Manitoba Hydro

R.B. Brennan, FCA
President and
Chief Executive Officer

February 7, 2002

Ms. Gail Stephens
Chief Administrative Officer
Chief Administrative Secretariat Department
The City of Winnipeg
3rd Floor, 510 Main Street
Winnipeg, Manitoba
R3B 1B9

Dear Ms. Stephens:

Re: **Purchase of Winnipeg Hydro**

This letter constitutes a proposal concerning the possible acquisition by Manitoba Hydro (the "Purchaser") from The City of Winnipeg (the "Seller") of the electrical utility owned by the Seller commonly known as Winnipeg Hydro.

If the proposed transaction closes, the Purchaser will purchase from the Seller the assets and related liabilities of Winnipeg Hydro on terms to be negotiated, generally consistent with the following terms:

(i) the parties will develop a list of the assets and related liabilities of Winnipeg Hydro to be purchased, for inclusion in the Definitive Agreement described below, consistent with the audited financial statements of Winnipeg Hydro as at December 31, 2001. The financial statements will be prepared in accordance with GAAP and will be consistent with previous such statements. The assets will include, without limitation, all real and personal property necessary to operate the electric utility such as generation, transmission, distribution, transformation and other facilities, vehicles and equipment, as well as contracts, distribution and retail rights and franchises, cash, retained earnings and all other assets consistent with said statements. Winnipeg Hydro may transfer a sum not to exceed $19 million to the General Revenue Fund of the Seller in respect of earnings for the year ended December 31, 2001. With the exception of the above transfer, the Seller will undertake to maintain within Winnipeg Hydro all retained earnings as at December 31, 2001, and all profits from the operation of Winnipeg Hydro earned between December 31, 2001, and the date of closing, such funds forming part of the assets to be purchased.

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(ii) in consideration of the purchase, the Purchaser will make consecutive annual payments to the Seller commencing, as follows:

Years	1 -5	$25 million per annum
	6 - 9	$20 million per annum
	10 in perpetuity	$16 million per annum

such payments to be secured in a manner mutually acceptable to the parties.

(iii) the Purchaser will provide a monetary benefit of $1 million per annum to the Seller through a combination of savings to the Seller at no cost to the Seller from participation in the Purchaser's Power Smart programs, and the provision by the Purchaser of free Christmas lighting.

(iv) the Purchaser will build a minimum 400,000 square foot office building in the Downtown Winnipeg area within five years of the date of closing and, in the event the Purchaser shall fail to commence construction of such office within five years, the Purchaser shall pay to the Seller a penalty based on estimated annual municipal property taxes.

(v) the parties will comply with the Laws of the Province of Manitoba regarding successor rights, and the Purchaser will comply with all associated obligations to honour the collective agreements of Winnipeg Hydro. The Seller will not transfer employees to Winnipeg Hydro or take other measures to materially alter the employment obligations of Winnipeg Hydro between the date of this letter and the date of closing.

(vi) the Seller will allow the Purchaser continued access at no cost to the Seller's rights-of-way, conduits, ducts, poles, vaults, etc., and the Purchaser will allow continued and uninterrupted access by the Seller to Winnipeg Hydro's fiber optic cables.

(vii) the facilities transferred will, following closing, be subject to the same level of real property, personal property, business, school and any other municipal taxes as apply to comparable Manitoba Hydro facilities within the City of Winnipeg.

(viii) the parties will structure the Definitive Agreement so as to ensure that the pensions of all Winnipeg Hydro employees are duly protected.

The Purchaser will receive the benefit of Winnipeg Hydro's share of the surplus in the Civic Employees' Pension Fund (estimated in the Fall of 2001 to be $21 million), if legally possible by the transfer of said share to the Purchaser on closing.

It is recognized that the laws associated with the transfer of pension benefits are complex, and the precise mechanics to implement the above intent will be developed by the parties for inclusion in the Definitive Agreement.

The closing of the proposed transaction will be subject to the execution and delivery of a definitive agreement of purchase and sale (the "Definitive Agreement") and other mutually acceptable legal documentation and opinions of counsel which, except as set out in this letter, will be of the type and contain covenants, representations and warranties, indemnities, terms and conditions customary in such a transaction, including, without limitation:

(1) the completion of a due diligence review of Winnipeg Hydro satisfactory to the Purchaser prior to closing;

(2) the absence of any material adverse change to Winnipeg Hydro or its business or prospects between December 31, 2001, and the date of closing;

(3) the receipt of all necessary regulatory and other approvals, including without limitation the approval of the Purchaser's Board, consents required pursuant to *The City of Winnipeg Act*, the Government of Manitoba, the Director under the Competition Act (Canada), and any others as required by law;

(4) the consents of third parties under material contracts, to the extent required;

(5) an indemnity of the representations, warranties and covenants of the Seller, satisfactory to the Purchaser; and

(6) the structuring of the transaction in an efficient manner to all parties.

It is the intention of the parties that the following additional matter shall, without limitation, also constitute a condition of closing:

(a) the termination at closing of all intercompany agreements and arrangements between Winnipeg Hydro and the Seller, without termination costs to the Purchaser.

The parties intend to work diligently and in good faith to settle all legal documentation with a view to executing the Definitive Agreement of purchase and sale on or before May 31, 2002. We would anticipate that closing would occur on or before June 27, 2002, subject to receipt of all approvals as contemplated herein. Prior to closing, Winnipeg Hydro will carry on business in the ordinary course, will attend to all normal maintenance, repair and other activities to maintain its facilities in proper operating condition and will duly manage its business affairs in the normal course. If a Definitive Agreement is not executed prior to May 31, 2002, the parties shall either extend the date for such execution or terminate negotiations.

The foregoing represents the mutual understandings and intentions of the parties as to the proposed transaction. However, there will be no binding obligation on either party to complete the proposed transaction unless the parties enter into the legal documentation described above, and in that regard the parties confirm that there are no legally binding obligations between them relating to the proposed transaction, whether set out in this letter or otherwise, except as follows:

(I) the Seller and Winnipeg Hydro will, to the extent legally permissible, give the Purchaser and its agents, employees, representatives, consultants and advisors access to, and will make available to them for inspection and review, all books of account, audit work, papers, business and financial records, leases, agreements, property descriptions, descriptions of litigation, descriptions of environmental claims, regulatory files, employment files, strategic planning analyses and other documents of or relating to Winnipeg Hydro and its business as well as access to the physical properties and facilities of Winnipeg Hydro and to its staff. The Seller and Winnipeg Hydro will make their staff, auditors, counsel and other representatives available for consultation and verification of any information so obtained. Documents and information related to the Power Agreement shall be excluded from such access. It is understood that such information and materials shall remain confidential until after closing.

(II) each party will make reasonable efforts to consult the other party beforehand concerning any media announcements or releases or any response to media inquiries, if feasible to do so in the circumstances.

(III) the Seller and the Purchaser will each be responsible for their own legal and other usual costs associated with the negotiation and closing of the proposed transaction.

(IV) no party may assign any of the rights and obligations provided for or referred to in this letter without the prior consent of the other party.

This proposal is open for acceptance by the Seller until 12:00 noon on February 28, 2002.

Yours very truly,

MANITOBA HYDRO

Per: _____

R.B. Brennan, FCA.
President & Chief Executive Officer

Manitoba Hydro

R.B. Brennan, FCA
President and
Chief Executive Officer

2002 02 19

Ms. Gail Stephens
Chief Administrative Officer
Chief Administrative Secretariat Department
The City of Winnipeg
3rd Floor, 510 Main Street
Winnipeg, Manitoba
R3B 1B9

Dear Ms. Stephens:

RE: PURCHASE OF WINNIPEG HYDRO

We propose an addition to our proposal dated February 7, 2002, as follows:

> "It is intended that affected employees would in due course leave the Seller's Employee Benefits Program and become subject to an alternate plan or arrangements which provide the same or equivalent benefits as the Employee Benefits Program. During any transitional period before such alternate plan or arrangements are available, affected employees would continue to participate in the Employee Benefits Program and the Purchaser would seek to become a participating employer under the Employee Benefits Program with respect to the affected employees."

The above statement should be inserted between the second and third paragraphs of clause (viii) of our proposal. All other terms and conditions of the proposal remain unchanged.

Yours truly,

RBB/gt

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