

2018
Annual
Report

Partnering



HIGHLIGHTS

| VALENER INC. | | Fiscal years ended September 30 | |
|--|--|---------------------------------|--------------------|
| (in millions of dollars, except for share data, which is in dollars, and unless otherwise indicated) | | 2018 | 2017 |
| CONSOLIDATED INCOME AND CASH FLOWS | | | |
| Net income attributable to common shareholders | | 46.4 | 53.1 |
| Per common share ⁽¹⁾ | | 1.19 | 1.37 |
| Adjusted net income attributable to common shareholders ⁽²⁾ | | 54.1 | 53.0 |
| Per common share ^{(1) (2)} | | 1.39 | 1.37 |
| Cash flows related to operating activities | | 62.2 | 60.3 |
| Normalized operating cash flows ⁽²⁾ | | 57.6 | 56.0 |
| Per common share ⁽²⁾ | | 1.48 | 1.44 |
| Dividends declared per common share | | 1.16 | 1.13 |
| Basic and diluted weighted average number of common shares outstanding (in millions) | | 39.0 | 38.8 |
| OTHER INFORMATION | | | |
| Market prices of the common shares on the TSX: | | | |
| High | | 23.28 | 23.23 |
| Low | | 19.00 | 18.76 |
| Close | | 19.09 | 22.06 |
| CONSOLIDATED BALANCE SHEETS | | | |
| | | September 30, 2018 | September 30, 2017 |
| Total assets | | 928.0 | 913.9 |
| Total debt | | 85.9 | 103.8 |
| Total equity | | 778.0 | 757.0 |
| ÉNERGIR, L.P. | | | |
| (in millions of dollars, except for unit data, which is in dollars, and unless otherwise indicated) | | Fiscal years ended September 30 | |
| | | 2018 | 2017 |
| CONSOLIDATED INCOME AND CASH FLOWS | | | |
| Revenues | | 2,553.7 | 2,526.6 |
| Gross margin | | 1,021.9 | 998.1 |
| Net income attributable to Partners | | 215.9 | 240.8 |
| Per unit ⁽³⁾ | | 1.26 | 1.42 |
| Adjusted net income attributable to Partners ⁽²⁾ | | 234.6 | 228.3 |
| Per unit ^{(2) (3)} | | 1.37 | 1.35 |
| Cash flows related to operating activities | | 625.1 | 559.8 |
| Purchases of property, plant and equipment | | 400.8 | 503.4 |
| Funds from operations / debt ratio ⁽²⁾ (in %) | | 17.9 | 16.0 |
| Distributions declared per unit | | 1.20 | 1.17 |
| Basic and diluted weighted average number of units outstanding (in millions) | | 171.8 | 169.5 |
| OTHER INFORMATION | | | |
| Credit ratings | | | |
| Corporate (S&P) ⁽⁴⁾ | | A | A |
| First mortgage bonds (S&P/DBRS) ⁽⁴⁾ | | A+/A | A+/A |
| Commercial paper (S&P/DBRS) ⁽⁴⁾ | | A-1(mid)/R-1(low) | A-1(mid)/R-1(low) |
| CONSOLIDATED BALANCE SHEETS | | | |
| | | September 30, 2018 | September 30, 2017 |
| Total assets | | 7,739.5 | 7,528.1 |
| Total debt ⁽⁵⁾ | | 3,653.6 | 3,520.2 |
| Equity attributable to Partners | | 1,935.1 | 1,892.8 |
| Per unit | | 11.26 | 11.02 |

⁽¹⁾ Basic and diluted per common share.

⁽²⁾ These financial measures are not defined by GAAP. For additional information, refer to section A) OVERVIEW OF VALENER AND OTHER for Valener and section L) OVERVIEW OF ÉNERGIR, L.P. AND OTHER for Énergir, L.P.

⁽³⁾ Basic and diluted per unit attributable to Partners.

⁽⁴⁾ Through its General Partner, Énergir Inc.

⁽⁵⁾ Énergir, L.P.'s total debt is the sum of bank loans, long-term debt, and the current portion of long-term debt.

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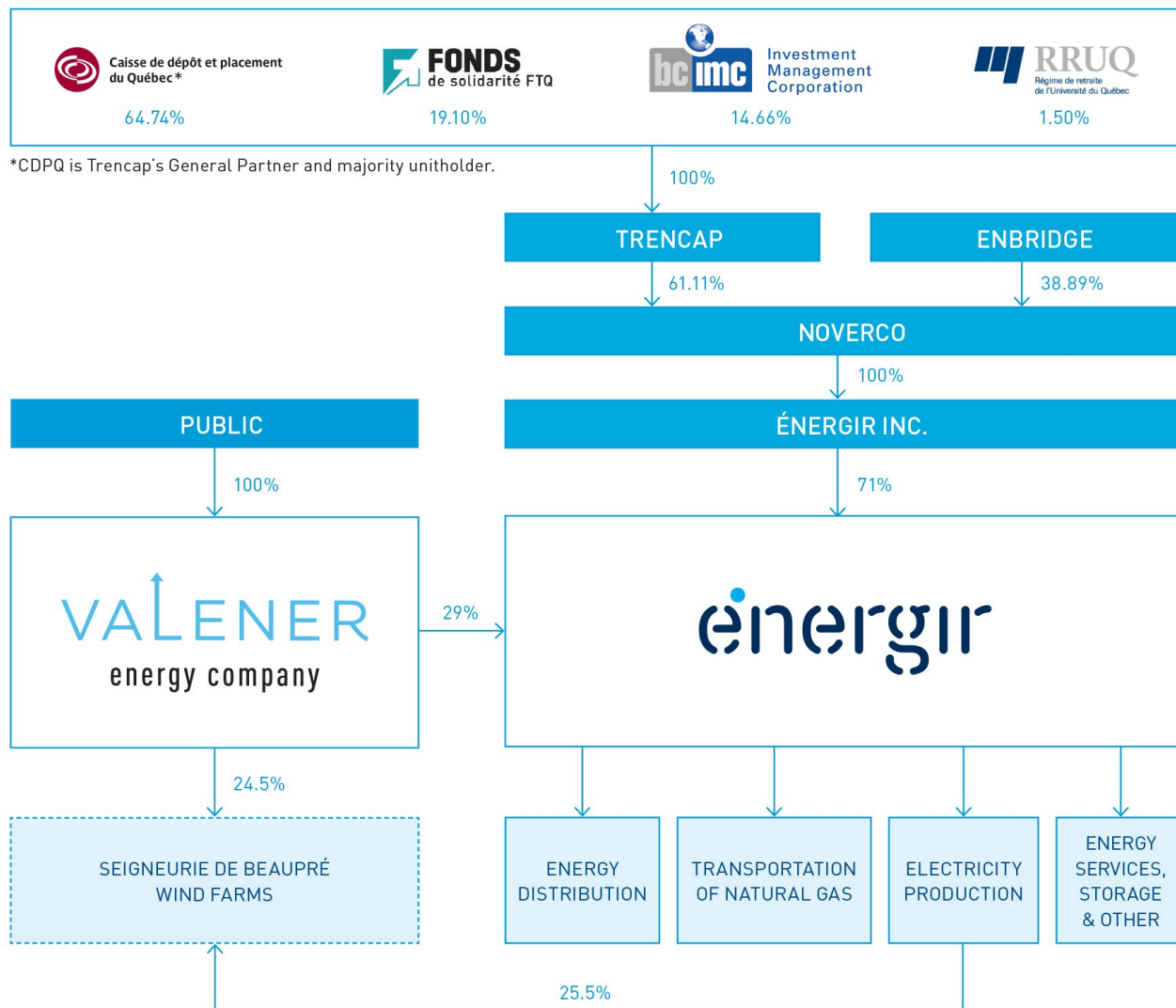
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MANAGEMENT'S DISCUSSION AND ANALYSIS

VALENER INC. AND ÉNERGIR, L.P.

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 Énergir, L.P., whose core business operations are natural gas distribution in Quebec and Vermont as well as electricity distribution in Vermont. Valener also owns indirect interests in wind farms through its wholly owned subsidiaries ⁽¹⁾ Valener Éole and Valener Éole 4. These subsidiaries respectively own an interest of 49% in Beupré Éole and in Beupré Éole 4, which, respectively, own a 50% interest 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 Énergir, L.P. as at September 30, 2018.



The financial statements of Valener Éole and Valener Éole 4 are consolidated in the financial statements of Valener. Valener recognizes its other investments using the equity method and therefore does not consolidate the financial results of Énergir, L.P., Beupré Éole, and Beupré Éole 4. To help Valener's shareholders better understand the results of its operations, the audited consolidated financial statements of Valener and those of Énergir, L.P. are presented. This Management's Discussion and Analysis ("MD&A") reports on the developments that have had significant impacts on the financial performance of Valener and Énergir, L.P. for the fiscal year ended September 30, 2018. This MD&A should be read in conjunction with the audited consolidated financial statements of both Valener and Énergir, L.P. for the fiscal years ended September 30, 2018 and 2017. The reporting currency is the Canadian dollar. All amounts in this report are in millions of Canadian dollars, unless otherwise indicated. Variances may exist as numbers have been rounded. "Énergir, L.P." refers to the consolidated activities, whereas "QDA" refers specifically to Énergir, L.P. for its natural gas distribution activity in Quebec.

⁽¹⁾ The terms subsidiary, entity subject to significant influence, and joint venture are used within the meaning defined by GAAP.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

To help investors better understand the future outlook of Valener and Énergir, L.P. 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 Valener or Énergir, L.P. 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 Valener or Énergir, L.P. 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 Valener or Énergir, L.P. 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, marine, and industrial markets, (ii) growth or profitability outlooks, (iii) decisions made by regulatory agencies 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 the implementation thereof as well as Énergir, L.P.'s positioning in relation to that policy, (vi) the U.S. tax reform of December 2017, commonly referred to as the *Tax Cuts and Jobs Act* ("U.S. tax reform") (vii) anticipated distribution payments by the SDB Wind Farms, (viii) the distribution of biomethane in Énergir, L.P. networks, (ix) the liquidity position and financing capability of Valener and Énergir, L.P., (x) potential efficiency gains and synergies from the GMP-CVPS merger, (xi) system development projects and new energy development projects, and (xii) Énergir, L.P.'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 Valener or of Énergir, L.P. 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 Énergir, L.P. 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 the implementation of 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 transportation and distribution systems, the evolution and profitability of the SDB Wind Farms 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, the uncertainty related to the U.S. tax reform, weather conditions and other factors described in section E) RISK FACTORS RELATING TO VALENER and in section R) RISK FACTORS RELATING TO ÉNERGIR, L.P. of Valener's MD&A for the fiscal year ended September 30, 2018. Although the forward-looking statements contained in this MD&A 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 United 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 any other type of calamity, a major service interruption, or a threat to cybersecurity (or cyberattack); that Énergir, L.P. can continue to distribute substantially all of its adjusted net income; that the SDB Wind Farms 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 Valener and Énergir, L.P. will be able to present their information in accordance with GAAP beyond 2023 or, after 2023, will adopt IFRS that permit the recognition of regulatory assets and liabilities; that liquidity needs for Énergir, L.P.'s development projects will be obtained through a combination of operating cash flows, borrowings on credit facilities, capital injections from Partners, and issuances of debt securities; and that the subsidiaries will obtain the required authorizations and funds needed to finance their development projects; in addition to the other assumptions described in this MD&A. These forward-looking statements are made as of the date of this MD&A, and the management of the manager assumes no obligation to update or revise them to reflect new events or circumstances, except as required under applicable securities laws. These statements do not reflect the potential impact of any unusual item or any business combination or other transaction that may be announced or that may occur after the date hereof. All forward-looking statements in this MD&A are qualified by these cautionary statements. Readers are cautioned to not place undue reliance on these forward-looking statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

In accordance with *Regulation 52-109 respecting Certification of Disclosure in Issuers' Annual and Interim Filings* issued by the Canadian Securities Administrators, the design and operating effectiveness of Valener's disclosure controls and procedures ("DC&P") and its internal control over financial reporting ("ICFR"), as defined in the applicable Canadian securities legislation, have been evaluated. Based on this evaluation, and in accordance with the internal control framework criteria issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 COSO Framework), the President and Chief Executive Officer and the Senior Vice-President, Regulatory Affairs, IT, Logistics and Chief Financial Officer of Énergir Inc., in its capacity as a General Partner of Énergir, L.P., acting as manager of Valener, have concluded that the DC&P and ICFR were suitably designed and operating effectively as at September 30, 2018. Any internal control system, regardless of the quality of its design, has intrinsic limitations. Consequently, even systems recognized as effective can provide only reasonable assurance as to the preparation and presentation of financial information.

There were no changes to the internal controls that materially affected or are reasonably likely to materially affect Valener's ICFR during fiscal 2018.

VALENER INC.

A) OVERVIEW OF VALENER AND OTHER

STRATEGY

Valener's mission is to ensure the sound management of its investment in Énergir, L.P., 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 Valener'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.

CORPORATE SOCIAL RESPONSIBILITY

In addition to supporting Énergir, L.P.'s growth, Valener also shares Énergir, L.P.'s philosophy and ambitions to be a good corporate citizen and encourages and fully supports it in achieving sustainability objectives. For additional information on Énergir, L.P.'s sustainability priorities and highlights of its fiscal 2017 sustainability initiatives, refer to Heading 1. Energy Distribution Segment of section L) OVERVIEW OF ÉNERGIR, L.P. AND OTHER.

In November 2015, Valener adopted a board of director diversity and renewal policy. Given that Valener aligns itself with best governance practices, it seeks skilled and qualified candidates and is committed to promoting diversity among its board members. Valener's board of directors believes that having a broad range of candidates with diverse experience and different outlooks can only have a positive impact on the direction taken by the board. Valener strives for gender parity on its board, and it has determined that at least 40% of its directors must be women.

NON-GAAP FINANCIAL MEASURES

The financial information has been prepared in accordance with 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 GAAP and should not be considered in isolation or as substitutes for other financial measures that are in accordance with 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-GAAP financial measures are presented as complementary information. This section provides a description of each of these measures.

| NON-GAAP FINANCIAL MEASURES | |
|--|---|
| Adjusted net income (loss) attributable to common shareholders and per common share ⁽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 Énergir, L.P. 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 Énergir, L.P. (net of the related income taxes), and (iii) the deferred income tax expense (benefit) related to the outside-basis temporary difference on the interest in Énergir, L.P. The deferred income tax expense (benefit) related to the outside-basis temporary difference is the difference between the carrying value of the interest in Énergir, L.P. and the tax basis assuming a disposal of the investment on the balance sheet date. The management of the manager believes this assumption is not reflective of Valener's mission given the permanency of its investment in Énergir, L.P.</p> <p>The adjusted net income (loss) attributable to common shareholders per common share corresponds to the adjusted net income (loss) attributable to common shareholders divided by the basic and diluted weighted average number of common shares outstanding.</p> <p>These measures are used by the management of the manager to measure Valener's profitability from ongoing operations and to exclude items that could alter analyses of its business performance. Excluding these items does not mean that they are not recurring.</p> |
| Debt / total capitalization ratio ⁽²⁾ | <p>This ratio corresponds to 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 Énergir, L.P.'s development and seize future growth opportunities.</p> |

MANAGEMENT'S DISCUSSION AND ANALYSIS

| | |
|---|---|
| Normalized operating cash flows and normalized operating cash flows per common share ⁽²⁾ | <p>Normalized operating cash flows corresponds to cash flows related to operating activities less cumulative dividends paid to preferred shareholders.</p> <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.</p> <p>The management of the manager uses these measures to evaluate Valener's financial performance and ability to pay dividends to common shareholders.</p> |
| Distribution ratio ⁽²⁾ | This ratio shows dividends paid to common shareholders per common share divided by normalized operating cash flows per common share. The management of the manager uses it to measure the amount of cash generated by operations that is paid to common shareholders and to show that it is sufficient. |

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

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

The management of the manager considers these non-GAAP financial measures to be indicators of Valener's financial performance that can be used to measure and compare, among periods, the financial performance generated by its ongoing operations. 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 Énergir, L.P. and that had a positive or negative impact on the net income or net loss attributable to Valener's common shareholders, as defined by GAAP.

B) CONSOLIDATED ANNUAL FINANCIAL PERFORMANCE SUMMARY

1. HIGHLIGHTS

| | Fiscal years ended September 30 | | | | |
|--|---------------------------------|---------------------|---------------------|------------------------|------------------------|
| | 2018 | 2017 ⁽¹⁾ | 2016 ⁽¹⁾ | Change 2018 vs 2017 | Change 2017 vs 2016 |
| <u>Financial performance</u> | | | | | |
| Share in the earnings of Énergir, L.P. | 62.6 | 69.8 | 80.5 | (7.2) | (10.7) |
| Share in the earnings of the SDB Wind Farms | 5.5 | 3.2 | 2.5 | 2.3 | 0.7 |
| Net income attributable to common shareholders | 46.4 | 53.1 | 62.2 | (6.7) | (9.1) |
| Per common share (in \$) ⁽²⁾ | 1.19 | 1.37 | 1.61 | (0.18) | (0.24) |
| Adjusted net income attributable to common shareholders ⁽³⁾ | 54.1 | 53.0 | 49.9 | 1.1 | 3.1 |
| Per common share (in \$) ^{(2) (3)} | 1.39 | 1.37 | 1.30 | 0.02 | 0.07 |
| <u>Cash and capital management</u> | | | | | |
| Cash flows related to operating activities | 62.2 | 60.3 | 56.7 | 1.9 | 3.6 |
| Normalized operating cash flows ⁽³⁾ | 57.6 | 56.0 | 52.4 | 1.6 | 3.6 |
| Per common share (in \$) ^{(3) (4)} | 1.48 | 1.44 | 1.36 | 0.04 | 0.08 |
| Dividends declared per common share (in \$) | 1.16 | 1.13 | 1.08 | 0.03 | 0.05 |
| Dividends declared per preferred share (in \$) | 1.16 | 1.09 | 1.09 | 0.07 | — |
| Equity-accounted interests | 911.7 | 898.0 | 865.4 | 13.7 | 32.6 |
| Total assets | 928.0 | 913.9 | 881.3 | 14.1 | 32.6 |
| Total long-term debt | 85.9 | 103.8 | 85.2 | (17.9) | 18.6 |
| Debt / total capitalization ratio (in %) ⁽³⁾ | 9.9 | 12.1 | 10.3 | (2.2) | 1.8 |

⁽¹⁾ The fiscal 2017 and 2016 figures have been adjusted to reflect the presentation adopted for the current fiscal year.

⁽²⁾ Basic and diluted per common share.

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

⁽⁴⁾ The changes in normalized operating cash flows per common share are explained in section D) CASH AND CAPITAL MANAGEMENT.

MANAGEMENT'S DISCUSSION AND ANALYSIS

2. RECONCILIATION WITH GAAP-COMPLIANT MEASURES

| | Fiscal years ended September 30 | | |
|--|---------------------------------|-------|--------|
| | 2018 | 2017 | 2016 |
| Net income | 51.0 | 57.4 | 66.5 |
| (Losses) gain on derivative financial instruments ⁽¹⁾ | — | (0.8) | 4.6 |
| Income taxes on the gain on derivative financial instruments | — | 0.2 | (1.2) |
| Share in the adjustments to the net income of Énergir, L.P. ⁽²⁾ | 5.4 | (3.6) | (18.2) |
| Income taxes related to Énergir, L.P.'s net income adjustments | 0.2 | 0.7 | — |
| Deferred income taxes related to the outside-basis temporary difference on the interest in Énergir, L.P. | 2.1 | 3.4 | 2.5 |
| Cumulative dividends on Series A preferred shares | (4.6) | (4.3) | (4.3) |
| Adjusted net income attributable to common shareholders ⁽³⁾ | 54.1 | 53.0 | 49.9 |
| Basic and diluted weighted average number of common shares outstanding (in millions of common shares) | 39.0 | 38.8 | 38.5 |
| Adjusted net income attributable to common shareholders, per common share (in \$) ⁽³⁾ | 1.39 | 1.37 | 1.30 |

⁽¹⁾ Change in the fair value of swaps, as described in section G) FINANCIAL INSTRUMENTS of this MD&A.

⁽²⁾ Section N) CONSOLIDATED ANNUAL FINANCIAL PERFORMANCE SUMMARY of Énergir, L.P. provides information on Énergir, L.P.'s net income adjustments.

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

3. ANALYSIS OF RESULTS

3.1 ANALYSIS OF NET INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS

DECREASE IN NET INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS OF \$6.7M

INCREASE IN ADJUSTED NET INCOME ⁽¹⁾ ATTRIBUTABLE TO COMMON SHAREHOLDERS OF \$1.1M

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

COMPARISON BETWEEN FISCAL YEARS 2018 AND 2017

For fiscal 2018, net income attributable to common shareholders was down \$6.7 million year over year, mainly due to:

- a \$7.2 million decrease in the share in the earnings of Énergir, L.P., which includes the \$9.0 million unfavourable impact related to adjustments to the income of Énergir, L.P., as explained in section N) CONSOLIDATED ANNUAL FINANCIAL PERFORMANCE SUMMARY.
- an unfavourable impact of a \$0.8 million gain realized during fiscal 2017 on swaps settled in October 2016; and
- a \$0.6 million increase in the interest expense on the credit facility related to higher interest rates;

partly offset by:

- the impact of stronger wind conditions that favoured the electric power generation of the SDB Wind Farms.

COMPARISON BETWEEN FISCAL YEARS 2017 AND 2016

For fiscal 2017, net income attributable to common shareholders was down \$9.1 million year over year, mainly due to:

- a \$10.7 million decrease in the share in the earnings of Énergir, L.P., which includes a \$14.6 million unfavourable impact related to adjustments to the net income of Énergir, L.P., as explained in section N) CONSOLIDATED ANNUAL FINANCIAL PERFORMANCE SUMMARY; and
- a \$5.0 million increase in the income tax expense attributable mainly to the increase in the IBIT of limited partnerships taxable for Valener and the outside-basis temporary difference on the interest in Énergir, L.P.;

partly offset by:

- a favourable \$5.4 million impact resulting from a \$0.8 million gain realized during fiscal 2017 on swaps, whereas a \$4.6 million loss had been realized during fiscal 2016.

MANAGEMENT'S DISCUSSION AND ANALYSIS


3.2 PERFORMANCE ANALYSIS OF SDB WIND FARMS

Wind power is one of the cleanest forms of energy as it produces no air emissions. Given these 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.

To promote energies that reduce the environmental footprint, while also encouraging regional economic development, Valener and Énergir, L.P. invested in wind power production through the SDB Wind Farms.

| | | |
|--|--|--|
| 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 OF INSTALLED CAPACITY | | 28 TURBINES 68 MW OF INSTALLED CAPACITY |

The following table presents an overview of the performance of the SDB Wind Farms for fiscal years 2018 and 2017, regardless of the ownership percentages of the partners.

| | For the fiscal years ended September 30 | | |
|---|--|-----------|---------|
| | 2018 | 2017 | Change |
|  Actual output (in MWh) | 1,118,457 | 1,017,612 | 100,845 |
| Utilization factor (in %) ⁽¹⁾ | 37.6 | 34.2 | 3.4 |
| Average price (in \$/MWh) ⁽²⁾ | 108.84 | 108.34 | 0.50 |
| Cash flows related to operating activities (in millions of \$) | 71.6 | 62.6 | 9.0 |
| Total distributions paid (in millions of \$) | 39.3 | 33.7 | 5.6 |

⁽¹⁾ The utilization factor is actual output divided by installed capacity (in MWh).

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

For fiscal 2018, the year-over-year change in output was driven mainly by stronger wind conditions in fiscal 2018 despite a period of frost in Q2-2018. This increase in output also had a positive impact on cash flows related to operating activities, leading to an increase in distributions paid in fiscal 2018.

Valener expects that its proportionate share in the annual distributions from the SDB Wind Farms will average \$8 million for the remaining terms 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 Énergir, L.P. remain apprised of opportunities to invest in other wind power projects, particularly opportunities to further develop the wind power potential of Seigneurie de Beaupré.

MANAGEMENT'S DISCUSSION AND ANALYSIS

C) CONSOLIDATED FINANCIAL POSITION

| Balance sheet items | Increase | | | Explanation |
|--|----------|-------|------------|---|
| As at September 30 | 2018 | 2017 | (decrease) | |
| Equity-accounted interests | 911.7 | 898.0 | 13.7 | ▪ Net impact of the shares in earnings and distributions of Énergir, L.P. and SDB Wind Farms |
| Long-term debt | 85.9 | 103.8 | (17.9) | ▪ Valener's needs were more than covered by cash flows related to operating activities |
| Deferred income tax liability | 50.9 | 39.2 | 11.7 | ▪ Change in the temporary differences of Énergir, L.P. and Beaupré Éole ▪ Decrease in the deferred income tax assets of Valener Éole related to non-capital loss carryforwards |
| Share capital | 758.9 | 752.6 | 6.3 | ▪ Increase comes from the common shares issued under the DRIP |
| Accumulated other comprehensive income | 36.1 | 22.6 | 13.5 | ▪ Increase mainly attributable to the share in the other comprehensive income of Énergir, L.P. and Beaupré Éole |

D) CASH AND CAPITAL MANAGEMENT

CASH FLOW SUMMARY

| | Fiscal years ended September 30 | | |
|--|---------------------------------|--------|--------|
| | 2018 | 2017 | Change |
| Cash flows related to operating activities | a 62.2 | 60.3 | 1.9 |
| Cash flows related to investing activities | b (0.2) | (37.0) | 36.8 |
| Cash flows related to financing activities | c (61.5) | (23.8) | (37.7) |

a) Cash flows related to operating activities

For fiscal 2018, cash flows related to operating activities were up \$1.9 million year over year, mainly due to:

- increases of \$3.1 million in the distributions received from Énergir, L.P. (given Valener's subscription, in proportion to its economic interest, to Énergir, L.P. units on March 31, 2017) and an increase in Énergir, L.P.'s quarterly distribution from \$0.29 to \$0.30 per unit since Q1-2018; and
- a \$1.4 million increase in the distributions received from the SDB Wind Farms;

partly offset by:

- a \$2.1 million increase in income taxes paid due to a timing difference in the payment of taxes payable; and
- a \$0.6 million increase in interest paid given the higher interest rates on the credit facility.

b) Cash flows related to investing activities

For fiscal 2018, investing cash flows changed by \$36.8 million, as 1,318,291 Énergir, L.P. units were purchased for a \$29.0 million cash consideration in Q2-2017 and \$7.8 million was used to settle swaps in October 2016, as explained in section G) FINANCIAL INSTRUMENTS.

c) Cash flows related to financing activities

| | Fiscal years ended September 30 | | |
|---|---------------------------------|--------|--------|
| | 2018 | 2017 | Change |
| Net change in long-term debt ⁽¹⁾ | (18.0) | 18.4 | (36.4) |
| Dividends to common shareholders | (38.9) | (37.9) | (1.0) |
| Dividends to preferred shareholders | (4.6) | (4.3) | (0.3) |
| Total | (61.5) | (23.8) | (37.7) |

⁽¹⁾ The net change in long-term debt consists of the sum of long-term debt issuances and repayments.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Net change in long-term debt

The \$36.4 million change between fiscal years 2018 and 2017 was due to the fact that, during the year, cash flows related to operating activities were sufficient to cover cash dividend payments to common and preferred shareholders and the partial reimbursement of the credit facility, whereas in fiscal 2017, Valener had to finance the \$29.0 million capital contribution in Énergir, L.P. and the \$7.8 million settlement of swaps.

Dividends to common shareholders

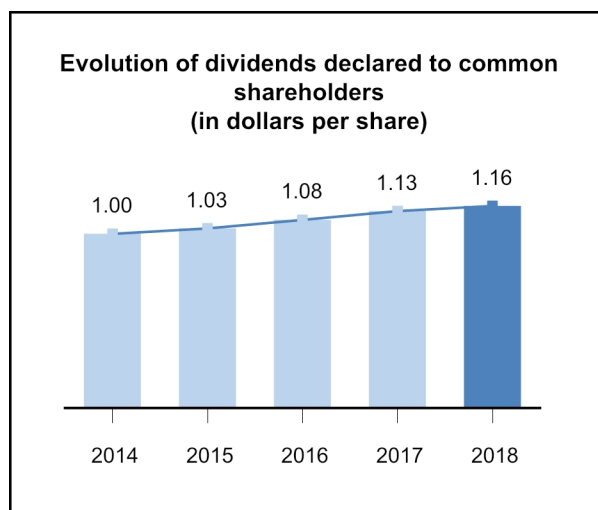
Cash dividends paid to common shareholders increased by \$1.0 million, mainly due to the growth in the dividend paid as of Q1-2018.

| Dividend payment date | Dividend declaration date | Dividend amount per common share (in \$) | Cash amount (in millions of \$) |
|-----------------------|---------------------------|--|---------------------------------|
| October 16, 2017 | August 8, 2017 | 0.29 | 9.8 |
| January 15, 2018 | November 24, 2017 | 0.29 | 9.7 |
| April 16, 2018 | February 8, 2018 | 0.29 | 9.7 |
| July 16, 2018 | May 9, 2018 | 0.29 | 9.7 |

In May 2017, the board of directors announced that the compound annual growth target of 4% on Valener's common share dividend would be extended to 2022. On November 22, 2018, the board of directors therefore approved raising the annualized dividend from \$1.16 to \$1.20 per common share and declared a quarterly dividend of \$0.30 per common share, payable on January 15, 2019 to common shareholders of record at the close of business on December 31, 2018.

INCREASE IN THE DIVIDEND TO COMMON SHAREHOLDERS FROM **\$0.29 TO \$0.30** AND **4% GROWTH TARGET MAINTAINED UNTIL 2022**

Supporting this compound annual growth target is the quality of Valener's underlying assets and their growing, predictable returns as well as Énergir, L.P.'s completion of innovative non-rate-related projects. By extending this growth target, Valener will have increased its annual dividend for eight consecutive years from fiscal 2015 to 2022.



MANAGEMENT'S DISCUSSION AND ANALYSIS

Dividends to preferred shareholders

| Dividend payment date | Dividend declaration date | Period covered | Dividend amount per Series A preferred share (in \$) | Cash amount (in millions of \$) |
|-----------------------|---------------------------|--------------------------------------|--|---------------------------------|
| October 16, 2017 | August 8, 2017 | July 18, 2017 to October 16, 2017 | 0.271875 | 1.1 |
| January 15, 2018 | November 24, 2017 | October 17, 2017 to January 15, 2018 | 0.288750 | 1.2 |
| April 16, 2018 | February 8, 2018 | January 16, 2018 to April 16, 2018 | 0.288750 | 1.2 |
| July 16, 2018 | May 9, 2018 | April 17, 2018 to July 16, 2018 | 0.288750 | 1.2 |

Share capital

As at September 30, 2018, Valener's share capital consisted of:

- 39,179,713 issued and outstanding common shares totalling \$661.4 million, including the 302,549 common shares issued for an amount of \$6.3 million under the DRIP since the beginning of fiscal 2018; and
- 4,000,000 issued and outstanding Series A preferred shares totalling \$97.5 million.

Preferred shares

Since October 15, 2017, the Series A preferred shares have been paying cumulative dividends of \$1.155 per share per annum, payable quarterly, i.e., a yield of 4.62% per annum for the period ending October 15, 2022. The Series A preferred shares were paying 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. On October 15, 2017, the dividend rate of return was reset and will be reset every five years thereafter at a rate equal to the five-year Government of Canada bond yield plus 2.81%.

According to the terms and conditions of the Series A preferred shares, Valener was able to redeem the Series A preferred shares on October 15, 2017 at a price of \$25.00 per share. As approved by its board of directors on August 8, 2017, Valener did not exercise its redemption option on October 15, 2017. Valener may redeem the Series A preferred shares on or after October 15, 2022 and on October 15 every five years thereafter at a price of \$25.00 per share in accordance with the share terms and conditions.

CAPITAL STRUCTURE AND DEBT RATIO

| | As at September 30 | | |
|---|--------------------|-------|-------|
| | 2018 | 2017 | 2016 |
| Long-term debt | 85.9 | 103.8 | 85.2 |
| Total equity ⁽¹⁾ | 778.0 | 757.0 | 744.2 |
| Total capitalization | 863.9 | 860.8 | 829.4 |
| Debt / total capitalization ratio (in %) ⁽²⁾ | 9.9 | 12.1 | 10.3 |

⁽¹⁾ For additional information on the composition of total equity, refer to the consolidated statements of changes in equity of Valener's audited consolidated financial statements for the fiscal years ended September 30, 2018 and 2017.

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

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

Credit facility and financing outlook

Valener has a credit facility with a maximum authorized amount of \$200.0 million that contains an annual extension clause. In April 2018, Valener extended the maturity of its credit facility to March 2023. This credit facility is secured by Valener's units in Énergir, L.P. 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, Valener is subject to restrictive covenants requiring it to satisfy certain financial ratios or conditions at all times. During fiscal 2018, 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, 2018 was \$113.2 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS

During fiscal 2019, Valener expects to generate the cash required to meet its general needs, which will consist mainly of quarterly dividend payments to common and preferred shareholders.

However, should Valener require additional cash, 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 the fiscal years is subject to volatility that is likely to be greater given, among other factors:

- the amount of distributions received from Énergir, L.P., Beaupré Éole, and Beaupré Éole 4; and
- the amount of investment required in its equity interests, particularly the capital required for growth initiatives.

Valener 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 amount available in its credit facility such that it may respond to any eventuality.

Credit ratings

Valener's Series A preferred shares are rated by DBRS, and their credit rating was confirmed at Pfd-2 (low) in April 2018.

NORMALIZED OPERATING CASH FLOWS PER COMMON SHARE

| | Fiscal years ended September 30 | | |
|---|---------------------------------|-------|-------|
| | 2018 | 2017 | 2016 |
| Cash flows related to operating activities | 62.2 | 60.3 | 56.7 |
| Dividends to preferred shareholders | (4.6) | (4.3) | (4.3) |
| Normalized operating cash flows ⁽¹⁾ | 57.6 | 56.0 | 52.4 |
| Weighted average number of common shares outstanding | 39.0 | 38.8 | 38.5 |
| Normalized operating cash flows per common share (in \$) ⁽¹⁾ | 1.48 | 1.44 | 1.36 |

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

Year over year, the fiscal 2018 normalized operating cash flows were up \$1.6 million, mainly due to the above-mentioned increase in cash flows related to operating activities. Normalized operating cash flows were sufficient to cover the dividend payments to common shareholders.

DISTRIBUTION RATIO

| | Fiscal years ended September 30 | | |
|---|---------------------------------|------|------|
| | 2018 | 2017 | 2016 |
| Dividends paid per common share (in \$) | 1.16 | 1.11 | 1.07 |
| Normalized operating cash flows per common share (in \$) ⁽¹⁾ | 1.48 | 1.44 | 1.36 |
| Distribution ratio (in %) ⁽¹⁾ | 78.4 | 77.1 | 78.7 |

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

The 1.3% increase in the distribution ratio between fiscal years 2018 and 2017 stems mainly from an increase in dividends paid, as previously explained.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CONTRACTUAL OBLIGATIONS

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

| | 2019 | 2020 | 2021 | 2022 | 2023 | Subsequent years | Total |
|--|-------------|------------|------------|------------|-------------|---------------------|--------------|
| Financial liabilities | | | | | | | |
| Accounts payable and accrued liabilities | 0.2 | — | — | — | — | — | 0.2 |
| Dividends payable to common shareholders | 11.4 | — | — | — | — | — | 11.4 |
| Dividends payable to preferred shareholders | 1.2 | — | — | — | — | — | 1.2 |
| Long-term debt | — | — | — | — | 85.9 | — | 85.9 |
| Interest related to financial liabilities ⁽¹⁾ | 4.1 | 3.9 | 3.9 | 3.8 | 1.6 | — | 17.3 |
| Total contractual obligations | 16.9 | 3.9 | 3.9 | 3.8 | 87.5 | — | 116.0 |

⁽¹⁾ Interest is presented based on contractual maturity using the rates in effect as at September 30, 2018 and taking swaps into consideration.

E) RISK FACTORS RELATING TO VALENER

This section should be read in conjunction with the corresponding section covering the risk factors relating to Énergir, L.P., which are described in section R) RISK FACTORS RELATING TO ÉNERGIR, L.P.

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 ÉNERGIR, L.P. AND MINORITY INTEREST

As long as Valener's interest in Énergir, L.P. remains its most significant investment, Valener's results will depend on Énergir, L.P.'s profitability, which is mainly tied to Énergir, L.P.'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 Énergir, L.P., with only 29% of its capital units, Valener does not control Énergir, L.P.'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 Énergir, L.P., (ii) the distributions that Valener receives indirectly from the SDB Wind Farms, (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,

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The market price of the common shares could decline substantially if Valener were unable to reach the dividend growth target for its common shares 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 Énergir, L.P., within the limits of the Non-Competition Agreement, as described in section 1) ADDITIONAL INFORMATION, and within the applicable limits of its credit facility.

PERFORMANCE OF THE SDB WIND FARMS

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

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 Énergir, L.P. 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 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 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.

Liquidity management

To meet its financial needs, Valener particularly relies on the distributions received from Énergir, L.P. and indirectly from the SDB Wind Farms. 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 cash

MANAGEMENT'S DISCUSSION AND ANALYSIS

and a sufficient credit facility 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 against an inability of Valener to access capital markets at acceptable conditions and appropriate financing costs or against a significant increase in its financing cost by reason, for example, of a significant deterioration in the economic environment, the general state of financial markets, or a negative financial market perception of its financial position or outlook.

Interest rate fluctuations

Valener is exposed, in part, 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 to fix a portion of its floating rate debt, 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.

Énergir, L.P. is the main counterparty to the financial instruments reported in assets on the consolidated balance sheet.

F) ACCOUNTING CHANGES

RECENTLY ADOPTED STANDARD

On July 1, 2018, Valener early adopted, on a modified retrospective basis, ASU 2017-12 *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*. The new guidance aims to simplify hedge accounting and improve the financial reporting of hedging relationships in order to better portray the economic results of an entity's risk management activities in its financial statements. Adoption of this new guidance did not have a significant impact on Valener's consolidated financial statements.

STANDARDS ISSUED BUT NOT YET IN EFFECT

Several standards issued but not yet in effect are being assessed to determine their impacts on the financial statements and potential other impacts. For information on the status of these assessments, refer to Note 3 of Valener's audited consolidated financial statements for the fiscal years ended September 30, 2018 and 2017.

G) FINANCIAL INSTRUMENTS

A portion of Valener's consolidated balance sheet contains financial instruments. Valener's financial assets include cash, the amount receivable from Énergir, L.P., and the distributions receivable from Énergir, L.P. The financial liabilities include accounts payable and accrued liabilities, dividends payable to common and preferred shareholders, and long-term debt. Information on the accounting treatment of financial instruments is presented in Note 11 to Valener's audited consolidated financial statements for the fiscal years ended September 30, 2018 and 2017. Financial instrument risk management is presented in Note 12.

FAIR VALUE OF FINANCIAL INSTRUMENTS

As at September 30, 2018, Valener classifies the financial instruments according to the fair value hierarchy presented in Note 2 to its audited consolidated financial statements. The estimated fair value of non-derivative financial instruments approximates their carrying amount given their short periods to maturity since 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 the fiscal years ended September 30, 2018 and 2017.

MANAGEMENT'S DISCUSSION AND ANALYSIS

DERIVATIVE FINANCIAL INSTRUMENTS

In September 2018, Valener entered into swaps for a total nominal value of \$61.0 million to cover the risk of interest rate fluctuations on its credit facility. Since these swaps meet the hedge accounting conditions, changes in fair value are recognized in other comprehensive income. The 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. As at September 30, 2018, the fair value of these swaps was nil and was calculated using discounted future cash flows.

In October 2016, Valener settled swaps in a total nominal value of \$44.8 million for an amount of \$7.8 million. A \$0.8 million gain from changes in the fair value of these instruments was recognized in the consolidated statement of income for fiscal 2017 since the conditions for applying hedge accounting had not been satisfied.

H) SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of Valener's consolidated financial statements in accordance with GAAP requires the management of the manager 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. Valener's significant accounting estimates are described below. It is important to note that Valener's results are also influenced by significant accounting estimates specific to Énergir, L.P. For more information on these significant accounting estimates, please refer to section U) SIGNIFICANT ACCOUNTING ESTIMATES in 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 since their income is taxable for their partners.

Valener 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 Valener 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 the management of the manager 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 the management of the manager considers that it is more likely than not that a portion or all of the deferred income tax assets will not be realized. Valener 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 the management of the manager to make an important judgment as to whether the deductible temporary differences are more likely than not to reverse based on future taxable income.

I) ADDITIONAL INFORMATION

SHARES ISSUED AND OUTSTANDING

As at November 20, 2018, the number of common shares and Series A preferred shares outstanding totalled 39,267,952 (including the 88,239 common shares issued on October 15, 2018 under the DRIP) and 4,000,000, respectively. Only Valener's common shares are voting shares.

BASIS OF PRESENTATION

Valener has obtained exemptions from the CSA allowing it to apply U.S. GAAP. In March 2018, the CSA approved a five-year extension to the exemptions granted in 2015, which had covered fiscal years 2016 to 2018. Valener will therefore continue to prepare its interim and annual consolidated financial statements using U.S. GAAP until the first of the following dates: January 1, 2024 or a date that the IASB prescribes as a mandatory date for applying a standard on rate-regulated activities.

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

Énergir, L.P. and Valener entered into an Administration and Management Support Agreement (the "Administration Agreement"), expiring in 2025, under which:

- Énergir, L.P., either directly or through its General Partner Énergir Inc., provides Valener with certain administration and management support services solely in respect of Valener's interest in Énergir, L.P. and related public company matters and, in certain circumstances, certain additional services. Énergir, L.P. charged Valener an amount of \$0.7 million for administration and management support services in fiscal 2018 (\$0.7 million for fiscal 2017); and
- Énergir, L.P. reimburses Valener in an amount of \$1.0 million, indexed annually, for all general administrative expenses that it incurs, including costs related to public company matters. Under this Administration Agreement, Valener charged Énergir, L.P. an amount of \$1.0 million in fiscal 2018 and fiscal 2017, respectively.

b) Non-Competition Agreement

On September 30, 2010, Énergir, L.P. 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 Énergir Inc.'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

| | Q4 | Q3 | Q2 | Q1 | Fiscal 2018 |
|--|--------|------|------|------|----------------|
| Revenues | (1.3) | 3.0 | 46.9 | 20.6 | 69.2 |
| Net income (loss) attributable to common shareholders | (1.2) | 0.5 | 33.9 | 13.2 | 46.4 |
| Basic and diluted net income (loss) per common share (in \$) | (0.03) | 0.01 | 0.87 | 0.34 | 1.19 |

| | Q4 | Q3 | Q2 | Q1 | Fiscal 2017 |
|--|--------|------|------|------|----------------|
| Revenues | (4.4) | 3.9 | 43.7 | 30.8 | 74.0 |
| Net income (loss) attributable to common shareholders | (3.2) | 1.8 | 31.5 | 23.0 | 53.1 |
| Basic and diluted net income (loss) per common share (in \$) | (0.08) | 0.05 | 0.82 | 0.59 | 1.37 |

SUMMARY OF QUARTERLY RESULTS

As Valener owns an economic interest in Énergir, L.P. and indirectly in the SDB Wind Farms, 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 shown in the above table, seasonal temperature fluctuations and wind variations influence the energy consumption levels of customers and the electricity production levels of the SDB Wind Farms, which in turn influence Valener's interim financial results. Historically, Valener's revenues and profitability are higher in the first two quarters of a fiscal year than in the last two quarters.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The significant items that have affected results over the past eight quarters are as follows:

- **Q4-2018 vs Q4-2017:** The \$2.0 million (\$0.05 per share) decrease in the net loss attributable to common shareholders was mainly due to a \$3.0 million increase in the share in the earnings of Énergir, L.P., as explained in section W) QUARTERLY RESULTS of Énergir, L.P., partly offset by a \$1.2 million increase in the income tax expense relating to QDA's higher net income and the change in outside-basis temporary differences.
- **Q3-2018 vs Q3-2017:** The \$1.3 million (\$0.04 per share) decrease in net income attributable to common shareholders was mainly due to a \$1.8 million decrease in the share in the earnings of Énergir, L.P., partly offset by favourable wind conditions that favoured the electric power generation of the SDB Wind Farms, as described in section W) QUARTERLY RESULTS of Énergir, L.P.
- **Q2-2018 vs Q2-2017:** The \$2.4 million (\$0.05 per share) increase in net income attributable to common shareholders was mainly due to a \$3.5 million increase in the share in the earnings of Énergir, L.P., as described in section W) QUARTERLY RESULTS of Énergir, L.P.
- **Q1-2018 vs Q1-2017:** The \$9.8 million (\$0.25 per share) decrease in net income attributable to common shareholders was mainly due to an \$11.9 million decrease in the share in the earnings of Énergir, L.P., as described in section W) QUARTERLY RESULTS of Énergir, L.P.

K) SUBSEQUENT EVENTS

DECLARATION OF A DIVIDEND TO COMMON SHAREHOLDERS

On November 22, 2018, the board of directors declared a quarterly dividend of \$0.30 per common share for the quarter ending December 31, 2018, payable on January 15, 2019 to common shareholders of record at the close of business on December 31, 2018. The board of directors also approved the reinvestment of dividends into additional common shares, for the dividend payable on January 15, 2019, by way of an issuance of new common shares of Valener, at a 2% discount, in accordance with the terms and conditions of the DRIP.

DECLARATION OF A DIVIDEND TO PREFERRED SHAREHOLDERS

On November 22, 2018, the board of directors also declared a dividend of \$0.28875 per Series A preferred share for the period of October 16, 2018 to January 15, 2019, payable on January 15, 2019 to the preferred shareholders of record at the close of business on January 8, 2019.

ÉNERGIR, L.P.

L) OVERVIEW OF ÉNERGIR, L.P. AND OTHER

ÉNERGIR, L.P., THE NEW GAZ MÉTRO

In November 2017, Gaz Métro unveiled its new identity and changed its corporate name to Énergir, L.P. This name change reflects the extent to which the business has evolved in the past ten years. Ten years ago, virtually all of the business's operations involved natural gas. Since then Énergir, L.P. has diversified its energy portfolio and invested considerably, either directly or through subsidiaries, in renewable energies in Quebec and the United States. Today, electricity production and distribution and non-gas energy services account for almost 45% of Énergir, L.P.'s consolidated assets.

Énergir, L.P. is the same company, with the same team and the same convictions. It continues to listen to the needs of the customers and communities it serves and to provide innovative, competitive, and high-performance products and services.

OVERVIEW OF ÉNERGIR, L.P.

With more than \$7 billion in assets, Énergir, L.P. is a diversified energy company whose mission is to meet the energy needs of its 520,000 customers and the communities it serves in an increasingly sustainable way. Énergir, L.P. is the largest natural gas distribution company in Quebec; through its subsidiaries, it also generates electricity from wind power. And through its U.S. subsidiaries, Énergir, L.P. has a presence in close to 15 states, where it generates electricity from hydraulic, wind and solar sources; it is also the largest electricity distributor and the sole natural gas distributor in the State of Vermont. Énergir, L.P. values energy efficiency and invests both resources and efforts in innovative energy projects such as renewable natural gas and liquefied and compressed natural gas. Through its subsidiaries, it also provides a variety of energy services. Énergir, L.P. strives to become the partner of choice for those seeking a better energy future.

MISSION, VISION AND VALUES

“Our mission is to meet the energy needs of our customers and the communities we serve in an increasingly sustainable way. We offer competitive, varied and innovative solutions.

Énergir, L.P. will be the partner of choice for those striving toward a better energy future.

Because energy is at the very heart of our society, we collaborate with stakeholders from all walks of life.

Because communities understand their own needs best, we foster close ties.

Because our customers' needs change in step with the challenges they face, we innovate in everything we do.”

STRATEGY

Énergir, L.P. 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.




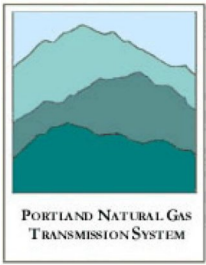




Énergir, L.P.'s **financial objective** continues to be to provide its Partners with a stable and sound return accompanied by growth in value over the years. While achieving this objective depends largely on the performance of energy distribution activities in Quebec and Vermont, it also depends on its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

From a **business perspective**, Énergir, L.P. intends to continue growing its customer base and delivering high-quality energy services at the lowest possible cost, achieving this through policies and programs that motivate employees and business partners.

From a **regulatory perspective**, virtually all of Énergir, L.P.'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 Énergir, L.P. to remain apprised of additional investment opportunities in its various networks and to ensure that the authorized rates of return on deemed equity are fair and reasonable.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW OF THE BUSINESS SEGMENTS

| Energy Distribution | Natural Gas Transportation | Electricity Production | Energy Services, Storage and Other |
|--|--|---|---|
|  100% |  50% |  100% |  58% |
|  100% |  38.3% |  25.5% |  100% |
|  100% |  100% | |  100% |
| | | |  (1) |
| | | |  40% to 60% |
| Regulated activities | | Non-regulated activities | Regulated (Intragaz) and non-regulated activities |

(1) During fiscal 2018, Climatisation et Chauffage Urbains de Montréal, s.e.c. ("CCUM") changed its name to Énergir, chaleur et climatisation urbaines, s.e.c. ("ECCU"), thereby reflecting the same identity as Énergir, L.P., of which it became a wholly owned subsidiary in fiscal 2017. ECCU's activities have not changed. For additional information on its activities, refer to the Energy Services, Storage and Other heading in this section.

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. The natural gas and electricity distribution rates billed to customers are established primarily on a cost-of-service basis whereby the billing entity can recover substantially all of the costs incurred to serve customers and earn a reasonable return on the rate base and on non-rate-base investments. As per current regulatory frameworks, the amount of any budget variances resulting from supply costs is mostly recovered from or returned to customers, a profit and loss sharing mechanism is applied to QDA's distribution service, and synergies from GMP's merger with CVPS are shared between GMP and its customers. Furthermore, QDA and VGS apply a rate stabilization mechanism related to weather. Given these factors, year-over-year changes in revenues or gross margin do not necessarily lead to corresponding changes in net income. The key factors contributing to this segment's results are authorized rate of return, capital structure, the rate base level and non-rate-base investments, and the effects of sharing the profits and losses generated by QDA's distribution service.

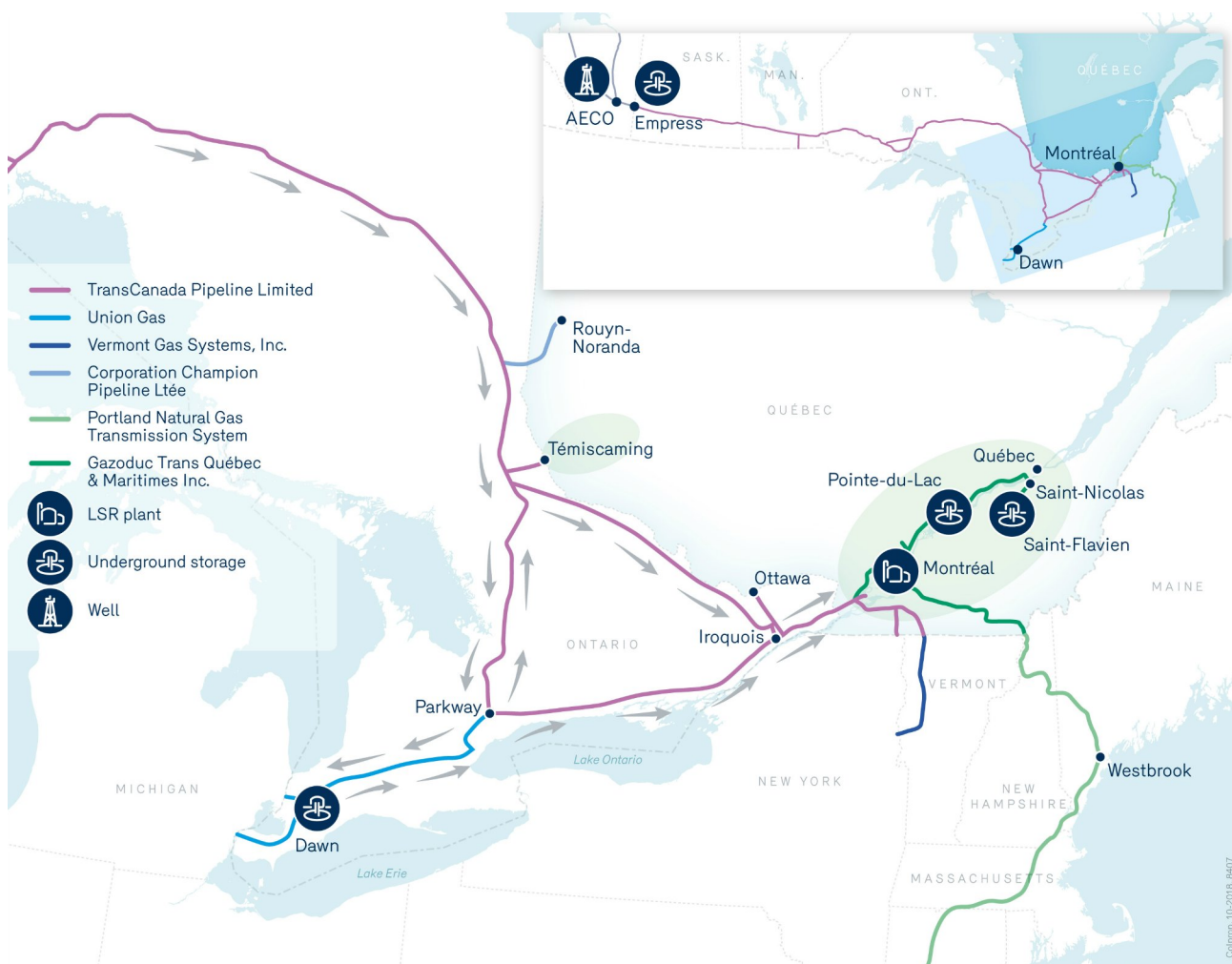
MANAGEMENT'S DISCUSSION AND ANALYSIS

1.1 NATURAL GAS DISTRIBUTION ACTIVITIES

| QDA | | |
|--|--|--|
| <p>Key player in the distribution of natural gas in Quebec, distributing approximately 97% of the natural gas</p> | <p>Underground pipeline network of approximately 11,000 km</p> | <p>Renewable natural gas being injected into the network since November 2017</p> |
| <p>Serves more than 300 municipalities and close to 205,000 customers</p> | | <p>Activities regulated by the Régie</p> |

QDA is a core business of Énergir, L.P. To provide supply to its customers, QDA relies on a varied portfolio of storage and transportation capacity tools that expire at different times. During fiscal 2018, close to 90% ⁽²⁾ of the transportation capacity was contracted from Dawn and approximately 10% ⁽³⁾ from Empress. 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. QDA's natural gas supply plan is submitted to the Régie once a year for approval.

In addition, since November 2017, QDA has also been benefiting from a new source of supply given the injection into its network of the RNG produced by the city of Saint-Hyacinthe's biomethanation plant. Although this supply source represents but a small portion of its supply portfolio, QDA is pursuing initiatives to increase access to this source of renewable energy in order to meet the needs of customers who want to contribute to the energy transition. For additional information on RNG-related initiatives, refer to the RNG heading of section O) SEGMENT RESULTS.



⁽²⁾ Capacities required to transport the natural gas provided by QDA and the natural gas purchased directly by its customers.

⁽³⁾ Capacities required to transport the natural gas provided by QDA. Since the relocation of its supply structure to Dawn, QDA's customers who purchase their natural gas directly must have it delivered to Dawn.

MANAGEMENT'S DISCUSSION AND ANALYSIS

QDA's revenues are divided into five service categories, namely, distribution, supply, transportation, load-balancing, and C&T. The Régie authorizes a specific rate for each service and, for certain services, for each category of customer. As part of QDA's annual rate-setting process, the Régie sets a rate of return on deemed common equity, which is considered when determining the distribution service rate. Given the current in-force regulatory mechanism, QDA can recover virtually all of the costs incurred for the supply, transportation, load-balancing and C&T services. However, given that QDA is not authorized to generate a profit from these services, the revenues generated therefrom have no impact on gross margin. Gross margin is mainly generated by distribution service revenues, since there are practically no direct costs associated with these revenues. For this service, QDA also has a mechanism for sharing profits and losses when budget variances arise.

The Régie also oversees the operating and development activities of QDA's natural gas distribution systems.

In Quebec, Énergir, L.P. has close to 1,500 employees. In its pursuit of excellence with suppliers, partners and customers, 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 QDA's performance, within the current regulatory framework, in the following areas:

- the quality of service received by 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: 2015).

These performance indicators also influence how QDA's distribution service overearnings are shared. For instance, should QDA fail to meet its annual performance indicator targets, the portion of overearnings attributable to Énergir, L.P.'s Partners under the current profit and loss sharing mechanism would be reduced. QDA met all of the performance indicators set by the Régie during fiscal 2018.

Corporate social responsibility

Énergir, L.P. is firmly committed to sustainable development and strives to make positive contributions to the community and to reduce its environmental footprint across all of its activities. In pursuing its sustainable development aspirations, Énergir, L.P. has taken a number of concrete steps demonstrating its social engagement.

For example, QDA developed a responsible gas supply process that consists of obtaining gas supply directly from producers that have demonstrated an adherence to best practices to reduce the environmental footprint of their activities. Where business ethics are concerned, more than 1,300 Énergir, L.P. staff members, administrators and agents have received online training in line with the company's code of ethics since 2015. Finally, where energy efficiency is concerned, QDA is the first energy distributor in Quebec to have put in place a global energy efficiency plan starting in 2001. It has since carried out more than 120,000 energy efficiency projects, whereby customers can generate more than \$100 million in recurring annual savings while preventing nearly 1 million tons of GHG emissions.

The above-mentioned initiatives are only a brief overview of Énergir, L.P.'s achievements. To measure its overall performance in terms of corporate social responsibility, Énergir, L.P. monitors a system of indicators based on the fourth-generation *Global Reporting Initiative* ("GRI-G4"). These financial and extra-financial indicators address the priority economic, social, environmental, and governance issues identified by Énergir, L.P.'s internal and external stakeholders. The following are a few examples of the issues and indicators addressed:

- 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.

Relevant information is therefore measured and published in a sustainability report every two years. In June 2018, Énergir, L.P. voluntarily published its sustainability report for fiscal 2017 and obtained the Materiality Disclosures Service designation. Its next sustainable development report is expected to be published in spring 2020. No sections of the 2017 sustainability report are incorporated herein.

MANAGEMENT'S DISCUSSION AND ANALYSIS

| VGS | | |
|--|---|---|
| Sole gas distributor in Vermont | Natural gas transportation and distribution system of more than 1,500 km in Vermont in the United States | |
| Subsidiary | Serves more than 50,000 customers primarily in the residential, commercial and industrial markets | Activities regulated by the VPUC |

VGS procures its natural gas from Dawn and Parkway, Ontario. The natural gas is transported and delivered to its main pipeline at the Canada/Vermont border through the TCPL system. Generally, the VPUC 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 certain performance indicator targets on an annual basis, it would face a penalty from the VPUC. For fiscal 2018, VGS met all of its service quality performance indicators, with the exception of one for which no penalty was required.

1.2 ELECTRICITY DISTRIBUTION ACTIVITIES

| GMP | | | |
|---|---|---|---|
| With over 70% of the market share, stands as Vermont's largest electricity distributor | Over 265,000 customers | Network located mostly in Vermont and extending into New Hampshire and New York: | Activities regulated by the VPUC |
| Subsidiary | | → 16,300 km of overhead distribution lines | |
| | → 2,000 km of underground distribution lines | | |
| | | → 2,700 km of overhead transmission lines | |

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.

| | |
|---|--|
| Approximately 60% of the supply portfolio comes from renewable 90% carbon-free energy sources ⁽¹⁾ | |
| Largest wind and solar power producer in Vermont | 2 wind farms with an installed capacity of 69 MW |
| 44 hydroelectric generating stations in New England | 21 solar farms , wholly- or jointly-owned, with an installed capacity of 25 MW |

⁽¹⁾ Objectives for the 2018 calendar year. These percentages reflect the purchase or sale of renewable energy certificates (RECs) and other zero carbon-emissions attributes under the mandatory renewable energy standard for Vermont utilities.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The VPUC approves electricity rates that are set on a cost-of-service basis. However, an 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 customer service as well as customer satisfaction;
- workplace safety; and
- system reliability.

If GMP were to fail to meet its performance indicator targets, it could face a penalty from the VPUC. For fiscal 2018, GMP met all of the objectives from its performance indicator program.



| Velco | Transco |
|---|--|
| Manager of Transco | Electricity transmission system connecting New England to various distributors in Vermont and New Hampshire |
| Entities subject to significant influence | |
| Activities regulated by the FERC and other regulatory agencies | |

GMP owns economic interests in Transco and Velco; specifically, it holds a 73.6% stake in Transco (73.5% as at September 30, 2017) and a 38.8% stake in Velco. Transco's main activities are planning, building, operating and maintaining an electric power transmission system in Vermont. It also supplies electricity to New England through ISO-NE, which manages electric power generation and transmission operations in that region. The activities of Transco and Velco are regulated by the FERC when it comes to rate-setting and financing and by other Vermont regulatory agencies when it comes to, among other matters, the construction of electric power transmission assets.

It should be noted that the investments that GMP makes in its economic interests are included in its rate base and therefore enable it to generate an additional return. However, the proportionate shares in earnings generated by these equity-accounted investments are fully returned to customers through rates and therefore have a negligible impact on the net income of GMP and Énergir, L.P.

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 VPUC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

2. NATURAL GAS TRANSPORTATION SEGMENT

| TQM | | |
|---------------|--|---------------------------------|
| Joint venture | A 575-km pipeline in Quebec that connects upstream with TCPL and downstream with PNGTS and the QDA distribution system | Activities regulated by the NEB |

| PNGTS | | |
|---|---|----------------------------------|
| Entity subject to significant influence | A 489-km pipeline from the Quebec border to the suburbs of Boston | Activities regulated by the FERC |

| Champion | | |
|------------|--|---------------------------------|
| Subsidiary | Two pipelines totalling 98 km that cross the Ontario border and supply QDA's distribution system in northwest Quebec | Activities regulated by the NEB |

3. ELECTRICITY PRODUCTION SEGMENT

| SDB Wind Farms | |
|--|--|
| Three wind farms with a total installed capacity of 340 MW on the private lands of Seigneurie de Beaupré (Wind Farms 2 and 3: 272 MW and Wind Farm 4: 68 MW) | |
| Joint ventures | |
| All output sold to Hydro-Québec: contracts expiring in 2033 for Wind Farms 2 and 3 and in 2034 for Wind Farm 4 | |

| Standard Solar | | |
|---|--|--|
| Vertically integrated in the U.S. solar power industry | | |
| Service provider | | Producer |
| Contractor Engineering, procurement and construction management | Operator Operations and maintenance services | Developer and owner Solar power generation projects for the sale of electricity, including close to 20 MW currently in service |
| Subsidiary | Active in the commercial, industrial and institutional markets | |

MANAGEMENT'S DISCUSSION AND ANALYSIS

4. ENERGY SERVICES, STORAGE AND OTHER SEGMENT

4.1 ENERGY SERVICES

| Gaz Métro LNG | | |
|---|---|---|
| Subsidiary in partnership with IQ | 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 |
| Primarily meets the industrial demand not served by the QDA gas network | | |

| Transport Solutions | | |
|-----------------------------------|--|---|
| Leader in alternative fuel | Involved in developing the market to use natural gas , both liquefied and compressed , as a fuel in the heavy transport industry , a solution to replace diesel fuel | Key player in the development of the Blue Road : First network of LNG and CNG refuelling stations for the transport industry between Rivière-du-Loup and Mississauga |
| Subsidiary | Offers integrated LNG refuelling services in the industrial, road, and marine sectors; designs and builds turnkey LNG or CNG refuelling stations | |

| Gaz Métro Plus | | |
|---|--|--|
| Leader in energy products and services | Provides a range of products and services with respect to the installation, sale, rental, maintenance and repair of natural gas equipment | |
| Subsidiary | Active in the residential, commercial and institutional markets | |

| ECCU (formerly CCUM) | |
|----------------------|--|
| Subsidiary | 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 for heating, hot-water heating and cooling of office towers, commercial centres, hotels, train stations, campuses, and luxury apartments |

4.2 STORAGE

| Intragaz | | |
|----------------------|---|--|
| Joint venture | Only two underground natural gas storage reservoirs in Quebec | Rates regulated by the Régie |

5. CORPORATE AFFAIRS SEGMENT

This segment encompasses all of Énergir, L.P.'s other activities that are not directly attributable to the other segments, including the costs incurred to finance economic interests as well as the development costs of various projects.

MANAGEMENT'S DISCUSSION AND ANALYSIS

POTENTIAL ACQUISITIONS

Énergir, L.P. continues to stay apprised of potential opportunities that fit within its corporate mission while favouring those that are in line with its strategic plan, create value, have a risk profile similar to Énergir, L.P.'s current profile and, in the case of development projects, include long-term agreements with solid and reliable counterparties.

NON-GAAP FINANCIAL MEASURES

The financial information has been prepared in accordance with GAAP. In management's opinion, certain financial measures provide readers with additional information considered useful for analyzing Énergir, L.P.'s financial performance. However, some of these financial measures are not defined by GAAP and should not be considered in isolation or as substitutes for other financial measures that are in accordance with 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-GAAP financial measures are presented as complementary information. This section provides a description of each of these measures.

| NON-GAAP FINANCIAL MEASURES | |
|---|--|
| Adjusted net income (loss) attributable to Partners and per unit ⁽¹⁾ | Adjusted net income (loss) attributable to Partners is the net income (loss) attributable to Partners, net of specific items identified by management as being outside Énergir, L.P.'s ongoing operations. Basic and diluted adjusted net income (loss) per unit attributable to Partners is adjusted net income (loss) attributable to Partners divided by the basic and diluted weighted average number of units outstanding. These measures are used by management to assess Énergir, L.P.'s profitability based on its ongoing operations and to exclude items that have an impact on the comparability of the financial results and that could misrepresent the analysis of trends in Énergir, L.P.'s performance. Excluding these items does not mean that they are not recurring. |
| 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 Énergir, L.P.'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. Énergir, L.P. 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 these measures with GAAP-compliant measures.

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

In line with the business changes that have occurred in recent years, management believes that net income attributable to Partners as well as adjusted net income attributable to Partners are the most relevant measures for evaluating Énergir, L.P.'s profitability and reaching its objectives. Consequently, management no longer uses IBIT to analyze its financial performance.

M) CONDITIONS IN THE ENERGY MARKET AND FOR ÉNERGIR, L.P.

Environment and competitiveness of natural gas in Quebec and North America

The fight against climate change

Federal measures

Canada, one of the signatories to the international climate change agreement, has set a target to reduce GHG emissions to 30% below 2005 levels by 2030. The federal government has adopted a plan that includes a number of measures aimed at reducing GHG emissions, including:

- Developing a standard to reduce fuel-generated carbon emissions by 30 million tons by 2030. According to the Canadian government, this standard would first apply to liquid fuels in 2022 and then to gaseous and solid fuels in 2023; and
- Putting a price on carbon-based pollution, which will apply, in whole or in part, in Canadian provinces and territories that do not have an equivalent carbon-pricing system. According to the *Draft Regulations Amending Part 1 of Schedule 1 and Schedule 2 to the Greenhouse Gas Pollution Pricing Act* that was made public in October 2018, this pricing will not apply to the Province of Quebec.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Provincial measures

During fiscal 2017, the Government of Quebec extended the C&T Regulation until 2030, following the example of its carbon market partner, California. After the last provincial election in Ontario, in July 2018 the newly elected government terminated the cap-and-trade program, which had linked Ontario to the Quebec and California market since January 1, 2018. The announcement of this decision has not significantly affected carbon market prices.

Quebec's 2030 Energy Policy ("Energy Policy")

The Government of Quebec adopted the 2030 Energy Policy, one of the main objectives of which is to favour a low-carbon economy, to optimally develop Quebec's energy resources, and to fully capitalize on the province's energy efficiency potential.

To implement its 2030 Energy Policy, the Quebec government has created its 2017-2020 Action Plan (the "Action Plan"), some notable measures of which include extending QDA's natural gas distribution network.

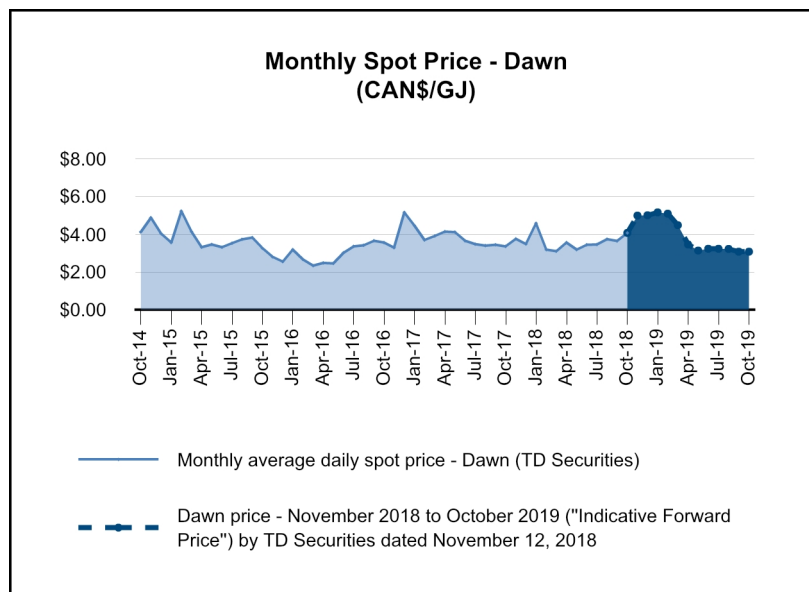
In accordance with its Action Plan, the Quebec government included measures to encourage the energy transition in its 2018-2019 budget, including an amount of \$36.5 million, to be spread out over the next three budget years, to provide financial support for new projects aimed at extending QDA's natural gas distribution network in different regions of the province.

Natural gas prices

Supported by an abundant continental supply and low production costs, the economic advantage of natural gas over other energy sources continued throughout fiscal 2018. During this period, average U.S. production rose 10.6% compared to fiscal 2017. In addition to this abundant supply, transportation capacity to the Dawn hub increased (particularly with the deployment of the Rover pipeline) and the rates for transporting natural gas from Western Canada improved, as explained in the Transportation Rates heading of this section. It is in this context that the trend of low continental natural gas prices that began in 2014 continued in 2018.

For fiscal 2018, the average monthly index at the Dawn hub was \$3.54/GJ, an 8.3% decrease from \$3.86/GJ in fiscal 2017.

The graph below shows a history of monthly natural gas prices as well as the future monthly price expectations for natural gas at Dawn from November 2018 to October 2019:



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 Dawn should be \$3.47/GJ for the coming fiscal year and \$3.25/GJ or less between 2019 and 2022.

MANAGEMENT'S DISCUSSION AND ANALYSIS

As previously mentioned, natural gas prices remained low in fiscal 2018, making it a highly competitive source of energy. In fact, in Quebec, natural gas is currently the most competitive form of energy among all those distributed in most market segments, as shown in the following table:

| MARKETS | ALTERNATIVE ENERGIES | COST SAVINGS ⁽¹⁾ |
|---|----------------------|-----------------------------|
| Industrial ⁽²⁾ Example: large companies in the petrochemical and metallurgy sectors | Fuel oil (n° 6) | Up to 63% |
| Commercial and institutional ⁽³⁾ Examples: hospitals, schools, restaurants | Electricity | From 32 to 54% |
| | Fuel oil (n° 2) | From 40 to 59% |
| Residential heating ⁽⁴⁾ | Electricity | From 15 to 32% |
| | Fuel oil (n° 2) | From 29 to 41% |

⁽¹⁾ Savings applicable to QDA's service and based on fiscal 2018 prices.

⁽²⁾ The cost savings achieved in this market could vary, in particular depending on the type of pricing chosen, volumes consumed, and the contract duration of a given customer.

⁽³⁾ The cost savings achieved in this market could vary, in particular depending on the level of volume consumed.

⁽⁴⁾ 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. The other main sources in these markets are fuel oil and propane, but the emergence of new electricity-based technologies is also starting to have an influence. In fact, using natural gas for heating is 47% more cost effective when compared to propane and 31% more cost effective when compared to oil ⁽⁴⁾.

Natural gas supply dynamics

Transportation rates

QDA's gas supply has come largely from the Dawn hub in Ontario and from Empress in Alberta, where natural gas is purchased and then transported to Quebec through the Union Gas and TCPL transportation systems.

To ensure the capacity needs at the Dawn hub, in September 2013 Énergir, L.P., the Ontario gas distributors, and TCPL reached an agreement-in-principle (the "Agreement") providing for various transportation capacity expansion projects. These projects, including the King's North project between Dawn and Maple, Ontario were put into service during fiscal years 2017 and 2018. Following this Agreement and at the request of the NEB, TCPL filed a revision of its 2018 to 2020 transportation rates in December 2017. This revision request was supported by an additional contract reached by all the parties to the Agreement, including Énergir, L.P. and projected rate decreases across all sections of TCPL's main network. A decision on this filing is expected by the end of the 2018 calendar year; pending this decision, the NEB approved the interim application of the new rates as of January 1, 2018.

Énergir, L.P. is monitoring the various transportation service requests submitted to the NEB to ensure that Quebec's competitive position is considered in potential new transportation service offerings and in NEB decisions. In addition, QDA recently took part in a call for tenders issued by TCPL for a new transportation service between Empress and North Bay for less than the current rates. This new service is expected to generate savings for QDA's customers.

Electricity in New England

Market offerings for electric power in New England continue to be more than adequate to meet the demand in this region. However, electricity prices rose considerably during winter 2018 due to cold temperatures, limiting available pipeline capacity in the region. Note that, in New England, the price of electricity is highly correlated to that of natural gas, as natural gas is widely used to generate electric power.

Volatility in electricity prices directly affects the rates that regional electricity distributors charge to customers. However, GMP's customers have been protected from the significant price fluctuations observed over the last few years given the composition of its supply portfolio. Specifically, GMP's supply portfolio consists of short-term and long-term contracts that lock in electricity prices over time. Furthermore, GMP also has other sources of supply generated by electric power facilities not powered by natural gas, thereby eliminating some of the volatility of power production costs associated with natural gas prices. 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.

⁽⁴⁾ Calculated using data published by the New York Mercantile Exchange ("NYMEX") and the VDPS on November 1, 2018.

MANAGEMENT'S DISCUSSION AND ANALYSIS

N) CONSOLIDATED ANNUAL FINANCIAL PERFORMANCE SUMMARY

1. HIGHLIGHTS

Fiscal years ended September 30

| | 2018 | 2017 | 2016 | Change 2018 vs 2017 | Change 2017 vs 2016 |
|---|---------|---------|---------|------------------------|------------------------|
| Financial performance | | | | | |
| Revenues | 2,553.7 | 2,526.6 | 2,587.0 | 27.1 | (60.4) |
| Gross margin | 1,021.9 | 998.1 | 982.0 | 23.8 | 16.1 |
| Net income | 214.0 | 220.4 | 279.8 | (6.4) | (59.4) |
| Net income attributable to: | | | | | |
| Partners | 215.9 | 240.8 | 277.5 | (24.9) | (36.7) |
| Non-controlling interests | (1.9) | (20.4) | 2.3 | 18.5 | (22.7) |
| Per unit ⁽¹⁾ (in \$) | 1.26 | 1.42 | 1.66 | (0.16) | (0.24) |
| Adjusted net income attributable to Partners ⁽²⁾ | 234.6 | 228.3 | 214.7 | 6.3 | 13.6 |
| Per unit ^{(1) (2)} (in \$) | 1.37 | 1.35 | 1.28 | 0.02 | 0.07 |
| Cash and capital management | | | | | |
| Distributions declared per unit to Partners (in \$) | 1.20 | 1.17 | 1.16 | 0.03 | 0.01 |
| Total assets | 7,739.5 | 7,528.1 | 7,425.6 | 211.4 | 102.5 |
| Total debt | 3,653.6 | 3,520.2 | 3,490.3 | 133.4 | 29.9 |
| Funds from operations / debt ratio ⁽²⁾ | 17.9 | 16.0 | 14.9 | 1.9 | 1.1 |
| Debt / total capitalization ratio ⁽²⁾ (in %) | 64.6 | 64.3 | 65.8 | 0.3 | (1.5) |

⁽¹⁾ Basic and diluted per unit attributable to Partners.

⁽²⁾ These financial measures are not defined by GAAP. For additional information, refer to the Non-GAAP Financial Measures heading in section L) OVERVIEW OF ÉNERGIR, L.P. AND OTHER.

NET INCOME ATTRIBUTABLE TO PARTNERS WAS DOWN \$24.9M, REFLECTING THE IMPACTS OF THE U.S. TAX REFORM AND THE GAIN REALIZED IN FISCAL 2017 FOLLOWING THE ACQUISITION OF THE ADDITIONAL INTEREST IN CDH

ADJUSTED NET INCOME ⁽¹⁾ ATTRIBUTABLE TO PARTNERS WAS UP \$6.3M, REFLECTING AN INCREASE IN THE RATE BASES OF THE VERMONT ENERGY DISTRIBUTION ACTIVITIES AND AN INCREASE IN THE VOLUMES TRANSPORTED BY PNGTS

⁽¹⁾ This financial measure is not defined by GAAP. For additional information, refer to the Non-GAAP Financial Measures heading in section L) OVERVIEW OF ÉNERGIR, L.P. AND OTHER

2. NET INCOME AND ADJUSTED NET INCOME ATTRIBUTABLE TO PARTNERS

2.1 COMPARISON BETWEEN FISCAL YEARS 2018 AND 2017

For fiscal 2018, net income attributable to Partners was down \$24.9 million (\$0.16 per unit) year over year.

This change was essentially due to:

- a \$2.5 million decrease in QDA's net income, mainly as the result of a decrease in return-generating investments, partly offset by a higher share in overearnings realized in fiscal 2018 (\$12.6 million) compared to fiscal 2017 (\$8.4 million) resulting mainly from higher normalized natural gas deliveries;
- a \$3.6 million increase in net income from energy distribution activities in Vermont given higher rate bases for GMP and VGS as well as a favourable impact of the December 2017 U.S. tax reform (as explained hereafter) on synergies attributable to GMP, partly offset by a \$2.6 million unfavourable exchange rate impact;
- a \$2.4 million increase in PNGTS's net income related to higher transported volumes and a lower tax rate;
- gains realized by Gaz Métro Plus following the sale of its server hosting assets in Q2-2018 ⁽⁵⁾ (\$4.3 million) as well as the acquisition of the additional ownership interest in CDH (ECCU) in Q1-2017 ⁽⁵⁾ (\$12.5 million); and
- the impacts of the U.S. tax reform, which led to a decrease in deferred income tax liabilities, resulting in the creation of amounts to be returned to customers and a one-time \$23.0 million decrease in consolidated net income.

⁽⁵⁾ For additional information, refer to the Reconciliation With GAAP-Compliant Measures heading in this section.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For fiscal 2018, net income attributable to Partners per unit includes a dilutive effect of \$0.02 per unit resulting from the 4,545,455 units issued in Q2-2017.

Excluding the impact of the U.S. tax reform and the gains realized by Gaz Métro Plus (explained below in greater detail), adjusted net income attributable to Partners for fiscal 2018 was up \$6.3 million year over year. Section O) SEGMENT RESULTS provides a more detailed analysis of the adjusted net income attributable to Partners for each segment. Adjusted net income is not defined by GAAP. For additional information, refer to the Non-GAAP Financial Measures heading in section L) OVERVIEW OF ÉNERGIR, L.P. AND OTHER.

Note that Énergir, L.P.'s net income and adjusted net income attributable to Partners are generated mainly by rate-regulated activities, which accounted for over 96% of consolidated adjusted net income for fiscal 2018, excluding the net loss posted by the Corporate Affairs and Other segment. On this same basis, QDA generated approximately 50% of the adjusted net income for the same period, which is comparable to that of fiscal 2017.

2.2 COMPARISON BETWEEN FISCAL YEARS 2017 AND 2016

For fiscal 2017, net income attributable to Partners was down \$36.7 million (\$0.24 per unit) year over year.

This change was due to:

- a \$61.4 million decrease from QDA, mainly due to:
 - a one-time adjustment of \$79.3 million in Q1-2016 to account for the regulatory assets related to employee future benefits ⁽⁶⁾;

partly offset by:

- a favourable \$8.4 million impact from recording a share in overearnings realized in fiscal 2017 that was attributable to higher normalized natural gas deliveries; and
- the impact of the parameters of the 2017 rate case, which had anticipated a net income increase of approximately \$6.6 million over fiscal 2016 due to higher return-generating investments;

partly offset by:

- a \$21.4 million increase in the net income generated by Vermont energy distribution activities, essentially due to the recognition, in fiscal 2016, of a \$26.5 million impairment of noncurrent assets (\$16.5 million after taxes) recorded for VGS's Addison project ⁽⁶⁾ and to higher rate bases for GMP and VGS; and
- a \$12.5 million gain realized by Gaz Métro Plus in fiscal 2017 given the acquisition of an additional interest in CDH ⁽⁶⁾.

3. RECONCILIATION WITH GAAP-COMPLIANT MEASURES

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

| Segments | 2018 | | | |
|---|--|------------------------------------|-----------------|---|
| | Net income (loss) attributable to Partners | Adjustments: | | Adjusted net income (loss) attributable to Partners |
| | | Impacts of the U.S. tax reform (a) | Other gains (b) | |
| QDA | 145.1 | — | — | 145.1 |
| Distribution in Vermont | 101.4 | 5.3 | — | 106.7 |
| Transportation | 22.8 | (2.6) | — | 20.2 |
| Electricity Production | 4.4 | — | — | 4.4 |
| Energy Services, Storage and Other | 13.1 | — | (4.3) | 8.8 |
| Corporate Affairs | (70.9) | 20.3 | — | (50.6) |
| Total | 215.9 | 23.0 | (4.3) | 234.6 |
| Nb. units ⁽¹⁾ | 171.8 | | | 171.8 |
| Basic and diluted per unit (in \$) | 1.26 | | | 1.37 |

⁽⁶⁾ For additional information, refer to the Reconciliation With GAAP-Compliant Measures heading in this section.

MANAGEMENT'S DISCUSSION AND ANALYSIS

| Segments | 2017 ⁽²⁾ | | | |
|------------------------------------|--|------------------------------------|-----------------|---|
| | Net income (loss) attributable to Partners | Adjustments: | | Adjusted net income (loss) attributable to Partners |
| | | Impacts of the U.S. tax reform (a) | Other gains (b) | |
| QDA | 147.6 | — | — | 147.6 |
| Distribution in Vermont | 103.1 | — | — | 103.1 |
| Transportation | 18.0 | — | — | 18.0 |
| Electricity Production | — | — | — | — |
| Energy Services, Storage and Other | 18.9 | — | (12.5) | 6.4 |
| Corporate Affairs | (46.8) | — | — | (46.8) |
| Total | 240.8 | — | (12.5) | 228.3 |
| Nb. units ⁽¹⁾ | 169.5 | | | 169.5 |
| Basic and diluted per unit (in \$) | 1.42 | | | 1.35 |

| Segments | 2016 ⁽²⁾ | | | |
|------------------------------------|--|--|-------------------------------------|---|
| | Net income (loss) attributable to Partners | Adjustments: | | Adjusted net income (loss) attributable to Partners |
| | | Impacts of recognizing regulatory assets (c) | Impairment of noncurrent assets (d) | |
| QDA | 209.0 | (79.3) | — | 129.7 |
| Distribution in Vermont | 81.7 | — | 16.5 | 98.2 |
| Transportation | 20.3 | — | — | 20.3 |
| Electricity Production | 1.7 | — | — | 1.7 |
| Energy Services, Storage and Other | 5.3 | — | — | 5.3 |
| Corporate Affairs | (40.5) | — | — | (40.5) |
| Total | 277.5 | (79.3) | 16.5 | 214.7 |
| Nb. units ⁽¹⁾ | 167.3 | | | 167.3 |
| Basic and diluted per unit (in \$) | 1.66 | | | 1.28 |

⁽¹⁾ Basic and diluted weighted average number of units outstanding (in millions).

⁽²⁾ In fiscal 2018, the financial reporting of segment information was changed, with fiscal 2017 and 2016 figures being adjusted to reflect the new presentation adopted. For additional information, refer to section O) SEGMENT RESULTS.

a) Impacts of the U.S. tax reform

In December 2017, the U.S. government adopted exhaustive tax legislation commonly referred to as the *Tax Cuts and Jobs Act* (the "U.S. tax reform"). This reform has introduced complex and significant U.S. tax code changes that are applicable to Énergir, L.P.'s U.S. subsidiaries and entities subject to significant influence. As at September 30, 2018, the impacts of this tax reform on Énergir, L.P.'s consolidated financial statements consisted essentially of a \$243.6 million decrease in deferred income tax liabilities, the creation of \$251.3 million in regulatory liabilities, net of regulatory assets, and a \$23.0 million decrease in net income attributable to Partners. The impact of this tax reform on net income stems mainly from the deferred income taxes related to the portion not included in rate setting as well as from the downward remeasurement of deferred income tax assets on non-capital loss carryforwards unrelated to rate-regulated activities.

With respect to the rate-regulated operations of the U.S. subsidiaries and entities subject to significant influence, the U.S. tax reform impacts were primarily recognized as regulatory liabilities, as current and deferred income taxes of such entities are included in their rate-setting process. The regulatory liabilities recognized following these adjustments equal the amounts expected to be reimbursed through future rates over amortization periods that will subsequently be set and approved by the regulatory agencies. In their respective 2019 rate cases, GMP and VGS proposed estimated average amortization periods of approximately 40 years based on Internal Revenue Service normalization rules as well as on the nature of the factors that led to the recognition of the deferred income taxes to be returned to customers. The proposed amortization periods were notably impacted by the estimated residual lives of the underlying assets. The amounts to be returned total approximately US\$30 million for 2019 and US\$4 million per year for the subsequent years.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Finally, it should be noted that, since February 1, 2018, GMP and VGS have adjusted customer invoices to reflect the impact of the reduced federal income tax rate on their 2018 rates. Notably, an amount of US\$6 million will be returned to GMP's customers by December 31, 2018, reducing the overall rate increase to approximately 4% for the remaining term of the 2018 rate case, whereas an overall increase of 5.02% had been anticipated.

b) Other gains

In February 2018, Gaz Métro Plus sold its server hosting assets, generating a gain of \$4.3 million.

In December 2016, Énergir, L.P., through its subsidiary Gaz Métro Plus, acquired an additional 50% ownership interest in CDH ("ECCU") and consequently gained control thereover. Since this transaction constitutes a step acquisition, the ownership interest accounted for using the equity method immediately before the transaction was remeasured at its fair value, and a gain of \$12.5 million was recognized in the consolidated statement of income. For additional information on this transaction, refer to section O) SEGMENT RESULTS of this MD&A and to Note 4 of Énergir, L.P.'s audited consolidated financial statements for the fiscal years ended September 30, 2018 and 2017.

c) Impact of recognizing regulatory assets related to employee future benefits

This item was a one-time adjustment to account for QDA's regulatory assets when Énergir, L.P. changed the accounting framework used for its financial statements from Canadian GAAP to U.S. GAAP. Under U.S. GAAP, these regulatory assets could not be recognized on the fiscal 2015 opening balance sheet (October 1, 2014) and were therefore written off through an adjustment to deficit. Given that the regulatory treatments were changed in December 2015 following a Régie decision, these regulatory assets were re-recognized in Q1-2016, resulting in a one-time increase in Énergir, L.P.'s net income. Now that the regulatory treatments have been aligned with U.S. GAAP treatment, this impact on net income is unlikely to reoccur in the future.

d) Impairment of noncurrent assets recorded for VGS's Addison project

During Q3-2016, VGS recognized a before-tax US\$20.6 million impairment of noncurrent assets (C\$26.5 million before taxes) in connection with the Addison project, the effect of which was a \$16.5 million unfavourable impact on net income in fiscal 2016. This impairment charge came as a result of a new cost estimate placing costs at US\$165.6 million, whereas an agreement reached with the VDPS had set a US\$134 million cap on the Addison project costs that could be recovered through rates. Remember that VGS's Addison project consisted of extending its natural gas system in Addison County and that this system was completed during fiscal 2017.

4. REVENUES

4.1 COMPARISON BETWEEN FISCAL YEARS 2018 AND 2017

For fiscal 2018, revenues were up \$27.1 million year over year, mainly due to:

- a \$97.1 million increase in revenues generated by energy distribution activities in Vermont, mainly due to higher electricity and natural gas deliveries, an increase in GMP's rates, as set out in its 2018 rate case, as well as GMP's higher electricity resale revenues associated with excess capacity sold; and
- a \$9.0 million increase in the revenues generated by the Energy Services, Storage and Other segment, mainly due to an increase in LNG sales as new contracts took effect, and to additional revenues recorded following the acquisition of the additional stake in CDH since Q1-2017, as explained in section O) SEGMENT RESULTS;

partly offset by:

- a \$55.0 million decrease in QDA's revenues, mainly due to a decrease in supply and transportation rates given lower natural gas prices in the market and a decrease in TCPL's transportation rates, partly offset by higher deliveries across all services, mainly due to consumption by pulp and paper and metallurgy customers as well as to economic growth; and
- a \$25.0 million unfavourable exchange rate impact on revenue generated by Vermont energy distribution activities.

4.2 COMPARISON BETWEEN FISCAL YEARS 2017 AND 2016

For fiscal 2017, revenues were down \$60.4 million year over year, mainly due to:

- a \$64.9 million decrease in QDA's revenues, mainly due to the impact of the 2017 rate case parameters, which had presented an overall rate decrease to reflect the anticipated relocation of the supply point to the Dawn hub, partly offset by higher deliveries across all services arising, among other factors, from economic growth; and
- a \$10.7 million unfavourable exchange rate impact on the revenues generated by Vermont energy distribution activities;

MANAGEMENT'S DISCUSSION AND ANALYSIS

partly offset by:

- a \$22.9 million increase in revenues generated by the Energy Services, Storage and Other segment, mainly due to an increase in LNG sales and to additional revenues recorded following the acquisition of the additional interest in CDH, as explained in section O) SEGMENT RESULTS.

5. LIQUIDITY

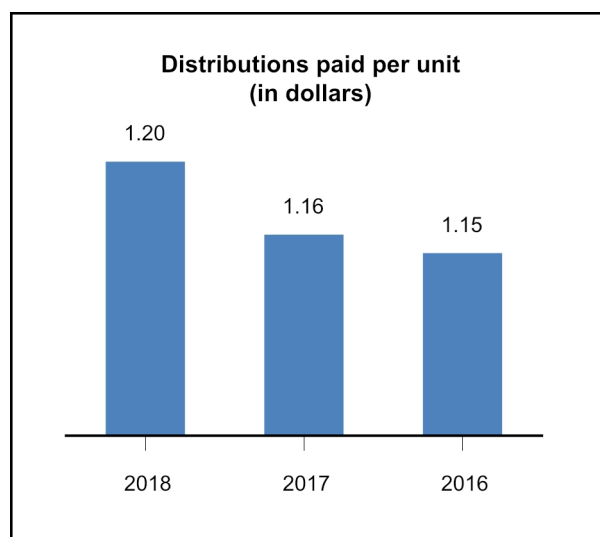
Énergir, L.P. has a strong financial position, which helped it to maintain the credit ratings attributed by the S&P and DBRS credit rating agencies during fiscal 2018, as shown in the table below:

| | Fiscal years ended September 30 | | |
|--|---------------------------------|-------------------|-------------------|
| | 2018 | 2017 | 2016 |
| Corporate (S&P) | A | A | A |
| First mortgage bonds (S&P/DBRS) ⁽¹⁾ | A+/A | A+/A | A+/A |
| Commercial paper (S&P/DBRS) ⁽¹⁾ | A-1(mid)/R-1(low) | A-1(mid)/R-1(low) | A-1(mid)/R-1(low) |

⁽¹⁾ Through its General Partner, Énergir Inc.

5.1 DISTRIBUTIONS PAID PER UNIT

In keeping with its practice of distributing virtually all of its earnings, Énergir, L.P. paid four quarterly distributions of \$0.30 per unit to its Partners during fiscal 2018. The respective increases of \$0.04 per unit and of \$0.05 per unit compared to fiscal years 2017 and 2016 were mainly due to the increase in the quarterly distribution from \$0.28 per unit to \$0.29 per unit in Q2-2016 and from \$0.29 per unit to \$0.30 per unit in Q1-2018. These increases were made possible by the earnings generated by the realization of Énergir, L.P.'s strategic plan, the sustained growth of its rate-regulated activities, and the performance of its wind farms. Énergir, L.P. plans on maintaining a quarterly distribution of \$0.30 per unit during fiscal 2019.



O) SEGMENT RESULTS

In Q1-2018, the financial reporting structure for segment information was changed to better reflect how management analyzes this information. As a result of these changes, the portion of the interest on long-term debt and related income taxes incurred for the purpose of financing Énergir, L.P.'s ownership interests are reported in the Corporate Affairs segment. These items were previously being allocated to each business segment using a method based on the carrying values of the ownership interests. Prior-year figures were reclassified to conform to the new presentation adopted.

MANAGEMENT'S DISCUSSION AND ANALYSIS

1. ENERGY DISTRIBUTION SEGMENT

1.1 QDA

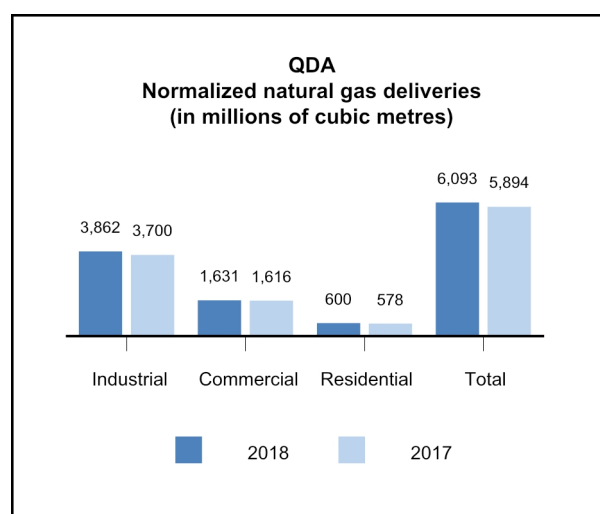
Fiscal years ended September 30

| | 2018 | Growth (decrease) | 2017 |
|---|---------|----------------------|---------|
| Revenues | 1,435.2 | (55.0) | 1,490.2 |
| Net income attributable to Partners | 145.1 | (2.5) | 147.6 |
| Adjusted net income attributable to Partners ⁽¹⁾ | 145.1 | (2.5) | 147.6 |
| Normalized natural gas delivery volumes (in millions of cubic metres) | 6,093 | 199 | 5,894 |

⁽¹⁾ This financial measure is not defined by GAAP. For additional information, refer to the Non-GAAP Financial Measures heading in section L) OVERVIEW OF ÉNERGIR, L.P. AND OTHER.

Revenues and volumes

For fiscal 2018, the 3.4% increase in normalized natural gas deliveries came mainly from the industrial market, in particular the pulp and paper and metallurgy sectors. To a lesser extent, the maturation of new sales and economic growth in Quebec also increased energy demand from residential and commercial customers. Despite higher volumes across all service categories, the fiscal 2018 revenues were down year over year, mainly due to lower natural gas prices and a decrease in TCPL's transportation rates.



During Q3-2018, the by-segment allocation of volumes has been adjusted to reposition the consumption of certain customers. The comparative volumes for fiscal 2017 and fiscal 2018 have been modified to reflect the new presentation.

QDA applies a revenue normalization mechanism to its natural gas distribution revenues, based on normal temperature and normal wind velocity. 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 2018, revenues were adjusted downward by \$8.2 million compared to a \$9.8 million upward adjustment in fiscal 2017.

Adjusted net income attributable to Partners

Summary of QDA's regulatory framework

The net income authorized in the fiscal 2016 to 2019 regulatory filings was determined using the following parameters:

| Fiscal years ended September 30 ⁽¹⁾ | 2019 | 2018 | 2017 | 2016 |
|---|----------|----------|----------|----------|
| 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 \$) ⁽³⁾ | 2,157 | 2,118 | 2,044 | 1,956 |

⁽¹⁾ The rate case period 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 on the rate bases in the 2019 and 2018 rate cases, refer to the Regulatory Filings heading of this section.

MANAGEMENT'S DISCUSSION AND ANALYSIS

QDA's fiscal 2018 rate case, as authorized by the Régie in September 2017, projected a decrease in net income attributable to Partners of \$14.9 million compared to that realized in fiscal 2017. This decrease stems mainly from:

- an \$8.4 million share in distribution service overearnings attributable to Partners realized in 2017, whereas no amount was projected for 2018;
- a lower return on non-rate-base investments, which outweighed the impact of the increase in rate-base investments, as explained below in the Regulatory Filings heading; and
- \$1.0 million in revenues related to the GEEP performance incentive recorded in fiscal 2017, whereas no revenues related to this incentive were projected in the 2018 rate case as the incentive was abolished.

Change in adjusted net income attributable to Partners

For fiscal 2018, adjusted net income attributable to Partners decreased \$2.5 million year over year, essentially due to:

- the various parameters in the 2018 rate case, as explained above;

partly offset by:

- a favourable impact of recording the \$12.6 million share in overearnings arising mainly from higher normalized natural gas deliveries, as explained above.

QDA'S NET INCOME WAS OVER \$12M HIGHER
THAN THE NET INCOME PROJECTED IN THE 2018
RATE CASE

Regulatory filings

Fiscal 2017

2017 annual regulatory report

QDA's annual regulatory report for the fiscal year ended September 30, 2017 was filed with the Régie in December 2017. In July 2018, the Régie issued its decision, which did not have a significant impact on Énergir, L.P.'s net income.

Fiscal 2018

2018 rate case

Phase I

In February 2017, the Régie authorized a full renewal, for fiscal 2018, of the regulatory relief measures, of the method for sharing performance variances, and of the 8.90% rate of return on deemed common equity in effect for fiscal years 2015 to 2017, as requested by QDA.

Remember that these regulatory relief measures fix operating expense increases to inflation and equitably shares any variances that might arise. The method for sharing performance variances provides that, for each fiscal year, the first 100 basis points on average deemed common equity related to realized overearnings are shared equally between QDA and its customers. Over and above these 100 basis points, 75% of the overearnings are returned to customers. As for the shortfalls, they are fully assumed by QDA.

Phase II

Following the Régie's decision to approve the renewal of regulatory relief, in March 2017 QDA filed Phase II of its 2018 rate case, which projected, among other things, an average rate increase of 3.7% compared to fiscal 2017 and an average rate base of \$2,511 million.

In September 2017, the Régie issued a decision authorizing an overall average rate increase of 4.5% compared to fiscal 2017 and an average rate base of \$2,118 million. The increase in rates comes mainly from the application of the new regulatory accounting policy that permits the amortization, in 2018, of the unamortized balance of all RAL related to weather and wind rate stabilization for fiscal years 2016 and 2017. As for the rate base, it shows a \$74 million increase over the 2017 rate case, which stems mainly from an increase in investments in property, plant and equipment, partly offset by inclusion in the rate base of regulatory assets and projected benefit liabilities related to employee future benefits. It should be noted that, in its decision, the Régie decided to defer, to a future rate case, QDA's request to have intangible assets and C&T-related RAL integrated into its rate base, which explains most of the difference between the amount submitted in the rate case and the decision, without affecting the projected net income for fiscal 2018.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal 2019

2019 rate case

Phase I

As proposed by QDA in October 2017, the Régie approved the renewal, for its 2019 rate case, of the rate of return on deemed common equity and of the method for sharing performance variances that have been in effect since fiscal 2015.

Phase II

In March and April 2018, QDA filed Phase II of its 2019 rate case with the Régie. It presented, among other things, an overall average decrease in rates of 4.1% and an average rate base of \$2,154 million, up \$36 million from the 2018 rate case. In November 2018, the Régie issued a decision authorizing an overall average decrease in rates of 2.6% and an average rate base of \$2,157 million. The decrease in rates stems mainly from transportation and load-balancing services given the lower TCPL rates in effect since January 1, 2018 as well as from the net impact of amounts to be returned to customers related to the overearnings and shortfalls realized in fiscal years 2017 and 2016. However, this decrease was partly offset by the impact of QDA's annual share payable to Transition énergétique Québec ("TEQ"). This share payable to TEQ, which was not known when preparing the 2019 rate case filed with the Régie, replaced the previous duty payable to the ministry of natural resources and wildlife (ministère des Ressources naturelles et de la Faune) and increased the 2019 cost of the distribution service by \$12.1 million. The increase in the rate base was due to an increase in property, plant and equipment investments.

Regulatory outlook

Measures related to the purchase and sale of RNG

In July 2017, QDA submitted a generic application seeking Régie approval to implement a guaranteed repurchase rate that would be available to RNG producers and to create an RNG supply rate for voluntary customers. The RNG purchase/sale measures proposed in this application will support the goals of Quebec's Energy Policy and will provide good conditions for producers, the aim being to increase RNG supply and make it easier for customers to access this highly sought source of renewable energy. The Régie is expected to issue a decision by spring 2019.

In addition to this regulatory application, Énergir, L.P. is continuing its initiatives to improve access to this renewable energy source with the goal of meeting the needs of customers who are eager to facilitate the energy transition. For more information on RNG initiatives, please see the RNG heading below.

LOCAL RENEWABLE NATURAL GAS NOW
INJECTED
IN THE QDA NETWORK

Outlook

In the coming years, Énergir, L.P. plans on pursuing the development of QDA mainly by achieving greater penetration across all markets and by developing alternative natural gas supply methods in order to target new customers, while also carefully controlling costs and ensuring that its system remains safe, reliable, and sustainable.

RNG

Énergir, L.P. believes that waste reclamation is a smart way to meet Quebec's energy requirements while helping to reduce GHG emissions. And its strategic ambitions to make QDA's gas network greener also seems to be aligned with the plans of the Quebec government, which in August 2018 published the *Regulation respecting the quantity of renewable natural gas to be delivered by a distributor*. Under this regulation, as of Énergir, L.P.'s fiscal year 2020, the minimum RNG content delivered through the QDA gas network would have to be 1% of distributed volumes; this percentage would have to rise progressively to 5% as of fiscal 2025. Reaching those targets will require nearly 300 million m³ of RNG to be injected into the QDA network. This draft regulation reinforces the position of the RNG as a renewable energy essential in the Quebec energy landscape and a key tool for the energy transition.

Since November 2017, Énergir, L.P. has been distributing RNG in Quebec, ever since the city of Saint-Hyacinthe became the first municipal producer to inject RNG into the QDA network. That supply source has helped QDA to meet growing customer demand for green energy. For example, a QDA customer, L'Oréal Canada inc., has committed to achieving carbon neutrality by purchasing RNG since December 2017. In addition, four more QDA customers have signed RNG supply agreements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Énergir, L.P. is pursuing initiatives in order to contribute to the development of RNG production in Quebec. To do so, it plans on reaching agreements similar to the city of Saint-Hyacinthe agreement with other municipalities as well as with private producers, in addition to participating in innovative projects that propose other sources of RNG.

1.2 ENERGY DISTRIBUTION IN VERMONT

Fiscal years ended September 30

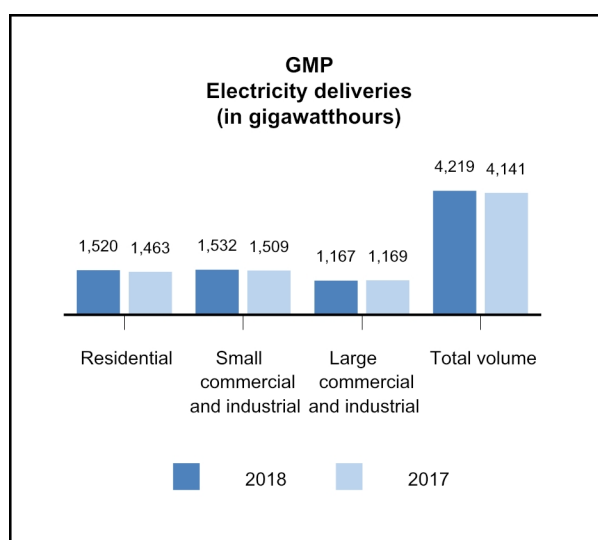
| | 2018 | Exchange rate | Growth (decrease) | 2017 ⁽¹⁾ |
|---|---------|---------------|-------------------|---------------------|
| Revenues | 1,067.3 | (25.0) | 97.1 | 995.2 |
| Net income attributable to Partners | 101.4 | (2.3) | 0.6 | 103.1 |
| Adjusted net income attributable to Partners ⁽²⁾ | 106.7 | (2.6) | 6.2 | 103.1 |
| Electricity volumes (in gigawatthours) | 4,219 | — | 78 | 4,141 |
| Natural gas volumes (in millions of cubic metres) | 370 | — | 22 | 348 |

⁽¹⁾ The fiscal 2017 figures have been adjusted to reflect the presentation adopted for the current fiscal year.

⁽²⁾ This financial measure is not defined by GAAP. For additional information, refer to the Non-GAAP Financial Measures heading in section L) OVERVIEW OF ÉNERGIR, L.P. AND OTHER.

Revenues and volumes

The electricity distributed by GMP is influenced by economic conditions, customer adoption of energy efficiency measures, customer self-generation of renewable energy, and temperature fluctuations. Thus, for the residential market and the small commercial and industrial market, the colder year-over-year temperatures in the first half of fiscal 2018 and the warmer year-over-year temperatures in the second half of fiscal 2018 led to higher volumes, as presented below. The year-over-year revenue growth for fiscal 2018 also incorporates an overall rate increase of 5.02% that took effect on January 1, 2018, as had been provided for in the 2018 rate case, and is driven by higher electricity resale revenues resulting from an increase in excess capacity sold.



MANAGEMENT'S DISCUSSION AND ANALYSIS

Adjusted net income attributable to Partners

Summary of the regulatory framework for GMP and VGS

| Fiscal years ended September 30 ⁽¹⁾ | 2019 | | 2018 | | 2017 | | 2016 | |
|--|--------------------|----------|--------------|----------|--------------|----------|--------------|--------------------|
| | GMP ⁽²⁾ | VGS | GMP | VGS | GMP | VGS | GMP | VGS |
| Authorized rate of return on common equity | 9.30% | 8.50% | 9.10% | 8.50% | 9.02% | 8.50% | 9.44% | 10.09% |
| Capital structure (Debt; Equity) | 50.2%; 49.8% | 50%; 50% | 51.4%; 48.6% | 50%; 50% | 49.7%; 50.3% | 50%; 50% | 50.4%; 49.6% | 45%; 55% |
| Average rate base in rate case (in millions of US\$) | 1,563 | 255 | 1,433 | 248 | 1,353 | 202 | 1,260 | 200 ⁽³⁾ |

⁽¹⁾ The rate case periods all run from October 1 to September 30, except for GMP's 2018 rate case, which covers the period of January 1, 2018 to December 31, 2018 and its 2019 rate case, which covers the period of January 1, 2019 to September 30, 2019 (9 months).

⁽²⁾ GMP's 2019 rate case is still under review by the VPUC, as explained in greater detail in the Regulatory Filings heading.

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

Impact of GMP's 2018 rate case authorized by the VPUC

GMP's 2018 rate case had projected a US\$0.7 million increase in net income over the net income generated in fiscal 2017. This annualized increase in anticipated net income stems mainly from the higher rate base, as explained below, and the higher authorized rate of return on common equity, partly offset by the impact of the capital structure.

Change in adjusted net income attributable to Partners

The \$6.2 million growth for fiscal 2018 is mainly due to:

- various parameters in GMP's 2018 rate case, which had projected an increase in net income for fiscal 2018 compared to fiscal 2017, as explained above;
- a favourable U.S. tax reform impact on the synergies attributable to GMP; and
- the impact of VGS's 2018 rate case parameters, which includes an increase in the rate base to reflect the start-up of the Addison project (US\$1.8 million for fiscal 2018).

Regulatory filings

Fiscal 2017

VGS - 2017 rate case

In February 2017, VGS reached a settlement agreement with the VDPS resolving all matters related to the 2017 rate case. The key provisions of this settlement include holding base rates at fiscal 2016 levels, an 8.5% authorized rate of return on common equity through fiscal 2019, an agreement on the amount of withdrawals from the System Expansion and Reliability Fund ("SERF") for fiscal 2017, and an agreement that the Addison project costs can be included in rates up to the US\$134 million cost cap. In April 2017, the VPUC approved the agreement, and in May 2017, certain intervenors appealed the decision before the Supreme Court of Vermont.

In April 2018, the Supreme Court of Vermont issued a decision confirming the certificate of public good ("CPG") granted to VGS for the Addison project, confirming use of the SERF, and confirming the inclusion of the Addison project costs in VGS's rate base (US\$134 million). However, in its decision, the Supreme Court also asked the VPUC to review its conclusions on prudence regarding VGS's management of project costs, on the grounds that the decision was not sufficiently documented. In July 2018, the VPUC issued a decision with additional findings, affirming its original decision.

Fiscal 2018

GMP - 2018 rate case

GMP's 2018 rate case, as approved in December 2017 by the VPUC, was developed on a cost-of-service basis and covers the period of January 1, 2018 to December 31, 2018. It provides for an authorized rate of return on common equity of 9.10% as well as a common equity ratio of 48.6%. It also includes a 5.02% rate increase given the higher supply cost and a projected average rate base of US\$1,433 million, US\$80 million higher than that of the 2017 rate case, mainly due to an increase in property, plant and equipment investment and to the investments made in Transco. It should be noted that the rate case

MANAGEMENT'S DISCUSSION AND ANALYSIS

also includes a provision whereby \$18.2 million, corresponding to 50% of the synergy savings resulting from the CVPS merger, will be returned to GMP's customers. The new rates have been in effect since January 3, 2018.

In November 2017, the VPUC also agreed to a temporary renewal, for the period starting January 1, 2018, of the adjustment mechanisms related to electricity supply costs and exogenous changes in GMP's Alternative Regulation Plan. This renewal will end on December 31, 2019, at the latest, or whenever a new alternative regulation plan is approved by the VPUC, which is expected in mid-2019 as described below.

VGS - Alternative Regulation Plan 2018 and 2019

In 2017, VGS submitted a request to the VPUC seeking to renew, for fiscal 2018, the in-force parameters governing its natural gas cost quarterly adjustment mechanism, including the mechanism for normalizing temperature-related impacts. This request was approved in August 2017. In June 2018, VGS filed a similar request with the VPUC seeking to renew those same parameters for fiscal 2019; its request was approved in August 2018.

VGS - 2018 rate case

In September 2017, VGS signed an agreement with VDPS with regard to its 2018 rate case, which was developed on a cost-of-service basis. This agreement provides for an 8.5% rate of return on common equity, a common equity ratio of 50%, a 4% increase in base rates as well as the use of US\$10.7 million collected through the SERF. Including the withdrawals planned for fiscal 2018, the SERF balance was US\$18.8 million as at September 30, 2018. The agreement also provides for an average rate base of US\$248 million, a US\$46 million increase to reflect, among other things, the coming into service of the Addison project. This agreement was submitted to the VPUC, and a favourable decision approving the terms of the agreement was issued in October 2017. The new rates took effect on November 2, 2017.

Fiscal 2019

GMP - 2019 rate case

In April 2018, GMP filed its 2019 rate case with the VPUC. Prepared on a cost-of-service basis, it provides for an authorized rate of return on common equity of 9.30% and a 49.8% common equity ratio, and it covers the period of January 1, 2019 to September 30, 2019 to reset the rate period to a fiscal year basis. It proposes an increase in rates of 5.45% to reflect an increase in power supply and transmission costs and an expected decrease in usage by GMP's customers. However, this increase will be fully offset by the impact of the start of reimbursements to customers of the regulatory liabilities recorded following the December 2017 U.S. tax reform and will translate into an overall rate decrease of 0.5%. The rate case also provides for an average rate base of US\$1,563 million, an increase of US\$130 million, to reflect greater investments in property, plant and equipment, in its ownership interest in Transco, and in solar power projects. Lastly, the rate case contains a provision whereby US\$13.9 million will be returned to GMP's customers as a result of the synergy savings resulting from the merger with CVPS over the nine-month period covered by this rate case. A decision from the VPUC is expected in December 2018.

VGS - 2019 rate case

In February 2018, VGS filed a cost-of-service proposal for its 2019 fiscal year with the VPUC. The cost of service proposed by VGS provides for an 8.5% rate of return on common equity and a 50% common equity ratio. In its rate case, VGS is proposing an overall decrease in rates of 3.8%, which includes a 14.8% reduction in the rates related to the cost of natural gas, the start of reimbursements to customers of the regulatory liabilities recorded as a result of the U.S. tax reform, and a 4% increase in distribution rates. VGS is also proposing to use an US\$8.1 million portion of the amounts collected in the SERF (US\$2.9 million net of the amounts to be collected during the fiscal year) and proposing an average rate base of US\$264.2 million, an increase of US\$16 million.

In August 2018, VGS reached an agreement with the VDPS regarding its 2019 rate case. The agreement provides for a 3.9% increase in distribution rates, an average rate base of US\$255.5 million, and an amount of US\$1.9 million to be used from the SERF, as the agreement also specifies that SERF-related amounts will no longer be collected through rates. In October 2018, the agreement was approved by the VPUC and the new rates will take effect on November 1, 2018.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Regulatory outlook

GMP - Multiyear regulation plan

In June 2018, GMP filed a proposal with the VPUC for a new multiyear regulation plan, which would replace the former plan currently in effect. The new plan is expected to take effect no later than October 1, 2019 and to have a three-year term. It includes various components that together address all of GMP's cost-of-service elements and continues some features such as the power supply adjustor in the current plan. Working sessions are planned for autumn 2018, and the VPUC is expected to issue a decision in mid-2019.

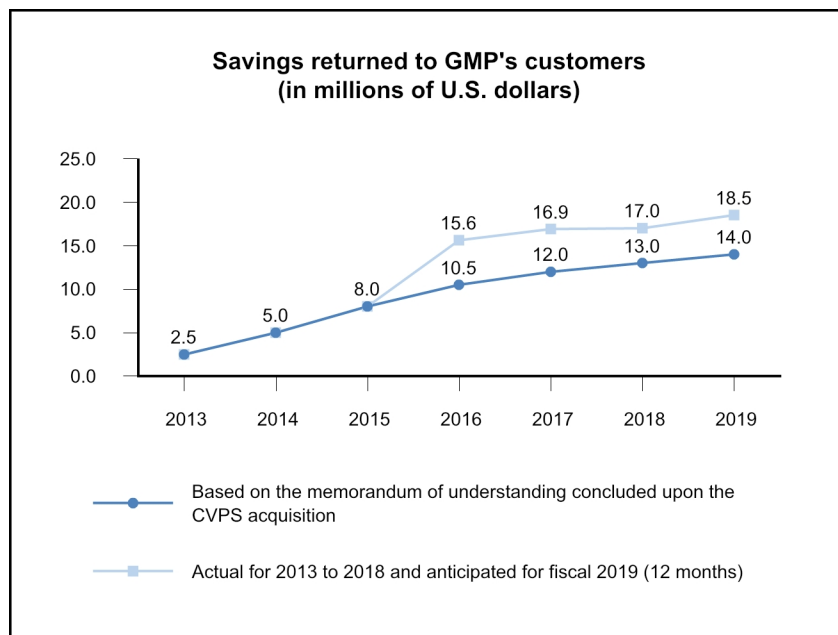
Synergies resulting from the GMP-CVPS merger

Pursuant to the memorandum of understanding that was entered into upon the CVPS acquisition ("memorandum of understanding"), GMP must generate at least US\$144 million in synergy savings for its customers over a 10-year period (2013 to 2022). These savings must be returned to GMP's customers according to a VPUC-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.

GMP EXPECTS TO GENERATE SUFFICIENT
SYNERGIES TO ACHIEVE THE OBJECTIVE OF
US\$144M

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



For fiscal years 2017 and 2018, GMP's synergies exceeded those set out in the memorandum of understanding reached during the CVPS acquisition. The synergy savings projected in the 2017 and 2018 rate cases stood at US\$16.3 million and US\$18.2 million (US\$17.9 million for fiscal 2018), respectively. It should be noted that the cost savings realized in fiscal 2018 are lower than those projected in the rate cases, as Vermont experienced several weather disturbances during the year, which resulted in higher-than-anticipated expenses. However, given the synergy savings realized since fiscal 2013, GMP expects to be able to realize sufficient synergies to reach the US\$144 million objective set by the memorandum of understanding.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Outlook

GMP stays apprised of opportunities to form strategic partnerships that help it to pursue its development and sustain its longevity. It pursues innovative initiatives that deliver integrated energy services and help customers reduce their consumption and electricity bills while continuing to distribute and produce clean, cost-effective and reliable energy.

Despite a higher demand for electricity in fiscal 2018 compared to fiscal 2017, GMP expects that overall demand will fall slightly over the medium and long term due to continuing improvements in energy efficiency measures across the State of Vermont and growing use of self-generated electricity in the residential and commercial markets. In response to these trends, GMP has developed new programs and is diversifying its customer offering. Among its initiatives are program in support of the installation and leasing of home batteries, smart heat pumps and water heaters, electric vehicle chargers, as well as the promotion of incentives for electric vehicle purchases.

Solar power projects

GMP's 2019 rate case includes three solar farm projects with a total production capacity of 14.4 MW, which, in combination with a system of Powerpack batteries from Tesla, will make it possible to store a total of 6 MW. Located in the State of Vermont, these projects, to be held in partnership, represent investments of approximately \$28.7 million for GMP. All three projects have been submitted to the VPUC for permit approval. The solar farms are expected to be put into service by the end of fiscal 2019.

VGS - Renewable natural gas

In March 2018, VGS launched its RNG program on a voluntary basis. Through this program, approved by the VPUC, customers will be able to procure RNG at a rate that includes a premium. In July 2018, the VPUC approved a long-term RNG-supply agreement between VGS and an Ontario supplier, with RNG injection expected to start in spring 2019. At the same time, to meet current and future demand, VGS is continuing its efforts to identify additional sources of RNG.

2. NATURAL GAS TRANSPORTATION SEGMENT

| | Fiscal years ended September 30 | | | |
|---|---------------------------------|---------------|-------------------|---------------------|
| | 2018 | Exchange rate | Growth (decrease) | 2017 ⁽¹⁾ |
| Revenues | 3.6 | — | 0.4 | 3.2 |
| Net income attributable to Partners | 22.8 | (0.5) | 5.3 | 18.0 |
| Adjusted net income attributable to Partners ⁽²⁾ | 20.2 | (0.4) | 2.6 | 18.0 |

⁽¹⁾ The fiscal 2017 figures have been adjusted to reflect the presentation adopted for the current fiscal year.

⁽²⁾ This financial measure is not defined by GAAP. For additional information, refer to the Non-GAAP Financial Measures heading in section L) OVERVIEW OF ÉNERGIR, L.P. AND OTHER.

The Natural Gas Transportation segment's results include the results of Champion and the shares in the earnings of TQM and PNGTS. Its results are therefore generally influenced by PNGTS's transported volumes, which vary depending on intermittent factors such as weather conditions, whereas the earnings of TQM and Champion remain stable given the existence of a fixed annual revenue requirement irrespective of transported volumes.

Adjusted net income attributable to Partners

The growth observed for fiscal 2018 is due to the increase in volumes transported by PNGTS, as new long-term contracts came into effect and to the impact of lower tax rate resulting from the U.S. tax reform, partly offset by a one-time maintenance project carried out by TQM during fiscal 2018.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Regulatory matters

Summary of TQM's regulatory framework

| Rate case period | 2018-01-01 to 2018-12-31 | 2017-01-01 to 2017-12-31 | 2016-01-01 to 2016-12-31 |
|--|---|--|--|
| Rate principles | Final rates based on the multiyear plan (2017-2021) negotiated with interested parties | Final rates based on the multiyear plan (2017-2021) negotiated with interested parties | Final rates based on the multiyear plan (2014-2016) negotiated with interested parties |
| Decision issued by the NEB | April 2018 | April 2017 | April 2016 |
| Average rate base in rate case (in millions of \$) | 327 | 335 | 345 |

Outlook

Portland Xpress project

Given the growing demand for natural gas in New England and the limited number of pipelines in that region, PNGTS conducted a bidding process in summer 2017 whereby it could sign new contracts for a total of approximately 180,000 Dth/day.

To meet this additional demand, PNGTS will therefore have to raise its network capacity by adding, among other things, a compressor to the Elliot station, for which the work is expected in winter 2020, while leveraging, among other things, the addition of a compressor at TQM's East Hereford station, which is expected to be put into service toward the end of the 2019 calendar year. The projected investments will amount to approximately \$55 million for TQM and \$85 million for PNGTS. In March 2018, the NEB approved the request to add compression on the TQM network, while the request to add compression on the PNGTS network was submitted to the FERC for approval in April 2018. Work at the East Hereford station began in August 2018.

Substantially all of PNGTS's customers have received the regulatory approvals required to contract the expected capacity. In addition to increasing PNGTS's transported volumes, these new 20-year contracts will also secure PNGTS's current capacities because a number of long-term sales contracts will be expiring in fiscal 2019. The new contracts are scheduled to come into force in phases based on available capacities.

3. ELECTRICITY PRODUCTION SEGMENT

| | Fiscal years ended September 30 | | | |
|---|---------------------------------|----------------------|-------------------|---------------------|
| | 2018 | Business acquisition | Growth (decrease) | 2017 ⁽¹⁾ |
| Revenues | 3.6 | 1.8 | (1.3) | 3.1 |
| Net income attributable to Partners | 4.4 | (1.8) | 6.2 | — |
| Adjusted net income attributable to Partners ⁽²⁾ | 4.4 | (1.8) | 6.2 | — |

⁽¹⁾ The fiscal 2017 figures have been adjusted to reflect the presentation adopted for the current fiscal year.

⁽²⁾ This financial measure is not defined by GAAP. For additional information, refer to the Non-GAAP Financial Measures heading in section L) OVERVIEW OF ÉNERGIR, L.P. AND OTHER.

The Electricity Production segment's results include the results of Standard Solar and the shares in the earnings of the SDB Wind Farms.

Adjusted net income attributable to Partners

The fiscal 2018 year-over-year growth in adjusted net income was driven mainly by the results of the SDB Wind Farms, which benefited from stronger wind conditions during fiscal 2018 compared to fiscal 2017 despite a period of frost in Q2-2018, as discussed in heading 3.2 of section B) CONSOLIDATED ANNUAL FINANCIAL PERFORMANCE SUMMARY of this Management's Discussion and Analysis. It should be noted that the net loss attributable to the non-controlling partner of Solar I was \$11.2 million for fiscal 2018. For additional information on this item, refer to the headings below.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Standard Solar

In April 2017, Énergir, L.P., through its subsidiary NNEEC, acquired all of the issued and outstanding common shares of Standard Solar for a cash consideration of \$22.0 million (US\$16.2 million), financed using NNEEC's credit facility. Based in the State of Maryland, Standard Solar is a vertically integrated U.S. business operating in the solar energy sector. In keeping with Énergir, L.P.'s strategic vision, this acquisition will help Énergir, L.P. to grow its presence and expertise in the solar power sector and build on its presence in the renewable energy segment.

The purchase price allocation of the new ownership interest led to the recognition of \$16.9 million in goodwill. The recognition of goodwill was supported by the following key factors: (i) the know-how of the manpower acquired, (ii) Standard Solar's reputation and (iii) the network of partner-developers that provides extensive geographic coverage of most U.S. states. For additional information on this transaction, refer to Note 4 of Énergir, L.P.'s audited consolidated financial statements for the fiscal years ended September 30, 2018 and 2017.

Since being acquired, Standard Solar has focused its efforts on implementing its new business model, i.e., growing its solar power generation operations. Heightened competition and the economic uncertainty prevailing in the United States, resulting from a potential increase in customs duties on solar panels, has caused some delays in contracting projects where Standard Solar acts as service provider. In January 2018, the White House issued its decision on solar panel tariffs, stating that a declining safeguard tariff would be imposed on manufacturers of solar cells and panels for the next five years, starting at 30% and moving to 15% in the fourth year. Neither Mexico nor Canada have been exempted from these tariffs. However, the decision exempts 2.5 gigawatts of solar cell imports per year.

The decision on tariffs put an end to a year of uncertainty. The market has therefore been able to recover and reorganize since the tariffs took effect, mitigating the impact of their application. As at September 30, 2018, Standard Solar's assets consisted of in-service projects totalling approximately 20 MW (no new projects put into service in Q4-2018) and of under-construction projects totalling approximately 35 MW (including 20 MW under construction in Q4-2018).

Solar I

In October 2017, Standard Solar signed an agreement with an investor to finance solar farms, including those in operation as at June 30, 2018. The agreement calls for a total amount of approximately US\$35 million to be invested in Solar I, with US\$14 million coming from the investor. As at September 30, 2018, the investor had invested \$15.0 million (US\$11.8 million). Other contracts with this investor were also signed in October 2017 to set partnership terms and conditions that are standard for this type of partnership. Given certain clauses in the agreement, Solar I is considered a VIE. For additional information on the accounting treatment of a VIE and its impacts, refer to Note 11 of Énergir, L.P.'s audited consolidated financial statements for the fiscal years ended September 30, 2018 and 2017.

Outlook

Énergir, L.P. remains apprised of opportunities to invest in other electric power generation projects in Canada and the United States in support of one of its strategic objectives, i.e., to increase its presence in the renewable energy segment in order to play an active role in reducing the environmental footprint of the energy sector.

In July 2017, Énergir, L.P. and Boralex submitted three bids in response to a request for proposals ("RFP") issued on March 31, 2017 by the State of Massachusetts, United States for a 300-MW wind power project located on the private land of Seigneurie de Beaupré. In January 2018, the results of this RFP were announced, and the bids submitted by Énergir, L.P. and Boralex were not selected.

4. ENERGY SERVICES, STORAGE AND OTHER SEGMENT

| | Fiscal years ended September 30 | | | |
|---|---------------------------------|---------------------------------|-------------------|---------------------|
| | 2018 | Business acquisition (disposal) | Growth (decrease) | 2017 ⁽¹⁾ |
| Revenues | 73.6 | 3.0 | 6.0 | 64.6 |
| Net income attributable to Partners | 13.1 | (0.1) | (5.7) | 18.9 |
| Adjusted net income attributable to Partners ⁽²⁾ | 8.8 | (0.1) | 2.5 | 6.4 |

⁽¹⁾ The fiscal 2017 figures have been adjusted to reflect the presentation adopted for the current fiscal year.

⁽²⁾ This financial measure is not defined by GAAP. For additional information, refer to the Non-GAAP Financial Measures heading in section L) OVERVIEW OF ÉNERGIR, L.P. AND OTHER.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For this segment, the year-over-year changes in revenues and adjusted net income were partly due to the acquisition of an additional 50% ownership interest in CDH (ECCU) during Q1-2017, as explained below, and to the fact that Gaz Métro Plus ceased its server hosting activities after a disposal of its assets in Q2-2018, as shown in the above table.

Revenues

For fiscal 2018, the segment's revenue growth was driven mainly by an increase in Gaz Métro LNG's deliveries as new contracts came into effect (83.4 million and 70.2 million cubic metres for fiscal years 2018 and 2017, respectively) as well as by an increase in ECCU's volumes and selling prices, reflecting the impact of cold temperatures and an indexing of its rates.

Adjusted net income attributable to Partners

For fiscal 2018, the segment's adjusted net income growth was driven mainly by an increase in ECCU's volumes and selling prices, by the general increase in profitability of Gaz Métro Plus, and by the increase in Gaz Métro LNG's deliveries, as mentioned above, offset by a higher amortization expense arising from the deployment of the second liquefaction train in April 2017 and from the 42% attribution of Gaz Métro LNG's results to IQ, in proportion to its equity interest, since that date.

Acquisition of a subsidiary - CDH

In December 2016, Énergir, L.P., through its subsidiary Gaz Métro Plus, acquired 50% of the issued and outstanding units of CDH, which had been held by the other joint venturer, for a cash consideration of \$25.8 million (amount of \$21.9 million, net of \$3.9 million in available cash at the time of acquisition). CDH primarily owns a 100% interest in ECCU, whose core business is managing and operating three distinct steam, hot water, and cold water networks that span three kilometres and meet the heating and air conditioning needs of certain commercial spaces in downtown Montreal.

These newly acquired units add to the 50% of issued and outstanding CDH units already held by Gaz Métro Plus, thereby giving it control of CDH and, consequently, control of ECCU. The purpose of this acquisition is to continue developing and growing this strategic asset, which serves the energy needs of 1.8 million square metres of commercial space in downtown Montreal where about 100,000 people circulate each day.

Since this transaction constitutes a step acquisition of a subsidiary, the carrying value of the interest determined using the equity method immediately before the transaction was remeasured at a fair value of \$25.8 million, which was based on the fair value of the cash consideration paid to the joint venturer during the transaction. Following this remeasurement, a \$12.5 million gain was recognized in the consolidated statement of income.

The purchase price allocation of the new ownership interest led to the recognition of \$14.7 million in goodwill. The recognition of goodwill was supported by the following key factors: (i) ECCU's proven ability over the years to deliver a safe and reliable energy solution at a competitive price, (ii) the unique and strategic location of its networks in downtown Montreal and (iii) the savings expected to be achieved on CDH's management fees.

Énergir, L.P. used its term loan to finance the transaction. For additional information on this transaction, refer to Note 4 of Énergir, L.P.'s audited consolidated financial statements for the fiscal years ended September 30, 2018 and 2017.

Outlook

LNG

Énergir, L.P., through Gaz Métro LNG, is continuing to market the LNG produced from the LSR plant's new capacity, both within and outside Quebec. Gaz Métro LNG's key initiatives include:

- Developing the market for LNG as marine fuel: Agreements have been reached with Groupe Desgagnés and the Société des traversiers du Québec to supply fuel to their ships and help develop an LNG fuelling solution for the ports of Montreal and Quebec City. That solution has now been implemented;
- Using LNG to replace fuel oil in industrial and mining markets: A pilot project launched with ArcelorMittal to convert part of its manufacturing process to LNG began in November 2018; and
- The U.S. market: initiatives with new customers and maintaining current contractual relationships.

MANAGEMENT'S DISCUSSION AND ANALYSIS

5. CORPORATE AFFAIRS SEGMENT

Fiscal years ended September 30

| | 2018 | Exchange rate | Growth (decrease) | 2017 ⁽¹⁾ |
|---|--------|---------------|----------------------|---------------------|
| Revenues | (29.6) | — | 0.1 | (29.7) |
| Net loss attributable to Partners | (70.9) | 1.8 | (25.9) | (46.8) |
| Adjusted net loss attributable to Partners ⁽²⁾ | (50.6) | 0.9 | (4.7) | (46.8) |

⁽¹⁾ The fiscal 2017 figures have been adjusted to reflect the presentation adopted for the current fiscal year.

⁽²⁾ This financial measure is not defined by GAAP. For additional information, refer to the Non-GAAP Financial Measures heading in section L) OVERVIEW OF ÉNERGIR, L.P. AND OTHER.

This segment's results reflect the elimination of intersegment revenues and direct costs and include the interest on long-term debt incurred to finance equity interests, the development expenses incurred for various projects, and the corporate expenses not allocated to other Énergir, L.P. business segments.

For fiscal 2018, the year-over-year decrease was essentially due to higher financial expenses arising from the issuance of long-term debt in Q3-2017 and higher average interest rates, to a decrease in the capitalized financial expenses on various projects, to a higher income tax expense for certain subsidiaries arising from ongoing reforms, and to certain ownership structure changes made in Q1-2018.

Outlook

Énergir, L.P. stays apprised of changes in its market while complying with the requirements, laws and regulations applicable to its operations. In all its decisions, deliberations and strategic choices, Énergir, L.P. is mindful of the environment and the GHG reduction targets. With the goal of increasing profitability while maintaining a similar risk profile, Énergir, L.P. 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, mission, and strategic plan.

MANAGEMENT'S DISCUSSION AND ANALYSIS

P) CONSOLIDATED FINANCIAL POSITION

The following table compares the main consolidated balance sheet items as at September 30, 2018 with those of September 30, 2017.

| Balance sheet items | | | | | |
|--|---------|---------|----------------------|------------------------------------|---|
| As at September 30 | 2018 | 2017 | Exchange rate impact | Increase (Decrease) ⁽¹⁾ | Explanation |
| Trade and other receivables | 229.5 | 192.5 | 4.1 | 32.9 | ▪ Increase in GMP's rates and deliveries and in QDA's deliveries |
| Inventories | 81.3 | 96.9 | 0.9 | (16.5) | ▪ Decrease in QDA's storage volumes to Union Gas combined with a decrease in the cost of natural gas related to market conditions |
| Property, plant and equipment | 4,523.8 | 4,253.8 | 72.6 | 197.4 | ▪ Investments in QDA's, GMP's and VGS's energy distribution systems and in Standard Solar's solar projects |
| Intangible assets | 341.9 | 417.8 | 1.4 | (77.3) | ▪ Net change in the GHG emission allowances held by QDA under the C&T Regulation |
| Investments | 1,307.1 | 1,207.7 | 38.1 | 61.3 | ▪ GMP's investments in Transco |
| Goodwill | 423.5 | 409.4 | 14.1 | — | ▪ Comparable |
| Bank loans | 37.7 | 43.8 | 1.3 | (7.4) | ▪ Decrease in VGS's credit facility |
| Accounts payable and accrued liabilities | 317.1 | 372.4 | 4.8 | (60.1) | ▪ Decrease mainly due to the payment made by GMP in connection with its investment in Transco |
| Long-term debt, including current portion | 3,615.8 | 3,476.3 | 83.9 | 55.6 | ▪ Financing of GMP's investments in its network and in Transco and Standard Solar |
| Net regulatory liabilities (assets), including current and noncurrent portions | 119.8 | (263.2) | 5.6 | 377.4 | <ul style="list-style-type: none"> ▪ Increase in regulatory liabilities related to deferred income taxes further to the U.S. tax reform ▪ Change in regulatory assets and liabilities related to the sharing of QDA's overearnings and shortfalls, as anticipated in the 2018 rate case ▪ Increase in regulatory liabilities related to removal costs ▪ Decrease in regulatory assets related to GMP's employee future benefits |
| Deferred income tax liability | 338.1 | 532.2 | 17.4 | (211.5) | ▪ Impact of the U.S. tax reform |
| Net liability related to derivative financial instruments, including current portion | 14.8 | 53.0 | 0.5 | (38.7) | ▪ Increase in electricity and capacity forward prices, resulting in an increase in the fair market value of fixed-price swaps |
| Other noncurrent liabilities | 548.7 | 546.7 | 10.3 | (8.3) | ▪ Decrease in the projected benefit liabilities of VGS and GMP, partly offset by an increase in those of QDA |
| Capital | 1,851.8 | 1,851.8 | — | — | ▪ Comparable |

⁽¹⁾ Excluding the exchange rate impact.

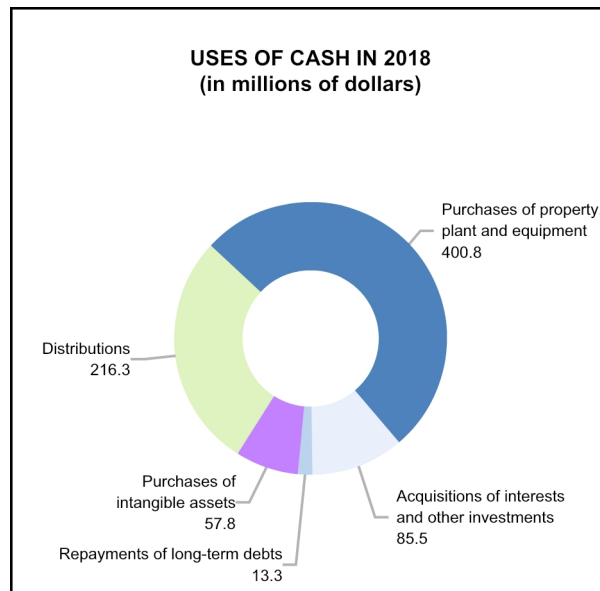
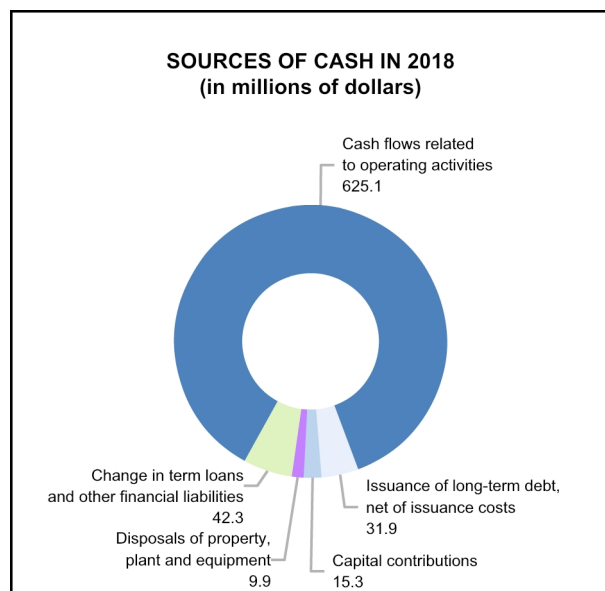
MANAGEMENT'S DISCUSSION AND ANALYSIS

Q) CASH AND CAPITAL MANAGEMENT

Énergir, L.P.'s cash and capital management strategy aims to maintain a strong financial profile and making sure its liquidity requirements are met. In so doing, Énergir, L.P. 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 Énergir, L.P.'s financial position, cash flows and liquidity.

1. HIGHLIGHTS FOR FISCAL 2018 ⁽¹⁾ ⁽²⁾



⁽¹⁾ The change in term loans and other financial liabilities also includes the change in bank loans and bank overdraft.

⁽²⁾ Acquisitions of interests and other investments correspond to acquisitions of equity-accounted interests and other investments, the change in restricted cash and cash equivalents, acquisitions and disposals of investment fund units and other investments.

2. CASH FLOW SUMMARY

| | Fiscal years ended September 30 | | |
|--|---------------------------------|---------|---------|
| | 2018 | 2017 | Change |
| Cash flows related to operating activities | a 625.1 | 559.8 | 65.3 |
| Cash flows related to investing activities | b (534.2) | (573.6) | 39.4 |
| Cash flows related to financing activities | c (140.1) | 67.0 | (207.1) |

a) Cash flows related to operating activities

Cash flows related to operating activities were up \$65.3 million, due, in part, to:

- a \$40.1 million net increase in QDA's cash inflows, mainly due to:
 - higher rates projected in the 2018 rate case and a favourable impact of colder temperatures; partly offset by:
 - higher natural gas prices; and
 - an unfavourable impact of higher volumes on working capital; and
- a \$24.0 million increase in distributions received from equity-accounted interests attributable to the distributions received by PNGTS and Transco; partly offset by:
- amounts returned to customers by GMP and VGS following the U.S. tax reform and the expenses incurred by GMP for major storms in fiscal 2018, which will subsequently be recovered from its customers.

**CASH FLOWS RELATED TO OPERATING ACTIVITIES
WERE UP \$65.3M**

MANAGEMENT'S DISCUSSION AND ANALYSIS

b) Cash flows related to investing activities

| | Fiscal years ended September 30 | | |
|---|---------------------------------|----------------|-------------|
| | 2018 | 2017 | Change |
| Change in restricted cash and cash equivalents | 6.6 | (0.4) | 7.0 |
| Purchases of property, plant and equipment | (400.8) | (503.4) | 102.6 |
| Disposals of property, plant and equipment | 9.9 | 45.2 | (35.3) |
| Purchases of intangible assets | (57.8) | (69.8) | 12.0 |
| Net change in investment fund units | (3.1) | (5.2) | 2.1 |
| Purchases of equity-accounted interests and other investments | (91.9) | (5.3) | (86.6) |
| Acquisitions of subsidiaries | — | (42.7) | 42.7 |
| Other | 2.9 | 8.0 | (5.1) |
| Total | (534.2) | (573.6) | 39.4 |

Purchases of property, plant and equipment

For fiscal 2018, purchases of property, plant and equipment decreased \$102.6 million year over year, mainly due to:

- the April 2017 completion of VGS's system development project in Addison County as well as the start-up of Gaz Métro LNG's second liquefaction train at the LSR plant; and
- GMP's investments in its solar farms in Q1-2017, the purchase of hydroelectric power plants in Q2-2017 and Q3-2017, and a decrease in its 2018 investments, as anticipated in the rate case;

partly offset by:

- investments in Standard Solar's solar projects.

Disposals of property, plant and equipment

Year over year, the fiscal 2018 disposals of property, plant and equipment were down \$35.3 million, mainly due to GMP's Q3-2017 sale of a jointly controlled asset, Highgate Transmission Facility, for a cash consideration of \$43.5 million (US\$32.4 million), partly offset by the sale of Gaz Métro Plus's server hosting assets in Q2-2018.

Purchases of intangible assets

Year over year, the fiscal 2018 purchases of intangible assets were down \$12.0 million, mainly due to lower purchases of GHG emission allowances by QDA under the C&T Regulation.

Purchases of equity-accounted interests and other investments

Purchases of equity-accounted interests and other investments increased by \$86.6 million, mainly due to GMP's \$40.6 million (US\$32.4 million) and \$49.6 million (US\$39.0 million) investments in Transco in September 2017 and December 2017, respectively. It should be noted that the September 2017 investment was paid in October 2017.

Acquisitions of subsidiaries

In December 2016, Énergir, L.P., through its Gaz Métro Plus subsidiary, acquired an additional interest in CDH (ECCU) for a consideration of \$21.9 million, net of the cash acquired. On April 26, 2017, Énergir, L.P., through its subsidiary NNEEC, acquired all of the issued and outstanding common shares of Standard Solar for a consideration of \$20.8 million (US\$15.3 million), net of the cash acquired. For additional information about these transactions, refer to the Acquisition of a Subsidiary - CDH and Standard Solar headings, respectively, of section O) SEGMENT RESULTS.

c) Cash flows related to financing activities

| | Fiscal years ended September 30 | | |
|----------------------------|---------------------------------|-------------|----------------|
| | 2018 | 2017 | Change |
| Capital contributions | 15.3 | 139.7 | (124.4) |
| Distributions | (216.3) | (204.0) | (12.3) |
| Other financing activities | 60.9 | 131.3 | (70.4) |
| Total | (140.1) | 67.0 | (207.1) |

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital contributions

For fiscal 2018, capital contributions were down \$124.4 million year over year, mainly due to:

- Énergir, L.P.'s \$100.0 million unit issuance in Q2-2017; and
- the capital contributions made in fiscal 2017 by GMP's partner in the solar farm projects and by IQ in Gaz Métro LNG, totalling \$39.5 million;

partly offset by:

- a \$15.0 million capital contribution made by Standard Solar's partner in the solar farm projects during fiscal 2018.

Distributions

Year over year, the fiscal 2018 distributions were up \$12.3 million, mainly reflecting the March 31, 2017 unit issuance and the increase in the quarterly distribution (\$0.29 to \$0.30 per unit) announced in Q4-2017.

The following table shows the distributions paid to Partners during fiscal 2018:

| Distribution payment date | Distribution declaration date | Per unit distribution amount (in \$) | Cash amount (in millions of \$) |
|---------------------------|-------------------------------|--------------------------------------|---------------------------------|
| October 2, 2017 | August 8, 2017 | 0.30 | 51.5 |
| January 3, 2018 | November 23, 2017 | 0.30 | 51.5 |
| April 2, 2018 | February 8, 2018 | 0.30 | 51.5 |
| July 3, 2018 | May 9, 2018 | 0.30 | 51.5 |

Considering the quarterly distributions totalling \$1.20 per unit paid during fiscal 2018, Énergir, L.P. kept with its practice of distributing virtually all of its income, since, as at September 30, 2018, it had distributed to Partners 97.3% of the net income it has earned since 1993.

QUARTERLY DISTRIBUTIONS TOTALLING \$1.20
PER UNIT FOR FISCAL 2018

Other financing activities

For fiscal 2018, other financing activities resulted in net issuances of \$60.9 million, essentially due to the increased financing needs of GMP whose debt was used primarily to finance the additional investment in Transco in Q1-2018 and the investments needed to improve and maintain its network.

In September 2018, GMP issued, by way of private placement, first mortgage bonds for an aggregate principal amount of US\$45.0 million, i.e., a series of US\$25.0 million issued in September 2018 and a series of US\$20.0 million that will be issued in December 2018. These series of bonds will mature in September 2030 and in December 2048 and bear interest at annual rates of 3.84% and 4.20%, respectively.

3. FUNDS FROM OPERATIONS / DEBT RATIO

| | 12-month periods ended September 30 | | |
|--|-------------------------------------|---------|---------|
| | 2018 | 2017 | 2016 |
| Cash flows related to operating activities | 625.1 | 559.8 | 530.0 |
| Less: Change in other operating assets and liabilities | (20.1) | 12.7 | 18.5 |
| Funds from operations | 645.2 | 547.1 | 511.5 |
| Bank loans | 37.7 | 43.8 | 15.8 |
| Current portion of long-term debt | 212.7 | 13.1 | 10.1 |
| Long-term debt | 3,403.2 | 3,463.3 | 3,464.4 |
| Total debt | 3,653.6 | 3,520.2 | 3,490.3 |
| Less: Cash and cash equivalents | 52.2 | 100.7 | 52.0 |
| Total debt, net of cash and cash equivalents | 3,601.4 | 3,419.5 | 3,438.3 |
| Funds from operations / debt ratio ⁽¹⁾ | 17.9% | 16.0% | 14.9% |

⁽¹⁾ This financial measure is not defined by GAAP. For additional information, refer to the Non-GAAP Financial Measures heading in section L) OVERVIEW OF ÉNERGIR, L.P. AND OTHER.

MANAGEMENT'S DISCUSSION AND ANALYSIS

As at September 30, 2018, the funds from operations / debt ratio was 17.9%, a 1.9% increase from fiscal 2017. This increase was due to:

- an increase in cash flows related to operating activities arising from, among other factors, the effects of QDA's 2018 rate case and from higher volumes, as described in heading a) Cash Flows Related to Operating Activities;

partly offset by:

- an increase in GMP's long-term debt, as explained previously, and an unfavourable exchange rate impact on debt.

As at September 30, 2017, the funds from operations / debt ratio was 16.0%, a 1.1% increase from fiscal 2016. This increase was mainly due to:

- an increase in cash flows related to operating activities arising mainly from a favourable impact of revenue and cost differences compared to the rate cases of QDA and GMP; and
- a favourable exchange rate impact on debt.

4. CAPITAL STRUCTURE AND DEBT RATIO

| | As at September 30 | | |
|--|--------------------|---------|---------|
| | 2018 | 2017 | 2016 |
| Bank loans | 37.7 | 43.8 | 15.8 |
| Current portion of long-term debt | 212.7 | 13.1 | 10.1 |
| Long-term debt | 3,403.2 | 3,463.3 | 3,464.4 |
| Total debt ⁽¹⁾ | 3,653.6 | 3,520.2 | 3,490.3 |
| Total equity ⁽²⁾ | 2,000.5 | 1,951.1 | 1,810.3 |
| Total capitalization | 5,654.1 | 5,471.3 | 5,300.6 |
| Debt / total capitalization ratio ⁽³⁾ | 64.6% | 64.3% | 65.8% |

⁽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 of Énergir, L.P.'s audited consolidated financial statements for the fiscal years ended September 30, 2018 and 2017.

⁽³⁾ This financial measure is not defined by GAAP. For additional information, refer to the Non-GAAP Financial Measures heading in section L) OVERVIEW OF ÉNERGIR, L.P. AND OTHER.

As at September 30, 2018, the debt / total capitalization ratio stood at 64.6%, a 0.3% increase from September 30, 2017 that mainly reflects an increase in debt, as previously mentioned. This debt ratio falls within Énergir, L.P.'s targeted range.

As at September 30, 2017, the debt / total capitalization ratio was 64.3%, down 1.5% from September 30, 2016. This decrease resulted mainly from the issuance of \$100.0 million in units by Énergir, L.P. during fiscal 2017, partly offset by the increase in long-term debt explained by QDA and GMP's investments in their distribution network.

Impacts of exchange rate fluctuations on the capital structure

Énergir, L.P., 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.

For fiscal 2018, Énergir, L.P. increased the value of its U.S.-dollar net assets by \$27.7 million, net of translation adjustments related to hedging activities, due to a depreciation of the Canadian dollar versus the U.S. dollar.

As at September 30, 2018, the value of Énergir, L.P.'s U.S.-dollar net assets exposed to exchange risk after hedging stood at \$879.7 million (US\$681.5 million) compared to \$787.4 million (US\$631.3 million) as at September 30, 2017.

The following end-of-period exchange rates were used to translate U.S.-dollar-denominated assets and liabilities into Canadian dollars as at:

| | September 30, 2018 | September 30, 2017 | Increase |
|-------------|--------------------|--------------------|----------|
| U.S. dollar | 1.2908 | 1.2472 | 3.5% |

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2018 | September 30, 2017 | Decrease |
|-------------|--------------------|--------------------|----------|
| U.S. dollar | 1.2841 | 1.3119 | (2.1)% |

Unused credit facilities and financing outlook

As at September 30, 2018, Énergir, L.P., in part through its General Partner Énergir Inc., had several term credit facilities totalling \$1,010.4 million and operating credit facilities totalling \$127.0 million. The amounts available on the various term and operating credit facilities totalled \$688.4 million as at September 30, 2018.

In April 2018, Énergir Inc. extended the maturity of its credit facility to March 2023. The terms and conditions of the original credit agreement remain unchanged. The amounts borrowed on this credit agreement were loaned under similar conditions to Énergir, L.P.

In September 2018, GMP's credit facility of \$142.0 million (US\$110.0 million) was repaid using a new credit facility. This new facility authorizes a term loan of \$180.7 million (US\$140.0 million) and will mature in September 2021.

In June 2018, VGS repaid its two credit facilities for which the authorized maximum borrowing was US\$65.0 million. Subsequently, VGS also entered into a new US\$55.0 million credit agreement that will mature in June 2020.

During fiscal 2019, Énergir, L.P. expects to require funds to finance:

- investments in property, plant and equipment which could amount to approximately \$540 million and are related mainly to extensions and improvements to be made to the energy distribution systems in Quebec and Vermont (approximately \$360 million) and to the Standard Solar projects (approximately \$180 million);
- its investment opportunities;
- capital contributions needed for its subsidiaries, joint ventures and entities subject to significant influence;
- the refinancing or repayment of \$212.7 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 line of credit facilities; and
- if necessary, new financings in the form of debt or unit issuances.

In terms of financing, since Énergir, L.P.'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. Énergir, L.P. usually meets its financing needs for QDA by issuing debt or units to Partners in order to maintain, as authorized by the Régie, an average capital structure of 54% debt and 46% equity.

Énergir, L.P. believes that it will be able to refinance or reimburse the \$212.7 million in long-term debt coming due during fiscal 2019, as it has never experienced a significant reduction in its ability to access capital markets, even during the past periods of economic instability. GMP's issuance of US\$45.0 million in first mortgage bonds in 2018, Énergir Inc.'s issuance of first mortgage bonds in recent fiscal years, and the maintenance of the S&P and DBRS credit ratings attributed to Énergir, L.P. and Énergir Inc. for fiscal 2018 are testament to the financial markets' confidence in them. For Énergir, L.P., 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, 2018 and 2017, Énergir Inc. and Énergir, L.P. and its subsidiaries were in compliance with all of the major requirements of the various trust deeds, credit agreements and other loan agreements governing long-term debt.

MANAGEMENT'S DISCUSSION AND ANALYSIS

It should be noted that, on the basis of Énergir, L.P.'s non-consolidated financial statements, the trust deeds and the other agreements governing its long-term debt stipulate that:

- Énergir, L.P. will not issue any new long-term debt if, given such an issuance, Énergir, L.P.'s long-term debt to total capitalization ratio exceeds 65% and its long-term debt interest coverage ratio is less than 1.5;
- Énergir, L.P. will not make a distribution to its Partners if, given such a distribution, its long-term debt to total capitalization ratio exceeds 75%;
- all of Énergir, L.P.'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, Énergir, L.P.'s interests in such activities may not exceed 5% of its total non-consolidated assets.

For additional information on the trust deeds and other agreements governing the long-term debt, refer to Note 14 to Énergir, L.P.'s audited consolidated financial statements for the fiscal years ended September 30, 2018 and 2017.

Internal policy for the setting of interest rates

As at September 30, 2018, 90.0% of the long-term debt was at fixed rates compared to 91.1% as at September 30, 2017. Although Énergir, L.P.'s internal policy is to fix the interest rate of approximately 75% of its debt, Énergir, L.P. took advantage of the lower interest rates in recent fiscal years to fix rates on a larger portion of its long-term financing cost.

5. OFF-BALANCE-SHEET ARRANGEMENTS

Guarantees

In the normal course of business and during construction of its various projects, Énergir, L.P. and Énergir Inc., 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 Énergir, L.P., refer to Note 26 to Énergir, L.P.'s audited consolidated financial statements for the fiscal years ended September 30, 2018 and 2017.

6. CONTRACTUAL OBLIGATIONS

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

| (in millions of dollars) | Total | 2019 | 2020 | 2021 | 2022 | 2023 | Subsequent fiscal years |
|--|-----------------|----------------|--------------|----------------|--------------|--------------|-------------------------|
| Financial liabilities | | | | | | | |
| Bank overdraft | 5.4 | 5.4 | — | — | — | — | — |
| Bank loans | 37.7 | 37.7 | — | — | — | — | — |
| Accounts payable and accrued liabilities | 317.1 | 317.1 | — | — | — | — | — |
| Distributions payable | 51.5 | 51.5 | — | — | — | — | — |
| Derivative financial liabilities | 29.7 | 11.1 | 6.9 | 5.4 | 0.4 | 1.4 | 4.5 |
| Long-term debt | 3,632.6 | 212.7 | 114.6 | 286.7 | 245.1 | 271.0 | 2,502.5 |
| Contractual liability related to the elimination of spent nuclear fuel | 191.7 | — | — | — | — | — | 191.7 |
| Customer deposits | 34.8 | 3.8 | 5.5 | 19.5 | 6.0 | — | — |
| Interest ⁽¹⁾ | 2,381.7 | 165.7 | 154.7 | 150.8 | 138.4 | 124.4 | 1,647.7 |
| Total | 6,682.2 | 805.0 | 281.7 | 462.4 | 389.9 | 396.8 | 4,346.4 |
| Supply contracts ⁽²⁾ | | | | | | | |
| Energy supply | 4,118.1 | 273.4 | 271.8 | 259.7 | 253.2 | 246.3 | 2,813.7 |
| Transportation | 2,715.7 | 324.3 | 318.6 | 317.6 | 307.7 | 297.9 | 1,149.6 |
| Storage | 94.5 | 23.6 | 20.6 | 18.5 | 17.0 | 14.8 | — |
| Total | 6,928.3 | 621.3 | 611.0 | 595.8 | 577.9 | 559.0 | 3,963.3 |
| Leases ⁽³⁾ | 8.3 | 2.0 | 1.9 | 1.8 | 0.5 | — | 2.1 |
| Total contractual obligations | 13,618.8 | 1,428.3 | 894.6 | 1,060.0 | 968.3 | 955.8 | 8,311.8 |

⁽¹⁾ Interest is presented based on contractual maturity and using the rates in effect as at September 30, 2018.

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

⁽³⁾ Énergir, L.P. and its subsidiaries are committed under operating leases to rent commercial premises and other assets used in the normal course of their operations.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For additional information on commitments and guarantees, refer to Note 26 to Énergir, L.P.'s audited consolidated financial statements for the fiscal years ended September 30, 2018 and 2017.

R) RISK FACTORS RELATING TO ÉNERGIR, L.P.

For the purposes of this section, the term "Énergir, L.P." means, depending on the context, Énergir, L.P., QDA, and Énergir, L.P.'s subsidiaries and joint ventures.

Statement

This section describes the principal risk factors that could: (i) have a significant impact on Énergir, L.P.'s activities, competitive position, financial position (including credit ratings and issuances of long-term debt securities), and consolidated net income; (ii) result in costs, expenses and losses; (iii) cause unexpected damages that Énergir, L.P. might not be able to recover in full or in part; or (iv) have an unfavourable impact on the value of Énergir, L.P.'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 Énergir, L.P.'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.

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

Énergir, L.P. has developed and applies 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 Énergir, L.P.'s activities, competitive position, financial position, or consolidated net income will not occur.

Énergir, L.P., 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

Énergir, L.P.'s regulated activities depend on decisions issued by regulatory agencies, particularly decisions by the Régie and the NEB in Canada and by the VPUC and FERC in the United States on, among other matters (i) natural gas and electricity transportation and distribution 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 Énergir, L.P.'s net income and 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 Énergir, L.P. Énergir, L.P.'s ability to recover actual service costs and earn the approved rates of return depends notably on achieving the projections provided in the rate case filings, and doing so in compliance with the current regulatory mechanisms. Consequently, there is no assurance that Énergir, L.P. will be able to recover all of the actually incurred costs and thereby achieve the authorized rates of return.

Énergir, L.P. 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 through 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 of government or significant changes in government policies, whether at the federal, provincial, state or local levels, could affect the regulatory and commercial frameworks governing Énergir, L.P.'s activities. These changes could include changes to laws and regulations that govern Énergir, L.P.'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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Change in accounting framework

In March 2018, Énergir Inc. and Valener obtained new exemptions from the Canadian Securities Administrators (the “CSA”), allowing them to continue preparing 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, 2024; (ii) the first day of the fiscal year following the cessation of RRA by Énergir, L.P., if applicable; or (iii) the effective date prescribed by the International Accounting Standards Board for mandatory application of a permanent and specific IFRS standard for entities engaged in RRA. Énergir, L.P., which is not a publicly accountable enterprise within the meaning of the Handbook, adopted the strategy recommended by its partners. Therefore, Énergir, L.P. and its partners have been using U.S. GAAP to prepare their annual and interim consolidated financial statements since fiscal 2016 and plan to continue doing so.

Should the CSA exemptions not be renewed, Énergir Inc. 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 Énergir, L.P. and its partners compared to that which would otherwise be accounted for under U.S. GAAP.

ECONOMIC ENVIRONMENT

Economic conditions

Énergir, L.P.'s business activities are influenced by the energy demand fluctuations of the sectors in which it operates. Such demand fluctuations are caused by key economic factors such as rates of economic growth (both internationally and locally), energy prices, and significant tariff barriers imposed on customers. Industrial customers are also particularly sensitive to fluctuations in commodity prices and to environment-related taxation systems, which could affect the comparative production costs of Quebec businesses. Generally speaking, poor economic conditions have a negative impact on the business activities of the industrial and commercial customers served by Énergir, L.P. 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, as the industrial market has reached a certain level of maturity.

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 risk resulting from any such decline in demand is mitigated. When it comes to electricity, GMP's regulation plan (Alternative Regulation Plan) can also reduce this risk of demand fluctuation. Specifically, the plan allows for partial deferral by way of existing rate levels of any 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, Énergir, L.P. has also been working to raise its presence and market share of natural gas and electricity in the residential market, thereby reducing its vulnerability to the industrial and commercial markets.

Competitive environment

Énergir, L.P.'s business activities are affected by profound global changes in the energy sector worldwide, including decentralized production, decarbonization of the economy, renewable energies, new technologies, digitalization, and new competitor profiles, etc.

Énergir, L.P. is therefore competing with players with increasingly diverse profiles, both in terms of size and type of activity. Decentralized power production caused by the energy transition has reduced barriers to entry and allowed new players to position themselves in the market.

In response to those changes, Énergir, L.P. is constantly adapting by means of several strategic initiatives, including the creation of more renewable energy solutions.

In Quebec

In Quebec, natural gas primarily competes with petroleum products, biomass energy, diesel, and coal.

Electricity holds the largest share of the residential energy market and natural gas constantly faces competition from it in that market.

MANAGEMENT'S DISCUSSION AND ANALYSIS

In the commercial market, natural gas competes with electricity and fuel oil no 2.

In the industrial market, the competition of natural gas, both in its gas or liquid form, comes essentially from fuel oil no 6, coal, and biomass energy. Because a significant portion of industrial customers can use more than one energy source to cover their energy needs, drops in oil prices put additional pressure on the competitiveness of natural gas in this market. However, this pressure is somewhat alleviated by an increasing awareness of the importance to reduce GHG emissions. 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 relative weight of this component in the customer's total invoice. 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, QDA's competitiveness also depends on transportation rates since natural gas comes from outside Quebec and QDA's customers must bear the cost of transportation. Any significant increase in transportation rates could therefore limit 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 use 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, QDA's customers who are not directly subject to the C&T Regulation are subject to the C&T service rate based on consumption. Since the emission factor associated with natural gas is below that of other fuels, the C&T-related costs of these other fuels is higher and therefore results in an added competitive advantage for natural gas. The opposite is true when compared to renewable electricity generated in Quebec, where the C&T-related costs reduce the competitive advantage of natural gas.

In the short term, C&T costs will have little impact on the competitive position of natural gas. In the longer term, these costs are expected to increase substantially, which could have a greater impact on the competitive position of natural gas versus electricity.

Lastly, QDA is exposed to the risk of fluctuating natural gas commodity prices only in terms of the resulting impact on its competitive position, since QDA is required to sell natural gas to customers at cost so that it cannot realize 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 to meet their space heating and water heating needs. Moreover, municipalities located within GMP's service territory could potentially form and operate, with citizen approval, municipally-owned utilities that would then compete with GMP. In addition, self-generation, electricity demand management programs, and cogeneration pose potential competitive threats to network electricity sales by displacing electricity demand within GMP's service territory and possibly reducing the customer base over which GMP costs are spread. However, GMP is benefiting from advancements in heat pump technologies that use electricity to achieve highly efficient heating and cooling of residential and commercial spaces. Lastly, technological advances in electric battery energy storage, in both the residential and commercial markets, are expected to begin reducing, in the next couple of years, peak periods and the related costs for GMP and its customers.

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

OPERATING ACTIVITIES

Weather conditions

The energy distribution business is seasonal, with most demand for natural gas and electricity occurring based on energy type during the winter heating season and the summer air conditioning season, the lengths of which vary in each of the service territories. Given climate change, there can be no assurance that long-term historical weather patterns will remain unchanged.

QDA and VGS apply a revenue normalization mechanism that is related mainly to temperature fluctuations. Using this mechanism, QDA and VGS normalize natural gas deliveries and reflect any adjustments 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 fluctuate significantly owing to seasonal changes, weather conditions, and unusual or severe temperatures. GMP applies a rate adjustment mechanism through which it can recover through rates certain cost and volume variations resulting from weather and temperature conditions.

Moreover, certain Énergir, L.P. 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, thereby resulting in costs that might not be fully insured or recoverable from customers and may therefore require regulatory approvals for recovery from customers. While Énergir, L.P. has generally received such cost-recovery approval, there are no guarantees that such recoveries will be sufficient or timely. A failure by Énergir, L.P. to operate as expected under these conditions would be especially burdensome during a peak demand period.

Business relationships

Énergir, L.P. 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 QDA's major customers (almost 400 customer accounts) consumed on average just over 50% of its 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 for a three-year period on average, regardless of whether or not they consume the gas, the risk resulting from any such fluctuation in demand is mitigated. Some new customers also provide a security deposit, which mitigates the impact 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.

Like most U.S. utilities operating in rural territories, GMP has a small concentration of large industrial customers that represent about 10% of electricity sales and about 6% of annual revenues. This customer segment is traditionally stable and the risk is mitigated through close relationships with customers as well as regulatory measures.

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

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

Énergir, L.P. also maintains contractual arrangements with a limited number of 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, Énergir, L.P. 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

Énergir, L.P.'s energy distribution and transportation networks require ongoing maintenance, improvements and replacements. These networks are exposed to a variety of operating risk factors, including but not limited to the general

MANAGEMENT'S DISCUSSION AND ANALYSIS

nature of the aforementioned: accidental damage, fracturing and corrosion, leaks, equipment or computer system breakdowns, fires, explosions, natural disasters, power failures, acts of war or terrorism, cyber-attacks, public health issues (including epidemics or pandemics) and other similar occurrences.

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

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

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

Énergir, L.P. has asset management programs and implements very strict policies that it rigorously follows to safeguard assets and data. It also encourages its counterparties and other stakeholders to adopt industry best practices to minimize the risk of incidents. Énergir, L.P. has implemented business continuity plans to mitigate these impacts and to maintain critical operations.

Énergir, L.P. must also anticipate the costs of retiring certain assets at the end of their useful lives. 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, Énergir, L.P. 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 Énergir, L.P. 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

Given that some of Énergir, L.P.'s physical assets are located close to densely populated areas, a serious accident could jeopardize public health and safety. Given the natural hazards inherent in Énergir, L.P.'s activities, workers and contractors are exposed to physical safety risks.

Steps taken by Énergir, L.P. to reduce the likelihood and severity of an accident jeopardizing the health and safety of the public, employees and contractors are implemented through health and safety plans, asset management plans, operational change management procedures, a third-party-breach reduction program, a continuous training plan, an annual audit plan, and emergency response plans. Énergir, L.P. also informs project stakeholders of implemented measures and is attentive to their questions and concerns.

Taking a proactive approach to managing health and safety is a guiding principle to which management is committed. Énergir, L.P. also believes that employees and contractors must adhere to a culture of constant vigilance in the face of potentially hazardous situations, and it has set targets of zero accidents and zero injuries. Health and safety objectives have been incorporated at every level of Énergir, L.P. and into the compensation measures of certain employee categories. Contractors are selected through a strict screening process that includes a commitment to adhering to Énergir, L.P.'s health and safety culture.

Énergir, L.P.'s activities and facilities are also subject to environmental laws and regulations and emergency measures 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, Énergir, L.P. must maintain a number of environmental authorizations or other permits issued by appropriate authorities. Any breach of these obligations could result in fines or administrative, civil, or criminal penalties or the application of coercive measures, including regulatory or court action ordering or suspending certain activities or requiring that corrective measures be taken. In this respect, QDA specifically maintains an ISO-14001: 2015-certified environmental management system to identify, manage and monitor environmental matters and a plan to monitor the quality of groundwater.

Énergir, L.P. 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Information systems and cybersecurity

The effectiveness of Énergir, L.P.'s operations also 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 power generation activities and the distribution and transportation of natural gas and electricity, which can be shared with third parties for operational purposes. There is no guarantee that Énergir, L.P. will not experience a security breach or systems breakdown.

The processes for managing information technology obsolescence, difficulties when upgrading existing systems, transitions towards new systems, and integration of new systems into existing systems are governed by a computer equipment lifecycle management strategy, sound project management practices, and appropriate governance structures.

Énergir, L.P. 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.

Énergir, L.P.'s systems, assets, and information can never be completely safe from cybersecurity threats, which are constantly growing and changing. Cybersecurity threats require Énergir, L.P. to continually adapt in order to detect and prevent them. Énergir, L.P. 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

Énergir, L.P. 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 Énergir, L.P. 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.

SDB Wind Farms

Electricity generation by the wind farms (particularly 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 climate-related factors, such as the build-up of ice on turbine blades; (ii) site access; (iii) losses due to wake effect, transmission losses and wind shear; (iv) the impact of topographical variations; (v) the possibility of electrical losses before delivery; and (vi) the possibility that facilities do not operate as expected, notably due to usage, latent defects or a design flaw.

Human resources

Certain employees of Énergir, L.P. are subject to collective agreements. If Énergir, L.P. 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 collective agreements will be renewed according to terms deemed acceptable by Énergir, L.P. without a work stoppage and that no work stoppages will occur before new collective agreements are reached.

The key to success for Énergir, L.P. 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, Énergir, L.P. is offering attractive and competitive compensation programs and the training needed to maintain skills.

Énergir, L.P. 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, Énergir, L.P. relies, among other things, on cash generated by its activities. Liquidity risk is the risk that Énergir, L.P. would be unable to pay its financial commitments as they become due. Énergir, L.P. 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, Énergir, L.P. may, either directly or through Énergir Inc. or Valener, access capital markets for financing purposes. There can be no assurance that Énergir, L.P., Énergir Inc. 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

Given that Énergir, L.P. conducts operations in the United States through its subsidiaries and U.S. entity subject to significant influence, a portion of Énergir, L.P.'s consolidated net income is denominated in U.S. dollars. Consequently, Énergir, L.P.'s operating results are affected by fluctuations in the U.S. dollar in relation to the Canadian dollar. To offset the exchange risk related to its net investment in self-sustaining foreign operations, Énergir, L.P. 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 Énergir, L.P.'s equity.

Énergir, L.P. has also seen a rise in its revenues, expenses and investments in foreign currencies. Currency fluctuations are partly offset by the use of derivative financial instruments.

Interest rate fluctuations

Énergir, L.P. is exposed to interest rate risks associated with its bank loans, its floating rate debts, and the refinancing of its long-term debt. Énergir, L.P. 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.

Énergir, L.P. may use interest rate swaps to fix interest rates on a portion of its floating rate long-term debt. For 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 risk

Counterparty credit risk is the risk that a counterparty to a financial instrument entered into with Énergir, L.P. does not perform its obligations pursuant to the related agreements. At the balance sheet date, Énergir, L.P.'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 funds and other investments, and derivative financial assets. Any breach of the obligations by the counterparties could result in a financial loss for Énergir, L.P.

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

Énergir, L.P.'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 terms of 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 Énergir, L.P. must comply could impact the value of taxes owed by Énergir, L.P. in each of the jurisdictions where it operates. In the event of such changes, Énergir, L.P. would have to take necessary measures to comply with the new regulations.

Following the U.S. tax reform in December 2017 and the ensuing tax changes, Énergir, L.P.'s U.S. subsidiaries revised their deferred income tax assets and liabilities downward and recognized offsetting regulatory liabilities for rate-regulated activities. The regulatory liabilities recognized following these adjustments equal the amounts expected to be reimbursed through future rates over amortization periods that will subsequently be set and approved by the regulatory agencies. In their respective 2019 rate cases, GMP and VGS proposed estimated average amortization periods of approximately 40 years based on Internal Revenue Service normalization rules as well as on the nature of the factors that led to the recognition of the deferred income taxes to be returned to customers. There is no guarantee that the proposed amortization periods will be approved as submitted by the regulatory agencies.

The U.S. tax reform is not expected to have a notable negative impact on future results; however, the reform will negatively affect the short-term cash flows of Énergir, L.P.'s U.S. subsidiaries, as lower corporate tax rates will result in lower income tax recoveries from customers.

In addition, Énergir, L.P.'s U.S. public utility companies and holding companies with outstanding debts will be subject to interest deductibility limitations following the U.S. tax reform. Although the deductibility of interest expense has been maintained for regulated public utilities, it is not clear whether the interest on the debt of regulated public utilities holding companies will also be fully deductible.

Moreover, certain aspects of the U.S. tax reform remain subject to interpretation. Therefore, in addition to the above-discussed impacts, there could be other impacts for Énergir, L.P. It is impossible to predict the timing and impact of future tax law changes, including the impact of subsequent technical corrections to existing tax laws.

DEVELOPMENT OF NEW PROJECTS, ACQUISITIONS AND EXPANSION

From time to time, Énergir, L.P. selectively seeks strategic acquisition and expansion opportunities, including the territorial diversification of its activities and the expansion of its non-regulated activities, particularly in the area of renewable energy. Énergir, L.P.'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 Énergir, L.P.'s resources, and, if applicable, Énergir, L.P.'s ability to obtain financing according to satisfactory terms. Acquisitions and development projects may expose Énergir, L.P. 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 Énergir, L.P.'s operations; (iv) barriers to entry into markets in which Énergir, L.P. 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 Énergir, L.P.'s ongoing business. In addition, future acquisitions or expansion to current activities could require Énergir, L.P. to contract additional debt, costs and contingent liabilities. Énergir, L.P. 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. Lastly, new projects, acquisitions, or expansions might not yield the anticipated benefits or cover the initially incurred costs.

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 Énergir, L.P. 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 Énergir, L.P.. The realization of such benefits may be affected by a number of factors, many of which are beyond Énergir, L.P.'s control. Specifically, 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 (US\$65.0 million of which has been realized to date) during the decade (2013 to 2022) following said merger. Achieving such savings depends on the creation of operational synergies that may not materialize or may only partially materialize.

CLIMATE CHANGE

Worldwide, many policies and regulations to limit or reduce GHG emissions from various sectors are being implemented, such as the 2015 agreement to reduce global GHG emissions (COP 21), the impact of which should extend to the laws and regulations of each signatory country. At the same time, certain jurisdictions are modifying or eliminating measures aimed at reducing GHG emissions.

The Canadian and U.S. governments and their provinces and states are therefore working to establish or amend requirements to reduce GHG emissions, including methane emissions. However, the U.S. federal government's announcement that it was withdrawing from COP 21 and Ontario's July 2018 withdrawal from the carbon market with Quebec and California have created uncertainty as to the nature and scope of the oversight measures to be implemented.

Énergir, L.P. is therefore following the evolution of various GHG reduction initiatives, particularly those related to the implementation of Quebec's Energy Policy, which could influence its current activities.

In 2016, the Government of Quebec launched the Quebec Energy Policy, 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. With respect to GHG emissions, Quebec is aiming for reduction targets of 20% by 2020 and 37.5% by 2030 compared to the 1990 emissions thresholds.

Under the C&T Regulation, QDA 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, and those produced by customers emitting between 10,000 and 25,000 tons of GHG per year and who have opted for the same conditions as those who emit 25,000+ tons of GHG). To meet these obligations, 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 jointly by the governments of Quebec and California or obtained through mutual agreement transactions for valid allowances or for recognized offset credits. Until now, QDA has taken the necessary measures to comply with its C&T obligations. However, there is no assurance that, in the future, QDA will be able to purchase allowances at costs that will have only a marginal impact on the competitive position of natural gas or that it will be able to fully achieve the coverage strategy approved by the Régie.

The Canadian federal carbon pricing system should not affect Quebec, as the province's existing carbon market should satisfy the regulatory requirements. This will likely be confirmed by the federal government in autumn 2018. The federal carbon pricing system is set to come into effect in January 2019.

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 took 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 part of the management of its renewable energy attributes portfolio in order to comply with the legislation. However, GMP expects to continue selling the attributes that it will not need for compliance purposes to the New England market. GMP's revenue from the sale of attributes from renewable energy 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 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. These purchases are made at periodic auctions conducted by RGGI. No shortages of emissions allowances have been observed to date, and while future tightening of that supply is not expected, it may be possible.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 GHG 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, Énergir, L.P. 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 Énergir, L.P. will be affected by changes or events that harm its reputation in the eyes of stakeholders, interest groups, political leaders, the media or other entities.

Any of Énergir, L.P.'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) ACCOUNTING CHANGES

RECENTLY ADOPTED STANDARDS

During the year ended September 30, 2018, Énergir, L.P. adopted the following new accounting standards:

- October 1, 2017 - ASU 2016-17: *Consolidation (Topic 810): Interests Held Through Related Parties That Are Under Common Control* on a retroactive basis;
- January 1, 2018 - ASU 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* on a prospective basis; and
- July 1, 2018 - ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*, which was early adopted on a modified retrospective basis.

Adoption of these standards did not have a significant impact on Énergir, L.P.'s audited consolidated financial statements. For additional information, refer to Note 3 to Énergir, L.P.'s audited consolidated financial statements for the fiscal years ended September 30, 2018 and 2017.

STANDARDS ISSUED BUT NOT YET IN EFFECT

Several standards issued but not yet in effect are being assessed to determine their impacts on the financial statements. For additional information on the status of these assessments, refer to Note 3 of Énergir, L.P.'s audited consolidated financial statements for the fiscal years ended September 30, 2018 and 2017.

T) FINANCIAL INSTRUMENTS

A significant portion of Énergir, L.P.'s consolidated balance sheet contains financial instruments. Énergir, L.P.'s financial assets include cash and cash equivalents, short-term restricted cash equivalents, trade and other receivables, long-term restricted cash equivalents, investment funds, other investments and derivative financial instruments with a positive fair value. Énergir, L.P.'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 24 of Énergir, L.P.'s audited consolidated financial statements for the fiscal years ended September 30, 2018 and 2017. Financial instrument risk management is presented in Note 25 to Énergir, L.P.'s audited consolidated financial statements for the fiscal years ended September 30, 2018 and 2017.

RISKS RELATED TO FINANCIAL INSTRUMENTS

As mentioned in Note 25 to Énergir, L.P.'s audited consolidated financial statements for the fiscal years ended September 30, 2018 and 2017, Énergir, L.P. 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 has been designated as a hedge of the net investment in foreign operations, the impact of exchange rate changes on these debts is recognized in other comprehensive income, thereby reducing the impact on Énergir, L.P.'s net income.

MANAGEMENT'S DISCUSSION AND ANALYSIS

As at September 30, 2018, a 5% appreciation (depreciation) of the U.S. dollar against the Canadian dollar would have had a negative (positive) impact of \$1.6 million on Énergir, L.P.'s consolidated net income and of \$24.8 million on its consolidated comprehensive income.

In addition, Énergir, L.P. is exposed to the risk of interest rate fluctuations on its bank loans and on the floating-rate portion of its long-term debt. Section R) RISK FACTORS RELATING TO ÉNERGIR, L.P. describes how Énergir, L.P. manages this risk and the tools that can possibly mitigate the risk of interest rate fluctuations.

As at September 30, 2018, with all other variables being constant, a 100-basis-point increase (decrease) in interest rates would have reduced (increased) consolidated net income by approximately \$2.5 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 set prices or to contain them in accordance with temporal, volumetric and financial limits approved by the respective regulatory agencies. GMP uses power purchase agreements to manage the risk of supply cost fluctuations and uses fixed-price swaps to manage the risk of 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 Énergir, L.P. 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 strategies behind the hedging activities. In addition, hedge effectiveness is assessed quantitatively when it is implemented. A qualitative assessment is then performed each quarter to identify if facts and events have occurred that could have a potential impact on the effectiveness of the hedging relationship and thereby require quantitative testing. Hedge accounting is discontinued prospectively 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 order to counter the related exchange risk. The exchange gains and losses on debts designated as hedging items is included in other comprehensive 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 Énergir, L.P.'s U.S.-dollar-denominated term loans are designated as a hedge of the net investment in foreign operations whose functional currency is the U.S. dollar. As at September 30, 2018, the carrying amount of these financial liabilities designated as hedges totalled \$797.8 million (US\$618.1 million) (\$769.5 million (US\$617.0 million) as at September 30, 2017). Énergir, L.P. applied hedge accounting to these designations. The unrealized exchange gains on the hedge of the net investment in foreign operations was \$25.3 million for the year ended September 30, 2018 (losses of \$37.3 million in 2017) and was recognized in other comprehensive income.

MANAGEMENT'S DISCUSSION AND ANALYSIS

In the case of a cash flow hedge, changes in the fair value of a derivative financial instrument designated as a hedging item are recognized in other comprehensive income. Amounts previously recognized in accumulated other comprehensive income are reclassified to income, when the hedged item is settled, in the item to which the hedging relationship was attributed.

Forward exchange contracts are used to manage the exchange risk exposure arising from the U.S.-dollar revenues or equipment purchases.

Risks related to derivative financial instruments

Although Énergir, L.P. does not hold or issue derivative financial instruments for speculative purposes, it is exposed to market, credit and liquidity risks. As at September 30, 2018, the credit risk related to counterparties of derivative financial instruments was low since the fair value of the derivative financial instrument asset was not significant. In addition, most of these counterparties have a high credit rating at least equal to that of Énergir, L.P., which significantly reduces this risk. Since September 30, 2017, no changes have been made to the methods used to manage the credit risk related to counterparties to derivative financial instruments. Énergir, L.P. is therefore continuing to carefully monitor and manage the credit risk relating to these counterparties. It may be exposed to liquidity risk if an event resulting in cancellation occurred, forcing Énergir, L.P. and its subsidiaries to settle the derivative financial instrument liability balance prior to maturity. As at September 30, 2018, most of the counterparties have a high credit rating, which substantially mitigates this risk. Énergir, L.P. and its subsidiaries ensure that they have sufficient cash to face a wide range of unforeseen circumstances.

Fair value of financial instruments

All financial instruments reported on Énergir, L.P.'s consolidated balance sheet as at September 30, 2018 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 of derivative financial instruments is estimated using spot rates or forward rates or prices at the close of markets at the balance sheet date. Énergir, L.P. classifies financial instruments according to the fair value hierarchy presented in Notes 2 and 24 to Énergir, L.P.'s audited consolidated financial statements for the fiscal years ended September 30, 2018 and 2017. Furthermore, changes in the fair value of most of the derivative financial instruments appearing on Énergir, L.P.'s consolidated balance sheet as at September 30, 2018 are either recognized as regulatory assets or regulatory 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 measurement of derivative financial instruments as at September 30, 2018:

| | Valuation model | Discount rate (%) | Risk-free rate (%) | Implicit price volatility | Forward price |
|-------------------------------------|-----------------|-------------------|--------------------|---------------------------|------------------------------|
| Forward exchange contracts | (1) | 2.63 | 1.58 to 2.38 | N/A | N/A |
| Instruments related to natural gas: | | | | | |
| Fixed-price swaps | (1) | 2.67 | 2.19 to 2.59 | N/A | \$2.61/GJ to \$3.17/GJ |
| Instruments related to electricity: | | | | | |
| Fixed-price capacity swaps | (1) | 2.76 | 2.00 to 2.74 | N/A | US\$5.30/kW to US\$9.60/kW |
| Fixed-price electricity swaps | (1) | 3.03 | 2.10 to 3.00 | N/A | US\$19.88/kW to US\$92.81/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, 2018, the net liability related to derivative financial instruments was \$14.8 million, i.e., a decrease of \$38.2 million since September 30, 2017, mainly due to an increase in electricity capacity forward prices.

MANAGEMENT'S DISCUSSION AND ANALYSIS

U) SIGNIFICANT ACCOUNTING ESTIMATES

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

Regulation

QDA as well as certain subsidiaries of Énergir, L.P. 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 otherwise 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 5 to Énergir, L.P.'s audited consolidated financial statements for the fiscal years ended September 30, 2018 and 2017.

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 Énergir, L.P., changes in amortization rates may have a significant impact on amortization expense.

In connection with the process for establishing the rates for Énergir, L.P.'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 Énergir, L.P. for the fiscal years ended September 30, 2018 and 2017.

In addition, if Énergir, L.P. believes, following interventions from regulatory agencies, that certain costs of property, plant and equipment and of intangible assets related 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.

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 April 1 of each year 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 2018 and 2017 following these impairment tests. For additional information on the calculation method, refer to Note 2 to the audited consolidated financial statements of Énergir, L.P. for the fiscal years ended September 30, 2018 and 2017.

Employee future benefits

Énergir, L.P. 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 that rely 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 19 to Énergir, L.P.'s audited consolidated financial statements for the fiscal years ended September 30, 2018 and 2017 for the assumptions used to perform the actuarial calculation and a sensitivity analysis for some of these assumptions.

It is important to remember that Énergir, L.P. 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 Énergir, L.P.'s consolidated statement of income. For additional information about these regulatory treatments, refer to Note 5 to Énergir, L.P.'s audited consolidated financial statements for the fiscal years ended September 30, 2018 and 2017.

Income taxes

Énergir, L.P. 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. 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. Énergir, L.P. 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 20, 2018, a total of 171,796,363 units were outstanding.

Related party transactions

All 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. For additional information on related

MANAGEMENT'S DISCUSSION AND ANALYSIS

party transactions, refer to Note 23 to Énergir, L.P.'s audited consolidated financial statements for the fiscal years ended September 30, 2018 and 2017.

Accounting framework

Énergir, L.P. elected to apply U.S. GAAP in accordance with the strategy recommended by its Partners, Énergir Inc. and Valener, both of which obtained exemptions from the CSA. In March 2018, the CSA approved a five-year extension to the exemptions granted in 2015, which had covered fiscal years 2016 to 2018. Énergir, L.P., Énergir Inc. and Valener will therefore continue to prepare their annual and interim consolidated financial statements using U.S. GAAP until the first of the following dates: January 1, 2024 or a date that the IASB prescribes as a mandatory date for applying a standard on rate-regulated activities.

Litigation

Énergir, L.P. 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 Énergir, L.P.'s consolidated net income or consolidated financial position.

Without limiting the general nature of the above paragraph, a former contractor who had worked on the Addison project has filed an action with the U.S. federal court alleging that the compensation paid by VGS for work performed was inadequate, alleging there was an illegal termination of contract, and claiming a total amount of approximately US\$16.0 million (including interest and penalties of approximately US\$5.0 million). VGS is actively working on its defense in this matter, and a provision was recorded in the consolidated financial statements as at September 30, 2018. The provision amount is the most probable amount that VGS could be required to pay according to the best information currently available. The provision amount is subject to change as the matter moves forward.

W) QUARTERLY RESULTS

| | Q4 | Q3 | Q2 | Q1 | Fiscal 2018 |
|---|--------|-------|-------|-------|-------------|
| Revenues | 481.7 | 530.5 | 853.9 | 687.6 | 2,553.7 |
| Net income (loss) attributable to Partners | (4.1) | 5.3 | 154.4 | 60.3 | 215.9 |
| Basic and diluted net income (loss) per unit attributable to Partners (in \$) | (0.02) | 0.03 | 0.90 | 0.35 | 1.26 |

| | Q4 | Q3 | Q2 | Q1 | Fiscal 2017 |
|---|--------|-------|-------|-------|-------------|
| Revenues | 450.4 | 519.6 | 852.3 | 704.3 | 2,526.6 |
| Net income (loss) attributable to Partners | (14.2) | 11.1 | 142.5 | 101.4 | 240.8 |
| Basic and diluted net income (loss) per unit attributable to Partners (in \$) | (0.08) | 0.06 | 0.85 | 0.61 | 1.42 |

Results of Q4-2018

As shown in the above tables, seasonal temperature fluctuations and wind variations influence the energy consumption levels of customers and the electricity production levels of wind farms, which in turn influence Énergir, L.P.'s interim 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 QDA and of Énergir, L.P.'s subsidiaries, joint ventures and entities subject to significant influence, and the impact of fluctuations of the U.S. dollar versus the Canadian dollar. Given the seasonal nature of its 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.

The 2018 fourth-quarter net loss attributable to Partners decreased \$10.1 million (\$0.06 per unit) year over year, mainly due to:

- an increase in the volumes transported by PNGTS as a result of new long-term contracts coming into effect;
- a \$3.5 million favourable impact of the net loss attributable to the non-controlling partner of Solar I, partly offset by a net loss posted by Standard Solar, which is pursuing its efforts to develop and implement its new business model;
- higher net income from energy distribution activities in Vermont, excluding the exchange rate impact, related mainly to a favourable regulatory timing difference; and
- a \$0.9 million favourable exchange rate impact on the net income generated by activities denominated in U.S. dollars.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Summary of quarterly results

The significant items that have affected the results of the other quarters are as follows:

- **Q3-2018 vs Q3-2017:** Net income attributable to Partners decreased \$5.8 million (\$0.03 per unit), mainly due to:
 - a \$6.3 million decrease in QDA's net income, mainly due to lower return-bearing investments and to an \$8.4 million unfavourable regulatory timing difference;
 - a \$3.8 million decrease in the net income of the Vermont energy distribution activities, mainly due to an unfavourable regulatory timing difference;
 - a \$3.1 million increase in the net income of the Electricity Production segment, mainly due to stronger wind conditions in Q3-2018; and
 - the impacts of the December 2017 U.S. tax reform, which led to a \$1.8 million one-time increase in consolidated net income in Q3-2018. For additional information on the impacts of the U.S. tax reform, refer to section N) CONSOLIDATED ANNUAL FINANCIAL PERFORMANCE SUMMARY.

- **Q2-2018 vs Q2-2017:** Net income attributable to Partners increased \$11.9 million (\$0.05 per unit), mainly due to:
 - a \$4.4 million gain, realized in Q2-2018 by Gaz Métro Plus upon the sale of its server hosting assets;
 - a favourable regulatory timing difference for QDA and Vermont;
 - a favourable impact arising from an increase in QDA's normalized natural gas deliveries given the strength of Quebec's economy; and
 - various parameters in GMP's 2018 rate case, which had anticipated an increase in net income for Q2-2018.

- **Q1-2018 vs Q1-2017:** Net income attributable to Partners decreased \$41.1 million (\$0.26 per unit), mainly due to:
 - a \$12.5 million gain realized in Q1-2017 following the acquisition of an additional 50% ownership interest in CDH (ECCU); and
 - a \$24.2 million increase in income taxes related to the U.S. tax reform, as explained in section N) CONSOLIDATED ANNUAL FINANCIAL PERFORMANCE SUMMARY.

It should be noted that the regulatory timing difference refers to the difference between the moment revenues and costs are recognized compared to that which had been anticipated in the rate case. These regulatory timing differences, created during the interim periods, generally reverse at the end of the fiscal year.

X) SUBSEQUENT EVENT

Declaration of a distribution

On November 22, 2018, the board of directors of Énergir Inc., acting in its capacity as General Partner of Énergir, L.P., declared a quarterly distribution of \$51.5 million, payable on January 3, 2019 to its Partners.

This MD&A has been prepared as of November 22, 2018.

Additional information about Valener, including its Annual Information Form, MD&A, and Annual Report for the fiscal year ended September 30, 2018, can be found on SEDAR at www.sedar.com and on Valener's website at www.valener.com.

MANAGEMENT'S DISCUSSION AND ANALYSIS

GLOSSARY

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

| UNITS OF MEASURE AND GENERAL TERMS | | ENTITIES | |
|---|---|---------------------|--|
| C&T Regulation | <i>Regulation respecting a cap-and-trade system for greenhouse gas emission allowances</i> | Beaupré Éole | Beaupré Éole General Partnership |
| | | Beaupré Éole 4 | Beaupré Éole 4 General Partnership |
| CNG | Compressed natural gas | Borex | Borex Inc. |
| CO ₂ | Carbon dioxide | CDH | CDH Solutions & Operations Limited Partnership |
| DBRS | Dominion Bond Rating Service | Champion | Champion Pipe Line Corporation Limited |
| Dth | Dekatherm | CVPS | Central Vermont Public Service Corporation |
| GEEP | Global Energy Efficiency Plan | ECCU | Énergir, chaleur et climatisation urbaines, s.e.c., formerly Climatisation et Chauffage Urbains de Montréal, s.e.c. |
| GHG | Greenhouse gas | Énergir Inc. | Énergir Inc. (formerly Gaz Métro inc.) |
| GJ | Gigajoule | Énergir, L.P. | Énergir, L.P. (formerly Gaz Métro Limited Partnership) |
| Km | Kilometres | Gaz Métro | Gaz Métro Limited Partnership |
| kW | Kilowatts | Gaz Métro LNG | Gaz Métro LNG 2013 L.P., or Gaz Métro LNG L.P., depending on the context |
| LNG | Liquefied natural gas | Gaz Métro Plus | Gaz Métro Plus Limited Partnership |
| LSR Plant | QDA's natural gas liquefaction, storage and regasification plant | GMP | Green Mountain Power Corporation |
| Management | The management of Énergir Inc., in its capacity as General Partner of Énergir, L.P. | GMP Solar | GMP VT Solar LLC |
| Management of the manager | The management of Énergir Inc., in its capacity as General Partner of Énergir, L.P., and acting as manager of Valener | Intragaz | Includes all of the following companies: Intragaz inc.; Intragaz Holding, Limited Partnership; Intragaz Exploration, Limited Partnership; Intragaz, Limited Partnership; and their respective shareholders |
| MW | Megawatts | IQ | Investissement Québec |
| MWh | Megawatthours | NNEEC | Northern New England Energy Corporation |
| QX-201X | This term is used to identify a particular quarter and fiscal year; for example, Q4-2018 is used to identify the fourth quarter of fiscal 2018 (ended September 30, 2018) | PNGTS | Portland Natural Gas Transmission System |
| | | QDA | Énergir, L.P. for its natural gas distribution activity in Quebec |
| RAL | Regulatory assets and liabilities | SDB Wind Farms | Seigneurie de Beaupré Wind Farms 2 and 3 General Partnership and Seigneurie de Beaupré Wind Farm 4 General Partnership |
| RNG | Renewable natural gas | Solar I | Solar I Partnership, LLC |
| RRA | Rate-regulated activities | Standard Solar | Standard Solar Inc. |
| S&P | Standard & Poor's | TCPL | TransCanada PipeLines Limited |
| Series A preferred shares | Series A cumulative rate reset preferred shares | TQM | Trans Québec & Maritimes Pipeline Inc., as mandatory for TQM Pipeline and Company, Limited Partnership |
| Series B preferred shares | Series B cumulative floating-rate preferred shares | Transco | Vermont Transco LLC |
| TSX | Toronto Stock Exchange | Transport Solutions | Gaz Métro Transport Solutions, L.P. |
| GOVERNMENT AND REGULATORY AGENCIES | | Union Gas | Union Gas Limited |
| CSA | Canadian Securities Administrators | Valener | Valener Inc. |
| DOE | Department of Energy (United States) | Valener Éole | Valener Éole Inc. |
| FERC | Federal Energy Regulatory Commission | Valener Éole 4 | Valener Éole 4 Inc. |
| ISO-NE | Independent System Operator, ISO-New England | Velco | Vermont Electric Power Company, Inc. |
| NEB | National Energy Board (Canada) | VGS | Vermont Gas Systems, Inc. |
| Régie | Régie de l'énergie (Quebec) | VYNPC | Vermont Yankee Nuclear Power Corporation |
| VDPS | Vermont Department of Public Service | Wind Farm 4 | Seigneurie de Beaupré Wind Farm 4 General Partnership |
| VPUC | Vermont Public Utility Commission (formerly Vermont Public Service Board or VPSB) | Wind Farms 2 and 3 | Seigneurie de Beaupré Wind Farms 2 and 3 General Partnership |
| ACCOUNTING AND FINANCIAL TERMS | | | |
| ASU | Accounting Standard Update | | |
| DRIP | Dividend Reinvestment Plan | | |
| GAAP | U.S. generally accepted accounting principles | | |
| IBIT | Income (loss) before income taxes | | |
| IFRS | International Financial Reporting Standards | | |
| VIE | Variable interest entities | | |

ÉNERGIR, L.P.
FIVE-YEAR REVIEW - CONSOLIDATED OPERATING STATISTICS ⁽¹⁾

Fiscal years ended September 30

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---------|---------|---------|---------|---------|
| NORMALIZED NATURAL GAS VOLUMES (10⁶m³) ⁽²⁾ | | | | | |
| Distribution | | | | | |
| Industrial | | | | | |
| Firm service | 3,603 | 3,453 | 3,126 | 3,133 | 2,983 |
| Interruptible service | 433 | 406 | 430 | 425 | 498 |
| Commercial | 1,717 | 1,697 | 1,790 | 1,808 | 1,846 |
| Residential | 710 | 686 | 663 | 671 | 673 |
| Total (10 ⁶ m ³) | 6,463 | 6,242 | 6,009 | 6,037 | 6,000 |
| Total (Bcf) | 228 | 220 | 212 | 213 | 212 |
| NATURAL GAS DELIVERIES (10⁶m³) | | | | | |
| Distribution | | | | | |
| Total (10 ⁶ m ³) | 6,144 | 6,154 | 5,868 | 6,210 | 6,191 |
| Total (Bcf) | 217 | 217 | 207 | 219 | 219 |
| Transportation ⁽³⁾⁽⁴⁾ | | | | | |
| Total (10 ⁶ m ³) | 8,892 | 7,515 | 7,633 | 7,709 | 7,145 |
| Total (Bcf) | 314 | 265 | 269 | 272 | 252 |
| ELECTRICITY DISTRIBUTION (gigawatthours) | | | | | |
| Residential | 1,520 | 1,463 | 1,479 | 1,553 | 1,558 |
| Small commercial and industrial | 1,532 | 1,509 | 1,531 | 1,564 | 1,569 |
| Large commercial and industrial | 1,167 | 1,169 | 1,174 | 1,171 | 1,170 |
| Total | 4,219 | 4,141 | 4,184 | 4,288 | 4,297 |
| CUSTOMERS | | | | | |
| Distribution of natural gas and electricity | | | | | |
| Industrial | 8,191 | 8,096 | 7,983 | 7,878 | 7,681 |
| Commercial | 103,624 | 101,089 | 99,225 | 95,102 | 93,092 |
| Residential | 411,293 | 408,865 | 405,913 | 404,280 | 401,994 |
| Total | 523,108 | 518,050 | 513,121 | 507,260 | 502,767 |
| SYSTEM DATA | | | | | |
| Length of pipelines (in km) | | | | | |
| Natural gas distribution | | | | | |
| Canada | 10,977 | 10,900 | 10,727 | 10,657 | 10,565 |
| United States | 1,559 | 1,525 | 1,375 | 1,324 | 1,294 |
| Total | 12,536 | 12,425 | 12,102 | 11,981 | 11,859 |
| Natural gas transportation ⁽⁴⁾ | | | | | |
| Canada | 673 | 673 | 673 | 673 | 670 |
| United States | 489 | 489 | 489 | 489 | 489 |
| Total | 1,162 | 1,162 | 1,162 | 1,162 | 1,159 |
| Length of lines (overhead and underground) (in km) | | | | | |
| Electricity distribution | | | | | |
| United States ⁽⁵⁾ | 21,022 | 21,004 | 20,956 | 22,398 | 22,282 |
| Gross property, plant and equipment ⁽⁶⁾ (in millions of dollars) | 6,379 | 5,965 | 5,965 | 5,254 | 5,666 |
| Net property, plant and equipment ⁽⁶⁾ (in millions of dollars) | 4,524 | 4,254 | 4,254 | 3,740 | 3,971 |
| Additions to property, plant and equipment and change in regulatory assets and liabilities ⁽⁶⁾ (in millions of dollars) | 410 | 523 | 523 | 401 | 568 |
| NUMBER OF EMPLOYEES ⁽⁴⁾ | | | | | |
| Energy Distribution | | | | | |
| QDA | 1,508 | 1,490 | 1,465 | 1,449 | 1,413 |
| NNEEC and VGS | 131 | 130 | 139 | 150 | 134 |
| GMP | 511 | 527 | 540 | 566 | 604 |
| Total | 2,150 | 2,147 | 2,144 | 2,165 | 2,151 |
| Electricity Production | 59 | 53 | — | — | — |
| Natural Gas Transportation | — | — | — | — | — |
| Energy Services, Storage and Other | 103 | 109 | 113 | 115 | 124 |

⁽¹⁾ Unaudited data.

⁽²⁾ Normalized volumes based on normal temperatures and wind velocities for natural gas distribution in Quebec (QDA) and on normal temperatures for VGS. During fiscal 2018, the by-segment allocation of volumes has been adjusted to reposition the consumption of certain QDA customers. As a result, the fiscal 2017 volumes are presented according to the new presentation. Prior year figures have not been adjusted.

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

⁽⁴⁾ Data not weighted to reflect Énergir, L.P.'s percentage interest in subsidiaries, joint ventures and entities subject to significant influence.

⁽⁵⁾ 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.

⁽⁶⁾ The financial information for fiscal years 2015 to 2018 is presented in accordance with U.S. GAAP. Prior year figures are presented in accordance with Canadian GAAP.

ÉNERGIR, L.P.
TEN-YEAR REVIEW - CONSOLIDATED FINANCIAL INFORMATION ⁽¹⁾

Fiscal years ended September 30 (in thousands of dollars)

| | 2018 | 2017 |
|--|---------------------|---------------------|
| SUMMARY OF RESULTS ⁽²⁾ | | |
| Revenues | \$ 2,553,745 | \$ 2,526,645 |
| Direct costs | 1,531,826 | 1,528,563 |
| Gross margin | 1,021,919 | 998,082 |
| Operating and maintenance ⁽³⁾ | 488,759 | 510,685 |
| Share in the earnings of equity-accounted interests | (136,759) | (129,428) |
| Net gain on disposals of interests | — | — |
| Other gains, net ⁽⁴⁾ | (3,523) | (12,475) |
| Impairment of noncurrent assets ⁽⁴⁾ | — | — |
| Amortization | 251,833 | 228,138 |
| Interest on long-term debt and on financial and other expenses | 143,718 | 129,432 |
| Income before income taxes | 277,891 | 271,730 |
| Income taxes (recovered) | 63,904 | 51,351 |
| Net income | 213,987 | 220,379 |
| Net income (loss) attributable to non-controlling interests | (1,932) | (20,371) |
| Net income attributable to Partners | \$ 215,919 | \$ 240,750 |
| CASH FLOWS ⁽²⁾ | | |
| Operating activities | \$ 625,072 | \$ 559,842 |
| Investing activities | (534,218) | (573,647) |
| Financing activities: | | |
| Distributions | (216,307) | (203,992) |
| Other financing activities | 76,229 | 271,008 |
| Impact of exchange rate fluctuations | 735 | (4,482) |
| Net change in cash and cash equivalents ⁽⁵⁾ | \$ (48,489) | \$ 48,729 |
| PER UNIT DATA ⁽²⁾ | | |
| Basic and diluted net income per unit attributable to Partners (in dollars) | \$ 1.26 | \$ 1.42 |
| Distributions declared per unit to Partners (in dollars) | \$ 1.20 | \$ 1.17 |
| Equity per unit attributable to Partners (in dollars) | \$ 11.26 | \$ 11.02 |
| Basic and diluted weighted average number of units outstanding (in thousands) | 171,796 | 169,542 |
| Number of outstanding units as at September 30 (in thousands) | 171,796 | 171,796 |
| FINANCIAL STRUCTURE ⁽²⁾ | | |
| Bank loans | \$ 37,742 | \$ 43,818 |
| Current portion of long-term debt | 212,694 | 13,069 |
| Long-term debt ⁽⁶⁾ | 3,403,150 | 3,463,278 |
| Total debt | 3,653,586 | 3,520,165 |
| Total equity | 2,000,553 | 1,951,156 |
| Total capitalization | \$ 5,654,139 | \$ 5,471,321 |
| DEBT / TOTAL CAPITALIZATION RATIO ⁽²⁾ | 64.6% | 64.3% |
| TOTAL ASSETS | \$ 7,739,533 | \$ 7,528,123 |
| FINANCIAL INFORMATION USED BY THE RÉGIE DE L'ÉNERGIE IN DETERMINING QDA'S RETURN | | |
| Rate base ⁽⁷⁾ | \$ 2,117,463 | \$ 2,053,680 |
| 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 | 5.19% | 5.35% |
| Deemed tax expense | \$ 38,908 | \$ 42,339 |

⁽¹⁾ Unaudited data.

⁽²⁾ The financial information for fiscal years 2015 to 2018 is presented in accordance with U.S. GAAP. Prior year figures are presented in accordance with Canadian GAAP.

⁽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⁾ For more information on the adjustments for fiscal years 2018, 2017 and 2016, refer to section N) CONSOLIDATED ANNUAL FINANCIAL PERFORMANCE SUMMARY of this MD&A.

⁽⁵⁾ For fiscal years 2009 to 2015, the bank overdraft was applied against the net change in cash and cash equivalents.

⁽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 QDA's balance sheet.

ÉNERGIR, L.P.
TEN-YEAR REVIEW - CONSOLIDATED FINANCIAL INFORMATION ⁽¹⁾

| 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| \$ 2,587,029 | \$ 2,584,353 | \$ 2,536,708 | \$ 2,217,356 | \$ 1,907,643 | \$ 1,962,764 | \$ 2,020,437 | \$ 2,249,216 |
| 1,605,075 | 1,648,003 | 1,522,636 | 1,283,252 | 1,127,053 | 1,215,309 | 1,260,439 | 1,457,945 |
| 981,954 | 936,350 | 1,014,072 | 934,104 | 780,590 | 747,455 | 759,998 | 791,271 |
| 397,763 | 464,055 | 471,355 | 473,209 | 379,032 | 330,365 | 333,458 | 332,343 |
| (124,303) | (119,410) | (76,881) | (62,016) | (28,692) | (22,875) | (22,001) | (23,366) |
| — | — | — | (14,749) | — | (17,361) | — | — |
| — | — | — | — | — | — | — | — |
| 26,545 | 13,486 | — | — | — | — | — | — |
| 231,927 | 211,361 | 247,770 | 202,847 | 163,002 | 175,349 | 174,515 | 192,545 |
| 128,686 | 135,825 | 150,129 | 125,296 | 112,673 | 105,609 | 109,860 | 117,620 |
| 321,336 | 231,033 | 221,699 | 209,517 | 154,575 | 176,368 | 164,166 | 172,129 |
| 41,560 | 45,167 | 47,904 | 30,649 | 11,934 | 13,796 | (14,517) | 13,677 |
| 279,776 | 185,866 | 173,795 | 178,868 | 142,641 | 162,572 | 178,683 | 158,452 |
| 2,257 | 4,884 | (889) | (1,569) | (1,203) | (1,405) | — | — |
| \$ 277,519 | \$ 180,982 | \$ 174,684 | \$ 180,437 | \$ 143,844 | \$ 163,977 | \$ 178,683 | \$ 158,452 |
| \$ 529,946 | \$ 523,834 | \$ 605,002 | \$ 487,969 | \$ 428,848 | \$ 404,736 | \$ 342,936 | \$ 499,062 |
| (716,364) | (776,381) | (641,288) | (653,288) | (1,105,053) | (319,236) | (245,833) | (283,165) |
| (197,236) | (186,562) | (169,137) | (165,112) | (141,499) | (106,125) | (186,701) | (149,361) |
| 366,036 | 417,882 | 244,390 | 348,245 | 822,633 | 9,965 | 89,430 | (46,839) |
| (1,563) | 7,176 | 3,149 | 819 | 78 | 217 | (1,274) | (73) |
| \$ (19,181) | \$ (14,051) | \$ 42,116 | \$ 18,633 | \$ 5,007 | \$ (10,443) | \$ (1,442) | \$ 19,624 |
| \$ 1.66 | \$ 1.17 | \$ 1.15 | \$ 1.21 | \$ 1.10 | \$ 1.30 | \$ 1.48 | \$ 1.32 |
| \$ 1.16 | \$ 1.12 | \$ 1.12 | \$ 1.12 | \$ 1.12 | \$ 1.12 | \$ 1.24 | \$ 1.24 |
| \$ 10.61 | \$ 10.03 | \$ 9.50 | \$ 9.24 | \$ 8.81 | \$ 8.10 | \$ 7.74 | \$ 7.88 |
| 167,251 | 155,268 | 151,796 | 148,680 | 130,878 | 126,241 | 120,452 | 120,452 |
| 167,251 | 167,251 | 151,796 | 151,796 | 148,671 | 126,338 | 120,452 | 120,452 |
| \$ 15,808 | \$ 28,972 | \$ — | \$ 19,700 | \$ 13,753 | \$ 48,017 | \$ 41,023 | \$ 47,722 |
| 10,133 | 9,792 | 27,016 | 89,886 | 164,616 | 14,639 | 68,057 | 218,542 |
| 3,464,384 | 3,101,361 | 3,140,762 | 2,692,075 | 2,295,763 | 1,700,310 | 1,749,506 | 1,503,572 |
| 3,490,325 | 3,140,125 | 3,167,778 | 2,801,661 | 2,474,132 | 1,762,966 | 1,858,586 | 1,769,836 |
| 1,810,340 | 1,728,236 | 1,482,354 | 1,444,063 | 1,336,924 | 1,014,500 | 932,627 | 949,552 |
| \$ 5,300,665 | \$ 4,868,361 | \$ 4,650,132 | \$ 4,245,724 | \$ 3,811,056 | \$ 2,777,466 | \$ 2,791,213 | \$ 2,719,388 |
| 65.8% | 64.5% | 68.1% | 66.0% | 64.9% | 63.5% | 66.6% | 65.1% |
| \$ 7,425,613 | \$ 6,829,425 | \$ 6,144,214 | \$ 5,582,828 | \$ 5,131,979 | \$ 3,727,247 | \$ 3,666,647 | \$ 3,306,764 |
| \$ 1,960,204 | \$ 1,953,865 | \$ 1,897,358 | \$ 1,837,496 | \$ 1,819,445 | \$ 1,757,640 | \$ 1,779,427 | \$ 1,806,845 |
| 38.50% | 38.50% | 38.50% | 38.50% | 38.50% | 38.50% | 38.50% | 38.50% |
| 8.90% | 8.90% | 8.90% | 8.90% | 9.69% | 9.09% | 9.20% | 8.94% |
| 7.50% | 7.50% | 7.50% | 7.50% | 7.50% | 7.50% | 7.50% | 7.50% |
| 5.60% | 5.95% | 6.07% | 6.14% | 5.88% | 5.60% | 5.21% | 5.25% |
| \$ 38,527 | \$ 32,745 | \$ 31,899 | \$ 28,741 | \$ 30,008 | \$ 33,018 | \$ 36,806 | \$ 41,652 |

SHAREHOLDER INFORMATION

VALENER MARKET INFORMATION

Common shares

- 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, 2017 to September 30, 2018): high: \$23.28; low: \$19.00.
- 39.2 million common shares outstanding with a fair value of \$747.9 million as at September 30, 2018.

DIVIDEND REINVESTMENT PLAN

Valener offers shareholders a Dividend Reinvestment Plan (“DRIP”) pursuant to which they may elect to reinvest their cash dividends in additional Valener common shares. Subject to limited exceptions, only residents of Canada may enrol in the plan.

The DRIP enables shareholders to increase their investment in Valener common shares thanks to the conveniences and attractive cost savings it offers:

- dividends are reinvested automatically;
- share price discount of up to 5%;
- no brokerage and administrative fees; and
- plan administered for shareholders.

The board of directors approved the reinvestment of dividends into additional common shares, for the dividend payable on January 15, 2019, by way of an issuance of new common shares by Valener at a 2% discount compared to the weighted average price for the five trading days immediately preceding the dividend payment date.

The process of enrolling in the DRIP is different for registered shareholders and non-registered shareholders (also called beneficial shareholders).

A person is a registered shareholder if his/her name appears on the physical share certificate representing his/her shares. An eligible registered shareholder may enrol in the DRIP by contacting the transfer agent, AST Trust Company (Canada), at 1-800-387-0825 or by email: inquiries@astfinancial.com and completing the necessary enrolment form.

A non-registered shareholder is a person whose shares are held on his/her behalf by a securities broker, dealer, bank, trust company or other financial institution. Eligible non-registered shareholders who wish to enrol in the plan must contact the intermediary that holds their shares.

The complete text of the DRIP is available in the “Investors” section of Valener’s website at www.valener.com/investisseurs/shares-and-dividendes.

TRANSFER AGENT AND REGISTRAR

AST Trust Company (Canada)
Telephone: 1-800-387-0825
Email: inquiries@astfinancial.com

PUBLICATION OF RESULTS

Following approval by the Board of Directors, the quarterly and annual results will be published around the following dates:

| | |
|----------|-------------------|
| Q1-2019: | February 8, 2019 |
| Q2-2019: | May 9, 2019 |
| Q3-2019: | August 8, 2019 |
| Q4-2019: | November 22, 2019 |

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, i.e., www.valener.com/investisseurs/financial-documents and www.valener.com/news, respectively, and on the SEDAR website www.sedar.com managed by the Canadian Securities Administrators.



**VALENER INC.
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED
SEPTEMBER 30, 2018 AND 2017**



**ÉNERGIR, L.P.
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED
SEPTEMBER, 30 2018 AND 2017**

CONSOLIDATED FINANCIAL STATEMENTS
FISCAL YEARS ENDED SEPTEMBER, 30 2018 AND 2017

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MANAGER'S MANAGEMENT REPORT

ON THE CONSOLIDATED FINANCIAL STATEMENTS OF VALENER INC.

The consolidated financial statements of Valener Inc. and all of the information in this report are the responsibility of the management of Énergir Inc., in its capacity as General Partner of Énergir, L.P., 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 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 the work performed by the internal auditors of Énergir Inc., in its capacity as General Partner of Énergir, L.P., 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, 2018 and 2017 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 Énergir Inc., in its capacity as General Partner
of Énergir, L.P., acting as
manager of Valener Inc.

(signed)

ÉRIC LACHANCE, CFA
Senior Vice-President, Regulatory Affairs, IT, Logistics
and Chief Financial Officer of Énergir Inc., in its capacity
as General Partner of Énergir, L.P., acting as manager of
Valener Inc.

Montreal, Canada
November 22, 2018

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, 2018 and September 30, 2017, 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 Énergir Inc., in its capacity as General Partner of Énergir, L.P., 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, 2018 and September 30, 2017, 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 LLP¹

Montreal, Canada
November 22, 2018

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

CONSOLIDATED STATEMENTS OF INCOME

| | <u>2018</u> | <u>2017</u> |
|---|---------------|---------------|
| REVENUES | | |
| Share in the earnings of Énergir, L.P. | 62,622 | 69,823 |
| Share in the earnings of the SDB Wind Farms | 5,515 | 3,177 |
| Other revenues related to the Administration and Management Support Agreement | 1,023 | 1,007 |
| | <u>69,160</u> | <u>74,007</u> |
| EXPENSES | | |
| General and administrative expenses | 2,116 | 2,125 |
| Interest on long-term debt | 2,436 | 1,806 |
| Financial and other expenses | 409 | 410 |
| Gain on derivative financial instruments (Note 11) | — | (762) |
| | <u>4,961</u> | <u>3,579</u> |
| INCOME BEFORE INCOME TAXES | 64,199 | 70,428 |
| Income taxes (Note 8) | 13,144 | 13,020 |
| | <u>51,055</u> | <u>57,408</u> |
| NET INCOME | 51,055 | 57,408 |
| BASIC AND DILUTED NET INCOME PER COMMON SHARE (in dollars) (Note 6) | 1.19 | 1.37 |

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | <u>2018</u> | <u>2017</u> |
|---|---------------|----------------|
| NET INCOME | 51,055 | 57,408 |
| OTHER COMPREHENSIVE INCOME | | |
| Share in the other comprehensive income (loss) of Énergir, L.P., net of income taxes | 10,486 | (9,828) |
| Share in the other comprehensive income of the SDB Wind Farms, net of income taxes | 3,024 | 8,311 |
| | <u>13,510</u> | <u>(1,517)</u> |
| COMPREHENSIVE INCOME | 64,565 | 55,891 |

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

| | Share capital (Note 6) | Deficit | Accumulated other comprehensive income (loss) (Note 7) | Total equity |
|-------------------------------------|---------------------------|-----------------|--|-----------------|
| Balance as at September 30, 2017 | 752,586 | (18,177) | 22,618 | 757,027 |
| Net income | — | 51,055 | — | 51,055 |
| Other comprehensive income | — | — | 13,510 | 13,510 |
| Dividend Reinvestment Plan (Note 6) | 6,291 | — | — | 6,291 |
| Dividends to common shareholders | — | (45,311) | — | (45,311) |
| Dividends to preferred shareholders | — | (4,620) | — | (4,620) |
| Balance as at September 30, 2018 | 758,877 | (17,053) | 36,128 | 777,952 |
| Balance as at September 30, 2016 | 747,455 | (27,409) | 24,135 | 744,181 |
| Net income | — | 57,408 | — | 57,408 |
| Other comprehensive loss | — | — | (1,517) | (1,517) |
| Dividend Reinvestment Plan (Note 6) | 5,131 | — | — | 5,131 |
| Dividends to common shareholders | — | (43,826) | — | (43,826) |
| Dividends to preferred shareholders | — | (4,350) | — | (4,350) |
| Balance as at September 30, 2017 | 752,586 | (18,177) | 22,618 | 757,027 |

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

| | <u>2018</u> | <u>2017</u> |
|---|----------------|----------------|
| ASSETS | | |
| Current assets | | |
| Cash | 1,124 | 713 |
| Amount receivable from Énergir, L.P. | 229 | 232 |
| Distributions receivable from Énergir, L.P. | 14,948 | 14,948 |
| Other assets | 3 | 3 |
| Total current assets | <u>16,304</u> | <u>15,896</u> |
| Noncurrent assets | | |
| Equity-accounted interests | 911,684 | 897,966 |
| Total noncurrent assets | <u>911,684</u> | <u>897,966</u> |
| TOTAL ASSETS | <u>927,988</u> | <u>913,862</u> |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | 162 | 136 |
| Amount payable to Énergir, L.P. | 104 | 153 |
| Income taxes payable | 501 | 1,260 |
| Dividends payable to common shareholders | 11,362 | 11,274 |
| Dividends payable to preferred shareholders | 1,155 | 1,088 |
| Total current liabilities | <u>13,284</u> | <u>13,911</u> |
| Noncurrent liabilities | | |
| Long-term debt | 85,867 | 103,759 |
| Deferred income taxes | 50,885 | 39,165 |
| Total noncurrent liabilities | <u>136,752</u> | <u>142,924</u> |
| TOTAL LIABILITIES | <u>150,036</u> | <u>156,835</u> |
| EQUITY | | |
| Share capital (Note 6) | 758,877 | 752,586 |
| Deficit | (17,053) | (18,177) |
| Accumulated other comprehensive income (Note 7) | 36,128 | 22,618 |
| TOTAL EQUITY | <u>777,952</u> | <u>757,027</u> |
| TOTAL LIABILITIES AND EQUITY | <u>927,988</u> | <u>913,862</u> |

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>2018</u> | <u>2017</u> |
|---|---------------------|-------------------|
| OPERATING ACTIVITIES | | |
| Net income | 51,055 | 57,408 |
| Adjustments to reconcile net income and operating cash flows: | | |
| Distributions received from equity-accounted interests | 69,419 | 64,907 |
| Share in the earnings of Énergir, L.P. | (62,622) | (69,823) |
| Share in the earnings of the SDB Wind Farms | (5,515) | (3,177) |
| Gain on derivative financial instruments | — | (762) |
| Deferred income taxes | 10,473 | 10,160 |
| Other | 141 | 142 |
| Change in operating assets and liabilities (Note 9) | (774) | 1,482 |
| Cash flows related to operating activities | <u>62,177</u> | <u>60,337</u> |
| INVESTING ACTIVITIES | | |
| Settlement of derivative financial instruments | — | (7,812) |
| Purchase of units in Énergir, L.P. | — | (29,002) |
| Purchase of units in the SDB Wind Farms | (247) | (156) |
| Cash flows related to investing activities | <u>(247)</u> | <u>(36,970)</u> |
| FINANCING ACTIVITIES | | |
| Change in long-term debt | (18,034) | 18,392 |
| Dividends to common shareholders | (38,932) | (37,852) |
| Dividends to preferred shareholders | (4,553) | (4,350) |
| Cash flows related to financing activities | <u>(61,519)</u> | <u>(23,810)</u> |
| NET CHANGE IN CASH | 411 | (443) |
| CASH AT BEGINNING | 713 | 1,156 |
| CASH AT END | <u>1,124</u> | <u>713</u> |

Supplemental disclosure of cash flow 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") is incorporated under the *Canada Business Corporations Act*.

Valener owns a 29.0% interest in Énergir, L.P. (formerly "Gaz Métro Limited Partnership"), whose core business is the distribution of natural gas in Quebec and Vermont (United States) and the distribution of electricity in Vermont. Valener also owns a 49.0% interest in Beaupré Éole General Partnership and Beaupré Éole 4 General Partnership, which own 50% of the Seigneurie de Beaupré Wind Farms 2 and 3 General Partnership and Seigneurie de Beaupré Wind Farm 4 General Partnership (collectively, the "SDB Wind Farms"), whose business activities consist essentially of operating wind farms 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 ("GAAP").

Valener has obtained exemptions from the Canadian Securities Administrators ("CSA") allowing it to apply U.S. GAAP. In March 2018, the CSA approved a five-year extension to the exemptions granted in 2015, which had covered fiscal years 2016 to 2018. Valener will therefore continue to prepare its interim and annual consolidated financial statements using U.S. GAAP until the first of the following dates: January 1, 2024 or a date that the International Accounting Standards Board prescribes as a mandatory date for applying a standard on rate-regulated activities.

PRINCIPLES OF CONSOLIDATION

Valener'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 Énergir Inc., in its capacity as General Partner of Énergir, L.P., 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 sheet, on the contingent liabilities as at the date of the consolidated financial statements, and on the amounts reported in the consolidated statements of income and comprehensive income for the fiscal year. Actual results may differ from these estimates. Consolidated financial statement items that require greater use of estimates include noncurrent asset valuations (particularly the valuation of equity-accounted interests), income taxes, and the fair value of derivative financial instruments.

EQUITY-ACCOUNTED INTERESTS

Valener accounts for interests in entities subject to significant influence using the equity method. Under the equity method, Valener 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 using a distribution-by-nature approach; 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 Valener's interests 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 is recorded in income.

Interest in Énergir, L.P.

Énergir, L.P.'s natural gas distribution activities in Quebec are regulated by the Régie de l'énergie. In addition, Énergir, L.P., through certain subsidiaries, joint ventures and entities subject to significant influence, is active in other

businesses that are regulated by other agencies, such as the Vermont Public Utility Commission, 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 since their income is taxable for their partners.

Valener 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 Valener 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.

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 Valener 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.

HEDGING RELATIONSHIPS

Derivative financial instruments are used to reduce or eliminate the inherent risks of certain transactions. The risks inherent to these transactions stem from interest rate fluctuations on the credit facility. Derivative financial instruments are therefore used to ensure that fluctuations in the cash flows from these transactions are offset by changes in the cash flows of the derivative financial instruments. No derivative financial instruments are held or issued for speculative purposes.

Hedging relationships eligible for hedge accounting

Hedge accounting is applied to eligible transactions, which include cash flow hedges.

All relationships between hedging instruments and hedged items are formally documented, as are the risk management objectives and strategies behind the hedging activities. In addition, the effectiveness of hedges are assessed quantitatively when they are implemented. Qualitative assessments are subsequently carried out every quarter to identify whether or not events potentially affecting hedge effectiveness have occurred and thereby require a quantitative test to be carried out. Hedge accounting is discontinued prospectively 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, all of the changes in the fair value of a derivative financial instrument designated as a hedging item are recognized in other comprehensive income. Amounts previously recognized in accumulated

other comprehensive income are reclassified to income, when the hedged item is settled, in the item to which the hedging relationship is dedicated.

TRANSACTION COSTS

Valener 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, 2018 and 2017, no instrument had a dilutive effect on the basic net income per common share.

3. ACCOUNTING CHANGES

RECENTLY ADOPTED STANDARD

Hedge accounting

On July 1, 2018, Valener early adopted, on a modified retrospective basis, Accounting Standard Update ("ASU") ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*. The new guidance aims to simplify hedge accounting and improve the financial reporting of hedging relationships in order to better portray the economic results of an entity's risk management activities in its financial statements. Adoption of this new guidance did not have a significant impact on Valener's consolidated financial statements.

STANDARDS ISSUED BUT NOT YET IN EFFECT

Financial instruments

In January 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. This standard amends certain presentation, measurement and disclosure requirements applicable to financial instruments. More specifically, investments in equity securities, other than equity-accounted interests or consolidated interests, must be presented at fair value, and any change in fair value must be accounted for in the statement of income. This guidance applies prospectively to interim and annual financial statements starting with the fiscal year beginning October 1, 2018. Valener does not expect this guidance to have a significant impact on 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 applies retrospectively to the interim and annual financial statements starting with the fiscal year beginning October 1, 2018. Valener does not expect the adoption of this new guidance to have a significant impact on its consolidated financial statements.

Income taxes

In October 2016, FASB issued ASU 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*. This standard amends the guidance for the recognition of income taxes payable on transfers of assets other than inventories between entities. Under this new guidance, the tax consequences will have to be recognized when the transfer of assets takes place. This guidance applies to interim and annual financial statements starting with the fiscal year beginning October 1, 2018, and Valener plans on using a modified retrospective approach. Valener does not expect the adoption of this new guidance to have a significant impact on its consolidated financial statements.

4. EQUITY-ACCOUNTED INTERESTS

| | Ownership interest (%) | 2018 | 2017 |
|------------------------------------|---------------------------|----------------|---------|
| Interest in Énergir, L.P. (a) | 29.0 | 901,288 | 887,773 |
| Interest in the SDB Wind Farms (b) | 49.0 | 10,396 | 10,193 |
| | | 911,684 | 897,966 |

(a) During fiscal 2018, Valener did not subscribe to any Énergir, L.P. units (1,318,291 Énergir, L.P. units for a \$29,002 cash consideration during fiscal 2017). The interest in Énergir, L.P. includes \$348,506 in goodwill as at September 30, 2018 (\$345,757 as at September 30, 2017).

(b) During fiscal 2018, Valener subscribed, in proportion to its current economic interest in the SDB Wind Farms, 247,129 units of the SDB Wind Farms for a cash consideration of \$247 (156,242 units of the SDB Wind Farms for a total cash consideration of \$156 during fiscal 2017).

5. LONG-TERM DEBT

| | Maximum authorized amount | Maturity | 2018 | 2017 |
|-----------------|---------------------------------|----------|---------------|---------|
| Credit facility | 200,000 | 2023 | 85,867 | 103,759 |

In April 2018, Valener extended the maturity of its credit facility to March 2023. This credit facility is secured by Valener's units in Énergir, L.P. and its shares in Valener Éole Inc. 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, 2018 was 2.86% (2.18% in 2017).

The amount drawn on the credit facility as at September 30, 2018 is presented net of \$284 in financing costs (\$426 as at September 30, 2017). The amortization of deferred financing charges was \$142 for fiscal 2018 (\$142 for fiscal 2017).

Valener'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, Valener 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 by dividing (i) the total distributions and dividends received less general and administrative expenses over (ii) the total interest on long-term debt. For the fiscal year ended September 30, 2018, these ratios were 26.75 times (29.32 times for 2017) and 1.33 times (1.72 times for 2017), respectively. Valener was in compliance with all of the conditions of its credit facility as at September 30, 2018 and 2017.

In September 2018, Valener entered into swaps for a total nominal value of \$61,000 to cover the risk of interest rate fluctuations on its credit facility. These transactions are subject to fixed rates of 2.57% and 2.37%.

6. SHARE CAPITAL

AUTHORIZED

Valener'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.

ISSUED AND OUTSTANDING

| | <u>2018</u> | <u>2017</u> |
|--|-----------------------|-----------------------|
| 39,179,713 common shares (38,877,164 as at September 30, 2017) | 661,397 | 655,106 |
| 4,000,000 Series A preferred shares | 97,480 | 97,480 |
| | <u>758,877</u> | <u>752,586</u> |

Common shares

Valener 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 2018, 302,549 common shares were issued under the DRIP (243,507 common shares for fiscal 2017) for a total amount of \$6,291 (\$5,131 for fiscal 2017).

Preferred shares

Since October 15, 2017, the Series A preferred shares have been paying cumulative dividends of \$1.155 per share per annum, payable quarterly, i.e., a yield of 4.62% per annum for the period ending October 15, 2022. The Series A preferred shares were paying 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. On October 15, 2017, the dividend rate of return was reset and will be reset every five years thereafter at a rate equal to the five-year Government of Canada bond yield plus 2.81%.

According to the terms and conditions of the Series A preferred shares, Valener was able to redeem the Series A preferred shares on October 15, 2017 at a price of \$25.00 per share. As approved by its board of directors on August 8, 2017, Valener did not exercise its redemption option on October 15, 2017. Valener may redeem the Series A preferred shares on or after October 15, 2022 and on October 15 every five years thereafter at a price of \$25.00 per share in accordance with the share terms and conditions.

The Series A preferred share terms and conditions features an option whereby holders may convert their Series A preferred shares into Series B preferred shares on October 15, 2017 and on October 15 every five years thereafter at a rate of one Series B preferred share for each converted Series A preferred share provided that, after the conversion, at least 1,000,000 Series B shares are outstanding. The holders of the Series B preferred shares would be entitled to receive quarterly cumulative dividends at an annual floating rate equal to the three-month Government of Canada Treasury bill yield plus 2.81%. The Series B preferred shares would be redeemable at Valener’s option at a price of \$25.00 on or after October 15, 2027 and on October 15 every five years thereafter and at a price of \$25.50 on any date that is not a conversion date after October 15, 2027.

On October 15, 2017, since the number of Series A preferred shares submitted for conversion was below the 1,000,000 threshold required to give effect to the conversion, none of Valener’s Series A preferred shares were converted into Series B preferred shares on that date.

BASIC AND DILUTED NET INCOME PER COMMON SHARE

| | <u>2018</u> | <u>2017</u> |
|---|---------------|---------------|
| Net income | 51,055 | 57,408 |
| Less: | | |
| Cumulative dividends on Series A preferred shares | 4,620 | 4,350 |
| Net income attributable to common shareholders | <u>46,435</u> | <u>53,058</u> |
| Basic and diluted weighted average number of common shares outstanding (in thousands) | 39,049 | 38,773 |
| Basic and diluted net income per common share (in dollars) | <u>1.19</u> | <u>1.37</u> |

7. ACCUMULATED OTHER COMPREHENSIVE INCOME

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

| | Proportionate shares in other comprehensive income (loss) | | |
|---|--|-----------------------|---------------|
| | <u>Énergir, L.P.</u> | <u>SDB Wind Farms</u> | <u>Total</u> |
| Balance as at September 30, 2017 | 27,091 | (4,473) | 22,618 |
| Other comprehensive income before reclassifications to income | 11,366 | 2,461 | 13,827 |
| Other comprehensive income reclassified to income | 816 | 1,608 | 2,424 |
| | <u>12,182</u> | <u>4,069</u> | <u>16,251</u> |
| Income taxes | (1,696) | (1,045) | (2,741) |
| | <u>10,486</u> | <u>3,024</u> | <u>13,510</u> |
| Balance as at September 30, 2018 | <u>37,577</u> | <u>(1,449)</u> | <u>36,128</u> |

| | Proportionate shares in other comprehensive income (loss) | | |
|--|--|-----------------------|----------------|
| | <u>Énergir, L.P.</u> | <u>SDB Wind Farms</u> | <u>Total</u> |
| Balance as at September 30, 2016 | 36,919 | (12,784) | 24,135 |
| Other comprehensive income (loss) before reclassifications to income | (12,495) | 9,045 | (3,450) |
| Other comprehensive income reclassified to income | 1,535 | 2,262 | 3,797 |
| | <u>(10,960)</u> | <u>11,307</u> | <u>347</u> |
| Income taxes | 1,132 | (2,996) | (1,864) |
| | <u>(9,828)</u> | <u>8,311</u> | <u>(1,517)</u> |
| Balance as at September 30, 2017 | <u>27,091</u> | <u>(4,473)</u> | <u>22,618</u> |

8. INCOME TAXES

| | <u>2018</u> | <u>2017</u> |
|----------------------------|---------------|---------------|
| Income before income taxes | 64,199 | 70,428 |
| Current income taxes | 2,671 | 2,860 |
| Deferred income taxes | 10,473 | 10,160 |
| Income taxes | <u>13,144</u> | <u>13,020</u> |

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>2018</u> | <u>2017</u> |
|--|----------------|-------------|
| Income before income taxes | 64,199 | 70,428 |
| Statutory income tax rate (%) | 26.7 | 26.8 |
| Income taxes at statutory rate | 17,141 | 18,875 |
| Increase (decrease) attributable to the following: | | |
| Deferred income taxes related to rate-regulated activities | 1,016 | 1,495 |
| Income taxes on income from corporations held by an entity subject to significant influence | (7,083) | (9,924) |
| Deferred income taxes related to the outside-basis difference on an interest in an entity subject to significant influence | 2,090 | 3,446 |
| Net impact of non-taxable and other items | (20) | (872) |
| Income taxes | 13,144 | 13,020 |
| Effective income tax rate (%) | 20.5 | 18.5 |

COMPONENTS OF DEFERRED INCOME TAXES

| | <u>2018</u> | <u>2017</u> |
|-----------------------------------|-----------------|-------------|
| Interest in Énergir, L.P. | (28,423) | (26,477) |
| Interest in the SDB Wind Farms | (33,528) | (28,482) |
| Non-capital losses | 11,297 | 16,023 |
| Other | (231) | (229) |
| Net deferred income tax liability | (50,885) | (39,165) |

As at September 30, 2018, a valuation allowance of \$5,533 (\$4,561 as at September 30, 2017) 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 Valener's subsidiaries, which have deemed it more likely than not that they will be able to use their non-capital losses of \$42,630 before they expire, i.e., between 2032 and 2038, factoring in reversals of deductible temporary differences and expected future taxable income.

As at September 30, 2018, Valener's net deferred income tax liability related to its interest in Énergir, L.P. included a deferred income tax liability of \$10,509 (deferred income tax liability of \$6,971 as at September 30, 2017) related to the excess of the tax basis of its interest in Énergir, L.P. 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 \$2,090 (expense of \$3,625 for 2017) and partly in the consolidated statement of comprehensive income for savings of \$1,448 (savings of \$1,667 for 2017).

9. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

| | Fiscal years ended September 30 | |
|---|---------------------------------|--------------|
| | 2018 | 2017 |
| Change in operating assets and liabilities: | | |
| Amount receivable from Énergir, L.P. | 3 | (2) |
| Accounts payable and accrued liabilities | 26 | (41) |
| Amount payable to Énergir, L.P. | (49) | (53) |
| Income taxes payable | (754) | 1,578 |
| | <u>(774)</u> | <u>1,482</u> |
| Other cash information: | | |
| Interest paid | 2,387 | 1,782 |
| Income taxes paid | 3,424 | 1,281 |

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

Énergir, L.P. and Valener entered into an Administration and Management Support Agreement (the "Administration Agreement") expiring in 2025 under which:

- Énergir, L.P., either directly or through its General Partner Énergir Inc., provides Valener with certain administration and management support services solely in respect of Valener's interest in Énergir, L.P. and related public company matters and, in certain circumstances, certain additional services. Énergir, L.P. charged Valener an amount of \$716 for administration and management support services in fiscal 2018 (\$698 for fiscal 2017); and
- Énergir, L.P. reimburses Valener in an amount of \$1,000, indexed annually, for all general administrative expenses that it incurs, including costs related to public company matters. Under this Administration Agreement, Valener charged Énergir, L.P. an amount of \$1,023 for fiscal 2018 (\$1,007 for fiscal 2017).

11. FINANCIAL INSTRUMENTS

NON-DERIVATIVE FINANCIAL INSTRUMENTS

Non-derivative financial instruments include cash, the amount receivable from Énergir, L.P., distributions receivable from Énergir, L.P., 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 since 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 the fiscal years ended September 30, 2018 and 2017.

DERIVATIVE FINANCIAL INSTRUMENTS

In October 2016, Valener settled swaps in a total nominal value of \$44,757 for an amount of \$7,812. A \$762 gain from changes in the fair value of these instruments was recognized in the consolidated statement of income for fiscal 2017 since the conditions for applying hedge accounting had not been satisfied.

In September 2018, Valener entered into swaps for a total nominal value of \$61,000 to cover the risk of interest rate fluctuations on its credit facility. Since these swaps meet the hedge accounting conditions, changes in fair value are recognized in other comprehensive income.

As at September 30, 2018, the fair value of these swaps was nil and was calculated using discounted future cash flows and based on a discount rate assumption of 2.67% and 2.40% for each tranche. As at September 30, 2018, the observable nature of the data inputs used to measure the swaps fell into Level 2, as described in Note 2.

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. Valener seeks to maintain an appropriate capital structure in order to reduce the impact of interest rate fluctuations. Moreover, Valener also used swaps to fix a portion of its floating-rate debt.

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. Énergir, L.P. is the main counterparty to the financial instruments reported in assets on the consolidated balance sheet. With all other variables remaining constant, and including the swaps concluded in September 2018 to fix a portion of its floating-rate debt, a 100-basis-point increase in interest rates would have reduced consolidated net income by \$276, whereas a 100-basis-point decrease in interest rates would have increased consolidated net income by \$281.

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 cash flows to determine financing needs and by ensuring that it has cash and a sufficient credit facility 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, or a negative financial market perception of Valener's financial position or outlook could have an unfavourable impact on Valener's activities, financial position or net income.

13. SUBSEQUENT EVENTS

These consolidated financial statements and the accompanying notes reflect Valener's evaluation of events occurring between the balance sheet date and November 22, 2018, the date on which these consolidated financial statements were approved.

DECLARATION OF A DIVIDEND TO COMMON SHAREHOLDERS

On November 22, 2018, the board of directors declared a quarterly dividend of \$0.30 per common share for the quarter ending December 31, 2018, payable on January 15, 2019 to common shareholders of record at the close of business on December 31, 2018.

DECLARATION OF A DIVIDEND TO PREFERRED SHAREHOLDERS

On November 22, 2018, the board of directors also declared a dividend of \$0.28875 per Series A preferred share for the period of October 16, 2018 to January 15, 2019, payable on January 15, 2019 to the preferred shareholders of record at the close of business on January 8, 2019.

14. COMPARATIVE INFORMATION

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 ÉNERGIR, L.P.

The consolidated financial statements of Énergir, L.P. and all of the information in this report are the responsibility of the management of Énergir Inc., acting in its capacity as General Partner of Énergir, L.P. It is the responsibility of Énergir Inc.'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 rate-regulated activities of Énergir, L.P. 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 Énergir Inc.

Énergir Inc.'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 Énergir Inc. 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 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 the work carried out by internal auditors and external independent auditors on accounting policies and internal control systems. The audit committee also recommends the choice of external auditors to the board. External and internal auditors are free to communicate with the audit committee.

The consolidated financial statements of Énergir, L.P. as at September 30, 2018 and 2017 and for the years then ended were audited by KPMG LLP, Chartered Professional Accountants, in accordance with Canadian Auditing Standards. These 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 Énergir Inc., in its capacity as General Partner of
Énergir, L.P.

(signed)

ÉRIC LACHANCE, CFA
Senior Vice-President,
Regulatory, IT, Logistics and Chief Financial Officer
of Énergir Inc., in its capacity as General Partner of
Énergir, L.P.

Montreal, Canada
November 22, 2018

INDEPENDENT AUDITORS' REPORT

TO THE PARTNERS OF ÉNERGIR, L.P.

We have audited the accompanying consolidated financial statements of Énergir, L.P., which comprise the consolidated balance sheets as at September 30, 2018 and September 30, 2017, 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 Énergir Inc., in its capacity as General Partner of Énergir, L.P., 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 Énergir, L.P. as at September 30, 2018 and September 30, 2017, 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 LLP¹
Montreal, Canada
November 22, 2018

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

Fiscal years ended September 30

(in thousands of dollars)

| | 2018 | 2017 |
|--|------------------|-----------|
| REVENUES | 2,553,745 | 2,526,645 |
| DIRECT COSTS | 1,531,826 | 1,528,563 |
| GROSS MARGIN | 1,021,919 | 998,082 |
| EXPENSES | | |
| Operating and maintenance | 488,759 | 510,685 |
| Amortization (Notes 5, 8 and 9) | 251,833 | 228,138 |
| Interest on long-term debt | 137,798 | 129,697 |
| Financial and other expenses | 5,920 | (265) |
| Other gains, net (Note 20) | (3,523) | (12,475) |
| | 880,787 | 855,780 |
| INCOME BEFORE THE UNDERNOTED | 141,132 | 142,302 |
| Share in the earnings of equity-accounted interests | 136,759 | 129,428 |
| INCOME BEFORE INCOME TAXES | 277,891 | 271,730 |
| Income taxes (Note 21) | 63,904 | 51,351 |
| NET INCOME | 213,987 | 220,379 |
| NET INCOME (LOSS) ATTRIBUTABLE TO: | | |
| Partners | 215,919 | 240,750 |
| Non-controlling interests | (1,932) | (20,371) |
| | 213,987 | 220,379 |
| BASIC AND DILUTED NET INCOME PER UNIT ATTRIBUTABLE TO PARTNERS (in dollars) | 1.26 | 1.42 |
| BASIC AND DILUTED WEIGHTED AVERAGE NUMBER OF UNITS OUTSTANDING (in thousands) | 171,796 | 169,542 |

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

| | 2018 | 2017 |
|--|-----------------|----------|
| NET INCOME | 213,987 | 220,379 |
| OTHER COMPREHENSIVE INCOME (LOSS) | | |
| Change in translation adjustments of foreign operations | 53,153 | (78,249) |
| Change in translation adjustments related to net investment hedging activities | (25,435) | 37,287 |
| Change in the fair value of derivative financial instruments designated as cash flow hedges, net of income taxes | 710 | 1,814 |
| Change in the funded status of employee future benefit plans (Note 19) | (68) | 4,027 |
| Other comprehensive income related to equity-accounted interests, net of income taxes | 8,088 | 22,919 |
| | 36,448 | (12,202) |
| COMPREHENSIVE INCOME | 250,435 | 208,177 |
| COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO: | | |
| Partners | 248,442 | 216,985 |
| Non-controlling interests | 1,993 | (8,808) |
| | 250,435 | 208,177 |

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

| | Attributable to Partners | | | | | Total equity |
|---|--------------------------|-----------------------------|--|------------------|---------------------------|------------------|
| | Capital | Retained earnings (deficit) | Accumulated other comprehensive income (Note 17) | Total | Non-controlling interests | |
| Balance as at September 30, 2017 | 1,851,825 | 20,353 | 20,632 | 1,892,810 | 58,346 | 1,951,156 |
| Net income (loss) | — | 215,919 | — | 215,919 | (1,932) | 213,987 |
| Other comprehensive income | — | — | 32,523 | 32,523 | 3,925 | 36,448 |
| Capital contributions | — | — | — | — | 15,269 | 15,269 |
| Distributions | — | (206,156) | — | (206,156) | (10,151) | (216,307) |
| Balance as at September 30, 2018 | 1,851,825 | 30,116 | 53,155 | 1,935,096 | 65,457 | 2,000,553 |
| Balance as at September 30, 2016 | 1,751,825 | (22,032) | 44,397 | 1,774,190 | 36,150 | 1,810,340 |
| Net income (loss) | — | 240,750 | — | 240,750 | (20,371) | 220,379 |
| Other comprehensive income (loss) | — | — | (23,765) | (23,765) | 11,563 | (12,202) |
| Capital contributions (Note 16) | 100,000 | — | — | 100,000 | 39,667 | 139,667 |
| Distributions | — | (198,365) | — | (198,365) | (8,663) | (207,028) |
| Balance as at September 30, 2017 | 1,851,825 | 20,353 | 20,632 | 1,892,810 | 58,346 | 1,951,156 |

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

As at September 30

(in thousands of dollars)

| | 2018 | 2017 |
|--|------------------|------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | 52,192 | 100,681 |
| Restricted cash equivalents | 24,584 | 30,879 |
| Trade and other receivables (Note 6) | 229,537 | 192,486 |
| Regulatory assets (Note 5) | 197,893 | 202,376 |
| Income taxes receivable | 1,796 | 2,654 |
| Inventories (Note 7) | 81,312 | 96,885 |
| Prepaid expenses | 16,763 | 15,809 |
| Derivative financial instruments (Note 24) | 12,387 | 5,065 |
| Other current assets | 906 | 1,688 |
| Total current assets | 617,370 | 648,523 |
| Noncurrent assets | | |
| Property, plant and equipment (Note 8) | 4,523,778 | 4,253,750 |
| Restricted cash | 36,905 | 37,187 |
| Intangible assets (Note 9) | 341,861 | 417,805 |
| Regulatory assets (Note 5) | 475,199 | 542,090 |
| Investments (Note 10) | 1,307,112 | 1,207,732 |
| Goodwill (Note 12) | 423,484 | 409,371 |
| Derivative financial instruments (Note 24) | 2,466 | 8,856 |
| Other noncurrent assets | 11,358 | 2,809 |
| Total noncurrent assets | 7,122,163 | 6,879,600 |
| TOTAL ASSETS | 7,739,533 | 7,528,123 |
| LIABILITIES | | |
| Current liabilities | | |
| Bank overdraft | 5,378 | 5,361 |
| Bank loans (Note 13) | 37,742 | 43,818 |
| Accounts payable and accrued liabilities | 317,135 | 372,395 |
| Regulatory liabilities (Note 5) | 132,330 | 99,445 |
| Income taxes payable | 1,949 | 484 |
| Distributions payable | 51,539 | 51,539 |
| Derivative financial instruments (Note 24) | 11,110 | 11,498 |
| Current portion of long-term debt (Note 14) | 212,694 | 13,069 |
| Total current liabilities | 769,877 | 597,609 |
| Noncurrent liabilities | | |
| Long-term debt (Note 14) | 3,403,150 | 3,463,278 |
| Regulatory liabilities (Note 5) | 660,603 | 381,839 |
| Deferred income taxes (Note 21) | 338,102 | 532,157 |
| Derivative financial instruments (Note 24) | 18,584 | 55,396 |
| Other noncurrent liabilities (Note 15) | 548,664 | 546,688 |
| Total noncurrent liabilities | 4,969,103 | 4,979,358 |
| TOTAL LIABILITIES | 5,738,980 | 5,576,967 |
| EQUITY | | |
| Capital (Note 16) | 1,851,825 | 1,851,825 |
| Retained earnings | 30,116 | 20,353 |
| Accumulated other comprehensive income (Note 17) | 53,155 | 20,632 |
| Equity attributable to Partners | 1,935,096 | 1,892,810 |
| Non-controlling interests | 65,457 | 58,346 |
| TOTAL EQUITY | 2,000,553 | 1,951,156 |
| TOTAL LIABILITIES AND EQUITY | 7,739,533 | 7,528,123 |

Commitments and guarantees (Note 26)

Contingencies (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 Énergir Inc. in its capacity as General Partner,

(signed)

 SOPHIE BROCHU
 Director

(signed)

 MARY-ANN BELL
 Director

| | 2018 | 2017 |
|--|------------------|------------------|
| OPERATING ACTIVITIES | | |
| Net income | 213,987 | 220,379 |
| Adjustments to reconcile net income and operating cash flows: | | |
| Distributions received from equity-accounted interests | 126,266 | 102,258 |
| Amortization of property, plant and equipment | 207,194 | 191,867 |
| Amortization of regulatory assets and liabilities, intangible assets and financing costs (Notes 5, 9 and 14) | 165,607 | 135,392 |
| Share in the earnings of equity-accounted interests | (136,759) | (129,428) |
| Deferred income taxes (Note 21) | 59,805 | 47,899 |
| Other gains, net (Note 20) | (3,523) | (12,475) |
| Change in regulatory assets and liabilities related to the cost of energy | (23,170) | (24,182) |
| Change in other regulatory assets and liabilities | 14,399 | 4,411 |
| Change in other operating assets and liabilities (Note 18) | (20,136) | 12,671 |
| Other | 21,402 | 11,050 |
| Cash flows related to operating activities | 625,072 | 559,842 |
| INVESTING ACTIVITIES | | |
| Change in restricted cash and cash equivalents | 6,558 | (385) |
| Purchases of property, plant and equipment | (400,792) | (503,371) |
| Disposals of property, plant and equipment | 9,890 | 45,156 |
| Purchases of intangible assets (Note 9) | (57,834) | (69,818) |
| Purchases of investment fund units | (306,245) | (200,396) |
| Disposals of investment fund units | 303,217 | 195,181 |
| Purchases of equity-accounted interests and other investments | (91,925) | (5,329) |
| Acquisitions of subsidiaries (Note 4) | — | (42,668) |
| Other | 2,913 | 7,983 |
| Cash flows related to investing activities | (534,218) | (573,647) |
| FINANCING ACTIVITIES | | |
| Change in bank overdraft | 17 | (1,221) |
| Change in bank loans | (8,221) | 32,853 |
| Change in term loans | 50,482 | (197,239) |
| Issuances of other long-term debt, net of issuance costs | 31,914 | 499,465 |
| Repayments of other long-term debt | (13,232) | (202,517) |
| Capital contributions | 15,269 | 139,667 |
| Distributions | (216,307) | (203,992) |
| Cash flows related to financing activities | (140,078) | 67,016 |
| IMPACT OF EXCHANGE RATE FLUCTUATIONS ON CASH AND CASH EQUIVALENTS | 735 | (4,482) |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (48,489) | 48,729 |
| CASH AND CASH EQUIVALENTS AT BEGINNING ⁽¹⁾ | 100,681 | 51,952 |
| CASH AND CASH EQUIVALENTS AT END ⁽¹⁾ | 52,192 | 100,681 |

⁽¹⁾ As at September 30, 2018, the cash and cash equivalents balance consisted of \$52,180 in cash and of \$12 in short-term investments compared to \$97,548 and \$3,133, respectively, as at September 30, 2017.

Supplemental disclosure of cash flow information (Note 18)

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

1. NATURE OF OPERATIONS

On November 29, 2017, Gaz Métro Limited Partnership changed its name to Énergir, L.P. One of Énergir, L.P.'s core business activities is the distribution of natural gas in Quebec ("QDA"). Énergir, L.P. also distributes energy in Vermont, U.S.A. ("Vermont"), 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, Énergir, L.P. is active in other, mostly regulated activities in natural gas transportation and natural gas storage. Énergir, L.P. is also active in non-regulated energy development and operating projects such as the generation of wind and solar power and the use of liquefied and compressed natural gas as a fuel or energy product. The regulatory context applicable to Énergir, L.P., 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 5.

2. ACCOUNTING POLICIES
PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

Énergir, L.P.'s consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles ("GAAP").

Énergir, L.P. elected to apply U.S. GAAP in accordance with the strategy recommended by its Partners, Énergir Inc. and Valener Inc. ("Valener"), both of which obtained exemptions from the Canadian Securities Administrators ("CSA"). In March 2018, the CSA approved a five-year extension to the exemptions granted in 2015, which had covered fiscal years 2016 to 2018. Énergir Inc. and Valener will therefore continue to prepare their annual and interim consolidated financial statements using U.S. GAAP until the first of the following dates: January 1, 2024 or a date that the International Accounting Standards Board prescribes as a mandatory date for applying a standard on rate-regulated activities.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements of Énergir, L.P. include the accounts of Énergir, L.P., all of its subsidiaries as well as those of variable interest entities ("VIEs") for which Énergir, L.P. is the primary beneficiary. When a contractual agreement is signed, Énergir, L.P. performs an analysis to assess whether it has a VIE. The primary beneficiary has the power to direct or control the activities that most significantly influence the performance of an entity and has the obligation to absorb the entity's losses or receive its benefits. Énergir, L.P. uses the hypothetical liquidation at book value ("HLBV") method to account for its interest in GMP VT Solar LLC ("GMP Solar") and in Solar I Partnership, LLC ("Solar I"), each held in partnership with an investor. This method is being used because GMP Solar and Solar I are limited liability companies, and the agreement between these two partners states that liquidation rights and distribution priorities do not correspond to the percentage ownership interests. For these business interests, using ownership percentage to allocate the investee's net income to the Partners fails to reflect the economic benefits that each partner will receive outside the structure. The HLBV method is a balance sheet method that considers the amount that each partner would receive or pay if GMP Solar or Solar I liquidated all assets and settled all liabilities at book value and distributed the liquidation proceeds to the Partners based on the priorities set out in the agreement. This method also takes into account the tax considerations created for each Partner. All intercompany transactions and balances are eliminated.

Economic interests in joint ventures and entities subject to significant influence are accounted for 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. With respect to distributions received from equity-accounted interests, a distribution-by-nature approach is used for the consolidated statement of cash flows presentation. According to this approach, distributions generated by operating activities are reported in operating activities, whereas return-of-capital distributions are reported in investing activities. When there is 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 proportionate shares of ownership in jointly controlled assets are accounted for proportionally according to ownership interest. Proportionate shares in assets are included on the consolidated balance sheets and proportionate shares in expenses are included in the consolidated statement of income. Énergir, L.P. 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 is recorded in income.

Investissement Québec's economic interest in Gaz Métro LNG

Énergir, L.P. has a 58% 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 Énergir, L.P. to purchase Investissement Québec units that can be exercised as of the 8th year following the project in-service date, i.e., April 2025, at an amount that provides Investissement Québec with a 10% internal rate of return on invested capital. Investissement Québec has an option to sell its units that can be exercised as of the 15th year after the project in-service date, i.e., April 2032, at an amount equal to 90% of their fair market value, provided that Énergir, L.P. 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, 2018 is \$65,654 (\$59,692 as at September 30, 2017).

USE OF ESTIMATES

In preparing the consolidated financial statements, the management of Énergir Inc. ("the management"), in its capacity as General Partner of Énergir, L.P., 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 postretirement 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

Énergir, L.P. as well as some of its subsidiaries 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 Utility Commission ("VPUC") (formerly 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, Énergir, L.P. 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 bills reserved for specific uses under system extension financing arrangements or under development activity financing arrangements. Restricted cash and cash equivalents are reported in current assets or noncurrent assets depending on the maturity of the related liabilities.

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. Énergir, L.P. 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 RAL 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 tangible assets. Project costs consist of direct costs and general expenses. Énergir, L.P. 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, capitalized interest is calculated based on 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 5.

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

| | |
|-----------------|-----------------|
| Distribution | 8 to 70 years |
| Production | 11 to 110 years |
| Transportation | 25 to 81 years |
| Storage | 15 to 44 years |
| Energy services | 8 to 37 years |
| General plant | 2 to 50 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, the costs of developing information technology, rights and licenses for generation assets, and customer relationships.

GHG emission allowances are recorded at cost less accumulated amortization. GHG emission allowances are purchased under the Government of Quebec's cap-and-trade system for GHG emission allowances and are amortized, 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 using the GHG emission allowance price in effect on the date of the consolidated balance sheets.

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 5- and 10-year estimated useful lives.

Rights and licences relate to the operation of regulated generation assets and are recorded at acquisition cost, including internal and external labour costs as well as legal fees. Amortization is calculated on a straight-line basis over the duration of the licences, which vary from 30 to 40 years.

Customer relationships and other consist mainly of the customer relationships acquired in past business combinations. These assets are initially accounted for at the acquisition-date fair value. Amortization is calculated using the straight-line method over a period of 25 years.

BUSINESS COMBINATIONS

Business combinations are accounted for using the acquisition method. Under this method, all identifiable assets acquired and liabilities assumed are measured and accounted for at their fair value, including any non-controlling interests. Non-controlling interests are presented as a separate item of equity. Acquisition-related costs and restructuring costs are recorded as expenses.

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. Énergir, L.P. 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 an impairment test. The test consists of comparing the carrying amount and the fair value of the reporting units 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, a loss of value is recognized in the consolidated statement of income for an amount equal to the excess, up to the maximum of the goodwill subject to the test.

Goodwill is tested for impairment on April 1 of each year.

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 Énergir, L.P. believes, following interventions from regulatory agencies, that certain costs of property, plant and equipment and of intangible assets related 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 exchange rate prevailing on the balance sheet date, whereas other items are translated at the exchange rate in effect 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 exchange rate prevailing on the balance sheet date. Revenues and expenses are translated at the exchange rate in effect on the transaction date. Unrealized exchange gains and losses resulting from translation are presented in other comprehensive income.

REVENUE RECOGNITION

Énergir, L.P.'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 customers consisting of security deposits is accounted for as restricted cash for 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

Énergir, L.P. 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. Énergir, L.P. recognizes the impact of an uncertain tax position when it is more likely than not to be realized.

According to the regulatory treatments, Énergir, L.P. and some of its subsidiaries 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 postretirement 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 group at the date of the changes. This amortization is included in the net projected benefit cost.

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. 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.

When estimating the current service cost and interest cost of the DBP and PRB plans, Énergir, L.P. uses different discount rates on the yield curve for current services and past services in order to reflect the timing differences in the payment of benefits and thereby more accurately determine cost.

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 Énergir, L.P. 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.

All derivative financial instruments are recognized on the consolidated balance sheet except for contracts that were entered into and continue to be held for the purpose of receipt or delivery of a nonfinancial item in accordance with Énergir, L.P.'s expected purchase or sale requirements and that thereby meet the exception criteria for normal purchases and normal sales. As part of its rate-regulated activities, Énergir, L.P. enters into long-term power purchase supply contracts to mitigate the risk of supply cost volatility. These contracts generally meet the definition of a derivative. However, some supply contracts meet the normal purchases and normal sales exception criteria and therefore are not recognized at fair value on the consolidated balance sheet. As a result, the power purchase costs of contracts that meet the exception criteria are recognized in the consolidated statement of income during the period in which the power is consumed as opposed to recognizing, when the exception criteria is not met, changes in the fair value of other contracts on the consolidated balance sheet.

Énergir, L.P. evaluates each of its contracts to determine whether they meet the normal purchases and normal sales exception criteria. Contracts that meet the criteria are regularly reviewed to ensure that the exception criteria continues to be met.

Gains and losses generated by derivative financial instruments other than those related to rate-regulated activities or designated as hedging instruments are recognized in income in the period in which they arise.

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 set prices or to contain them in accordance with temporal, volumetric and financial limits approved by the respective regulatory agencies. GMP uses power purchase agreements to manage the risk of supply cost fluctuations and uses fixed-price swaps to manage the risk of 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 Énergir, L.P. 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 strategies behind the hedging activities. In addition, hedge effectiveness is assessed quantitatively when it is implemented. A qualitative assessment is then performed each quarter to identify if facts and events have occurred that could have a potential impact on the effectiveness of the hedging relationship and thereby require quantitative testing. Hedge accounting is discontinued prospectively 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, changes in the fair value of a derivative financial instrument designated as a hedging item are recognized in other comprehensive income. Amounts previously recognized in accumulated other comprehensive income are reclassified to income, when the hedged item is settled, in the line item to which the hedging relationship is attributed.

Forward exchange contracts are used to manage the exchange risk exposure arising from the U.S.-dollar-denominated revenues or equipment purchases.

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 translation exchange gains and losses on conversion of debts designated as hedging items is included in other comprehensive 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

Énergir, L.P. 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, 2018 and 2017, no instrument had a dilutive effect on basic net income per unit.

3. ACCOUNTING CHANGES

RECENTLY ADOPTED STANDARDS

Consolidation

On October 1, 2017, Énergir, L.P. retroactively adopted Accounting Standard Update ("ASU") 2016-17, *Consolidation (Topic 810): Interests Held Through Related Parties That Are Under Common Control*. This standard amends the consolidation guidance applicable to entities under common control. The amendments relate mainly to determining whether an entity is a primary beneficiary and also cover indirect interests in an entity held through related parties. The adoption of this standard did not have a significant impact on Énergir, L.P.'s consolidated financial statements.

Goodwill impairment test

On January 1, 2018, Énergir, L.P. early adopted ASU 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* on a prospective basis. The changes aim to simplify the goodwill impairment test by eliminating the second step of the impairment test. Adoption of this new guidance did not have a significant impact on Énergir, L.P.'s consolidated financial statements.

Hedge accounting

On July 1, 2018, Énergir, L.P. early adopted, on a modified retrospective basis, ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*. The new guidance aims to simplify hedge accounting and improve the financial reporting of hedging relationships in order to better portray the economic results of an entity's risk management activities in its financial statements. Adoption of this new guidance did not have a significant impact on Énergir, L.P.'s consolidated financial statements.

STANDARDS ISSUED BUT NOT YET IN EFFECT

Revenues

In May 2014, FASB issued ASU 2014-09, *Revenue From Contracts With Customers (Topic 606)*. This guidance and the subsequent amendments were combined to create Accounting Standards Codification ("ASC") Topic 606, replacing the existing guidance in ASC 605, *Revenue Recognition*. The new guidance in ASC 606 aims to improve comparability among revenue recognition practices. It requires that a new five-step model based on certain core principles be applied across all revenue types. It also sets out additional disclosure requirements, in particular the nature, amount and uncertainty of revenue as well as the related cash flows and the moment at which they will be collected by the entity.

This new guidance has been applicable since October 1, 2018. Two methods can be used when adopting ASC 606: (i) the full retrospective approach, with restatement of all periods presented or (ii) the modified retrospective approach, under which the cumulative impact is recorded on the adoption date. Énergir, L.P. intends to use the modified retrospective approach when adopting this new standard.

In 2017, Énergir, L.P. developed a project plan and timeline for the various steps and identified the significant sectors and subsidiaries. It was also determined that rate-regulated revenues, which account for more than 90% of Énergir, L.P.'s revenues, fall within the scope of ASC 606. During the third quarter of fiscal 2017, the major contracts to which ASC 606 applies were identified and analysis thereof began. Following that detailed analysis, completed during the third quarter of fiscal 2018, Énergir, L.P. does not expect ASC 606 to have a significant impact on its consolidated net income. It was also determined that accounting for contributions in aid of construction falls outside the scope of ASC 606.

An assessment of the impacts of the new presentation and disclosure guidance began during the third quarter of fiscal 2018. It was determined that revenues derived from alternative revenue programs, as defined by U.S. GAAP, fall outside the scope of ASC 606 and, as a result, must be presented separately from the revenues accounted for under ASC 606. An assessment of the impacts on the consolidated financial statements is still in progress.

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 presentation, measurement and disclosure requirements applicable to financial instruments. More specifically, investments in equity securities, other than equity-accounted interests or consolidated interests, must be presented at fair value, and any change in fair value must be accounted for in the statement of income. This guidance applies prospectively to interim and annual financial statements starting with the fiscal year beginning October 1, 2018. Énergir, L.P. does not expect this guidance to have a significant impact on 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 standard also changes the definition of a lease by specifying that a contract must be accounted for as a lease when one party (i) has the right to obtain substantially all of the economic benefits arising from the use of the asset and (ii) the right to direct the use of the asset. In addition, the standard requires additional qualitative and quantitative lease information to be disclosed. This guidance will apply to the interim and annual financial statements starting with the fiscal year beginning October 1, 2019. In July 2018, FASB published ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which allows companies to apply the standard prospectively, meaning to not recast the comparative periods in the year of adoption of the standard. Énergir, L.P. is currently examining the possible transition options. In January 2018, FASB issued ASU 2018-01, *Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842*. This update is a simplification measure whereby entities may elect to not evaluate existing or expired land easements that were not previously accounted for as leases under current standards. Énergir, L.P. intends to opt for this choice.

During the third quarter of fiscal 2018, Énergir, L.P. developed a project plan and timeline for the various steps involved in applying this new standard. Énergir, L.P. is continuing to assess the impact of this new guidance on its consolidated financial statements and is closely monitoring the changes made by FASB to ASC Topic 842.

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 applies retrospectively to the interim and annual financial statements starting with the fiscal year beginning October 1, 2018. Énergir, L.P. does not expect the adoption of this new guidance to have a significant impact on its consolidated financial statements.

In November 2016, FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. According to this standard, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling beginning-of-period and end-of-period total amounts. This new guidance applies retrospectively to the interim and annual financial statements starting with the fiscal year beginning October 1, 2018. Upon adoption of ASU 2016-18, changes in restricted cash and cash equivalents presented in the consolidated statement of cash flows will be reported in changes in cash and cash equivalents rather than in investing activities, as is done now.

Income taxes

In October 2016, FASB issued ASU 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*. This standard amends the guidance for the recognition of income taxes payable on transfers of assets other than inventories between entities. Under this new guidance, the tax consequences will have to be recognized when the transfer of assets takes place. This guidance applies to interim and annual financial statements starting with the fiscal year beginning October 1, 2018, and Énergir, L.P. plans on using a modified retrospective approach. This new guidance will apply to the solar farms of the Standard Solar Inc. (Standard Solar) group. Énergir, L.P. does not expect the adoption of this new guidance to have a significant impact on its consolidated financial statements.

Derecognition of nonfinancial assets

In February 2017, FASB issued ASU 2017-05, *Other Income - Gains and Losses From the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets*, which clarifies the scope of *Subtopic 610-20* and provides new guidance for derecognizing nonfinancial assets, including contributions of nonfinancial assets made during the creation of partnerships and transfers of nonfinancial assets to related companies. This new guidance applies retrospectively to interim and annual financial statements starting with the fiscal year beginning October 1, 2018. Énergir, L.P. is currently assessing how this new guidance will impact its consolidated financial statements.

Employee future benefits

In March 2017, FASB issued ASU 2017-07, *Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The new guidance requires the "service cost" component of the net projected benefit cost be included in compensation-related operating expenses, whereas other components of net cost will have to be presented in non-operating expenses. Under this new guidance, the only component eligible for capitalization is "service cost." This guidance will apply retrospectively or prospectively, depending on the change, to interim and annual financial statements starting with the fiscal year beginning October 1, 2018. Énergir, L.P. does not expect the adoption of this new guidance to have a significant impact on its consolidated financial statements.

In August 2018, FASB issued ASU 2018-14, *Compensation - Retirement Benefits - Defined Benefit Plans - General (Subtopic 715-20): Disclosure Framework*. The new guidance adds and clarifies certain disclosure requirements applicable to entities that have defined benefit pension plans or post-retirement benefit (PRB) plans. This guidance applies retrospectively starting with the fiscal year beginning October 1, 2020. Early adoption is also permitted. Énergir, L.P. is currently examining the impact of this new guidance on its consolidated financial statements.

Intangibles

In August 2018, FASB published ASU 2018-15, *Intangibles - Goodwill and Other Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. The amendments set out in this update align the requirements for capitalizing implementation costs incurred in a hosting arrangement with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. This update does not amend the accounting for the service element of a hosting arrangement. This guidance applies retrospectively or prospectively to all implementation costs incurred after the adoption date, i.e., as of the fiscal year beginning October 1, 2020. Early adoption is also permitted. Énergir, L.P. is currently examining how this new guidance will impact its consolidated financial statements.

4. BUSINESS ACQUISITIONS
CDH

On December 21, 2016, Énergir, L.P., through its Gaz Métro Plus subsidiary, acquired 50% of the issued and outstanding units of CDH Solutions & Operations Limited Partnership ("CDH"), which had been held by the other joint venturer, for a cash consideration of \$25,800 (amount of \$21,920, net of \$3,880 in available cash at the time of acquisition). CDH primarily owns a 100% interest in Énergir, chaleur et climatisation urbaines, s.e.c. ("ECCU"), previously Climatisation et Chauffage Urbains de Montréal, s.e.c., whose core business is managing and operating three distinct steam, hot water and cold water networks that span three km and meet the heating and air conditioning needs of certain commercial spaces in downtown Montreal.

These newly acquired units add to the 50% of issued and outstanding CDH units already held by Gaz Métro Plus, thereby giving it control of CDH and, consequently, control of ECCU. The purpose of this acquisition is to continue developing and growing this strategic asset, which serves the energy needs of commercial spaces.

Before the transaction, the ownership interest in CDH was accounted for using the equity method. On the transaction date, Énergir, L.P. ceased applying the equity method and accounted for the transaction according to ASC 810, *Consolidation* and ASC 805, *Business Combinations*. Accordingly, CDH's financial results have been fully included in Énergir, L.P.'s consolidated financial statements as of December 31, 2016.

Since this transaction constitutes a step acquisition of a subsidiary, the carrying value of the interest determined using the equity method immediately before the transaction was remeasured to a fair value of \$25,800, which was based on the fair value of the cash consideration paid to the joint venturer during the transaction. Following this remeasurement, a \$12,475 gain was recognized in the consolidated statement of income, including the effect of reclassifying all previously recognized amounts in the accumulated other comprehensive income related to this interest.

The total fair value of the acquired business (acquiree) was determined as follows:

| | |
|---|---------------|
| Fair value of the cash consideration paid to the joint venturer | 25,800 |
| Fair value of the interest in CDH held immediately before the transaction | 25,800 |
| Total fair value of the acquiree | <u>51,600</u> |

The purchase price allocation of the fair value of the acquiree breaks down as follows:

| | |
|---|---------------|
| Assets acquired | |
| Current assets | 5,626 |
| Property, plant and equipment | 23,591 |
| Customer relationships and other | 13,198 |
| Total assets acquired | <u>42,415</u> |
| Liabilities assumed | |
| Current liabilities | 1,923 |
| Noncurrent liabilities | 3,634 |
| Total liabilities assumed | <u>5,557</u> |
| Total value of identifiable net assets acquired | <u>36,858</u> |
| Goodwill | 14,742 |
| Total value of net assets acquired | <u>51,600</u> |

Goodwill is not deductible for income tax purposes. The recognition of goodwill was supported by the following key factors: (i) ECCU's proven ability over the years to deliver a safe and reliable energy solution at a competitive price, (ii) the unique and strategic location of its networks in downtown Montreal, and (iii) the savings expected to be achieved on CDH's management fees.

STANDARD SOLAR

On April 26, 2017, Énergir, L.P., through its NNEEC subsidiary, acquired all of the issued and outstanding common shares of Standard Solar for a cash consideration of \$21,978 (US\$16,170) (amount of \$20,748, net of \$1,230 in available cash at the time of acquisition), financed using NNEEC's credit facility. Based in the State of Maryland, Standard Solar is a U.S. company that stands as a vertically integrated leader in the solar power sector and provides the following services in the commercial, industrial and institutional markets:

- Service providers: Contractor (solar system engineering, supply management and construction services) and operator (solar system operation and maintenance services); and
- Producer: Developer and owner of solar systems whose generated power is sold to customers that have signed long-term supply agreements.

Standard Solar operates in several U.S. states, currently has a portfolio of projects under construction and in development, and offers operator services for a portfolio of over 100 MW of installed capacity. In keeping with

Énergir, L.P.'s strategic vision, this acquisition will help Énergir, L.P. to grow its presence and expertise in the solar power sector and build on its presence in the renewable energy segment.

This acquisition was accounted for using the purchase method, as per the guidance in ASC 805, *Business Combinations*. Consequently, Standard Solar's financial results have been included in Énergir, L.P.'s consolidated financial statements as of April 26, 2017. The following table presents the \$21,978 purchase price allocation of the fair value of the acquiree, i.e., the allocation between assets acquired and liabilities assumed at the acquisition date.

| | |
|---|---------------|
| Assets acquired | |
| Current assets | 7,872 |
| Property, plant and equipment | 2,043 |
| Other noncurrent assets | 6,709 |
| Total assets acquired | <u>16,624</u> |
| Liabilities assumed | |
| Current liabilities | 11,531 |
| Total liabilities assumed | <u>11,531</u> |
| Total value of identifiable net assets acquired | <u>5,093</u> |
| Goodwill | 16,885 |
| Total value of net assets acquired | <u>21,978</u> |

Goodwill is not deductible for income tax purposes. The recognition of goodwill was supported by the following key factors: (i) the know-how of the manpower acquired, (ii) Standard Solar's reputation and (iii) the network of partner-developers that provides extensive geographic coverage of most U.S. states.

5. RATE REGULATION

APPROVAL OF RATES

Énergir, L.P. 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

QDA

The activities of QDA are regulated by the *Act respecting the Régie de l'énergie*. The rates for fiscal years 2018 and 2017 were established using a cost-of-service method. Under the cost-of-service method, 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%, 38.5% of which 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 2018 and 2019, the Régie agreed to not apply the automatic adjustment formula and to set the rate at 8.90%, as it had done for fiscal years 2012 to 2017.

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 Énergir, L.P., are regulated by the VPUC. 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 VPUC. According to the rate adjustment mechanisms in place, the price of natural gas is adjusted annually for VGS whereas electricity prices are adjusted annually for GMP.

The following table summarizes the regulatory framework applicable to each of these subsidiaries for the fiscal years ended September 30, 2018 and 2017.

| | 2018 | | 2017 | |
|-----|--|--|--|--|
| | Deemed shareholders' equity (in %) | Authorized rate of return on common equity (in %) | Deemed shareholders' equity (in %) | Authorized rate of return on common equity (in %) |
| VGS | 50.0 | 8.50 | 50.0 | 8.50 |
| GMP | 48.6 | 9.10 | 50.3 | 9.02 |

REGULATORY ASSETS AND LIABILITIES

The following table presents the net carrying amounts of the regulatory assets and liabilities as at September 30, 2018 and 2017:

| | Remaining recovery/ settlement period (years) | 2018 | 2017 |
|--|---|----------------|----------------|
| Regulatory assets ⁽¹⁾ | | | |
| Rate stabilization account related to temperature and wind (a) | 1 to 2 | 11,105 | 18,371 |
| Charges related to the cost of energy (b) | 1 to 2 | 118,511 | 115,759 |
| Grants paid (c) | 1 to 10 | 91,967 | 95,559 |
| Charges related to financial instruments (d) | 1 to 8 | 29,845 | 66,894 |
| Charges related to energy efficiency programs (e) | 1 to 10 | 38,458 | 26,268 |
| Charges related to employee future benefits (f) | Indeterminable | 252,137 | 278,871 |
| Site decontamination and dismantling costs in the United States (g) | 1 to 20 | 12,008 | 12,401 |
| Charges related to mechanisms for sharing profits and losses (h) | 1 to 2 | 47,320 | 78,696 |
| Charges related to income taxes (i) | Indeterminable | 7,370 | 11,357 |
| Charges related to replenishing the meter fleet (j) | — | — | 2,794 |
| Charges related to storms (k) | 1 to 2 | 17,637 | 4,072 |
| Charges related to the share in various energy efficiency funds (l) | 1 to 3 | 7,915 | 13,616 |
| Charges related to deferred taxes following the U.S. tax reform (q) | Indeterminable | 13,007 | — |
| Other | Indeterminable | 25,812 | 19,808 |
| | | 673,092 | 744,466 |
| Portions presented on the balance sheet: | | | |
| Current | | 197,893 | 202,376 |
| Noncurrent | | 475,199 | 542,090 |
| | | 673,092 | 744,466 |
| Regulatory liabilities ⁽¹⁾ | | | |
| Rate stabilization account related to temperature and wind (a) | 1 to 2 | 5,768 | 1,213 |
| Rate stabilization account related to inventory variances (a) | 1 to 2 | 10,786 | 6,960 |
| Credits related to the cost of energy (b) | 1 to 2 | 11,809 | 41,677 |
| Credits related to financial instruments (d) | 1 to 3 | 14,819 | 13,583 |
| Credits related to mechanisms for sharing profits and losses (h) | 1 to 2 | 76,002 | 27,938 |
| Credits related to energy efficiency programs (e) | 1 to 10 | 3,503 | 5,689 |
| Credits related to the System Expansion and Reliability Fund (m) | 1 to 3 | 24,386 | 29,968 |
| Credits related to the Electrical Assistance program (n) | 1 to 2 | 438 | 4,502 |
| Future costs of retiring property, plant and equipment (o) | Indeterminable | 358,890 | 329,124 |
| Credits related to the ownership interest in GMP Solar (p) | 1 | 514 | 7,722 |
| Credits related to deferred income taxes following the U.S. tax reform (q) | Indeterminable | 264,273 | — |
| Other | Indeterminable | 21,745 | 12,908 |
| | | 792,933 | 481,284 |
| Portions presented on the balance sheet: | | | |
| Current | | 132,330 | 99,445 |
| Noncurrent | | 660,603 | 381,839 |
| | | 792,933 | 481,284 |

⁽¹⁾ The net amortization of regulatory assets and liabilities was \$23,207 in 2018 (\$15,295 in 2017).

(a) Énergir, L.P. uses rate stabilization accounts to temper the unpredictable and uncontrollable impact on QDA's activities of temperature changes, wind velocity changes and natural gas inventory variances. These RAL are amortized over a two-year period as of the year following their initial recognition.

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 RAL related to the cost of energy consist of offsets related to inventory remeasurements, billing differences, and other adjustments to the cost of distributed energy 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 forms of assistance granted to QDA and VGS customers to purchase equipment in order 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. These regulatory assets and liabilities are recovered or returned through future rates when the derivative financial instruments are settled.
- (e) Énergir, L.P. created energy efficiency programs in which customers could participate by meeting certain criteria. Énergir, L.P. therefore incurs disbursements to develop programs and pay grants to participating customers.

The assets and liabilities related to QDA's energy efficiency programs consist of amounts granted to QDA's customers under various energy programs as well as the differences between actual disbursements and those projected in the rate case at the start of the fiscal year. Grants paid are deferred during the current fiscal year and amortized over a 10-year period as of the following fiscal year. Budget variances are amortized over one year as of the second fiscal year following capitalization.

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 arising from employee future benefits relate to certain DBP plans and PRB plans. The assets include the following items:
 - Unamortized balances of net actuarial losses that had been amortized using the corridor method;
 - Unamortized balances of past service costs upon initial application of U.S. GAAP;
 - Differences between the regulatory treatments and accounting policies created upon first-time adoption of U.S. GAAP by QDA;
 - Differences between regulatory treatments and accounting policies created during a business acquisition; and
 - Budget variance, i.e., the difference between the net projected benefit cost estimated upon rate case preparation and the actual cost.

Note 19 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, 2018, \$8,136 in costs already incurred (\$8,445 in 2017) and \$3,872 in estimated future disbursements (\$3,956 in 2017) 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 VPUC, 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) Regulatory assets and liabilities related to the mechanisms for sharing profits and losses are composed of amounts related to QDA. Under the profit and loss sharing mechanism, the Régie requires overearnings or shortfalls attributable to customers to be returned or recovered, primarily in the form of rate adjustments in the fiscal year following their approval. These regulatory assets and liabilities are recorded in the fiscal years in which they arise.
- (i) 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) 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 regulatory assets have been fully amortized.

- (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 in various energy efficiency funds consist of amounts recoverable through QDA's future rates and represent the difference between the actual payment made to the energy efficiency agency 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 to reflect decreases in natural gas prices below 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. If no system expansion takes place, the amounts will be returned to customers. These amounts will be returned in full to customers by September 30, 2021. As an offsetting entry to this regulatory liability, assets of \$24,584 and \$30,879 were recognized as restricted cash equivalents on the consolidated balance sheet as at September 30, 2018 and 2017, 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's 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, 2018 and 2017. 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 VPUC.
- (o) Under regulatory treatments, Énergir, L.P. recognizes the estimated future costs of retiring property, plant and equipment used in energy distribution activities. These costs are recovered through rates mainly by adding amortization rates to regulatory liabilities, whereas actual retirement costs are applied against regulatory liabilities.
- (p) Credits related to the ownership interest in GMP Solar are a result of the difference between the share in earnings determined according to ownership interest and the share in earnings determined using the HLVB method created when the solar farms were put into service in 2017 as well as certain development expenses related to GMP Solar. Under current regulatory treatments, the share in the earnings of GMP Solar included in the rates is the share determined using ownership interest, and any difference is recognized as a regulatory liability amortized on a straight-line basis over two years.
- (q) In December 2017, the U.S. government adopted tax legislation commonly referred to as the *Tax Cuts and Jobs Act* (U.S. tax reform), which has introduced significant U.S. tax code changes, notably a tax rate reduction applicable to Énergir, L.P.'s subsidiaries. Following this tax reform, regulatory assets and liabilities were recorded to reflect the amounts that will be returned to or recovered from customers through future rates over different amortization periods, and spanning over 40 years, subject to the approval of the regulatory agencies.

6. TRADE AND OTHER RECEIVABLES

| | <u>2018</u> | <u>2017</u> |
|---------------------------|-----------------------|----------------|
| Trade accounts receivable | 206,738 | 178,967 |
| Taxes receivable | 89 | 2,816 |
| Other receivables | 22,710 | 10,703 |
| | <u>229,537</u> | <u>192,486</u> |

7. INVENTORIES

| | <u>2018</u> | <u>2017</u> |
|------------------------|----------------------|---------------|
| Natural gas | 53,689 | 73,179 |
| Supplies and materials | 27,623 | 23,706 |
| | <u>81,312</u> | <u>96,885</u> |

8. PROPERTY, PLANT AND EQUIPMENT

| | | | | 2018 |
|-----------------|------------------|-----------------------------|-----------------------------|------------------|
| | Cost | Accumulated amortization | Construction in progress | Total |
| Distribution | 4,218,514 | 1,431,675 | 76,726 | 2,863,565 |
| Production | 710,687 | 147,241 | 43,510 | 606,956 |
| Transportation | 548,772 | 20,874 | 15,670 | 543,568 |
| Storage | 49,598 | 18,255 | 1,841 | 33,184 |
| Energy services | 218,989 | 69,726 | 8,476 | 157,739 |
| General plant | 473,597 | 166,960 | 12,129 | 318,766 |
| | 6,220,157 | 1,854,731 | 158,352 | 4,523,778 |

| | | | | 2017 |
|-----------------|------------------|-----------------------------|-----------------------------|------------------|
| | Cost | Accumulated amortization | Construction in progress | Total |
| Distribution | 3,977,525 | 1,340,632 | 72,336 | 2,709,229 |
| Production | 620,090 | 117,281 | 31,968 | 534,777 |
| Transportation | 449,214 | 13,155 | 76,478 | 512,537 |
| Storage | 49,349 | 18,103 | 380 | 31,626 |
| Energy services | 208,382 | 63,496 | 5,385 | 150,271 |
| General plant | 463,984 | 158,329 | 9,655 | 315,310 |
| | 5,768,544 | 1,710,996 | 196,202 | 4,253,750 |

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, wind turbines, 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.

Energy services: These assets include the liquefied natural gas (LNG) production infrastructure related to non-rate-regulated activities, the assets used to generate and transmit power from a thermal power station, and natural gas and electric lease appliances.

General plant: These assets consist of the land, buildings, equipment, vehicles, and property related to information technologies and administrative offices.

The cost of property, plant and equipment not subject to amortization, excluding construction in progress, as at September 30, 2018 and 2017 was \$28,490 and \$29,791, respectively, and is primarily the cost of land and the related rights.

Énergir, L.P. owns appliances that it leases under operating leases. The cost and accumulated amortization of these leased appliances stood at \$81,885 and \$44,991, respectively, as at September 30, 2018 compared to \$73,959 and \$41,885 as at September 30, 2017. Revenues from these operating leases totalled \$10,628 and \$10,186 for fiscal years 2018 and 2017, respectively.

Amortization expense was \$207,194 in 2018 compared with \$191,867 in 2017.

JOINTLY CONTROLLED ASSETS

The following table presents summary financial information on Énergir, L.P.'s interest level in each of its jointly controlled assets as at September 30, 2018 and 2017, which are included mainly in distribution and production assets:

| | 2018 | | | |
|--|--------------------------------------|---|--------------------------------------|--|
| | Ownership interest (in %) | Proportionate share of capacity (in MWh) | Proportionate share of assets | Proportionate share of accumulated amortization |
| Joseph C. McNeil | 31.0 | 16.7 | 38,996 | 35,159 |
| Wyman #4 | 2.9 | 17.6 | 8,168 | 8,091 |
| Stony Brook #1 | 8.8 | 31.0 | 15,830 | 14,759 |
| Metallic Neutral Return ⁽¹⁾ | 59.4 | — | 2,018 | 2,018 |
| Millstone Unit #3 | 1.7 | 21.4 | 108,001 | 64,123 |

| | 2017 | | | |
|--|--------------------------------------|---|--------------------------------------|--|
| | Ownership interest (in %) | Proportionate share of capacity (in MWh) | Proportionate share of assets | Proportionate share of accumulated amortization |
| Joseph C. McNeil | 31.0 | 16.7 | 36,983 | 32,719 |
| Wyman #4 | 2.9 | 17.6 | 7,892 | 7,583 |
| Stony Brook #1 | 8.8 | 31.0 | 15,278 | 14,078 |
| Metallic Neutral Return ⁽¹⁾ | 59.4 | — | 1,949 | 1,928 |
| Millstone Unit #3 | 1.7 | 21.4 | 103,327 | 60,676 |

⁽¹⁾ Metallic Neutral Return is a neutral conductor for an electricity interconnection.

9. INTANGIBLE ASSETS

| | 2018 | | |
|------------------------------------|----------------|---------------------------------|----------------------------|
| | Cost | Accumulated amortization | Net carrying amount |
| GHG emission allowances | 311,526 | 80,058 | 231,468 |
| Information technology development | 231,621 | 143,612 | 88,009 |
| Rights and licenses | 18,468 | 7,751 | 10,717 |
| Customer relationships and other | 12,544 | 877 | 11,667 |
| | 574,159 | 232,298 | 341,861 |

| | 2017 | | |
|------------------------------------|----------------|---------------------------------|----------------------------|
| | Cost | Accumulated amortization | Net carrying amount |
| GHG emission allowances | 561,546 | 256,491 | 305,055 |
| Information technology development | 223,660 | 133,112 | 90,548 |
| Rights and licenses | 17,098 | 7,065 | 10,033 |
| Customer relationships and other | 12,544 | 375 | 12,169 |
| | 814,848 | 397,043 | 417,805 |

Capitalized intangible assets totalled \$57,834 in 2018 and \$69,818 in 2017. Of this 2018 amount, \$47,447 relates to assets acquired and \$10,387 relates to internally generated assets (\$55,360 and \$14,458, respectively in 2017).

The amortization expense for intangible assets was \$136,009 in 2018 and \$116,526 in 2017, including the amortization of GHG emission allowances (recorded in the Direct costs item of the consolidated statement of income) totalling \$114,635 in 2018 (\$95,611 in 2017).

The GHG emission allowances from the last compliance period that had been fully amortized were written off.

The average annual amortization for each of the next five years is expected to be as follows:

| | |
|------|---------|
| 2019 | 131,678 |
| 2020 | 134,359 |
| 2021 | 25,504 |
| 2022 | 18,372 |
| 2023 | 14,351 |

10. INVESTMENTS

| | Ownership interests (in %) | 2018 | 2017 |
|---|----------------------------|------------------|-----------|
| Equity-accounted interests | | | |
| Interests in joint ventures | | | |
| Trans Québec & Maritimes Pipeline Inc. | 50.0 | 84,869 | 85,263 |
| Intragaz Groupe ("Intragaz") | 40.0 to 60.0 | 70,223 | 68,367 |
| SDB Wind Farms | 50.0 | 18,068 | 17,632 |
| Other | | 4,536 | 4,533 |
| | | 177,696 | 175,795 |
| Interests in entities subject to significant influence | | | |
| Portland Natural Gas Transmission System ("PNGTS") (a) | 38.3 | 118,911 | 127,269 |
| Vermont Transco LLC ("Transco") (73.5% in 2017) (b) | 73.6 | 755,431 | 660,494 |
| Vermont Electric Power Company, Inc. | 38.8 | 12,733 | 12,509 |
| Other | | 3,594 | 4,874 |
| | | 890,669 | 805,146 |
| Total equity-accounted interests | | 1,068,365 | 980,941 |
| Investment funds | | 188,510 | 181,611 |
| Other investments | | 20,418 | 17,632 |
| Surrender value of life insurance policies ⁽¹⁾ | | 29,819 | 27,548 |
| | | 1,307,112 | 1,207,732 |

⁽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) The investment in PNGTS has been pledged as security for senior notes in the amount of \$22,366 (US\$18,102) to the creditors of this company as at September 30, 2018.
- (b) During fiscal 2018, Énergir, L.P. invested \$49,600 (US\$39,000) in Transco, raising its ownership interest from 73.5% to 73.6% (\$43,294 (US\$34,423) during fiscal 2017). During fiscal 2018, Énergir, L.P. also disbursed \$40,780 (US\$32,370) to increase its ownership interest in Transco; this amount had been included in accounts payable and accrued liabilities as at September 30, 2017. 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 Énergir, L.P. accounts for using the equity method:

| | Fiscal years ended September 30 | |
|----------------------------|---------------------------------|-----------|
| | 2018 | 2017 |
| Statement of income | | |
| Revenues | 592,207 | 559,160 |
| Net income | 185,149 | 194,516 |
| | | |
| | | |
| | | |
| Balance sheet | | |
| Current assets | 166,686 | 200,715 |
| Noncurrent assets | 3,218,057 | 3,093,462 |
| Current liabilities | 154,941 | 195,208 |
| Noncurrent liabilities | 1,607,578 | 1,625,264 |

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 15.

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 \$1,422 as at September 30, 2018 (net unrealized losses of \$245 as at September 30, 2017), 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, 2018 and 2017, the costs and fair values of the long-term investments in the spent nuclear fuel investment fund were as follows:

| | 2018 | | 2017 | |
|---------------------------|---------|------------|---------|------------|
| | Cost | Fair value | Cost | Fair value |
| U.S. Treasury bonds | 104,481 | 104,148 | 100,217 | 100,112 |
| Municipal bonds | 34,831 | 34,112 | 29,541 | 29,374 |
| Corporate and other bonds | 46,505 | 46,134 | 48,526 | 48,553 |
| Money market funds | 4,115 | 4,115 | 3,573 | 3,573 |
| | 189,932 | 188,509 | 181,857 | 181,612 |

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, 2018 and 2017:

| | 2018 | | | | | |
|---------------------------|-------------------|-------------------|---------------------|-------------------|--|-------------------|
| | 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 | 64,768 | (307) | 6,535 | (44) | 71,303 | (351) |
| Municipal bonds | 8,462 | (117) | 25,649 | (600) | 34,111 | (717) |
| Corporate and other bonds | 24,976 | (197) | 13,153 | (213) | 38,129 | (410) |
| | 98,206 | (621) | 45,337 | (857) | 143,543 | (1,478) |

2017

| | 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 | 80,121 | (122) | 7,504 | (46) | 87,625 | (168) |
| Municipal bonds | 11,444 | (61) | — | — | 11,444 | (61) |
| Corporate and other bonds | 16,933 | (25) | 1,328 | (10) | 18,261 | (35) |
| | <u>108,498</u> | <u>(208)</u> | <u>8,832</u> | <u>(56)</u> | <u>117,330</u> | <u>(264)</u> |

For the fiscal year ended September 30, 2018, the realized gains and losses on the spent nuclear fuel investment fund stood at \$51 and \$1,170, respectively (\$853 and \$1,779 for fiscal 2017), for total proceeds of sale of \$299,955 (\$190,723 in 2017). 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 2018 and 2017 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, 2018 were as follows:

| | |
|--------------------|----------------|
| Less than 1 year | 54,403 |
| 1 year to 5 years | 112,957 |
| 5 to 10 years | 7,799 |
| More than 10 years | 9,237 |
| <u>Total</u> | <u>184,396</u> |

11. VARIABLE INTEREST ENTITIES

GMP SOLAR

GMP Solar is a company whose mission is to build, operate and maintain five solar farms in the State of Vermont. In May 2016, a contribution-of-capital agreement was signed with an investor whereby the investor shall finance a portion of the solar farms in exchange for tax benefits. Other contracts have been signed with this investor to set partnership terms and conditions that are common to this type of investment structure. Under the various agreements, GMP has the power to direct and control all of the entity's activities, including those that most significantly influence economic performance, and it also has the obligation to absorb losses and the right to receive benefits, which may be significant. Consequently, GMP Solar is considered a VIE of which GMP is the primary beneficiary.

For the fiscal year ended September 30, 2018, GMP Solar's net income was \$901 (US\$721) (a net loss of \$561 (US\$397) for fiscal 2017) and was allocated to the partners as follows: a net loss of \$670 (US\$507) attributable to GMP (net income of \$24,168 (US\$18,341) for fiscal 2017) and net income of \$1,571 (US\$1,228) attributable to the other partner (a net loss of \$24,728 (US\$18,738) for fiscal 2017). This disproportionate allocation between the partners is a result of applying the HLBV method, which reflects the fact that the other partner receives additional tax attributes outside the GMP Solar structure.

The 2017 net income of GMP Solar attributed to GMP for the fiscal year ended September 30, 2017 had included a gain of \$15,167 (US\$11,445) related to the tax benefits created after the start-up of the solar farms. However, an equivalent offsetting regulatory liability amortizable over two years was recognized in 2017 in accordance with the current regulatory treatments, cancelling out the gain's impact on net income. Consequently, only the amount attributable to the non-controlling interest had an impact on the 2017 net income.

GMP Solar had total assets of \$76,844 (US\$59,532) as at September 30, 2018 and of \$76,506 (US\$61,342) as at September 30, 2017; these assets consist primarily of property, plant and equipment. GMP Solar had total liabilities of \$2,811 (US\$2,178) as at September 30, 2018 and of \$2,237 (US\$1,794) as at September 30, 2017; these liabilities consist mainly of accounts payable and accrued liabilities.

TRANSCO

GMP holds variable interests in Transco, a VIE whose main activity is electric power transmission in the State of Vermont. It has been determined that GMP is not the primary beneficiary given that it does not have the power to direct and control the activities of Transco that have the greatest impact on the entity's economic return and performance. Consequently, GMP recognizes its investment in Transco using the equity method as an investment in an entity subject to significant influence.

GMP provides Transco with capital and receives ownership interests that give it residual rights over assets once liabilities have been paid. The carrying value of the VIE and the maximum risk of loss related to the ownership interest in this VIE was \$755,431 (US\$585,242) as at September 30, 2018 and (\$660,494 (US\$529,581) as at September 30, 2017).

STANDARD SOLAR

In October 2017, Standard Solar signed an agreement with an investor to finance solar farms. The agreement calls for a total amount of approximately US\$35,000 to be invested, with US\$14,000 coming from the investor. As at September 30, 2018, the investor had injected an amount of US\$11,826. Other contracts with this investor were also signed in October 2017 to set partnership terms and conditions that are standard for this type of partnership. The net income of Solar I attributed to Standard Solar will vary between 1% and 33% during the initial years. This percentage will be amended once the investor has obtained the return set out in the agreement. Since the investor does not have substantive participating rights, Solar I is measured as a VIE. Standard Solar concluded that it is the primary beneficiary since it has the power to direct and control all of Solar I's activities, including those that most influence performance. Standard Solar also has the obligation to absorb losses and the right to receive benefits, which may be significant. As a result, all of Solar I's accounts are consolidated using the HLBV method.

For the fiscal year ended September 30, 2018, Solar I's net income stood at \$678 (US\$521). This net income was allocated to the partners as follows: net income of \$11,908 (US\$9,238) attributable to Standard Solar and a net loss of \$11,230 (US\$8,717) attributable to the other partner. This disproportionate allocation between the partners is a result of applying the HLBV method, which reflects the fact that the other partner receives additional tax attributes outside the solar farm structure.

As at September 30, 2018, Solar I had total assets of \$42,049 (US\$32,576) consisting mainly of property, plant and equipment, and it had total liabilities of \$6,948 (US\$5,383) consisting mainly of amounts payable to Standard Solar.

12. GOODWILL

| | <u>2018</u> | <u>2017</u> |
|----------------------------|----------------|----------------|
| Balance, beginning of year | 409,371 | 398,729 |
| Additions | — | 31,627 |
| Translation adjustment | 14,113 | (20,985) |
| Balance, end of year | <u>423,484</u> | <u>409,371</u> |

No provision for goodwill impairment was required for fiscal years 2018 and 2017.

13. BANK LOANS

| | Maximum authorized amounts | Interest rate (in %) (b) | Maturity | <u>2018</u> | <u>2017</u> |
|--------------------------------|----------------------------------|--------------------------------|----------|---------------|---------------|
| Énergir, L.P. | 50,000 | — | — | — | — |
| Vermont (2.19% in 2017) (a) | 70,994 | 2.94 | 2020 | 37,742 | 43,818 |
| Other | 6,000 | — | 2020 | — | — |
| | <u>126,994</u> | | | <u>37,742</u> | <u>43,818</u> |

- (a) In June 2018, VGS repaid its two credit facilities that authorized a maximum loan of US\$65,000 and signed a new credit agreement of US\$55,000 that expires in June 2020. As at September 30, 2018, the balance was US\$29,239 (US\$35,133 as at September 30, 2017).
- (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.

14. LONG-TERM DEBT

| | Weighted interest rate (in %) | Maturity | 2018 | 2017 |
|--|-------------------------------------|--------------|------------------|------------------|
| Énergir, L.P. | | | | |
| First mortgage bonds (a) | 5.05 | 2019 to 2047 | 1,325,000 | 1,325,000 |
| Secured senior notes (US\$560,000) (a) | 4.12 | 2022 to 2048 | 722,848 | 698,432 |
| Secured term loan (1.22% in 2017) (a), (e) | 1.89 | 2023 | 257,720 | 256,761 |
| Other (1.45% in 2017) | 1.64 | 2019 | 7 | 545 |
| | | | 2,305,575 | 2,280,738 |
| Vermont | | | | |
| First mortgage bonds (US\$726,130 in 2018 and US\$708,410 in 2017) (5.20% in 2017) (b) | 5.14 | 2019 to 2047 | 937,289 | 883,528 |
| Unsecured senior notes (US\$220,000) (c) | 4.80 | 2022 to 2046 | 283,976 | 274,384 |
| Unsecured term loan (US\$73,511 in 2018 and US\$30,000 in 2017) (2.23% in 2017) (b), (e) | 2.92 | 2021 | 94,888 | 37,416 |
| | | | 1,316,153 | 1,195,328 |
| Other | | | | |
| Secured term loans (2.73% in 2017) (d), (e) | 3.22 | 2020 to 2023 | 10,841 | 17,691 |
| Other (2.69% in 2017) | — | 2018 | — | 84 |
| | | | 10,841 | 17,775 |
| | | | 3,632,569 | 3,493,841 |
| Financing costs, net of amortization | | | 16,725 | 17,494 |
| | | | 3,615,844 | 3,476,347 |
| Current portion | | | 212,694 | 13,069 |
| | | | 3,403,150 | 3,463,278 |

CAPITAL REPAYMENTS

Capital repayments required over the coming years to meet maturities and sinking fund requirements are as follows:

| | |
|------------|-----------|
| 2019 | 212,694 |
| 2020 | 114,625 |
| 2021 | 286,652 |
| 2022 | 245,104 |
| 2023 | 271,032 |
| Thereafter | 2,502,462 |

- (a) For the first mortgage bonds, the secured senior notes and the \$800,000 authorized term loan, Énergir Inc. acted as borrower on the market and simultaneously lent the proceeds to Énergir, L.P. on similar terms and conditions.

The first mortgage bonds are secured by Énergir, L.P. under trust deeds. The authorized \$800,000 term loan and the secured senior notes are guaranteed by Énergir, L.P. 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 Énergir, L.P. and Énergir Inc. located in the Province of Quebec. The creditors are

thus covered by a first-ranking immovable hypothec on Énergir, L.P.'s present and future natural gas system and pipelines.

The first mortgage bonds are redeemable at Énergir, L.P.'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 Énergir Inc. and Énergir, L.P. regarding the various series of bonds, Énergir, L.P. has agreed to make the related repayments to the holders.

The long-term debt trust deeds and other agreements stipulate that Énergir, L.P. will not issue any new long-term debt if, given such an issuance, Énergir, L.P.'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 Énergir, L.P. will not make a distribution to its Partners if, given such a distribution, Énergir, L.P.'s long-term debt to total capitalization ratio exceeds 75% on a non-consolidated financial statements basis.

On the basis of Énergir, L.P.'s non-consolidated financial statements, the long-term debt / total capitalization ratios under the terms of the trust deeds and other agreements governing Énergir, L.P.'s long-term debt stood at 53.3% as at September 30, 2018 and at 54.6% as at September 30, 2017.

On the basis of Énergir, L.P.'s non-consolidated financial statements, the long-term debt interest coverage ratios were 3.70 times and 4.29 times, respectively, for the fiscal years ended September 30, 2018 and 2017. The long-term debt trust deeds and other agreements stipulate that all of Énergir, L.P.'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, 2018 and 2017, Énergir, L.P.'s assets used for such activities accounted for 5.03% and 4.07%, respectively, of its total non-consolidated assets. Furthermore, with respect to non-energy-related activities, Énergir, L.P.'s interests in such activities may not exceed 5% of its total non-consolidated assets. As at September 30, 2018 and 2017, Énergir, L.P. had no interests in such activities.

In April 2018, Énergir Inc. extended the maturity of its credit facility to March 2023. The terms and conditions of the original credit agreement remain unchanged. The amounts borrowed on this credit agreement were loaned under similar conditions to Énergir, L.P.

In May 2017, Énergir Inc. loaned Énergir, L.P. an amount of \$200,000, bearing interest at an annual rate of 3.53% and maturing in May 2047. The loan proceeds were used to repay existing debt and for general business purposes.

In October 2016, Énergir Inc. loaned Énergir, L.P. an amount of \$125,000, bearing interest at an annual rate of 3.28% and maturing in October 2046. The loan proceeds were used to repay existing debt and for general business purposes.

A portion of this term loan is in U.S. dollars, i.e., \$74,983 (US\$58,090) as at September 30, 2018 and \$71,028 (US\$56,950) as at September 30, 2017.

- (b) In September 2018, GMP issued, by way of private placement, first mortgage bonds for an aggregate principal amount of US\$45,000, i.e., one series of US\$25,000 issued in September 2018 and one series of US\$20,000 that will be issued in December 2018. These series of bonds will mature in September 2030 and December 2048 and bear interest at annual rates of 3.84% and 4.20%, respectively.

In September 2018, GMP's credit facility in an amount of \$141,988 (US\$110,000) was repaid using a new credit facility. This new facility authorizes a term loan of \$180,712 (US\$140,000) and will mature in September 2021.

In April 2017, GMP issued, by way of private placement, first mortgage bonds for an aggregate principal amount of US\$80,000, i.e., one series of US\$15,000 issued in April 2017 and one series of US\$65,000 issued in June 2017. These series of bonds, which will mature in April 2047 and June 2029, bear interest at annual rates of 4.17% and 3.45%, 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\$195,972 in retained earnings was unrestricted as at September 30, 2018 compared to US\$162,606 as at September 30, 2017. Some of these first mortgage bonds require annual payments into a sinking fund.

First mortgage 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 on the date fixed for redemption.

- (c) In June 2017, NNEEC issued, by way of private placement, unsecured senior notes in an amount of US\$50,000 under an agreement reached in November 2016 with an insurance company. These senior notes will mature in June 2027 and bear interest at an annual rate of 3.25%. The proceeds of this issuance were used to repay an equivalent amount of Series A senior notes.
- (d) Énergir, L.P.'s other subsidiaries can borrow up to \$30,000 under term loan facilities, secured by first ranking hypothecs.
- (e) 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. These loans are reported in long-term debt when Énergir, L.P. has the intention and ability to refinance them for a period greater than one year.

As at September 30, 2018 and 2017, Énergir, L.P. 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 \$2,036 and of \$2,042 for fiscal years 2018 and 2017, respectively.

15. OTHER NONCURRENT LIABILITIES

| | <u>2018</u> | <u>2017</u> |
|--|-----------------------|----------------|
| Liabilities related to DBP plans (Note 19) | 166,412 | 181,952 |
| Liabilities related to PRB plans (Note 19) | 120,889 | 114,495 |
| Deferred compensation liabilities of GMP and VGS | 10,337 | 9,875 |
| Liabilities related to site decontamination and dismantling in the United States (a) | 3,872 | 3,956 |
| Liability related to the elimination of spent nuclear fuel (b) | 191,731 | 182,377 |
| Customer deposits | 34,975 | 36,113 |
| Other | 20,448 | 17,920 |
| | <u>548,664</u> | <u>546,688</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 VPUC 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 VPUC.
- (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 bills 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.

16. CAPITAL

AUTHORIZED

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

ISSUED AND OUTSTANDING

| | <u>2018</u> | <u>2017</u> |
|--|----------------|----------------|
| Number of units as at September 30 (in thousands of units) | <u>171,796</u> | <u>171,796</u> |

In March 2017, Énergir, L.P. issued, by way of private placement, 4,545,455 new units to its Partners at a per-unit price of \$22.00 for total proceeds of \$100,000.

The Limited Partnership Agreement stipulates that Énergir, L.P. will distribute no less than 85.0% of its net income, excluding non-recurring items, subject to certain exceptions.

17. ACCUMULATED OTHER COMPREHENSIVE INCOME

The changes in accumulated other comprehensive income 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, 2017 | 186,969 | (135,523) | (21,632) | (3,612) | (5,570) | 20,632 |
| Other comprehensive income (loss) before reclassifications to income | 53,153 | (25,435) | (196) | (158) | 2,347 | 29,711 |
| Other comprehensive income reclassified to income | — | — | 1,050 | 90 | 1,672 | 2,812 |
| | 53,153 | (25,435) | 854 | (68) | 4,019 | 32,523 |
| Balance as at September 30, 2018 | 240,122 | (160,958) | (20,778) | (3,680) | (1,551) | 53,155 |

| | Translation adjustments | Net investment hedges | Cash flow hedges | Employee future benefits | Equity-accounted interests | Total |
|--|-------------------------|-----------------------|------------------|--------------------------|----------------------------|----------|
| Balance as at September 30, 2016 | 265,218 | (172,810) | (23,188) | (7,639) | (17,184) | 44,397 |
| Other comprehensive income (loss) before reclassifications to income | (78,249) | 37,287 | 388 | 3,654 | 7,864 | (29,056) |
| Other comprehensive income reclassified to income | — | — | 1,168 | 373 | 3,750 | 5,291 |
| | (78,249) | 37,287 | 1,556 | 4,027 | 11,614 | (23,765) |
| Balance as at September 30, 2017 | 186,969 | (135,523) | (21,632) | (3,612) | (5,570) | 20,632 |

18. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

| | Fiscal years ended September 30 | |
|---|---------------------------------|---------------|
| | 2018 | 2017 |
| Change in other operating assets and liabilities: | | |
| Trade and other receivables | (21,100) | 2,549 |
| Inventories | 15,298 | 24,244 |
| Prepaid expenses | (681) | (1,763) |
| Accounts payable and accrued liabilities | (15,960) | (10,285) |
| Income taxes payable and receivable | 2,307 | (2,074) |
| | (20,136) | 12,671 |
| Other cash information: | | |
| Interest paid | 159,286 | 156,510 |
| Income taxes paid | 1,671 | 5,361 |

Trade and other receivables include amounts of \$10,550 as at September 30, 2018 related to grants receivable for the acquisition of property, plant and equipment. Accounts payable and accrued liabilities include amounts of \$35,849 as at September 30, 2018 related to the purchase of property, plant and equipment (\$38,812 as at September 30, 2017) as well as amounts of \$43,294 (US\$34,423) related to the greater ownership interest in Transco as at September 30, 2017. These transactions have no impact on cash flows and are therefore not reflected in the consolidated statement of cash flows.

19. EMPLOYEE FUTURE BENEFITS

Énergir, L.P. 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 \$3,810 for the fiscal year ended September 30, 2018 and \$3,777 for the year ended September 30, 2017.

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 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 |
|----------------|---|---------------------------------------|
| Énergir, L.P. | December 31, 2015 | December 31, 2018 |
| Gaz Métro Plus | December 31, 2015 | December 31, 2018 |
| VGS | January 1, 2018 | January 1, 2019 |
| GMP | January 1, 2018 | January 1, 2019 |

Énergir, L.P. 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 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 sheets as at September 30, 2018 and 2017.

| | <u>2018</u> | <u>2017</u> | <u>2018</u> | <u>2017</u> |
|--|------------------|------------------|------------------|------------------|
| | DBP plans | DBP plans | PRB plans | PRB plans |
| Change in projected benefit obligations | | | | |
| Balance, beginning of year | 1,156,263 | 1,206,761 | 170,516 | 201,991 |
| Current service cost | 30,371 | 35,316 | 5,491 | 6,615 |
| Interest cost | 40,158 | 35,246 | 5,968 | 5,832 |
| Employee contributions | 6,560 | 6,043 | 1,496 | 1,449 |
| Other contributions and employee transfers | 4,668 | 4,071 | — | — |
| Benefits paid | (52,618) | (48,611) | (7,452) | (7,779) |
| Actuarial gains | (10,716) | (78,166) | (8,108) | (34,791) |
| Acquisition of a business | — | 14,214 | — | — |
| Impact of exchange rate fluctuations | 10,634 | (18,611) | 1,852 | (2,801) |
| Balance, end of year | <u>1,185,320</u> | <u>1,156,263</u> | <u>169,763</u> | <u>170,516</u> |
| Change in plan assets, at fair value | | | | |
| Balance, beginning of year | 974,311 | 923,069 | 56,021 | 55,080 |
| Actual return on plan assets | 48,082 | 51,487 | 3,128 | 6,965 |
| Employer contributions | 30,669 | 39,754 | 2,849 | 3,208 |
| Employee contributions | 6,560 | 6,043 | 1,496 | 1,449 |
| Other contributions and employee transfers | 4,668 | 4,071 | — | — |
| Benefits paid | (52,618) | (48,611) | (7,452) | (7,779) |
| Acquisition of a business | — | 11,892 | — | — |
| Impact of exchange rate fluctuations | 7,236 | (13,394) | 1,959 | (2,902) |
| Balance, end of year | <u>1,018,908</u> | <u>974,311</u> | <u>58,001</u> | <u>56,021</u> |
| Funded status - plan deficit | <u>(166,412)</u> | <u>(181,952)</u> | <u>(111,762)</u> | <u>(114,495)</u> |
| Presented as follows: | | | | |
| Other noncurrent assets | — | — | 9,127 | — |
| Other noncurrent liabilities | (166,412) | (181,952) | (120,889) | (114,495) |
| | <u>(166,412)</u> | <u>(181,952)</u> | <u>(111,762)</u> | <u>(114,495)</u> |

PLAN ASSETS

The following table shows the allocation of plan assets as at September 30, 2018 and 2017.

| Asset categories | Target allocation (in %) | Percentage of plan assets (in %) | |
|-------------------------|-----------------------------|-------------------------------------|--------------|
| | | <u>2018</u> | <u>2017</u> |
| Fixed-income securities | 41.0 | 44.0 | 44.3 |
| Equity securities | 59.0 | 56.0 | 55.7 |
| | <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.

| | September 30, 2018 | | | | |
|---------------------------|--------------------|----------------|----------|-----------------|------------------|
| | Level 1 | Level 2 | Level 3 | Net asset value | Total |
| Asset categories | | | | | |
| Cash and cash equivalents | 30,600 | 3,780 | — | — | 34,380 |
| Equity investments | 45,463 | 1,899 | — | — | 47,362 |
| Bond investments | 104,147 | 83,723 | — | — | 187,870 |
| Mutual fund units | 108,902 | 581,440 | — | 116,955 | 807,297 |
| | <u>289,112</u> | <u>670,842</u> | <u>—</u> | <u>116,955</u> | <u>1,076,909</u> |

| | September 30, 2017 | | | | |
|---------------------------|--------------------|----------------|----------|-----------------|------------------|
| | Level 1 | Level 2 | Level 3 | Net asset value | Total |
| Asset categories | | | | | |
| Cash and cash equivalents | 14,384 | 628 | — | — | 15,012 |
| Equity investments | 29,776 | 1,633 | — | — | 31,409 |
| Bond investments | 143,078 | 138,506 | — | — | 281,584 |
| Mutual fund units | 136,179 | 437,430 | — | 128,718 | 702,327 |
| | <u>323,417</u> | <u>578,197</u> | <u>—</u> | <u>128,718</u> | <u>1,030,332</u> |

COMPONENTS OF THE NET PROJECTED BENEFIT COST

The following table presents the components of the net projected benefit cost of the DBP plans and the PRB plans:

| | Fiscal years ended September 30 | | | |
|---|---------------------------------|---------------|------------------|---------------|
| | 2018 | 2017 | 2018 | 2017 |
| | DBP plans | DBP plans | PRB plans | PRB plans |
| Current service cost | 30,371 | 35,316 | 5,491 | 6,615 |
| Interest cost | 40,158 | 35,246 | 5,968 | 5,832 |
| Expected return on plan assets | (59,165) | (56,850) | (3,739) | (3,583) |
| Amortization of net actuarial losses | 11,777 | 20,635 | (59) | 3,952 |
| Amortization of past service costs | 433 | 537 | 163 | 378 |
| Net cost | <u>23,574</u> | <u>34,884</u> | <u>7,824</u> | <u>13,194</u> |
| Representing: | | | | |
| Unrecognized (revenue) cost of QDA ⁽¹⁾ | (5,610) | 2,122 | (4,056) | 1,146 |
| Recognized cost | <u>29,184</u> | <u>32,762</u> | <u>11,880</u> | <u>12,048</u> |

⁽¹⁾ The unrecognized (revenue) cost of 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 QDA. This difference is recorded as a regulatory asset or liability.

COMPONENTS OF ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

| | Fiscal years ended September 30 | | | |
|---|---------------------------------|-----------|-----------|-----------|
| | 2018 | 2017 | 2018 | 2017 |
| | DBP plans | DBP plans | PRB plans | PRB plans |
| Net actuarial (losses) gains | (4,058) | (3,920) | 207 | 238 |
| Past service cost | 171 | 70 | — | — |
| Total accumulated other comprehensive (loss) income | (3,887) | (3,850) | 207 | 238 |

COMPONENTS OF NET REGULATORY ASSETS RELATED TO EMPLOYEE FUTURE BENEFITS ⁽¹⁾

| | Fiscal years ended September 30 | | | |
|----------------------------------|---------------------------------|-----------|-----------|-----------|
| | 2018 | 2017 | 2018 | 2017 |
| | DBP plans | DBP plans | PRB plans | PRB plans |
| Net actuarial losses (gains) | 178,983 | 186,945 | (4,136) | 3,005 |
| Past service cost | 475 | 786 | 1,345 | 1,508 |
| First-time adoption of U.S. GAAP | (46,323) | (48,897) | 78,227 | 82,573 |
| Business acquisition | 41,299 | 41,329 | 7,010 | 7,543 |
| Budget variances | (2,445) | 2,935 | (2,298) | 1,144 |
| Total net regulatory assets | 171,989 | 183,098 | 80,148 | 95,773 |

⁽¹⁾ For additional information on these RAL, refer to Note 5.

COMPONENTS OF OTHER COMPREHENSIVE INCOME (LOSS)

| | Fiscal years ended September 30 | | | |
|--|---------------------------------|-----------|-----------|-----------|
| | 2018 | 2017 | 2018 | 2017 |
| | DBP plans | DBP plans | PRB plans | PRB plans |
| Net actuarial (losses) gains during the year | (229) | 1,845 | (31) | 1,741 |
| Amortization of net actuarial losses | 92 | 274 | — | 86 |
| Amortization of past service costs | 100 | 81 | — | — |
| Change in other comprehensive (loss) income | (37) | 2,200 | (31) | 1,827 |

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: | | |
| 2019 | 27,291 | 3,230 |
| Expected benefit payments: | | |
| 2019 | 46,389 | 6,055 |
| 2020 | 48,707 | 6,235 |
| 2021 | 49,688 | 6,524 |
| 2022 | 50,605 | 6,802 |
| 2023 | 52,600 | 6,990 |
| 2024-2028 | 276,394 | 38,647 |

MAIN ACTUARIAL ASSUMPTIONS

| | <u>2018</u> | <u>2017</u> | <u>2018</u> | <u>2017</u> |
|---|------------------|-------------|------------------|-------------|
| | DBP plans | DBP plans | PRB plans | PRB plans |
| | (in %) | (in %) | (in %) | (in %) |
| Projected benefit obligations at the measurement date | | | | |
| Discount rate | 3.67 | 3.77 | 3.69 | 3.77 |
| 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 | 3.86 | 3.25 | 3.88 | 3.25 |
| 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 2019 for certain PRB plans are 5.3% for QDA and 7.0% for GMP. These rates decline gradually to 3.6% in 2038 for QDA and to 5% in 2023 for GMP, and remain at those levels thereafter. A 1% change in the assumed health care cost trend rate would have the following effects:

| | <u>1% increase</u> | <u>1% decrease</u> |
|--|--------------------|--------------------|
| Sensitivity analysis of PRB plans | | |
| Impact on current service cost and interest cost | 2,225 | (1,666) |
| Impact on projected benefit obligations | 25,901 | (20,069) |

20. OTHER GAINS, NET

| | <u>2018</u> | <u>2017</u> |
|--|----------------|-------------|
| Gain on remeasuring CDH following the acquisition (Note 4) | — | (12,475) |
| Gain on the sale of assets | (4,325) | — |
| Other expenses | 802 | — |
| | (3,523) | (12,475) |

21. INCOME TAXES

| | <u>2018</u> | <u>2017</u> |
|----------------------------|----------------|-------------|
| Income before income taxes | 277,891 | 271,730 |
| Current income taxes | 4,099 | 3,452 |
| Deferred income taxes (a) | 59,805 | 47,899 |
| Income taxes | 63,904 | 51,351 |

(a) As explained in Note 5, in December 2017, the U.S. government adopted exhaustive tax legislation commonly referred to as the *Tax Cuts and Jobs Act* (the "U.S. tax reform"). This reform has introduced complex and significant U.S. tax code changes that are applicable to Énergir, L.P.'s U.S. subsidiaries and entities subject to significant influence. The impacts of this tax reform on Énergir, L.P.'s 2018 consolidated financial statements consisted essentially of a \$243,600 decrease in deferred income tax liabilities, the creation of \$251,266 in regulatory liabilities, and a \$23,056 decrease in net income for the fiscal year ended September 30, 2018. The impact of this tax reform stems mainly from the deferred income taxes related to the portion not included in rate setting as well as from the downward remeasurement of deferred tax assets on non-capital loss carryforwards unrelated to rate-regulated activities.

With respect to the rate-regulated operations of the U.S. subsidiaries and entities subject to significant influence, the U.S. tax reform impacts were primarily recognized as regulatory liabilities, as current and deferred income taxes of such entities are included in their rate-setting process. The regulatory liabilities recognized following these adjustments equal the amounts expected to be reimbursed through future rates over amortization periods that will subsequently be set and approved by the regulatory agencies.

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>2018</u> | <u>2017</u> |
|--|-------------|-------------|
| Income before income taxes | 277,891 | 271,730 |
| Statutory income tax rate (in %) | 26.7 | 26.8 |
| Income taxes at statutory rate | 74,197 | 72,824 |
| Increase (decrease) attributable to the following: | | |
| Income from limited partnerships | (32,696) | (24,829) |
| Tax rate variance between jurisdictions | 3,263 | 10,575 |
| Deferred income taxes related to rate-regulated activities | 915 | 932 |
| Energy and production tax credits | (5,675) | (4,908) |
| Impact of U.S. tax reform | 23,056 | — |
| Net impact of non-taxable and other items | 844 | (3,243) |
| Income taxes | 63,904 | 51,351 |
| Effective income tax rate (in %) | <u>23.0</u> | <u>18.9</u> |

COMPONENTS OF DEFERRED INCOME TAXES

| | <u>2018</u> | <u>2017</u> |
|---|------------------|------------------|
| Non-deductible allowances | 15,117 | 20,446 |
| Non-capital losses and tax credit carryforwards | 159,877 | 199,561 |
| Regulatory assets and liabilities | 54,598 | (7,727) |
| Property, plant and equipment and intangible assets | (314,777) | (442,767) |
| Employee future benefits | 4,414 | 2,756 |
| Equity-accounted interests | (257,306) | (304,070) |
| Other | (25) | (356) |
| Net deferred income tax liability | <u>(338,102)</u> | <u>(532,157)</u> |

No valuation allowance was recognized as at September 30, 2018 and 2017. Deferred tax assets consist mainly of non-capital loss carryforwards that were realized by Énergir L.P.'s subsidiaries. The subsidiaries have deemed it more likely than not that they will be able to use their non-capital losses of \$499,945 before they expire, i.e., between 2028 and 2038, factoring in reversals of taxable temporary differences and future taxable income.

Énergir, L.P. 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 \$61,716 higher as at September 30, 2018 and \$67,169 higher as at September 30, 2017. To offset a portion of this net deferred tax liability, a regulatory asset of \$58,452 would be recognized as at September 30, 2018 (\$63,525 as at September 30, 2017) in accordance with the current regulatory treatments. These variances would have been mainly due to the following items:

| | <u>2018</u> | <u>2017</u> |
|---|-----------------|-----------------|
| Non-deductible allowances | 9,247 | 8,540 |
| Regulatory assets and liabilities | (16,179) | (17,524) |
| Property, plant and equipment and intangible assets | (56,774) | (60,086) |
| Financial instruments | 2,501 | 2,406 |
| Other | (511) | (505) |
| Net deferred income tax liability | <u>(61,716)</u> | <u>(67,169)</u> |

22. SEGMENT INFORMATION

The below-described business segments were established based on Énergir, L.P.'s management structure and reflect how management assesses their performance.

Energy Distribution: This segment encompasses QDA's activities and the natural gas and electricity distribution activities in Vermont (VGS and GMP). This segment's activities are subject to rate regulation by regulatory agencies in Quebec and Vermont.

Natural Gas Transportation: This segment reflects the results from Énergir L.P.'s business interests in three natural gas transportation companies, i.e., Trans Québec & Maritimes Pipeline Inc. as mandatary for TQM Pipeline and Company Limited Partnership, Champion Pipe Line Corporation Limited, 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 Beupré and to Standard Solar's solar projects.

Energy Services, Storage and Other: This segment combines Énergir, L.P.'s non-regulated commercial activities, in particular those related to the sale of liquefied natural gas as a fuel or energy product, electric power generation and transmission from a thermal power plant, as well as the sale, leasing and maintenance of natural gas appliances. This segment also includes the results of the ownership interest in Intragaz's underground natural gas storage activities in Quebec.

Corporate Affairs: This segment encompasses all of Énergir, L.P.'s other activities that are not directly attributable to the other segments as well as intersegment eliminations.

During fiscal 2018, the financial reporting structure for segment information was changed to better reflect how management analyzes this information. As a result of these changes, the portion of the interest on long-term debt and related income taxes, incurred for the purpose of financing Énergir, L.P.'s ownership interests, were reported in the Corporate Affairs segment. These items were previously being allocated to each business segment using a method based on the carrying values of the ownership investments. Prior-year figures have been reclassified to conform to the new presentation.

Fiscal years ended September 30, 2018

| | Energy Distribution | | | Natural Gas Transportation ⁽¹⁾ | Electricity Production ⁽¹⁾ | Energy Services, Storage and Other | Corporate Affairs | Total |
|---|---------------------|------------------------|-----------|--|--|---|----------------------|-----------|
| | QDA | Vermont ⁽¹⁾ | Total | | | | | |
| Revenues from external customers | 1,410,163 | 1,067,318 | 2,477,481 | — | 3,629 | 72,635 | — | 2,553,745 |
| Intersegment revenues | 25,025 | — | 25,025 | 3,588 | — | 1,005 | (29,618) | — |
| Total revenues | 1,435,188 | 1,067,318 | 2,502,506 | 3,588 | 3,629 | 73,640 | (29,618) | 2,553,745 |
| Direct costs | 853,595 | 669,094 | 1,522,689 | — | 3,770 | 5,367 | — | 1,531,826 |
| Intersegment direct costs | 3,588 | — | 3,588 | — | — | 25,025 | (28,613) | — |
| Total direct costs | 857,183 | 669,094 | 1,526,277 | — | 3,770 | 30,392 | (28,613) | 1,531,826 |
| Gross margin | 578,005 | 398,224 | 976,229 | 3,588 | (141) | 43,248 | (1,005) | 1,021,919 |
| Operating and maintenance expenses | 238,152 | 203,516 | 441,668 | 1,692 | 9,655 | 25,539 | 10,205 | 488,759 |
| Other gains, net (Note 20) | — | — | — | — | — | (3,523) | — | (3,523) |
| Share in the earnings of equity-accounted interests | — | (92,127) | (92,127) | (29,606) | (11,785) | (3,305) | 64 | (136,759) |
| Amortization | 159,027 | 82,198 | 241,225 | 679 | 1,278 | 8,651 | — | 251,833 |
| Interest on long-term debt | 34,424 | 53,707 | 88,131 | 312 | — | 168 | 49,187 | 137,798 |
| Financial and other expenses | 1,274 | 4,581 | 5,855 | 78 | 61 | (266) | 192 | 5,920 |
| Income (loss) before income taxes | 145,128 | 146,349 | 291,477 | 30,433 | 650 | 15,984 | (60,653) | 277,891 |
| Income taxes | — | 43,425 | 43,425 | 7,624 | 1,853 | 777 | 10,225 | 63,904 |
| Net income (loss) | 145,128 | 102,924 | 248,052 | 22,809 | (1,203) | 15,207 | (70,878) | 213,987 |
| Net income (loss) attributable to: | | | | | | | | |
| Partners | 145,128 | 101,353 | 246,481 | 22,809 | 4,429 | 13,078 | (70,878) | 215,919 |
| Non-controlling interests | — | 1,571 | 1,571 | — | (5,632) | 2,129 | — | (1,932) |
| Purchases of property, plant and equipment | 194,816 | 133,848 | 328,664 | 772 | 61,798 | 9,558 | — | 400,792 |
| Equity-accounted interests | — | 771,758 | 771,758 | 204,553 | 18,068 | 70,223 | 3,763 | 1,068,365 |
| Property, plant and equipment | 2,170,524 | 2,077,948 | 4,248,472 | 19,847 | 72,881 | 182,578 | — | 4,523,778 |
| Goodwill | — | 385,782 | 385,782 | 273 | 22,687 | 14,742 | — | 423,484 |
| Total assets | 3,136,373 | 3,948,442 | 7,084,815 | 230,731 | 125,460 | 312,470 | (13,943) | 7,739,533 |

⁽¹⁾ The Vermont energy distribution activities, PNGTS's transportation activities, and Standard Solar's electric power generation activities are carried out in the United States; all of Énergir, L.P.'s other activities are carried out in Canada.

| | Fiscal years ended September 30, 2017 | | | | | | | |
|---|---------------------------------------|------------------------|-----------|--|--|---|----------------------|-----------|
| | Energy Distribution | | | Natural Gas Transportation ⁽¹⁾ | Electricity Production ⁽¹⁾ | Energy Services, Storage and Other | Corporate Affairs | Total |
| | QDA | Vermont ⁽¹⁾ | Total | | | | | |
| Revenues from external customers | 1,464,683 | 995,150 | 2,459,833 | — | 3,132 | 63,680 | — | 2,526,645 |
| Intersegment revenues | 25,536 | — | 25,536 | 3,213 | — | 948 | (29,697) | — |
| Total revenues | 1,490,219 | 995,150 | 2,485,369 | 3,213 | 3,132 | 64,628 | (29,697) | 2,526,645 |
| Direct costs | 905,705 | 613,847 | 1,519,552 | — | 3,065 | 5,946 | — | 1,528,563 |
| Intersegment direct costs | 3,213 | — | 3,213 | — | — | 25,536 | (28,749) | — |
| Total direct costs | 908,918 | 613,847 | 1,522,765 | — | 3,065 | 31,482 | (28,749) | 1,528,563 |
| Gross margin | 581,301 | 381,303 | 962,604 | 3,213 | 67 | 33,146 | (948) | 998,082 |
| Operating and maintenance expenses | 252,164 | 217,765 | 469,929 | 1,348 | 3,897 | 21,018 | 14,493 | 510,685 |
| Other gains (Note 20) | — | — | — | — | — | (12,475) | — | (12,475) |
| Share in the earnings of equity-accounted interests | — | (91,642) | (91,642) | (27,607) | (6,944) | (3,484) | 249 | (129,428) |
| Amortization | 150,934 | 69,565 | 220,499 | 720 | 109 | 6,810 | — | 228,138 |
| Interest on long-term debt | 31,577 | 52,582 | 84,159 | 235 | — | 135 | 45,168 | 129,697 |
| Financial and other expenses | (926) | (99) | (1,025) | 100 | 62 | (90) | 688 | (265) |
| Income (loss) before income taxes | 147,552 | 133,132 | 280,684 | 28,417 | 2,943 | 21,232 | (61,546) | 271,730 |
| Income taxes (recovered) | — | 54,730 | 54,730 | 10,424 | (328) | 1,245 | (14,720) | 51,351 |
| Net income (loss) | 147,552 | 78,402 | 225,954 | 17,993 | 3,271 | 19,987 | (46,826) | 220,379 |
| Net income (loss) attributable to: | | | | | | | | |
| Partners | 147,552 | 103,130 | 250,682 | 17,993 | 6 | 18,895 | (46,826) | 240,750 |
| Non-controlling interests | — | (24,728) | (24,728) | — | 3,265 | 1,092 | — | (20,371) |
| Purchases of property, plant and equipment | 190,488 | 252,410 | 442,898 | 1,662 | 8,725 | 50,086 | — | 503,371 |
| Equity-accounted interests | — | 676,378 | 676,378 | 213,238 | 17,632 | 68,367 | 5,326 | 980,941 |
| Property, plant and equipment | 2,080,003 | 1,956,319 | 4,036,322 | 19,763 | 11,784 | 185,881 | — | 4,253,750 |
| Goodwill | — | 372,751 | 372,751 | 273 | 21,605 | 14,742 | — | 409,371 |
| Total assets | 3,143,893 | 3,782,256 | 6,926,149 | 244,434 | 61,856 | 312,592 | (16,908) | 7,528,123 |

⁽¹⁾ The Vermont energy distribution activities, PNGTS's transportation activities, and Standard Solar's electric power generation activities are carried out in the United States; all of Énergir, L.P.'s other activities are carried out in Canada.

23. RELATED PARTY TRANSACTIONS

QDA incurred natural gas storage costs with Intragaz, presented as direct costs in the consolidated statement of income, totalling \$16,803 for the year ended September 30, 2018 (\$16,801 in 2017).

In the year ended September 30, 2018, Transco provided GMP with electricity transmission services totalling \$25,045 (\$27,170 in 2017), presented as direct costs in the consolidated statement of income.

QDA incurred natural gas storage and transportation costs with Enbridge Inc. totalling \$36,551 for the year ended September 30, 2018 (\$21,000 in 2017). Enbridge Inc., one of Énergir Inc.'s ultimate shareholders, merged with Spectra Energy Corp. in February 2017.

In June 2017, GMP sold its interest in a jointly controlled asset, Highgate Transmission Facility, to Transco for a cash consideration of \$43,537 (US\$32,370), which is equal to the net carrying amount. This asset has been presented in property, plant and equipment.

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.

Énergir Inc., acting in its capacity as General Partner of Énergir, L.P., has loaned amounts to Énergir, L.P. and guaranteed certain Énergir, L.P. commitments. For additional information, refer to Notes 14 and 26.

24. 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:

| | September 30, 2018 | | | |
|---|---------------------------|----------------|------------------|-------------------------|
| | Carrying amount | Level 1 | Level 2 | Fair value Total |
| Financial assets | | | | |
| Cash and cash equivalents | 52,192 | 52,192 | — | 52,192 |
| Short-term restricted cash equivalents | 24,584 | 24,584 | — | 24,584 |
| Trade and other receivables | 229,537 | — | 229,537 | 229,537 |
| Long-term restricted cash | 36,905 | 36,905 | — | 36,905 |
| Investment funds ⁽¹⁾ | 188,510 | 99,028 | 89,482 | 188,510 |
| Other investments ⁽¹⁾ | 20,418 | 9,140 | 11,278 | 20,418 |
| Total | 552,146 | 221,849 | 330,297 | 552,146 |
| Financial liabilities | | | | |
| Bank overdraft | 5,378 | 5,378 | — | 5,378 |
| Bank loans | 37,742 | — | 37,742 | 37,742 |
| Accounts payable and accrued liabilities | 317,135 | — | 317,135 | 317,135 |
| Distributions payable | 51,539 | — | 51,539 | 51,539 |
| Long-term debt | 3,615,844 | — | 3,871,019 | 3,871,019 |
| Contractual liability related to the elimination of spent nuclear fuel ⁽²⁾ | 191,731 | — | 191,731 | 191,731 |
| Customer deposits ⁽²⁾ | 34,975 | — | 34,975 | 34,975 |
| Total | 4,254,344 | 5,378 | 4,504,141 | 4,509,519 |

⁽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, 2017 | | | |
|---|--------------------|----------------|------------------|------------------|
| | Carrying amount | | | Fair value |
| | | Level 1 | Level 2 | Total |
| Financial assets | | | | |
| Cash and cash equivalents | 100,681 | 100,681 | — | 100,681 |
| Short-term restricted cash equivalents | 30,879 | 30,879 | — | 30,879 |
| Trade and other receivables | 192,486 | — | 192,486 | 192,486 |
| Long-term restricted cash | 37,187 | 37,187 | — | 37,187 |
| Investment funds ⁽¹⁾ | 181,611 | 94,025 | 87,586 | 181,611 |
| Other investments ⁽¹⁾ | 17,632 | 8,064 | 9,568 | 17,632 |
| Total | 560,476 | 270,836 | 289,640 | 560,476 |
| Financial liabilities | | | | |
| Bank overdraft | 5,361 | 5,361 | — | 5,361 |
| Bank loans | 43,818 | — | 43,818 | 43,818 |
| Accounts payable and accrued liabilities | 372,395 | — | 372,395 | 372,395 |
| Distributions payable | 51,539 | — | 51,539 | 51,539 |
| Long-term debt | 3,476,347 | — | 3,854,439 | 3,854,439 |
| Contractual liability related to the elimination of spent nuclear fuel ⁽²⁾ | 182,377 | — | 182,377 | 182,377 |
| Customer deposits ⁽²⁾ | 36,113 | — | 36,113 | 36,113 |
| Total | 4,167,950 | 5,361 | 4,540,681 | 4,546,042 |

⁽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 2018 and 2017.

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 Énergir, L.P. and its subsidiaries and joint ventures could have obtained as at the balance sheet date for borrowings with similar terms, conditions and maturity dates.

Énergir, L.P.'s U.S.-dollar-denominated secured senior notes and a portion of its 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, 2018, the carrying amount of these financial liabilities designated as hedges totalled \$797,831 (US\$618,090) (\$769,460 (US\$616,950) as at September 30, 2017). Énergir, L.P. 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 Énergir, L.P. 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 Énergir, L.P. 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, 2018 | | September 30, 2017 | |
|--|--------------------|-------------|--------------------|-------------|
| | Assets | Liabilities | Assets | Liabilities |
| Derivative instruments designated as cash flow hedges | | | | |
| Forward exchange contracts | 33 | 47 | 339 | — |
| Total | 33 | 47 | 339 | — |
| Derivative instruments not designated as hedges | | | | |
| Forward exchange contracts | — | 126 | 405 | — |
| Instruments related to natural gas: | | | | |
| Fixed-price swaps | 490 | 51 | 144 | 801 |
| Instruments related to electricity: | | | | |
| Power purchase agreements | 7,704 | 26,037 | 13,033 | 54,307 |
| Fixed-price capacity swaps | 6,626 | 3,433 | — | 11,786 |
| Total | 14,820 | 29,647 | 13,582 | 66,894 |
| Total derivative instruments | 14,853 | 29,694 | 13,921 | 66,894 |
| Portions presented on the consolidated balance sheet | | | | |
| Current | 12,387 | 11,110 | 5,065 | 11,498 |
| Noncurrent | 2,466 | 18,584 | 8,856 | 55,396 |
| Total | 14,853 | 29,694 | 13,921 | 66,894 |

The par values of the various categories of derivative financial instruments are as follows:

| | September 30, 2018 | September 30, 2017 |
|--|--------------------|--------------------|
| Forward exchange contracts | 12,222 | 26,064 |
| Instruments related to natural gas (in thousands of gigajoules): | | |
| Fixed-price swaps | 5,574 | 5,516 |
| Instruments related to electricity: | | |
| Power purchase agreements (in thousands of megawatthours) | 3,450 | 4,246 |
| Fixed-price capacity swaps (in megawatts) | 4,400 | 5,400 |

Fair value hierarchy of derivative financial instruments

Power purchase agreements 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 power market. The fair value of these derivative financial instruments was calculated using discounted future cash flows.

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 had used 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.

As at September 30, 2018 and 2017, the fair values of all derivative financial instruments were measured according to Level 2, except for some power purchase agreements (September 30, 2017, the fair value of financial derivatives was evaluated according to level 2, with the exception of certain power purchase contracts and the fixed-price capacity swaps) which were measured according to Level 3 as at September 30, 2017. The transfers from Level 3 to Level 2 of the fixed price capacity swaps were made to reflect the more observable nature of the inputs used in calculating the fair values of fixed-price capacity swaps related to electricity.

The fair value of level 3 derivative financial instruments at September 30, 2018, was measured based on the assumptions presented in the table below.

| | Risk-free rate (in %) | Discount rate (in %) | Implicit price volatility | Forward price (US\$/kW) |
|---------------------------|--------------------------|-------------------------|------------------------------|----------------------------|
| Power purchase agreements | 2.10 to 3.00 | 3.03 | N/A | 19.88 to 92.81 |

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 financial instruments classified in Level 3 of the fair value hierarchy:

| | Fiscal years ended September 30 | |
|---|---------------------------------|----------|
| | 2018 | 2017 |
| Balance at beginning | (26,070) | (588) |
| Change in fair value related to unrealized losses (gains) | 25,626 | (27,172) |
| Translation adjustments of foreign operations | (937) | 1,690 |
| Transfers from Level 3 to Level 2 | (6,529) | — |
| Balance at end | (7,910) | (26,070) |

Recognition of derivative financial instruments

Fair value of derivative financial instruments designated as hedges is included in accumulated other comprehensive income until the hedge transactions are recognized in income.

25. FINANCIAL INSTRUMENT RISK MANAGEMENT

OVERVIEW OF RISK MANAGEMENT

Énergir, L.P. 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 Énergir, L.P. related to its financial instruments comply with regulatory requirements, its objectives and its risk tolerance. Risks are managed within limits approved by Énergir Inc.'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

Énergir, L.P.'s U.S.-dollar-denominated secured senior notes and a portion of its U.S.-dollar-denominated term loans are designated as a hedge of an equivalent portion of the net investment in 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 exposure related to U.S.-dollar revenues or equipment purchases in 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 supply costs is denominated in Canadian dollars. VGS uses forward exchange contracts to manage this type of exchange risk. Since any change in fair value is recognized as an RAL, as approved by the VPUC, any change in the exchange rate would have an impact on RAL and not on net income or other comprehensive income.

As at September 30, 2018, a 5% appreciation (depreciation) of the U.S. dollar versus the Canadian dollar would have had a negative (positive) impact of \$1,562 on consolidated net income and of \$24,839 on consolidated comprehensive income.

Interest rate risk

Énergir, L.P. 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, Énergir, L.P. is exposed to interest rate risk on its bank loans and on the floating rate portion of its long-term debt. For 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 and, consequently, have no impact on net income.

As at September 30, 2018, and with all other variables being constant, a 100-basis-point increase (decrease) in interest rates would have reduced (increased) consolidated net income by approximately \$2,542.

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 VPUC decisions.

CREDIT RISK

Credit risk is the risk that a customer, with whom Énergir, L.P. 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 credit risk exposure is the carrying amount of the financial instruments reported in assets on the consolidated balance sheets.

The aging of the trade accounts receivable is presented below:

| | <u>2018</u> | <u>2017</u> |
|---------------------------------------|----------------|-------------|
| Less than 30 days | 190,312 | 161,470 |
| 30 to 60 days | 11,746 | 9,648 |
| 61 to 90 days | 3,515 | 2,048 |
| Over 90 days | 7,425 | 11,941 |
| | 212,998 | 185,107 |
| Less: Allowance for doubtful accounts | 6,260 | 6,140 |
| | 206,738 | 178,967 |

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, 2018, Énergir, L.P. has security deposits from customers amounting to \$38,557 compared to \$40,026 as at September 30, 2017.

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. Énergir, L.P. closely monitors and manages counterparty credit risk concentration.

As at September 30, 2018, most of the counterparties to derivative financial instruments have a high credit rating that is at least equivalent to that of Énergir, L.P., and all are major companies that meet Énergir, L.P.'s credit assessment criteria.

LIQUIDITY RISK

Liquidity risk is the risk that Énergir, L.P. would be unable to pay its financial commitments as they become due. Énergir, L.P. 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 Énergir, L.P. or some of its subsidiaries and joint ventures or through Énergir Inc. or Valener, allows it to satisfy its financing needs. However, any significant reduction in the ability of Énergir, L.P. or some of its subsidiaries or joint ventures or in the ability of the subsidiaries or joint ventures of Énergir Inc. 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 Énergir, L.P.'s activities, financial position or net income.

Énergir, L.P. 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 Énergir, L.P. and exceeds a certain pre-determined threshold. Énergir, L.P. did not disburse any amount in respect of this collateral during fiscal years 2018 and 2017.

26. COMMITMENTS AND GUARANTEES

SUPPLY CONTRACTS

In the normal course of business, energy supply contracts (natural gas and electricity) and natural gas transportation and storage contracts were concluded for various periods. For most of these contracts, prices are established based on the market or on rates periodically approved by regulatory agencies. The costs relating to these contracts will be recovered from customers in the corresponding periods.

As at September 30, 2018, the schedule of contractual commitments related to the different types of supply, for which the duration was more than one year, was as follows:

| | 2019 | 2020 | 2021 | 2022 | 2023 | Subsequent fiscal years | Total |
|----------------|---------|---------|---------|---------|---------|----------------------------|-----------|
| Energy supply | 273,387 | 271,754 | 259,743 | 253,208 | 246,276 | 2,813,718 | 4,118,086 |
| Transportation | 324,335 | 318,640 | 317,648 | 307,655 | 297,944 | 1,149,565 | 2,715,787 |
| Storage | 23,581 | 20,614 | 18,548 | 17,015 | 14,840 | — | 94,598 |
| Total | 621,303 | 611,008 | 595,939 | 577,878 | 559,060 | 3,963,283 | 6,928,471 |

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

LEASES

Under operating leases, Énergir, L.P. 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:

| | 2019 | 2020 | 2021 | 2022 | 2023 | Subsequent fiscal years | Total |
|--------|-------|-------|-------|------|------|----------------------------|-------|
| Leases | 2,004 | 1,857 | 1,757 | 481 | 75 | 2,103 | 8,277 |

GUARANTEES

Énergir, L.P. and Énergir Inc., in its capacity as General Partner of Énergir, L.P., issued letters of credit in an aggregate amount of \$24,498 to guarantee a portion of Énergir, L.P. employee future benefits. If the letters of credit are not renewed, alternative solutions will have to be considered to guarantee Énergir, L.P.'s commitments vis-à-vis these employee future benefits.

Énergir, L.P. and some of its subsidiaries issued, in the normal course of their operations, certain letters of credit totalling \$22,876.

27. CONTINGENCIES
LITIGATION

Énergir, L.P. 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 Énergir, L.P.'s consolidated net income or consolidated financial position.

Without limiting the general nature of the above paragraph, a former contractor who had worked on the Addison project has filed an action with the U.S. federal court alleging that the compensation paid by VGS for work performed was inadequate, alleging there was an illegal termination of contract, and claiming a total amount of approximately US\$16,000 (including interest and penalties of approximately US\$5,000). VGS is actively working on its defense in this matter, and a provision was recorded in the consolidated financial statements as at September 30, 2018. The provision amount is the most probable amount that VGS could be required to pay according to the best information currently available. The provision amount is subject to change as the matter moves forward.

28. SUBSEQUENT EVENT

These consolidated financial statements and the accompanying notes reflect Énergir, L.P.'s evaluation of events occurring between the balance sheet date and November 22, 2018, the date on which these consolidated financial statements were approved.

DECLARATION OF A DISTRIBUTION

On November 22, 2018, the board of directors of Énergir Inc., acting in its capacity as General Partner of Énergir, L.P., declared a quarterly distribution of \$51,539, payable on January 3, 2019, to its Partners.

29. COMPARATIVE INFORMATION

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