Financial Statements of

THE SINKING FUND TRUSTEES OF THE CITY OF WINNIPEG

December 31, 2004

Deloitte

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AUDITORS' REPORT

To the Sinking Fund Trustees of The City of Winnipeg

We have audited the statement of financial position of The Sinking Fund Trustees of The City of Winnipeg as at December 31, 2004 and the statements of income, surplus and reserve for retirement of debenture debt for the year then ended. These financial statements are the responsibility of the Sinking Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amount disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2004 and the results of its operations and the changes in its financial position for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Winnipeg, Manitoba
March 15, 2005

THE SINKING FUND TRUSTEES OF THE CITY OF WINNIPEG

His Worship the Mayor
and Members of the Council
of the City of Winnipeg

Ladies and Gentlemen:

Pursuant to the requirements of **The City of Winnipeg Charter**, the Sinking Fund Trustees submit the 2004 audited financial statements of the Sinking Fund.

You will note in the financial statements that the Sinking Fund reported net income of $3,991,000 for the year ended December 31, 2004.

The Trustees appropriated $7,000,000 of the accumulated surplus towards levy commutations, leaving a balance of surplus in the amount of $2,135,000 as at December 31, 2004.

The rates of interest earned by the Fund for the years 1995 to 2004 are shown below:

1995	8.51%	2000	7.43%
1996	8.30%	2001	6.91%
1997	7.77%	2002	6.61%
1998	7.07%	2003	6.02%
1999	7.10%	2004	6.27%

Changes in the sinking fund reserve during 2004 are summarized as follows. The total reserve for retirement of debenture debt decreased to $376,557,000 as at December 31, 2004 (2003 - $386,086,000) of which $133,168,000 represents full funding of all future Sinking Fund installments and interest on the Winnipeg Hydro portion of the City's Sinking Fund debt and $5,691,000 represents full funding of all future serial debt repayments on the Winnipeg Hydro portion of the City's serial debt, as provided for by the Manitoba Hydro Electric Board bonds held by the Sinking Fund.

Sinking funds are invested in securities with maturities which closely match the current position of related reserves.

Respectfully submitted,

J. S. McCALLUM Chairman

R. P. GANNON Trustee

A. S. PENMAN Trustee

J. L. FERRIER Trustee

L. J. DERRY Secretary

THE SINKING FUND TRUSTEES OF THE CITY OF WINNIPEG

STATEMENT OF FINANCIAL POSITION

As at December 31
(in thousands of dollars)

	2004	2003
ASSETS		
Investment in bonds and debentures (Schedule 1)	**$ 318,950**	$ 394,401
Call loans - City of Winnipeg (Note 3)	**64,702**	1,851
Accrued interest receivable	**4,862**	5,241
Cash	**4**	4
	$ 388,518	$ 401,497
LIABILITIES, RESERVE AND SURPLUS		
Accounts payable - City of Winnipeg	**$ 7,000**	$ 7,362
Accrued interest payable (Note 5)	**2,813**	2,893
Accrued liabilities	**13**	12
	9,826	10,267
Reserve for retirement of debenture debt (Note 6)	**376,557**	386,086
Surplus	**2,135**	5,144
	$ 388,518	$ 401,497

See accompanying notes and schedules to the financial statements

THE SINKING FUND TRUSTEES OF THE CITY OF WINNIPEG

STATEMENT OF INCOME

For the years ended December 31
(in thousands of dollars)

	2004	2003
Interest income (Schedule 2)	**$ 26,887**	$ 29,148
Interest requirements - debenture debt reserves	**(12,218)**	(12,746)
Interest requirements - Manitoba Hydro bonds (Note 5)	**(10,567)**	(11,156)
Excess of interest earned over requirements	**4,102**	5,246
Net gain on disposal of investments	**-**	282
	4,102	5,528
Administration expenses	**111**	122
Net income for the year	**$ 3,991**	$ 5,406

See accompanying notes and schedules to the financial statements

THE SINKING FUND TRUSTEES OF THE CITY OF WINNIPEG

STATEMENT OF SURPLUS

For the years ended December 31
(in thousands of dollars)

	2004	2003
Balance, beginning of year	**$ 5,144**	$ 7,100
Add:		
Net income for the year	**3,991**	5,406
	9,135	12,506
Deduct:		
Appropriations for City of Winnipeg - provision for levies	**7,000**	7,362
Balance, end of year	**$ 2,135**	$ 5,144

See accompanying notes and schedules to the financial statements

THE SINKING FUND TRUSTEES OF THE CITY OF WINNIPEG

STATEMENT OF RESERVE FOR RETIREMENT OF DEBENTURE DEBT

For the years ended December 31
(in thousands of dollars)

	2004	2003
Balance, beginning of year	**$ 386,086**	$ 521,825
Add:		
Installments - City of Winnipeg	**17,899**	27,274
Interest credited - debenture debt reserves	**12,218**	12,746
	416,203	561,845
Deduct:		
Applied to debt redemption (Note 6)	**39,646**	175,759
Balance, end of year	**$ 376,557**	$ 386,086

See accompanying notes and schedules to the financial statements

THE SINKING FUND TRUSTEES OF THE CITY OF WINNIPEG

NOTES TO THE FINANCIAL STATEMENTS

As at December 31, 2004
(in thousands of dollars)

1. *Status of The Sinking Fund Trustees of The City of Winnipeg*

The Sinking Fund Trustees of The City of Winnipeg (the " Fund ") was established as a body corporate by subsection 314(1) of The City of Winnipeg Act, a statute of the Legislature of the Province of Manitoba (" the province "). The City of Winnipeg Act was repealed by the province effective January 1, 2003 and replaced by The City of Winnipeg Charter, a statute of the province. Under section 520 of The City of Winnipeg Charter, The Sinking Fund Trustees continues to have the same rights and obligations as outlined under the former City of Winnipeg Act for Sinking Fund debentures issued prior to December 31, 2002 and any future refinancing of these debentures.

2. *Significant Accounting Policies*

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies are summarized as follows :

a) Bonds and debentures

Bonds and debentures are carried at cost plus accumulated amortization. Discounts and premiums arising on the purchase of these investments are amortized over the remaining terms to maturity with annual amortization computed at amounts which, when combined with actual income received, result in a constant effective yield on the amortized book value.

b) Bond residues and coupons

Bond residues and coupons are carried at cost plus accrued income. Income is accrued on the book value of the investments at a rate equivalent to the effective yield of each investment.

c) Statement of cash flows

A statement of cash flows has not been prepared as its presentation would not provide additional information.

3. *Call loans - City of Winnipeg*

Call loans represent short-term investments with The City of Winnipeg which are callable by the Fund upon one business days notice.

4. *Interest Rate and Credit Risk*

a) Interest rate risk

Interest rate risk refers to the adverse consequences of interest rate changes on the Fund's cash flows, financial position and income. This risk arises from differences in the timing and amount of cash flows related to the Fund's assets and liabilities. The value of the Fund's assets is affected by short-term changes in nominal interest rates.

The effective rate of interest earned by the Fund for the year ended December 31, 2004 was 6.27% (2003 - 6.02%).

4. *Interest Rate and Credit Risk (continued)*

The term to maturity and related book and par values of investments in bonds and debentures held by the fund at December 31, 2004 are as follows:

Term To Maturity	Par Value	Book Value
Less than one year	$ 48,198	$ 49,463
Two to five years	77,909	69,976
Greater than five years	205,564	199,511
	$ 331,671	$ 318,950

b) Credit risk

Credit risk arises from the potential for an investee to fail or to default on its contractual obligations to the Fund.

At December 31, 2004 the Fund's maximum credit risk exposure at fair market value was $403,888.

The Fund limits credit risk by investing in bonds and debentures of investees that are considered to be high quality credits and by utilizing an internal Investment Policy Guideline monitoring process.

5. *Purchase of Winnipeg Hydro by Manitoba Hydro*

Manitoba Hydro purchased Winnipeg Hydro from The City of Winnipeg on September 3, 2002. In accordance with the Asset Purchase Agreement between The City of Winnipeg and Manitoba Hydro and The Purchase of Winnipeg Hydro Act, a statute of the Legislature of the Province of Manitoba, the Sinking Fund is required to :

a) Hold the Manitoba Hydro Electric Board bonds issued by Manitoba Hydro to the City in connection with the Winnipeg Hydro portion of the City's debt. The bonds were issued for the purpose of enabling the City to repay the Winnipeg Hydro portion of the City's debt, and were issued with identical terms and conditions as to par value, interest and date of maturity as the Winnipeg Hydro portion of the City's debt. The bonds are guaranteed by the Province of Manitoba and are non-transferable and non-redeemable prior to maturity.

The book value of the Manitoba Hydro Electric Board bonds as at December 31, 2004 amounted to $138,859 (2003 - $145,521).

b) Pay all principal and interest received on the Manitoba Hydro bonds to the City for the payment of principal and interest on the Winnipeg Hydro portion of the City's debt.

As the receipt of the Manitoba Hydro bonds represents full funding of all future Sinking Fund installments and interest related to the Winnipeg Hydro portion of the City's Sinking Fund debt, no further amounts are required to be levied and contributed to the Sinking Fund in respect of this portion of the debt.

6. *Reserve for Retirement of Debenture Debt*

Amounts applied to debt redemption on the statement for retirement of debenture debt are as follows :

	Principal		
	Hydro Portion	Other Purposes	Total
Sinking Fund Debt :			
By-laws 5779/91	$ 5,290	$ 32,985	$ 38,275
Serial Debt :			
By-laws 7054/97	250	-	250
6897/96	1,121	-	1,121
	$ 6,661	$ 32,985	$ 39,646

As at December 31, 2004 the reserve for retirement of debenture debt is allocated as follows :

	Hydro Portion	Other Purposes	Total
Sinking Fund Debt	$ 133,168	$ 237,698	$ 370,866
Serial Debt	5,691	-	5,691
	$ 138,859	$ 237,698	$ 376,557

As at December 31, 2004, the reserve for retirement of debenture debt includes $133,168 (2003 - $138,459) representing full funding of all future Sinking Fund installments and interest on the Winnipeg Hydro portion of the City's Sinking Fund debt and $5,691 (2003 - $7,062) representing full funding of all future serial debt repayments on the Winnipeg Hydro portion of the City's serial debt, as provided for by the Manitoba Hydro Electric Board bonds held by the Sinking Fund.

THE SINKING FUND TRUSTEES OF THE CITY OF WINNIPEG

Schedule 1

SCHEDULE OF INVESTMENTS

As at December 31
(in thousands of dollars)

	2004					2003	
	Par Value	**Market Value**	**%**	**Book Value**	**%**	Book Value	%
Investment in bonds and debentures							
Government of Canada and Government of Canada guaranteed	**$ 28,000**	**$ 30,160**	**9**	**$ 27,677**	**9**	$ 37,567	10
Provincial and Provincial guaranteed (Notes 5 and 6)	**190,694**	**193,361**	**58**	**190,100**	**60**	216,380	55
Municipal	**19,000**	**19,715**	**6**	**18,957**	**6**	-	-
City of Winnipeg	**51,106**	**55,685**	**17**	**52,045**	**16**	79,401	20
	$ 288,800	**298,921**	**90**	**288,779**	**91**	333,348	85
Bond residues and coupons							
Government of Canada		**17,576**	**5**	**14,363**	**4**	46,253	12
Provincial		**17,827**	**5**	**15,808**	**5**	14,800	3
		$ 334,324	**100**	**$ 318,950**	**100**	$ 394,401	100

THE SINKING FUND TRUSTEES OF THE CITY OF WINNIPEG

Schedule 2

SCHEDULE OF INTEREST INCOME

For the years ended December 31
(in thousands of dollars)

	2004	2003
Interest on bonds and debentures	**$ 24,093**	$ 25,807
Income accrued - bond residues and coupons	**4,393**	5,049
Call fund interest	**532**	573
Securities lending income	**29**	22
Net bond premium amortization	**(2,160)**	(2,303)
	$ 26,887	$ 29,148