2016.
- (c) In September 2016, Gaz Métro invested \$50,876 (US\$38,983) in Transco, raising its ownership interest from 71.5% to 72.4% (\$31,576 (US\$27,221) during fiscal 2015). These funds are intended to finance capital investments in electricity transmission activities.

The following table presents the summary financial information at 100% for the joint ventures and entities subject to significant influence that the Partnership accounts for using the equity method:

	Fiscal years ended September 30	
	2016	2015
Statement of income		
Revenues	\$ 558,281	\$ 542,731
Net income	\$ 194,792	\$ 198,610
	Fiscal years ended September 30	
	2016	2015
Balance sheet		
Current assets	\$ 141,399	\$ 161,481
Noncurrent assets	\$ 3,173,687	\$ 3,195,647
Current liabilities	\$ 262,944	\$ 169,792
Noncurrent liabilities	\$ 1,576,811	\$ 1,668,866

INVESTMENT FUNDS

The investment funds consist mainly of trust funds held by GMP, through its wholly owned subsidiary Vermont Yankee Nuclear Power Corporation (VYNPC), related to the elimination of spent nuclear fuel. The amounts invested in this investment fund will be used to pay the expenses of the United States Department of Energy (DOE) to eliminate nuclear fuel used before April 7, 1983. For additional information about the related liability, refer to Note 14.

VYNPC classifies the securities held in the spent nuclear fuel investment fund as available-for-sale. The amount accounted for in the trust includes net unrealized losses of \$336 as at September 30, 2016 (net unrealized gains of \$662 as at September 30, 2015), which were recognized as RAL, since any realized gain or loss will give rise to a subsequent adjustment to the rates billed to customers.

As at September 30, 2016 and 2015, the costs and fair values of the long-term investments in the spent nuclear fuel investment fund were as follows:

	2016		2015	
	Cost	Fair value	Cost	Fair value
U.S. Treasury bonds	\$ 62,248	\$ 62,400	\$ 123,988	\$ 124,532
Municipal bonds	80,136	79,591	20,022	20,019
Corporate and other bonds	46,565	46,623	44,551	44,672
Money market funds	2,080	2,079	3,574	3,574
	<u>\$ 191,029</u>	<u>\$ 190,693</u>	<u>\$ 192,135</u>	<u>\$ 192,797</u>

The following table presents the fair values of investments with unrealized losses considered other than temporary, grouped by investment category and according to the period during which the specific securities were in a continuous unrealized loss position as at September 30, 2016 and 2015:

2016					
	12 months or less		More than 12 months		Total investments with unrealized losses
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value Unrealized losses
U.S. Treasury bonds	\$ 4,858	\$ (4)	\$ 13,471	\$ (102)	\$ 18,329 \$ (106)
Municipal bonds	61,969	(379)	709	(42)	62,678 (421)
Corporate and other bonds	6,681	(34)	4,236	(93)	10,917 (127)
	<u>\$ 73,508</u>	<u>\$ (417)</u>	<u>\$ 18,416</u>	<u>\$ (237)</u>	<u>\$ 91,924 \$ (654)</u>

2015					
	12 months or less		More than 12 months		Total investments with unrealized losses
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value Unrealized losses
U.S. Treasury bonds	\$ 34,378	\$ (80)	\$ 4,140	\$ (29)	\$ 38,518 \$ (109)
Municipal bonds	3,302	(39)	647	(4)	3,949 (43)
Corporate and other bonds	20,846	(152)	3,834	(11)	24,680 (163)
	<u>\$ 58,526</u>	<u>\$ (271)</u>	<u>\$ 8,621</u>	<u>\$ (44)</u>	<u>\$ 67,147 \$ (315)</u>

For the fiscal year ended September 30, 2016, the realized gains and losses on the spent nuclear fuel investment fund stood at \$1,911 and \$1,620, respectively (\$1,373 and \$1,045 for fiscal 2015), for total proceeds of sale of \$349,034 (\$284,229 in 2015). These realized gains and losses are recorded in the financial and other expenses item of the consolidated statement of income. No impairment was recognized during fiscal years 2016 and 2015 on the investments, as no potential decline in their fair market value below cost was considered other than temporary.

The maturities of the fixed income debt securities held in the spent nuclear fuel investment fund as at September 30, 2016 were as follows:

Less than 1 year	\$ 12,975
1 year to 5 years	133,897
5 to 10 years	10,168
More than 10 years	31,574
	<u>\$ 188,614</u>

10. VARIABLE INTEREST ENTITIES

In November 2015, Gaz Métro created, through one of its subsidiaries, GMP VT Solar LLC (GMP Solar), a company whose mission is to build, operate and maintain five solar farms in Vermont. In May 2016, an agreement was signed with an investor who will finance part of the solar farms in exchange for tax benefits. Gaz Métro has the power to direct and control all of the activities, including those that most significantly impact economic performance, and also has the obligation to absorb losses or receive the benefits, which may be significant. Consequently, GMP Solar is considered a VIE, for which Gaz Métro is the primary beneficiary.

As at September 30, 2016, GMP Solar had total assets of \$50,531 (US\$38,523) consisting primarily of property, plant and equipment.

11. GOODWILL

	<u>2016</u>	<u>2015</u>
Balance, beginning of year	\$ 405,656	\$ 340,497
Translation adjustment	(6,927)	65,159
Balance, end of year	<u>\$ 398,729</u>	<u>\$ 405,656</u>

No provision for goodwill impairment was required for fiscal years 2016 and 2015.

12. BANK LOANS

	Maximum authorized amounts	Interest rate (b)	Maturity	<u>2016</u>	<u>2015</u>
Gaz Métro	\$ 50,000	-%	-	\$ -	\$ -
Vermont					
(1.24% in 2015) (a)	85,261	1.49%	2018	15,808	28,972
	<u>\$ 135,261</u>			<u>\$ 15,808</u>	<u>\$ 28,972</u>

(a) On November 30, 2015, VGS renewed its two credit facilities, raising the total maximum authorized amount from US\$45,000 to US\$65,000 and extending the maturity to June 2018. As at September 30, 2016, the balance was US\$12,051 (US\$21,710 as at September 30, 2015).

(b) The short-term credit facilities bear interest at floating rates based on the bankers' acceptance rate, prime rate or LIBOR, adjusted according to the terms of the credit facilities.

13. LONG-TERM DEBT

	Weighted interest rate	Maturity	2016	2015
Gaz Métro				
First mortgage bonds (6.57% in 2015) (a)	6.12%	2017 to 2045	\$ 1,125,000	\$ 1,025,000
Secured senior notes (US\$560,000) (4.12% in 2015) (a)	4.12%	2022 to 2048	734,552	747,320
Secured term loan (0.60% in 2015) (a), (f)	0.78%	2021	400,997	245,009
Other (1.64% in 2015)	1.44%	2019	1,058	115
			<u>2,261,607</u>	<u>2,017,444</u>
Vermont				
First mortgage bonds (US\$605,665 in 2016 and US\$562,905 in 2015) (5.57% in 2015) (b)	5.43%	2018 to 2046	794,451	751,202
Unsecured senior notes (US\$220,000 in 2016 and US\$155,000 in 2015) (5.95% in 2015) (c), (d)	5.41%	2017 to 2046	288,574	206,847
Secured Vermont Economic Development Authority (VEDA) bonds (US\$30,000) (5.00% in 2015) (b)	5.00%	2021	39,351	40,035
Unsecured term loan (US\$67,788 in 2016 and US\$71,174 in 2015), (1.24% in 2015) (b), (f)	1.47%	2020	88,917	94,981
			<u>1,211,293</u>	<u>1,093,065</u>
Other				
Secured term loans (2.04% in 2015) (e), (f)	2.08%	2019 to 2021	17,625	16,649
Other (2.69% in 2015)	2.69%	2018	170	253
			<u>17,795</u>	<u>16,902</u>
Financing costs, net of amortization			<u>3,490,695</u>	<u>3,127,411</u>
			<u>16,178</u>	<u>16,258</u>
Current portion			<u>3,474,517</u>	<u>3,111,153</u>
			<u>10,133</u>	<u>9,792</u>
			<u>\$ 3,464,384</u>	<u>\$ 3,101,361</u>

CAPITAL REPAYMENTS

Capital repayments required over the next five years to meet maturities and sinking fund requirements are as follows:

2017	\$ 200,718
2018	\$ 10,154
2019	\$ 221,491
2020	\$ 203,779
2021	\$ 604,091
Thereafter	\$ 2,250,462

- (a) For the first mortgage bonds, the secured senior notes and the \$800,000 authorized term loan, GMi acted as borrower on the market and simultaneously lent the proceeds to Gaz Métro on similar terms and conditions.

The first mortgage bonds are secured by Gaz Métro under trust deeds. The authorized \$800,000 term loan and the secured senior notes are guaranteed by Gaz Métro under governing agreements. The first mortgage bonds, secured senior notes, and the term loan also contain a hypothec on the universality of present and future movable and immovable property of Gaz Métro and GMi located in the Province of Quebec. The creditors are thus covered by a first-ranking immovable hypothec on the Partnership's present and future natural gas system and pipelines.

The first mortgage bonds are redeemable at GMI's option, at par value or a value reflecting market conditions, whichever is higher, plus accrued and unpaid interest to the date fixed for redemption. Pursuant to agreements between GMI and Gaz Métro regarding the various series of bonds, Gaz Métro has agreed to make the related repayments to the holders.

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 and other agreements on long-term debt also stipulate that Gaz Métro will not make a distribution to its Partners if, given such a distribution, the Partnership's long-term debt to total capitalization ratio exceeds 75% on a non-consolidated financial statements basis.

On the basis of Gaz Métro's non-consolidated financial statements, the long-term debt / total capitalization ratios under the terms of the trust deeds and other agreements governing the Partnership's long-term debt stood at 54.6% as at September 30, 2016 and as at September 30, 2015.

On the basis of Gaz Métro's non-consolidated financial statements, the long-term debt interest coverage ratios were 3.78 times and 3.18 times, respectively, for the fiscal years ended September 30, 2016 and 2015. The long-term debt trust deeds and other agreements stipulate that all of Gaz Métro's interests in non-regulated energy-related activities and in non-energy-related activities must not represent more than 10% of its total non-consolidated assets. As at September 30, 2016 and 2015, Gaz Métro's assets used for such activities accounted for 2.00% and 2.39%, respectively, of its total non-consolidated assets. Furthermore, with respect to non-energy-related activities, Gaz Métro's interests in such activities may not exceed 5% of its total non-consolidated assets. As at September 30, 2016 and 2015, Gaz Métro had no interests in such activities.

In October 2016, GMI loaned \$125,000 in the form of first mortgage bonds to Gaz Métro. These bonds bear interest at an annual rate of 3.28% and mature on October 9, 2046. The loan proceeds were used to repay existing debt and for general business purposes of the Partnership.

In May, 2016, GMI loaned Gaz Métro an amount of \$100,000, bearing interest at an annual rate of 1.52% and maturing on May 25, 2020. This amount was used to repay existing debt and for general business purposes of the Partnership.

In March 2015, GMI loaned Gaz Métro an amount of \$100,000, bearing interest at an annual rate of 3.30% and maturing on March 31, 2045. This amount was used to repay existing debt and for general business purposes of the Partnership.

In January and February 2015, the credit facility was amended, in particular to raise the maximum authorized amount from \$600,000 to \$800,000 and to extend the maturity to March 2020. Subject to the lenders' approval, its maturity may be extended by one year annually. On March 31, 2016, the maturity date was extended to March 2021.

In December 2014, GMI loaned Gaz Métro an amount of \$114,400 (US\$100,000), bearing interest at an annual rate of 3.22% and maturing on December 9, 2024. This amount was used to repay existing debt and for general business purposes of the Partnership.

A portion of this term loan is in U.S. dollars, i.e., \$23,742 (US\$18,100) as at September 30, 2016 and \$24,154 (US\$18,100) as at September 30, 2015.

- (b) In December 2015, GMP issued, by way of private placement, first mortgage bonds for a total principal amount of US\$50,000, i.e., one series of US\$18,000 and one series of US\$32,000. These bonds, which will mature in December 2027 and 2045, bear interest at annual rates of 3.31% and 4.26%, respectively.

All of GMP's assets are subject to the lien in the deed of trust under which the first mortgage bonds were issued. GMP's first mortgage bonds deed of trust requires that a long-term debt / total capitalization ratio of no more than 65% be maintained. The first mortgage bonds include restrictions on the payment of dividends by GMP. Under the most restrictive of these covenants, approximately US\$129,545 in retained earnings was unrestricted as at September 30, 2016 compared to US\$99,593 as at September 30, 2015. Some of these first mortgage bonds require annual payments into a sinking fund.

One series of the first mortgage bonds, in an initial amount of US\$24,765, has been maturing in tranches of variable amounts on April 1st of each year, since fiscal 2011.

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.

In December 2014, GMP's credit facility, totalling \$81,592 (US\$70,000), was repaid using a new credit facility. This new credit facility authorizes a term loan of \$144,287 (US\$110,000) and matures in December 2019.

- (c) In August 2016, VGS issued, by way of private placement, two series of senior notes for a total amount of US\$30,000. These senior notes bear interest at annual rates of 3.32% and 4.25% and will mature in August 2026 and August 2046.

In December 2015, VGS issued, by way of private placement, senior notes for a total amount of US\$35,000, i.e., one series of US\$10,000 and one series of US\$25,000. These senior notes will mature in December 2025 and 2045 and bear interest at annual rates of 3.65% and 4.72%, respectively.

One of the notes issued by VGS includes an early repayment clause of US\$1,000 per year starting in 2019.

- (d) In November 2016, NNEEC entered into an agreement with an insurance company for the issuance of unsecured senior notes in an amount of US\$50,000. The terms of this agreement stipulate an annual interest rate of 3.25% and a maturity in 2027. The proceeds of this issuance are expected to be used to repay an equivalent amount of Series A senior notes maturing in June 2017. As NNEEC has demonstrated its ability and its intention to refinance the senior notes on a long-term basis, the notes are reported in long-term debt on the consolidated balance sheet as at September 30, 2016.
- (e) Gaz Métro's other subsidiaries can borrow up to \$30,000 under term loan facilities, secured by first ranking hypothecs.
- (f) The term loans bear interest at rates based on the bankers' acceptance rate, prime rate or LIBOR, adjusted according to the terms of the credit agreements.

As at September 30, 2016 and 2015, Gaz Métro and its subsidiaries were in compliance with all of the requirements of the various trust deeds and term loan agreements governing long-term debt.

Financial and other expenses included the amortization of financing costs of \$1,950 and \$1,574 for fiscal years 2016 and 2015, respectively.

14. OTHER NONCURRENT LIABILITIES

	2016	2015
Liabilities related to DBP plans (Note 18)	\$ 283,692	\$ 197,364
Liabilities related to PRB plans (Note 18)	146,911	122,173
Deferred compensation liabilities of GMP and VGS	10,261	11,361
Liabilities related to site decontamination and dismantling in the United States (a)	4,621	5,556
Liability related to the elimination of spent nuclear fuel (b)	190,511	193,462
Customer deposits	36,653	36,164
Equity-accounted interest (c)	7,811	-
Other	14,962	29,169
	<u>\$ 695,422</u>	<u>\$ 595,249</u>

- (a) Some of the U.S.-based subsidiaries, jointly with other companies, have been cited as potentially responsible for polluting land on which a manufactured gas plant that ceased operations in 1966 was located. In 1999, a settlement protocol was signed by the U.S. Environmental Protection Agency and the enterprises involved. It included an action plan to restore the site and a cost-sharing method. 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.

- (b) This liability represents the amount to be paid by VYNPC to the DOE for the elimination of spent nuclear fuel. This amount is composed of a fixed one-time fee established in 1983 as well as interest compounded quarterly since that date, accounted for as an increase to this liability based on the U.S. Treasury bonds rate, as set out in the agreement with the DOE. This amount will have to be paid no later than on the first delivery of spent fuel to the DOE, the date of which cannot be determined since the federal repository site for spent nuclear fuel is not yet known.
- (c) This liability represents the ownership interest in Wind Farms 2 and 3, the balance of which became a credit since the declaration of a special distribution in May 2016 and subsequent declarations of distributions, as explained in Note 9.

15. CAPITAL

AUTHORIZED

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

ISSUED AND PAID

	<u>2016</u>	<u>2015</u>
Number of units as at September 30 (in thousands of units)	<u>167,251</u>	<u>167,251</u>

On April 30, 2015, the Partnership issued, by way of private placement, 8,181,818 new units to its Partners at a per-unit price of \$16.50 for total proceeds of \$135,000.

On September 30, 2015, the Partnership issued, by way of private placement, 7,272,727 new units to its Partners at a per-unit price of \$16.50 for total proceeds of \$120,000.

The Gaz Métro Limited Partnership Agreement stipulates that Gaz Métro will distribute no less than 85.0% of its net income, excluding non-recurring items, subject to certain exceptions.

16. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The changes in accumulated other comprehensive income (loss) by component are detailed as follows:

	Translation adjustments	Net investment hedges	Cash flow hedges	Employee future benefits	Equity-accounted interests	Total
Balance as at September 30, 2015	\$ 291,200	\$ (185,991)	\$ (19,002)	\$ (41,289)	\$ (13,964)	\$ 30,954
Other comprehensive (loss) income before reclassifications to income	(25,982)	13,181	(4,590)	(3,096)	(3,220)	(23,707)
Other comprehensive income reclassified to income	-	-	404	36,746	-	37,150
	<u>(25,982)</u>	<u>13,181</u>	<u>(4,186)</u>	<u>33,650</u>	<u>(3,220)</u>	<u>13,443</u>
Balance as at September 30, 2016	\$ 265,218	\$ (172,810)	\$ (23,188)	\$ (7,639)	\$ (17,184)	\$ 44,397

	Translation adjustments	Net investment hedges	Cash flow hedges	Employee future benefits	Equity-accounted interests	Total
Balance as at September 30, 2014	\$ 63,674	\$ (61,962)	\$ (14,838)	\$ (42,157)	\$ (7,800)	\$ (63,083)
Other comprehensive income (loss) before reclassifications to income	227,526	(124,029)	(4,549)	(2,017)	(6,164)	90,767
Other comprehensive income reclassified to income	-	-	385	2,885	-	3,270
	<u>227,526</u>	<u>(124,029)</u>	<u>(4,164)</u>	<u>868</u>	<u>(6,164)</u>	<u>94,037</u>
Balance as at September 30, 2015	\$ 291,200	\$ (185,991)	\$ (19,002)	\$ (41,289)	\$ (13,964)	\$ 30,954

17. SUPPLEMENTAL DISCLOSURE OF CASH INFORMATION

	Fiscal years ended September 30	
	2016	2015
Change in other operating assets and liabilities:		
Trade and other receivables	\$ 5,320	\$ 11,593
Inventories	(4,620)	(446)
Prepaid expenses	1,573	186
Accounts payable and accrued liabilities	12,583	17,965
Income taxes payable and receivable	3,639	(685)
	<u>\$ 18,495</u>	<u>\$ 28,613</u>
Other information:		
Interest received	\$ 8,634	\$ 3,636
Interest paid	\$ 159,142	\$ 147,221
Income taxes paid	\$ 288	\$ 3,490

Accounts payable and accrued liabilities include an amount of \$60,225 as at September 30, 2016 related to the purchase of property, plant and equipment (\$48,727 as at September 30, 2015). These transactions have no impact on cash flows and are therefore not reflected in the consolidated statement of cash flows.

18. EMPLOYEE FUTURE BENEFITS

Gaz Métro maintains DBP plans 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 recognized for defined contribution and other pension plans was \$3,783 for the fiscal year ended September 30, 2016 and \$3,515 for the year ended September 30, 2015.

For their part, DBP 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:

	Date of most recent actuarial valuation	Date of mandatory actuarial valuation
Gaz Métro	December 31, 2015	December 31, 2018
Gaz Métro Plus	December 31, 2015	December 31, 2018
VGS	January 1, 2016	January 1, 2017
GMP	January 1, 2016	January 1, 2017

Gaz Métro also provides PRB plans that include supplemental health care and life insurance coverage to virtually all of its employees and their spouses and qualified dependants. These plans, however, are not funded, except in the case of GMP.

The following tables describe the employee future benefits-related obligations and costs as well as the impact of the unrecognized costs in Gaz Métro-QDA's consolidated statement of income.

COMPONENTS OF THE FUNDED STATUS OF THE PLANS

The following table presents the components of the funded status of the plans included in other noncurrent liabilities on the consolidated balance sheet as at September 30, 2016 and 2015.

	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	<u>DBP plans</u>	<u>DBP plans</u>	<u>PRB plans</u>	<u>PRB plans</u>
Change in projected benefit obligations				
Balance, beginning of year	\$ 1,043,049	\$ 951,825	\$ 174,964	\$ 156,954
Current service cost	28,903	28,265	5,453	4,942
Interest cost	36,926	39,980	6,094	6,881
Employee contributions	4,853	3,857	1,364	1,272
Other contributions and employee transfers	5,005	5,044	-	-
Benefits paid	(51,242)	(43,644)	(6,795)	(6,869)
Actuarial losses	146,115	4,216	21,873	3,182
Impact of exchange rate fluctuations	(6,848)	53,506	(962)	8,602
Balance, end of year	<u>1,206,761</u>	<u>1,043,049</u>	<u>201,991</u>	<u>174,964</u>
Change in plan assets, at fair value				
Balance, beginning of year	845,685	775,099	52,791	47,904
Actual return on plan assets	82,433	25,009	5,342	(1,120)
Employer contributions	41,322	39,726	3,313	2,768
Employee contributions	4,853	3,857	1,364	1,272
Other contributions and employee transfers	5,005	5,044	-	-
Benefits paid	(51,242)	(43,644)	(6,795)	(6,869)
Impact of exchange rate fluctuations	(4,987)	40,594	(935)	8,836
Balance, end of year	<u>923,069</u>	<u>845,685</u>	<u>55,080</u>	<u>52,791</u>
Funded status – plan deficit	<u>\$ (283,692)</u>	<u>\$ (197,364)</u>	<u>\$ (146,911)</u>	<u>\$ (122,173)</u>

PLAN ASSETS

The following table shows the allocation of plan assets at September 30, 2016 and 2015.

	<u>Target allocation</u>	<u>Percentage of plan assets</u>	
		<u>2016</u>	<u>2015</u>
Asset categories			
Fixed-income securities	44.0%	45.1%	46.0%
Equity securities	56.0%	54.9%	54.0%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Plan investments and the associated risks are managed by each plan's investment policy. Managing investment risk consists of diversifying both the sources of risk and the sources of return so as to minimize any possible declines in total net assets and to maximize the potential gains of the portfolio as a whole. The investment policies manage financial risk by creating investment diversification among short-term notes, equity securities, bonds, mutual fund units and cash. Within each investment category, the diversification criteria and exposure limits are defined. The investment policies also permit the use of derivative financial instruments.

All investments are measured at fair value using current market value. When fair value cannot be readily determined by reference to generally available prices, it is determined by analyzing risk-adjusted discounted cash flows and by comparing market prices for similar assets quoted on a stock market.

The following tables present the estimated fair value measurements of the DBP and PRB plan assets and their classification within the three levels of the fair value hierarchy.

Asset categories	September 30, 2016			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 15,215	\$ -	\$ -	\$ 15,215
Equity investments	19,312	1,234	-	20,546
Bond investments	126,750	159,589	-	286,339
Mutual fund units	140,534	484,857	30,658	656,049
	<u>\$ 301,811</u>	<u>\$ 645,680</u>	<u>\$ 30,658</u>	<u>\$ 978,149</u>

Asset categories	September 30, 2015			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 11,052	\$ -	\$ -	\$ 11,052
Equity investments	32,379	1,133	141	33,653
Bond investments	134,292	147,978	-	282,270
Mutual fund units	119,720	415,297	36,484	571,501
	<u>\$ 297,443</u>	<u>\$ 564,408</u>	<u>\$ 36,625</u>	<u>\$ 898,476</u>

The following table presents the change in the net fair value of plan assets classified in Level 3 of the fair value hierarchy during fiscal years 2016 and 2015:

	2016	2015
Balance, beginning of year	\$ 36,625	\$ 25,365
Realized and unrealized gains	(150)	(478)
Purchases and settlements	(5,249)	6,373
Impact of exchange rate fluctuations	(568)	5,365
Balance, end of year	<u>\$ 30,658</u>	<u>\$ 36,625</u>

COMPONENTS OF THE NET PROJECTED BENEFIT COST

	Fiscal years ended September 30			
	2016	2015	2016	2015
	DBP plans	DBP plans	PRB plans	PRB plans
Current service cost	\$ 28,903	\$ 28,265	\$ 5,453	\$ 4,942
Interest cost	36,926	39,980	6,094	6,881
Expected return on plan assets	(51,888)	(48,948)	(3,394)	(3,405)
Amortization of net actuarial losses	12,209	11,040	2,520	2,978
Amortization of past service costs	438	1,197	402	-
Net cost	<u>\$ 26,588</u>	<u>\$ 31,534</u>	<u>\$ 11,075</u>	<u>\$ 11,396</u>
Representing:				
Unrecognized cost (revenue) of				
Gaz Métro-QDA ⁽¹⁾	\$ (15,064)	\$ (10,182)	\$ 7,958	\$ -
Recognized cost	<u>\$ 41,652</u>	<u>\$ 41,716</u>	<u>\$ 3,117</u>	<u>\$ 11,396</u>

⁽¹⁾ The unrecognized cost (revenue) of Gaz Métro-QDA is equivalent to the difference between the cost recognized as operating expenses in the consolidated statement of income under regulatory treatments and the actuarially determined cost for Gaz Métro-QDA. This difference is recorded as a regulatory asset or liability.

COMPONENTS OF ACCUMULATED OTHER COMPREHENSIVE LOSS

Fiscal years ended September 30				
	2016	2015	2016	2015
	DBP plans	DBP plans	PRB plans	PRB plans
Net actuarial losses	\$ (6,039)	\$ (4,025)	\$ (1,589)	\$ (37,249)
Past service cost	(11)	(15)	-	-
Total accumulated other comprehensive loss	\$ (6,050)	\$ (4,040)	\$ (1,589)	\$ (37,249)

COMPONENTS OF NET REGULATORY ASSETS RELATED TO EMPLOYEE FUTURE BENEFITS

Fiscal years ended September 30				
	2016	2015	2016	2015
	DBP plans	DBP plans	PRB plans	PRB plans
Net actuarial losses	\$ 283,424	\$ 182,308	\$ 45,363	\$ (7,460)
Past service cost	1,428	739	255	-
First-time adoption of U.S. GAAP ⁽¹⁾	(51,493)	(36,755)	86,919	-
Business acquisition	41,381	44,059	8,127	9,361
Total net regulatory assets	\$ 274,740	\$ 190,351	\$ 140,664	\$ 1,901

⁽¹⁾ This regulatory asset is related to the cumulative reporting date differences between the costs determined according to regulatory treatments recovered through rates and those determined according to U.S. GAAP.

COMPONENTS OF OTHER COMPREHENSIVE INCOME

Fiscal years ended September 30				
	2016	2015	2016	2015
	DBP plans	DBP plans	PRB plans	PRB plans
Net actuarial losses during the year	\$ (2,172)	\$ (999)	\$ (924)	\$ (1,018)
Amortization of net actuarial losses	157	94	22	2,768
Amortization of past service costs	4	23	-	-
Impact of recognizing regulatory assets (Note 26)	-	-	36,563	-
Change in other comprehensive income	\$ (2,011)	\$ (882)	\$ 35,661	\$ 1,750

CASH FLOWS

The following table presents the cash flows expected from the DBP and PRB plans:

	DBP plans	PRB plans
Expected employer contributions during the year:		
2017	\$ 31,052	\$ 3,098
Expected benefit payments:		
2017	\$ 44,713	\$ 5,774
2018	\$ 45,952	\$ 6,112
2019	\$ 46,292	\$ 6,294
2020	\$ 49,811	\$ 6,586
2021	\$ 51,350	\$ 6,935
2022-2026	\$ 279,546	\$ 37,146

MAIN ACTUARIAL ASSUMPTIONS

	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	DBP plans	DBP plans	PRB plans	PRB plans
Projected benefit obligations at the measurement date				
Discount rate	3.15%	4.00%	3.15%	4.00%
Rate of compensation increase	2.75%	2.75%	2.75%	2.75%
Benefit cost for the 12-month period ended at the measurement date				
Discount rate	4.15%	4.00%	4.15%	4.00%
Expected long-term rate of return on plan assets	5.80%	5.80%	6.65%	6.65%
Rate of compensation increase	2.75%	2.75%	2.75%	2.75%

The assumed health care cost trend rates used to project costs for fiscal 2017 for certain PRB plans are 6.1% for Gaz Métro-QDA and 7.0% for GMP. These rates decline gradually to 3.0% in 2035 for Gaz Métro-QDA and to 5.0% in 2023 for GMP, and remain at those levels thereafter. A 1% change in assumed health care cost trend rates would have the following effects:

	<u>1%</u>	<u>1%</u>
	increase	decrease
Sensitivity analysis of PRB plans		
Impact on current service cost and interest cost	\$ 1,952	\$ (1,536)
Impact on projected benefit obligations	\$ 31,882	\$ (24,837)

19. INCOME TAXES

	<u>2016</u>	<u>2015</u>
Income before income taxes	\$ 321,336	\$ 231,033
Current income taxes	\$ 3,530	\$ 3,020
Deferred income taxes	38,030	42,147
Income taxes	\$ 41,560	\$ 45,167

RECONCILIATION OF INCOME TAX RATES

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

	<u>2016</u>	<u>2015</u>
Income before income taxes	\$ 321,336	\$ 231,033
Statutory income tax rate	26.9%	26.9%
Income taxes at statutory rate	86,439	62,147
Increase (decrease) attributable to the following:		
Income from limited partnerships	(45,366)	(18,876)
Tax rate variance between jurisdictions	7,693	9,052
Deferred income taxes related to rate-regulated activities	951	1,031
Permanent differences	(626)	(1,369)
Energy and production tax credits	(5,883)	(5,462)
Net impact of non-taxable and other items	(1,648)	(1,356)
Income taxes	\$ 41,560	\$ 45,167
Effective income tax rate	12.9%	19.6%

COMPONENTS OF DEFERRED INCOME TAXES

	<u>2016</u>	<u>2015</u>
Non-deductible allowances	\$ 22,842	\$ 10,808
Non-capital losses and tax credit carryforwards	157,586	100,245
Regulatory assets and liabilities	(15,785)	4,526
Property, plant and equipment and intangible assets	(411,017)	(374,785)
Employee future benefits	2,975	2,424
Equity-accounted interests	(267,278)	(228,296)
Other	(931)	(311)
Net deferred income tax liability	\$ (511,608)	\$ (485,389)

No valuation allowance was recognized as at September 30, 2016 and 2015. Deferred tax assets consist mainly of non-capital loss carryforwards that were realized by the Partnership's subsidiaries. The subsidiaries have deemed it more likely than not that they will be able to use their non-capital losses of \$359,881 before they expire, i.e., between 2027 and 2036, factoring in reversals of taxable temporary differences and future taxable income.

Gaz Métro and its subsidiaries that are formed as limited partnerships do not present income tax expense, since, under existing legislation, it is the Partners who are taxable. If deferred income taxes relating to the group's various limited partnerships had been calculated and recognized using the liability method set out by FASB in ASC 740, *Income Taxes*, the net deferred tax liability balance would have been \$68,405 higher as at September 30, 2016 and \$31,298 higher as at September 30, 2015. To offset a portion of this net deferred tax liability, a regulatory asset of \$71,536 would be recognized as at September 30, 2016 (\$33,216 as at September 30, 2015) in accordance with the current regulatory treatments. These variances would have been mainly due to the following items:

	<u>2016</u>	<u>2015</u>
Non-deductible allowances	\$ 6,824	\$ 6,406
Regulatory assets and liabilities	(20,473)	20,407
Property, plant and equipment and intangible assets	(57,004)	(58,712)
Financial instruments	2,478	1,322
Other	(230)	(721)
Net deferred income tax liability	\$ (68,405)	\$ (31,298)

20. SEGMENT INFORMATION

The below-described business segments were established based on the Partnership's management structure and reflect how management assesses their performance.

Energy Distribution: This segment encompasses Gaz Métro-QDA's activities and the natural gas and electricity distribution activities in Vermont (VGS and GMP). This segment's activities are subject to rate regulation by regulatory agencies 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-rate-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 liquefied natural gas as a fuel or energy product as well as the sale, leasing and maintenance of natural gas appliances.

Corporate Affairs: This segment encompasses all of the Partnership's other activities that are not directly attributable to the other segments as well as intersegment eliminations.

Fiscal year ended September 30, 2016

	Energy Distribution			Natural Gas Transportation	Electricity Production	Energy Services, Storage and Other	Corporate Affairs	Total
	Gaz Métro-QDA	Vermont ⁽³⁾	Total					
Revenues from external customers	\$ 1,543,362	\$ 1,002,898	\$ 2,546,260	\$ -	\$ -	\$ 40,769	\$ -	\$ 2,587,029
Intersegment revenues	11,706	-	11,706	3,006	-	924	(15,636)	-
Total revenues	1,555,068	1,002,898	2,557,966	3,006	-	41,693	(15,636)	2,587,029
Direct costs	997,204	597,736	1,594,940	-	-	10,135	-	1,605,075
Intersegment direct costs	3,006	-	3,006	-	-	11,706	(14,712)	-
Total direct costs	1,000,210	597,736	1,597,946	-	-	21,841	(14,712)	1,605,075
Gross margin	554,858	405,162	960,020	3,006	-	19,852	(924)	981,954
Operating and maintenance expenses	239,320	212,486	451,806	1,199	645	13,748	9,652	477,050
Impact of recognizing RAL ⁽¹⁾	(79,287)	-	(79,287)	-	-	-	-	(79,287)
Share in the (earnings) losses of equity-accounted interests	-	(82,802)	(82,802)	(31,979)	(5,737)	(4,036)	251	(124,303)
Adjusted EBITDA ⁽²⁾	394,825	275,478	670,303	33,786	5,092	10,140	(10,827)	708,494
Impairment of noncurrent assets	-	26,545	26,545	-	-	-	-	26,545
Amortization	146,161	81,511	227,672	678	74	3,503	-	231,927
Interest on long-term debt	37,390	88,363	125,753	2,419	320	1,124	-	129,616
Financial and other expenses	2,301	(3,216)	(915)	107	34	(156)	-	(930)
Income (loss) before income taxes	208,973	82,275	291,248	30,582	4,664	5,669	(10,827)	321,336
Income taxes (recovered)	-	26,929	26,929	12,511	684	1,675	(239)	41,560
Net income (loss)	\$ 208,973	\$ 55,346	\$ 264,319	\$ 18,071	\$ 3,980	\$ 3,994	\$ (10,588)	\$ 279,776
Net income (loss) attributable to:								
Partners	\$ 208,973	\$ 55,346	\$ 264,319	\$ 18,071	\$ 1,383	\$ 4,334	\$ (10,588)	\$ 277,519
Non-controlling interests	\$ -	\$ -	\$ -	\$ -	\$ 2,597	\$ (340)	\$ -	\$ 2,257
Purchase of property, plant and equipment	\$ 185,957	\$ 302,622	\$ 488,579	\$ 2,368	\$ -	\$ 29,076	\$ -	\$ 520,023
Equity-accounted interests	\$ -	\$ 639,743	\$ 639,743	\$ 211,511	\$ 12,272	\$ 76,963	\$ 5,526	\$ 946,015
Property, plant and equipment	\$ 1,983,946	\$ 1,949,584	\$ 3,933,530	\$ 19,289	\$ 106	\$ 127,519	\$ -	\$ 4,080,444
Goodwill	\$ -	\$ 398,456	\$ 398,456	\$ 273	\$ -	\$ -	\$ -	\$ 398,729
Total assets	\$ 3,251,375	\$ 3,703,863	\$ 6,955,238	\$ 236,904	\$ 13,618	\$ 227,070	\$ (7,217)	\$ 7,425,613

⁽¹⁾ Impact of recognizing regulatory assets related to employee future benefits. For additional information, refer to Note 26.

⁽²⁾ Adjusted EBITDA is not a measurement defined by U.S. GAAP. Gaz Métro defines it as income (loss) before depreciation (including impairment of noncurrent assets), amortization (excluding the amortization of GHG emission allowances), interest on long-term debt, financial and other expenses, and income taxes (recovered).

⁽³⁾ The Vermont energy distribution activities and PNGTS's transportation activities are carried out in the United States; all of the Partnership's other activities are carried out in Canada.

Fiscal year ended September 30, 2015

	Energy Distribution			Natural Gas Transportation	Electricity Production	Energy Services, Storage and Other	Corporate Affairs	Total
	Gaz Métro- QDA	Vermont ⁽²⁾	Total					
Revenues from external customers	\$ 1,594,172	\$ 953,086	\$ 2,547,258	\$ -	\$ -	\$ 37,095	\$ -	\$ 2,584,353
Intersegment revenues	9,112	-	9,112	3,535	-	899	(13,546)	-
Total revenues	1,603,284	953,086	2,556,370	3,535	-	37,994	(13,546)	2,584,353
Direct costs	1,045,653	591,710	1,637,363	-	-	10,640	-	1,648,003
Intersegment direct costs	3,535	-	3,535	-	-	9,072	(12,607)	-
Total direct costs	1,049,188	591,710	1,640,898	-	-	19,712	(12,607)	1,648,003
Gross margin	554,096	361,376	915,472	3,535	-	18,282	(939)	936,350
Operating and maintenance expenses	249,275	192,674	441,949	1,958	1,006	12,433	6,709	464,055
Share in the (earnings) losses of equity-accounted interests	(20)	(74,715)	(74,735)	(29,450)	(11,385)	(4,072)	232	(119,410)
Adjusted EBITDA ⁽¹⁾	304,841	243,417	548,258	31,027	10,379	9,921	(7,880)	591,705
Impairment of noncurrent assets	-	13,486	13,486	-	-	-	-	13,486
Amortization	136,870	70,380	207,250	586	238	3,287	-	211,361
Interest on long-term debt	50,075	78,619	128,694	2,465	381	1,400	-	132,940
Financial and other expenses	7,361	(5,661)	1,700	92	(7)	1,107	(7)	2,885
Income (loss) before income taxes	110,535	86,593	197,128	27,884	9,767	4,127	(7,873)	231,033
Income taxes	-	29,364	29,364	11,234	1,553	1,494	1,522	45,167
Net income (loss)	\$ 110,535	\$ 57,229	\$ 167,764	\$ 16,650	\$ 8,214	\$ 2,633	\$ (9,395)	\$ 185,866
Net income (loss) attributable to:								
Partners	\$ 110,535	\$ 57,229	\$ 167,764	\$ 16,650	\$ 3,010	\$ 2,953	\$ (9,395)	\$ 180,982
Non-controlling interests	\$ -	\$ -	\$ -	\$ -	\$ 5,204	\$ (320)	\$ -	\$ 4,884
Purchase of property, plant and equipment	\$ 144,038	\$ 168,598	\$ 312,636	\$ 1,219	\$ 49	\$ 47,816	\$ -	\$ 361,720
Equity-accounted interests	\$ -	\$ 583,349	\$ 583,349	\$ 212,117	\$ 63,776	\$ 73,890	\$ 4,027	\$ 937,159
Property, plant and equipment	\$ 1,873,724	\$ 1,744,703	\$ 3,618,427	\$ 17,466	\$ 158	\$ 104,327	\$ -	\$ 3,740,378
Goodwill	\$ -	\$ 405,383	\$ 405,383	\$ 273	\$ -	\$ -	\$ -	\$ 405,656
Total assets	\$ 2,828,955	\$ 3,507,360	\$ 6,336,315	\$ 238,078	\$ 66,727	\$ 194,356	\$ (6,051)	\$ 6,829,425

⁽¹⁾ Adjusted EBITDA is not a measurement defined by U.S. GAAP. Gaz Métro defines it as income (loss) before depreciation (including impairment of noncurrent assets), amortization (excluding the amortization of GHG emission allowances), interest on long-term debt, financial and other expenses, and income taxes (recovered).

⁽²⁾ The Vermont energy distribution activities and PNGTS's transportation activities are carried out in the United States; all of the Partnership's other activities are carried out in Canada.

21. RELATED PARTY TRANSACTIONS

Gaz Métro-QDA incurred natural gas storage costs with Intragaz, presented as direct costs in the consolidated statement of income, totalling \$16,801 for fiscal 2016 (\$16,800 in 2015).

In fiscal 2016, Transco provided GMP with electricity transmission services totalling \$25,412 (\$34,174 in 2015), presented as direct costs in the consolidated statement of income.

These related party transactions were carried out in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

GMi, acting in its capacity as General Partner of Gaz Métro, has loaned amounts to the Partnership and guaranteed certain Gaz Métro commitments. For additional information, refer to Note 13 and Note 24.

22. FINANCIAL INSTRUMENTS

NON-DERIVATIVE FINANCIAL INSTRUMENTS

The following tables present the estimated fair value measurements of non-derivative financial instruments and their classification within the three levels of the fair value hierarchy:

	Carrying amount	September 30, 2016		
		Level 1	Level 2	Fair value Total
Financial assets				
Cash and cash equivalents	\$ 51,952	\$ 51,952	\$ -	\$ 51,952
Short-term restricted cash equivalents	31,959	31,959	-	31,959
Trade and other receivables	193,586	-	193,586	193,586
Long-term restricted cash	37,387	37,387	-	37,387
Investment funds ⁽¹⁾	190,693	50,150	140,543	190,693
Other investments ⁽¹⁾	16,802	7,811	8,991	16,802
Total	\$ 522,379	\$ 179,259	\$ 343,120	\$ 522,379
Financial liabilities				
Bank overdraft	\$ 6,582	\$ 6,582	\$ -	\$ 6,582
Bank loans	15,808	-	15,808	15,808
Accounts payable and accrued liabilities	378,929	-	378,929	378,929
Distributions payable	48,503	-	48,503	48,503
Long-term debt	3,474,517	-	4,364,913	4,364,913
Contractual liability related to the elimination of spent nuclear fuel ⁽²⁾	190,511	-	190,511	190,511
Customer deposits ⁽²⁾	36,653	-	36,653	36,653
Total	\$ 4,151,503	\$ 6,582	\$ 5,035,317	\$ 5,041,899

⁽¹⁾ These financial instruments are presented in investments on the consolidated balance sheet.

⁽²⁾ These financial instruments are presented in other noncurrent liabilities on the consolidated balance sheet.

	September 30, 2015			
	Carrying amount	Fair value		
		Level 1	Level 2	Total
Financial assets				
Cash and cash equivalents	\$ 71,133	\$ 71,133	\$ -	\$ 71,133
Short-term restricted cash equivalents	26,497	26,497	-	26,497
Trade and other receivables	204,555	-	204,555	204,555
Long-term restricted cash	36,164	36,164	-	36,164
Investment funds ⁽¹⁾	192,797	90,439	102,358	192,797
Other investments ⁽¹⁾	16,005	9,457	6,548	16,005
Total	\$ 547,151	\$ 233,690	\$ 313,461	\$ 547,151
Financial liabilities				
Bank overdraft	\$ 6,421	\$ 6,421	\$ -	\$ 6,421
Bank loans	28,972	-	28,972	28,972
Accounts payable and accrued liabilities	343,277	-	343,277	343,277
Distributions payable	44,794	-	44,794	44,794
Long-term debt	3,111,153	-	3,576,314	3,576,314
Contractual liability related to the elimination of spent nuclear fuel ⁽²⁾	193,462	-	193,462	193,462
Customer deposits ⁽²⁾	36,164	-	36,164	36,164
Total	\$ 3,764,243	\$ 6,421	\$ 4,222,983	\$ 4,229,404

⁽¹⁾ These financial instruments are presented in investments on the consolidated balance sheet.

⁽²⁾ These financial instruments are presented in other noncurrent liabilities on the consolidated balance sheet.

There were no transfers between Levels 1, 2 and 3 during fiscal years 2016 and 2015.

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 based on 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, 2016, the carrying amount of these financial liabilities designated as hedges totalled \$758,294 (US\$578,100) (\$771,474 (US\$578,100) as at September 30, 2015). The Partnership applied hedge accounting to these designations.

DERIVATIVE FINANCIAL INSTRUMENTS

Fair value of derivative financial instruments

The fair value of derivative financial instruments reflects the amounts that Gaz Métro estimates it would receive on settlement of favourable contracts or would be obliged to pay to terminate unfavourable contracts at the consolidated 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 consolidated balance sheet date. In the absence of such information for a given instrument, the forward rate or price of a similar instrument is used. A risk premium is added to the risk-free interest rate in estimating fair value to reflect the credit risk of both Gaz Métro and its subsidiaries and the credit risk of each counterparty.

The fair values of the various categories of derivative financial instruments are as follows:

	September 30, 2016		September 30, 2015	
	Assets	Liabilities	Assets	Liabilities
Derivative instruments designated as cash flow hedges				
Swaps	\$ -	\$ -	\$ -	\$ 4,124
Forward exchange contracts	-	314	-	747
Total	-	314	-	4,871
Derivative instruments not designated as hedges				
Forward exchange contracts	252	213	2	3,211
Instruments related to natural gas:				
Fixed-price swaps	1,362	79	-	1,678
Collars	-	-	-	267
Instruments related to electricity:				
Fixed-price capacity swap	647	1,235	16,220	-
Total	2,261	1,527	16,222	5,156
Total derivative instruments	\$ 2,261	\$ 1,841	\$ 16,222	\$ 10,027
Portion presented on the consolidated balance sheet:				
Current	\$ 1,614	\$ 375	\$ 2	\$ 5,198
Noncurrent	647	1,466	16,220	4,829
Total	\$ 2,261	\$ 1,841	\$ 16,222	\$ 10,027

The par values of the various categories of derivative financial instruments are as follows:

	September 30, 2016	September 30, 2015
Swaps	\$ -	\$ 46,588
Forward exchange contracts	\$ 41,770	\$ 62,163
Instruments related to natural gas (in thousands of gigajoules):		
Fixed-price swaps	5,229	4,958
Collars	-	465
Instruments related to electricity (in megawatts):		
Fixed-price capacity swap	5,400	5,400

Fair value hierarchy of derivative financial instruments

As at September 30, 2016 and 2015, the fair values of all derivative financial instruments were measured according to Level 2, except for electricity-related instruments. During fiscal 2015, two fixed-price capacity swaps were entered into in order to cover a portion of future costs, and the measurement of these swaps fell into Level 3 since the valuation technique uses a significant unobservable assumption concerning forward prices on the capacity market. The fair value of these derivative financial instruments was calculated using discounted future cash flows based on the assumptions indicated in this table.

	Risk-free rate	Discount rate	Implicit price volatility	Forward price
Fixed-price capacity swaps	0.68% to 1.12%	1.52%	N/A	US\$7.03/kW ⁽¹⁾

⁽¹⁾ The forward prices are based on the index determined by ISO New England.

The offsetting entries of the remeasurements of derivative financial instruments of companies in the Energy Distribution segment are recorded as RAL on the consolidated balance sheet. Accordingly, no gain or loss has been recorded in income and in other comprehensive income under the regulatory treatment.

The following table presents the changes in the net fair value of the fixed-price electricity swaps that are classified in Level 3 of the fair value hierarchy:

	<u>September 30, 2016</u>	<u>September 30, 2015</u>
Balance, beginning of year	\$ 16,220	\$ -
Change in fair value related to unrealized gains	(16,664)	15,245
Translation adjustments of foreign operations	(144)	975
Balance, end of year	<u>\$ (588)</u>	<u>\$ 16,220</u>

Recognition of derivative financial instruments

The effective portion of the change in fair value of derivative financial instruments designated as hedges is included in accumulated other comprehensive income until the hedge transactions are recognized in income. The ineffective portion is recognized in the consolidated statement of income under financial and other expenses.

23. FINANCIAL INSTRUMENT RISK MANAGEMENT

OVERVIEW OF RISK MANAGEMENT

The Partnership is exposed to market risk, credit risk and liquidity risk. The existing strategies, policies and controls are designed to ensure that the risks assumed by Gaz Métro related to its financial instruments comply with regulatory requirements, its objectives and its risk tolerance. Risks are managed within limits approved by GMI's board of directors and applied by management.

MARKET RISK

There are several classes of market risk. Risk factors such as changes in exchange rates, interest rates and natural gas and electricity prices have an impact on the fair value of financial assets and liabilities.

Exchange rate 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 a hedge is recognized in other comprehensive income, partly reducing translation adjustments of foreign operations. Moreover, forward exchange contracts are used to manage the exchange risk related to U.S.-dollar-denominated revenues generated by Gaz Métro LNG.

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 portion of its natural gas purchases are denominated in Canadian dollars. VGS uses forward exchange contracts to manage this type of exchange risk. Since any change in fair value is recognized in a regulatory asset or liability, as approved by the VPSB, any change in the exchange rate would have an impact on regulatory assets or liabilities and not on net income or 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. For Gaz Métro-QDA, under a regulatory treatment, the financial impacts of the differences between the actual interest rates and those used when setting the distribution rates for a given year are reflected in the distribution rates of a future fiscal year.

Energy cost risk

In Quebec, natural gas must be sold to customers at cost and is not subject to hedging with derivative financial instruments. In Vermont, VGS and GMP use an adjustment mechanism that minimizes the risk of fluctuating natural gas

and electricity prices. Derivative financial instruments related to natural gas and electricity are used to manage customer exposure to the volatility of natural gas and electricity prices. Furthermore, all energy price fluctuations, including gains and losses on derivative financial instruments, are recorded as RAL to be reflected through future rates pursuant to VPSB decisions.

CREDIT RISK

Credit risk is the risk that a customer, with whom the Partnership or one of its subsidiaries enters into sales transactions for goods or services, or that a counterparty to derivative financial instruments is unable to fulfill its obligations under the agreements into which it has entered, 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 trade accounts receivable is presented below:

	<u>2016</u>	<u>2015</u>
Less than 30 days	\$ 175,887	\$ 181,445
30 to 60 days	6,468	7,594
61 to 90 days	1,821	1,829
Over 90 days	7,824	9,692
	<u>192,000</u>	<u>200,560</u>
Less: Allowance for doubtful accounts	8,838	8,454
	<u>\$ 183,162</u>	<u>\$ 192,106</u>

Trade and other receivables credit concentration is limited given the diversity and number of customers. Credit risk from trade and other receivables is mitigated through various means, including obtaining security deposits from customers in circumstances permitted by the regulatory agencies. As at September 30, 2016, the Partnership has security deposits from customers amounting to \$41,408 compared to \$41,593 as at September 30, 2015.

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, 2016, most of the counterparties to derivative financial instruments have a high credit rating that is at least equivalent to that of Gaz Métro, and all are major companies that meet the Partnership's credit assessment criteria.

LIQUIDITY RISK

Liquidity risk is the risk that the Partnership would be unable to pay its financial commitments as they become due. The Partnership manages liquidity risk by forecasting its cash flows in order to determine its financing needs and by ensuring that it has sufficient cash and credit facilities to fulfill its needs and to meet its obligations as they become due. A combination of committed and demand credit facilities and access to capital markets, directly through Gaz Métro or some of its subsidiaries and joint ventures or through GMI or Valener, allows it to satisfy its financing needs. However, any significant reduction in the ability of Gaz Métro or some of its subsidiaries or joint ventures or in the ability of the subsidiaries or joint ventures of GMI or Valener to access capital markets at acceptable conditions, 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 net income.

The Partnership and some of its subsidiaries 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 disburse any amount in respect of this collateral during fiscal years 2016 and 2015.

24. 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, 2016, the schedule of contractual commitments related to the different types of supply, for which the duration was more than one year, was as follows:

	2017	2018	2019	2020	2021	Subsequent fiscal years	Total
Energy supply	\$ 252,006	\$ 264,180	\$ 278,777	\$ 257,178	\$ 216,051	\$ 3,117,305	\$ 4,385,497
Transportation	465,505	326,322	299,227	295,162	295,148	1,043,807	2,725,171
Storage	23,535	19,084	16,960	16,564	16,564	31,402	124,109
Total	\$ 741,046	\$ 609,586	\$ 594,964	\$ 568,904	\$ 527,763	\$ 4,192,514	\$ 7,234,777

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

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

OTHER COMMITMENTS

Gaz Métro LNG entered into an engineering, supply and construction contract to expand the capacity of the LSR plant, which is expected to be put into commercial service in autumn 2016. Disbursements are being made based on the stage of completion of the work. As at September 30, 2016, Gaz Métro LNG's commitment under this contract was \$34,063.

In July 2016, GMP reached an agreement with Enel Green Power North America Inc. (Enel) to acquire small hydroelectric power plants located mainly in New England and to purchase the output of other Enel hydroelectric power plants in accordance with 25-year power purchase agreements. The acquisition, valued at US\$20,300, is expected to be completed in fiscal 2017.

In August 2016, an agreement was signed with the city of Saint-Hyacinthe in which Gaz Métro agreed to purchase surplus quantities produced and unused by the city, i.e., a maximum annual volume of approximately 13 million cubic metres of renewable natural gas for a period of 20 years. The activities related to this agreement are expected to begin in April 2017, and Gaz Métro's maximum commitment over the term of the agreement would be \$65,252 as at September 30, 2016, based on maximum volumes, current market conditions and supply price forecasts.

LEASES

Under operating leases, the Partnership and its subsidiaries 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:

	2017	2018	2019	2020	2021	Subsequent fiscal years	Total
Leases	\$ 1,514	\$ 1,360	\$ 1,202	\$ 1,061	\$ 963	\$ 892	\$ 6,992

GUARANTEES

GMI, in its capacity as General Partner of Gaz Métro, issued letters of credit of \$36,046 to guarantee a portion of Gaz Métro employee future benefits. 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.

25. 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.

26. FIRST-TIME ADOPTION OF U.S. GAAP

Gaz Métro's consolidated financial statements have been prepared in accordance with U.S. GAAP since October 1, 2015. Prior to that, they had been prepared in accordance with Canadian GAAP. The new accounting framework has been applied retrospectively.

The following tables and notes describe the impact of the conversion from Canadian GAAP to U.S. GAAP.

RECONCILIATION OF NET INCOME

Fiscal year ended September 30, 2015

	Notes	
Net income under Canadian GAAP		\$ 188,015
Adjustments:		
Employee future benefits	b, c	(8,651)
Other adjustments	c, d, f	6,502
		<u>(2,149)</u>
Net income under U.S. GAAP		\$ 185,866
Net income under U.S. GAAP attributable to:		
Partners		\$ 180,982
Non-controlling interests		4,884
		<u>\$ 185,866</u>

RECONCILIATION OF COMPREHENSIVE INCOME

Fiscal year ended September 30, 2015

	Notes	
Comprehensive income under Canadian GAAP		\$ 277,030
Adjustments:		
Net income	b, c, d, f	(2,149)
Employee future benefits	b, c	868
Other adjustments	d	(2,820)
		<u>(4,101)</u>
Comprehensive income under U.S. GAAP		\$ 272,929
Comprehensive income under U.S. GAAP attributable to:		
Partners		\$ 275,019
Non-controlling interests		(2,090)
		<u>\$ 272,929</u>

RECONCILIATION OF THE DEFICIT AND ACCUMULATED OTHER COMPREHENSIVE INCOME

	Notes	October 1, 2014	September 30, 2015
Deficit under Canadian GAAP		\$ (25,792)	\$ (15,968)
Adjustments:			
Employee future benefits	b, c	(71,785)	(80,436)
Other adjustments	c, d, e	(14,351)	(9,136)
		<u>(86,136)</u>	<u>(89,572)</u>
Deficit under U.S. GAAP		\$ (111,928)	\$ (105,540)

	Notes	October 1, 2014	September 30, 2015
Accumulated other comprehensive (loss) income under Canadian GAAP		\$ (29,406)	\$ 64,663
Adjustments:			
Employee future benefits	b, c	(44,355)	(43,481)
Other adjustments	d, e	10,678	9,772
		<u>(33,677)</u>	<u>(33,709)</u>
Accumulated other comprehensive (loss) income under U.S. GAAP		\$ (63,083)	\$ 30,954

RECONCILIATION OF CONSOLIDATED BALANCE SHEETS

October 1, 2014	Notes	Canadian GAAP	Adjustments	U.S. GAAP
ASSETS				
Current assets				
Cash and cash equivalents	a	\$ 103,657	\$ (19,472)	\$ 84,185
Restricted cash equivalents	a, f	27,175	(10,721)	16,454
Trade and other receivables	a	211,865	(18,943)	192,922
Regulatory assets	f	-	131,549	131,549
Income taxes receivable		3,206	-	3,206
Inventories	a	114,905	(754)	114,151
Prepaid expenses	a	14,987	(884)	14,103
Deferred income taxes	f	37,053	(37,053)	-
Derivative financial instruments		1,057	-	1,057
Total current assets		<u>513,905</u>	<u>43,722</u>	<u>557,627</u>
Noncurrent assets				
Property, plant and equipment	a	3,968,315	(719,480)	3,248,835
Restricted cash and cash equivalents	a, f	18,373	15,080	33,453
Intangible assets		83,736	-	83,736
Regulatory assets	a, b, c, f	394,804	(49,867)	344,937
Investments	a, b	736,755	266,870	1,003,625
Goodwill	a	348,969	(8,472)	340,497
Deferred income taxes	f	4,676	(251)	4,425
Derivative financial instruments		86	-	86
Other noncurrent assets	a, b	74,595	(53,209)	21,386
Total noncurrent assets		<u>5,630,309</u>	<u>(549,329)</u>	<u>5,080,980</u>
TOTAL ASSETS		<u>\$ 6,144,214</u>	<u>\$ (505,607)</u>	<u>\$ 5,638,607</u>
LIABILITIES				
Current liabilities				
Bank overdraft		\$ 5,422	\$ -	\$ 5,422
Accounts payable and accrued liabilities	a	341,073	(33,174)	307,899
Regulatory liabilities	f	-	58,970	58,970
Income taxes payable		199	-	199
Distributions payable		42,503	-	42,503
Derivative financial instruments		11,882	-	11,882
Current portion of long-term debt	a	27,016	(16,201)	10,815
Total current liabilities		<u>428,095</u>	<u>9,595</u>	<u>437,690</u>
Noncurrent liabilities				
Long-term debt	a	3,140,762	(450,048)	2,690,714
Regulatory liabilities	f	304,801	(58,970)	245,831
Deferred income taxes	f	416,041	(37,304)	378,737
Derivative financial instruments	a	12,691	(12,348)	343
Other noncurrent liabilities	a, b, c	359,470	163,281	522,751
Total noncurrent liabilities		<u>4,233,765</u>	<u>(395,389)</u>	<u>3,838,376</u>
TOTAL LIABILITIES		<u>4,661,860</u>	<u>(385,794)</u>	<u>4,276,066</u>
EQUITY				
Capital		1,496,825	-	1,496,825
Deficit	b, c, d	(25,792)	(86,136)	(111,928)
Accumulated other comprehensive loss	b, c, d	(29,406)	(33,677)	(63,083)
		<u>1,441,627</u>	<u>(119,813)</u>	<u>1,321,814</u>
Non-controlling interests		40,727	-	40,727
TOTAL EQUITY		<u>1,482,354</u>	<u>(119,813)</u>	<u>1,362,541</u>
TOTAL LIABILITIES AND EQUITY		<u>\$ 6,144,214</u>	<u>\$ (505,607)</u>	<u>\$ 5,638,607</u>

September 30, 2015	Notes	Canadian GAAP	Adjustments	U.S. GAAP
ASSETS				
Current assets				
Cash and cash equivalents	a	\$ 87,437	\$ (16,304)	\$ 71,133
Restricted cash equivalents	f	-	26,497	26,497
Trade and other receivables	a	222,678	(18,123)	204,555
Regulatory assets	f	-	115,249	115,249
Income taxes receivable		3,889	-	3,889
Inventories	a	117,692	(785)	116,907
Prepaid expenses	a	16,621	(944)	15,677
Deferred income taxes	f	52,136	(52,136)	-
Derivative financial instruments		2	-	2
Total current assets		<u>500,455</u>	<u>53,454</u>	<u>553,909</u>
Noncurrent assets				
Property, plant and equipment	a, e	4,439,737	(699,359)	3,740,378
Restricted cash and cash equivalents	a, f	28,100	8,064	36,164
Intangible assets		390,927	-	390,927
Regulatory assets	a, b, c, f	407,455	94,877	502,332
Investments	a, b	948,134	230,410	1,178,544
Goodwill	a	414,128	(8,472)	405,656
Deferred income taxes	f	2,636	(1,047)	1,589
Derivative financial instruments		16,220	-	16,220
Other noncurrent assets	a, b	70,246	(66,540)	3,706
Total noncurrent assets		<u>6,717,583</u>	<u>(442,067)</u>	<u>6,275,516</u>
TOTAL ASSETS		<u>\$ 7,218,038</u>	<u>\$ (388,613)</u>	<u>\$ 6,829,425</u>
LIABILITIES				
Current liabilities				
Bank overdraft		\$ 6,421	\$ -	\$ 6,421
Bank loans		28,972	-	28,972
Accounts payable and accrued liabilities	a	355,547	(12,270)	343,277
Regulatory liabilities	f	-	87,894	87,894
Income taxes payable		164	-	164
Distributions payable		44,794	-	44,794
Deferred income taxes	f	1,823	(1,823)	-
Derivative financial instruments		5,198	-	5,198
Current portion of long-term debt	a	33,310	(23,518)	9,792
Total current liabilities		<u>476,229</u>	<u>50,283</u>	<u>526,512</u>
Noncurrent liabilities				
Long-term debt	a	3,530,986	(429,625)	3,101,361
Regulatory liabilities	a, f	375,906	10,354	386,260
Deferred income taxes	f	538,337	(51,359)	486,978
Derivative financial instruments	a	32,219	(27,390)	4,829
Other noncurrent liabilities	a, b, c, e	434,753	160,496	595,249
Total noncurrent liabilities		<u>4,912,201</u>	<u>(337,524)</u>	<u>4,574,677</u>
TOTAL LIABILITIES		<u>5,388,430</u>	<u>(287,241)</u>	<u>5,101,189</u>
EQUITY				
Capital		1,751,825	-	1,751,825
Deficit	b, c, d, e	(15,968)	(89,572)	(105,540)
Accumulated other comprehensive income (loss)	b, c, d, e	64,663	(33,709)	30,954
		<u>1,800,520</u>	<u>(123,281)</u>	<u>1,677,239</u>
Non-controlling interests	e	29,088	21,909	50,997
TOTAL EQUITY		<u>1,829,608</u>	<u>(101,372)</u>	<u>1,728,236</u>
TOTAL LIABILITIES AND EQUITY		<u>\$ 7,218,038</u>	<u>\$ (388,613)</u>	<u>\$ 6,829,425</u>

ADJUSTMENTS

a) Joint ventures

Under Canadian GAAP, interests in joint ventures were recognized using the proportionate consolidation method. Under U.S. GAAP, these interests must be recognized using the equity method. The adjustment as at October 1, 2014 and as at September 30, 2015 consists of reclassifying the assets and liabilities of joint ventures to investments and reclassifying the revenues and expenses of joint ventures to shares in earnings of equity-accounted interests.

b) Employee future benefits

Unamortized balances

Under Canadian GAAP, unamortized actuarial gains and losses and unamortized past service costs were not recognized in the projected benefit asset or liability. Information about these amounts were presented only in the notes to the annual consolidated financial statements.

Under U.S. GAAP, unamortized actuarial gains and losses and unamortized past service costs are fully recognized in the projected benefit liability with offsetting adjustments to the following items: (i) RAL for the DBP plans related to rate-regulated activities and (ii) accumulated other comprehensive income for the DBP plans not related to rate-regulated activities and the PRB plans.

Measurement date

Under Canadian GAAP, the measurement date of plan assets and of the projected benefit obligation must correspond to the date of the annual financial statements or to a date not more than three months before the date of the annual financial statements, provided that this method be adopted consistently from year to year.

Under U.S. GAAP, the measurement date must be the same as the date of the annual financial statements. The measurement date that had been used for certain Gaz Métro plans was June 30 of each year, i.e., three months before the year-end date. As such, under U.S. GAAP, and as of October 1, 2015, Gaz Métro has been using September 30 as the measurement date for all plans, with restatement of the opening balance sheet as at October 1, 2014 and the 2015 comparative year. The impact of revaluing the consolidated balance sheets as at October 1, 2014 and September 30, 2015 was recognized as follows: (i) RAL for the pension plans related to rate-regulated activities and (ii) accumulated other comprehensive income and deficit for the pension plans not related to rate-regulated activities and the PRB plans.

c) Regulatory assets and liabilities

Rate stabilization account

Under Canadian GAAP, Gaz Métro-QDA's rate stabilization accounts related to temperature and wind velocity were recognized and amortized over a five-year period, as approved by the Régie, as of the second fiscal year following initial recognition.

For recognition purposes, RAL arising from alternative revenue programs, as defined under U.S. GAAP, must be recovered through rates within 24 months following fiscal year-end. Consequently, the portion of these RAL that is recoverable beyond 24 months cannot be recognized under U.S. GAAP. In December 2015, the Régie agreed to Gaz Métro's request to amortize these RAL over two years as of the fiscal year following initial recognition, i.e., prospectively as of October 1, 2016. Therefore, on the opening balance sheet as at October 1, 2014, a portion of the rate stabilization accounts related to temperature and wind velocity was written off, with an offsetting adjustment to the deficit. During fiscal 2015, this amount was re-recognized and Gaz Métro-QDA's fiscal 2015 net income was adjusted accordingly given that the recognition criteria had been met.

PRB plans

Under Canadian GAAP, the cost of Gaz Métro's PRB plans was recognized in the consolidated statement of income using a Régie-authorized regulatory treatment, i.e., the disbursement method. The differences between the disbursement method cost and the cost determined using the actuarial method were recognized as RAL.

Under U.S. GAAP, given that the disbursement method was being used for rate-setting purposes, the differences between the cost of the PRB plans determined using the actuarial method and the cost determined using the disbursement method could not be recognized as RAL. Therefore, the RAL related to those differences and those related to the unamortized balances of actuarial gains and losses and of the past service costs of the PRB plans were written off on the opening consolidated balance sheet as at October 1, 2014 and on the consolidated balance sheet as at September 30, 2015. As offsetting entries to these write-offs, adjustments were made to deficit and accumulated other comprehensive income

(loss) on the October 1, 2014 and September 30, 2015 consolidated balance sheets as well as to the fiscal 2015 consolidated statement of income and other comprehensive income.

In December 2015, the Régie agreed to change the regulatory treatment applicable to Gaz Métro's DBP plans and PRB plans such that the actuarial method (including the related RAL) could be used for rate-setting purposes as of October 1, 2016. As such, given this new regulatory treatment, Gaz Métro recognized RAL related to the PRB plans totalling \$115,804 on the consolidated balance sheet as at December 31, 2015, with an offsetting amount of \$79,287 recognized in the consolidated statement of income and an amount of \$36,563 in other comprehensive income.

d) Hedging relationship

Under Canadian GAAP, hedge accounting was applied to a cash flow hedging relationship related to the interest rate risk on a portion of the debt of a joint venture accounted for using the proportionate consolidation method. Because this method is not permitted under U.S. GAAP, these interests have been recognized using the equity method since October 1, 2015. Under U.S. GAAP, hedge accounting cannot be applied to risks related to items belonging to equity-accounted companies.

Consequently, the residual balance of losses arising from a joint venture's hedging relationship, included in accumulated other comprehensive income, was reclassified to the deficit on the consolidated balance sheets as at October 1, 2014 and as at September 30, 2015, and the fiscal 2015 consolidated statements of income and comprehensive income (loss) were restated to exclude the amortization of such losses.

e) Investissement Québec's economic interest in Gaz Métro LNG

Under Canadian GAAP, Gaz Métro applied the acquisition method, under which the minority interest had been recognized as though the sell option had already been exercised by the non-controlling partner (Investissement Québec) and the units already acquired by Gaz Métro. Consequently, rather than presenting Investissement Québec's interest in Gaz Métro LNG as a non-controlling interest, a financial liability was recorded at the present value of the redemption price of the sell option, and its remeasurement was recorded in financial expenses.

Under U.S. GAAP, as of October 1, 2015, with restatement of the consolidated balance sheet as at September 30, 2015, Gaz Métro elected to present Investissement Québec's interest in Gaz Métro LNG as a non-controlling interest. As such, Investissement Québec's interest in Gaz Métro LNG included on the balance sheet as at September 30, 2015 was adjusted to exclude the impact of remeasuring the present value of the redemption price of the sell option and was reclassified from other noncurrent liabilities to non-controlling interests.

f) Other adjustments

Under Canadian GAAP, Gaz Métro used a method whereby it presented changes in RAL in the operating and investing activities of the consolidated statement of cash flows, depending on their nature. Under U.S. GAAP, as of October 1, 2015, Gaz Métro has been using a method whereby all changes in RAL are presented in the operating activities of the consolidated statement of cash flows, regardless of their nature. The consolidated statement of cash flows for fiscal 2015 has been restated accordingly.

Under Canadian GAAP, Gaz Métro used a method whereby the quarterly amortization of RAL was determined on a straight-line basis. Under U.S. GAAP, as of October 1, 2015, Gaz Métro has been using a method whereby the quarterly amortization of RAL is recognized as they are recovered through rates, i.e., according to customer consumption. This change led to a change in the quarterly net income results of fiscal 2015 but had no impact on the annual net income for fiscal 2015 nor on the consolidated balance sheets as at October 1, 2014 and as at September 30, 2015.

Under Canadian GAAP, RAL were reported in noncurrent assets and liabilities. Under U.S. GAAP, the RAL that are to be amortized through rates within the next 12 months are presented as current on the consolidated balance sheet as of October 1, 2015 with restatement on the consolidated balance sheets as at October 1, 2014 and September 30, 2015. A portion of restricted cash equivalents was also reclassified to conform to the presentation of the regulatory liability to which it relates.

As described in Note 4, Gaz Métro early adopted the new standard on deferred income taxes retrospectively. Consequently, the deferred income taxes that were previously presented as current under Canadian GAAP were reclassified as noncurrent on the consolidated balance sheets as at October 1, 2014 and as at September 30, 2015.

27. SUBSEQUENT EVENTS

These consolidated financial statements and the accompanying notes reflect the Partnership's evaluation of events occurring between the balance sheet date and November 23, 2016, the issuance date of these consolidated financial statements.

DECLARATION OF A DISTRIBUTION

On November 23, 2016, the board of directors of GMi, acting in its capacity as General Partner of Gaz Métro, declared a quarterly distribution of \$48,503, payable on January 4, 2017 to its Partners.

GMI'S PRIVATE PLACEMENT

On October 6, 2016, GMi extended a \$125,000 loan to Gaz Métro; it bears interest at an annual rate of 3.28% and matures on October 9, 2046. The proceeds of the loan were used to repay existing debts and for general business purposes of the Partnership.

NNEEC'S CREDIT FACILITY

On October 12, 2016, NNEEC entered into a US\$40,000 credit agreement, which will mature on September 30, 2017.

28. COMPARATIVE INFORMATION

In addition to the changes presented in Note 26, certain prior year comparative figures have been reclassified to conform to the current year's presentation.

