Financial Statements of

THE SINKING FUND TRUSTEES OF THE CITY OF WINNIPEG

December 31, 2014

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 2014 audited financial statements of the Sinking Fund.

You will note in the financial statements that the Sinking Fund reported a net loss of $3,237,000 for the year ended December 31, 2014 and a balance of deficit in the amount of $12,641,000 as at December 31, 2014.

The rates of interest earned by the Fund for the years 2005 to 2014 are shown below:

2005.....5.55%	2010.....3.81%
2006.....5.41%	2011.....3.41%
2007.....5.46%	2012.....2.95%
2008.....5.15%	2013.....3.30%
2009.....4.39%	2014.....2.13%

Changes in the sinking fund reserve during 2014 are summarized as follows. The total reserve for retirement of debenture debt decreased to $199,453,000 as at December 31, 2014 (2013 - $288,065,000) of which $92,000,000 represents full funding of all future Sinking Fund installments and interest on the Winnipeg Hydro portion of the City's Sinking Fund 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.

The Sinking Fund will pay to the City of Winnipeg the amount of levies actually received by the Fund together with accumulated interest in respect thereof. In the event of a Sinking Fund deficit at the maturity of a Sinking Fund issue, The City of Winnipeg Charter, Section 304(2), authorizes The City of Winnipeg, if it so chooses, to apply to the Minister of Finance to borrow an amount of money sufficient to discharge the Sinking Fund debt in full.

Respectfully submitted,

E. STEFANSON Chairman

M. RUTA Trustee

N. THEODOROU Trustee

G. STESKI Trustee

L. DERRY Secretary

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INDEPENDENT AUDITOR'S REPORT

To The Sinking Fund Trustees of The City of Winnipeg

We have audited the accompanying financial statements of The Sinking Fund Trustees of The City of Winnipeg which comprise the statement of financial position as at December 31, 2014, and the statement of loss, statement of deficit, statement of reserve for retirement debenture debt, and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for private enterprises, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of The Sinking Fund Trustees of The City of Winnipeg as at December 31, 2014, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

Deloitte LLP

Chartered Accountants
March 25, 2015
Winnipeg Manitoba

THE SINKING FUND TRUSTEES OF THE CITY OF WINNIPEG

STATEMENT OF FINANCIAL POSITION

As at December 31
(in thousands of dollars)

	December 31 2014	December 31 2013
ASSETS		
Cash and short-term investments (Note 3)	**$ 20,961**	$ 61,793
Accrued interest receivable	**2,436**	3,867
Investment in bonds and debentures (Schedule 1)	**165,207**	215,337
	$ 188,604	$ 280,997
LIABILITIES, RESERVE AND SURPLUS		
Accrued interest payable (Note 5)	**1,778**	2,321
Accrued liabilities	**14**	15
	1,792	2,336
Reserve for retirement of debenture debt (Note 6)	**199,453**	288,065
(Deficit) (Note 9)	**(12,641)**	(9,404)
	$ 188,604	$ 280,997

See accompanying notes and schedules to the financial statements

THE SINKING FUND TRUSTEES OF THE CITY OF WINNIPEG

STATEMENT OF LOSS

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

	2014	2013
Interest income (Schedule 2)	**$ 7,915**	$ 12,727
Interest requirements - debenture debt reserves	**(5,248)**	(9,010)
Interest requirements - Manitoba Hydro bonds (Note 8)	**(5,943)**	(7,186)
(Deficit) of interest earned under requirements	**(3,276)**	(3,469)
Net gain on disposal of investments	**161**	593
	(3,115)	(2,876)
Administration expenses	**122**	125
Net loss for the year	**$ (3,237)**	$ (3,001)

See accompanying notes and schedules to the financial statements

THE SINKING FUND TRUSTEES OF THE CITY OF WINNIPEG

STATEMENT OF DEFICIT

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

	2014	2013
Balance, beginning of year	**$ (9,404)**	$ (6,403)
Less:		
Net loss for the year	**(3,237)**	(3,001)
Balance, end of year (Note 9)	**$ (12,641)**	$ (9,404)

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)

	2014	2013
Balance, beginning of year	**$ 288,065**	$ 370,194
Add:		
Installments - City of Winnipeg (Note 8)	**6,140**	8,861
Interest credited - debenture debt reserves	**5,248**	9,010
	299,453	388,065
Deduct:		
Applied to debt redemption (Note 6)	**100,000**	100,000
Balance, end of year	**$ 199,453**	$ 288,065

See accompanying notes and schedules to the financial statements

THE SINKING FUND TRUSTEES OF THE CITY OF WINNIPEG

STATEMENT OF CASH FLOWS

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

	2014	2013
CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Net loss	**$ (3,237)**	$ (3,001)
Income accrued - bond residues and coupons	**(133)**	(311)
Net bond premium amortization	**2,315**	1,341
Interest requirements - debenture debt reserves	**5,248**	9,010
Net gain on disposal of investments	**(161)**	(593)
Change in non-cash operating accounts	**887**	473
	4,919	6,919
FINANCING ACTIVITIES		
Applied to debt redemption (Note 6)	**(100,000)**	(100,000)
Installments - City of Winnipeg (Note 8)	**6,140**	8,861
	(93,860)	(91,139)
INVESTING ACTIVITIES		
Acquisition of investments in bonds and debentures	**(35,399)**	(46,546)
Proceeds from bond and debenture sales	**9,727**	15,576
Proceeds from bond and debenture maturities	**73,781**	133,711
	48,109	102,741
Increase (Decrease) in cash and short-term investments	**(40,832)**	18,521
Cash and short-term investments, beginning of period	**61,793**	43,272
Cash and short-term investments, end of period	**$ 20,961**	$ 61,793
Cash and short-term investments consists of:		
Cash	**$ 43**	$ 4,305
Short-term investments	**20,918**	57,488
	$ 20,961	$ 61,793

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, 2014
(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 continue 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 Accounting Standards for Private Enterprises.

The significant accounting policies are summarized as follows:

a) Investment in 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.

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 on the investment.

For these bonds and debentures, which are measured at amortized cost, the Fund recognizes in net income an impairment loss, if any, when it determines that a significant adverse change has occurred during the period in the expected timing or amount of future cash flows. When the extent of impairment of a previously written-down asset decreases and the decrease can be related to an event occurring after the impairment was recognized, the previously recognized impairment loss shall be reversed in net income in the period the reversal occurs.

b) Use of estimates

Financial statements prepared in accordance with Canadian Accounting Standards for Private Enterprises require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The valuation of investments is the most significant component of the financial statements subject to estimates. Actual results could differ from these estimates.

3. Cash and Short-Term Investments

Cash is held on deposit with a major Canadian Chartered Bank.

Short-term investments represent short-term debt securities of Schedule 1 Canadian Chartered Banks with a term to maturity of less than one year.

NOTES TO THE FINANCIAL STATEMENTS

As at December 31, 2014
(in thousands of dollars)

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, 2014 was 2.13% (2013 - 3.30%).

The term to maturity and related book and par values of investments in bonds and debentures held by the fund at December 31, 2014 are as follows:

	2014		2013	
Term To Maturity	**Par Value**	**Book Value**	Par Value	Book Value
Less than one year	$ 78,140	$ 78,912	$ 80,732	$ 81,104
Two to five years	26,244	26,295	72,423	74,233
Greater than five years	60,000	60,000	60,000	60,000
	$ 164,384	$ 165,207	$ 213,155	$ 215,337

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, 2014 the Fund's maximum credit risk exposure at fair market value was $188,785 (2013 - $277,805).

The Fund limits credit risk by investing in short-term investments and bonds and debentures of investees that are considered to be high quality credits (rated A or higher) 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, 2014 amounted to $92,000 (2013 - $107,000).

NOTES TO THE FINANCIAL STATEMENTS

As at December 31, 2014
(in thousands of dollars)

5. *Purchase of Winnipeg Hydro by Manitoba Hydro (continued)*

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.

Accrued interest receivable and identical offsetting accrued interest payable on the Manitoba Hydro bonds amounted to $1,778 at December 31, 2014 (2013 - $2,321).

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 :

	Hydro Portion	Other Purposes	Total
Sinking Fund Debt :			
By-law 6300/94	$ 15,000	$ 85,000	$ 100,000

As at December 31, 2014 the reserve for retirement of debenture debt is allocated towards Sinking Fund debentures as follows:

Maturity Year	Amortized Cost			Maturity Value
	Hydro Portion	Other Purposes	Total	
2015	$ 12,000	$ 83,869	$ 95,869	$ 100,000
2017	20,000	23,584	43,584	50,000
2029	60,000	-	60,000	60,000
	$ 92,000	$ 107,453	$ 199,453	$ 210,000

The amortized cost of the reserve for retirement of debenture debt is calculated using an assumed annual discount rate of 5% which was set by The City of Winnipeg in the applicable Sinking Fund Debenture By-laws.

As at December 31, 2014, the reserve for retirement of debenture debt includes $92,000 (2013 - $107,000) representing full funding of all future Sinking Fund installments and interest on the Winnipeg Hydro portion of the City's Sinking Fund debt as provided for by the Manitoba Hydro Electric Board bonds held by the Sinking Fund.

7. *Capital*

The Fund's objectives when managing capital are:

a) To pay The City of Winnipeg at or before the maturity of each respective sinking fund debenture all amounts collected by way of levy together with interest earned thereon.

b) To invest all levies received in accordance with the guidelines outlined in the Fund's Statement of Investment Policies and Procedures in order to maximize the investment return on the Fund within the allowable level of risk mandated by The City of Winnipeg Act.

The fund invests in securities with maturities which closely match the current sinking fund debenture maturity dates.

THE SINKING FUND TRUSTEES OF THE CITY OF WINNIPEG

NOTES TO THE FINANCIAL STATEMENTS

As at December 31, 2014
(in thousands of dollars)

8. *Related Party Transactions*

The Sinking Fund and The City of Winnipeg entered into an Investment Management Agreement on April 1, 2011, whereby the City of Winnipeg provides investment management and administrative services to the Fund for an annual management fee. The Fund is the managed party under the Investment Management Agreement.

The Fund made the following purchases during 2014 which were all in the normal course of operations for the Fund and were at fair value:

Security	PAR	Purchase Date	Price	Effective Yield
Winnipeg 9.125% due May 12, 2015	$ 2,500	Apr. 7	$ 108.55	1.251%
Winnipeg 9.125% due May 12, 2015	$ 135	Apr. 8	$ 108.53	1.249%
Winnipeg 6.25% due Nov. 17, 2017	$ 627	Apr. 9	$ 115.00	1.923%
Winnipeg 9.125% due May 12, 2015	$ 3,000	May 14	$ 107.78	1.230%
Winnipeg Coupon due Nov. 15, 2017	$ 1,195	Dec. 29	$ 94.96	1.803%

In addition, for the year ended December 31, 2014, the Fund and the City of Winnipeg entered into the following transactions which were all in the normal course of operations for the Fund:

The City of Winnipeg paid $6,140 (2013 - $8,861) in levies to the Fund at the amounts prescribed by the applicable Sinking Fund debenture By-laws.

The City of Winnipeg paid $1,782 (2013 - $1,037) of coupon interest to the Fund on City of Winnipeg debentures held by the Fund.The coupon interest payments were at fair value.

The Fund paid $5,937 (2013 - $7,554) of Manitoba Hydro Electric Board bond coupon interest to the City of Winnipeg. These coupon interest payments were at the amount prescribed by The Purchase of Winnipeg Hydro Act.

The Fund paid investment management fees of $100 (2013 - $100) to the City of Winnipeg as required under the Investment Management Agreement.

9. *Sinking Fund Deficit*

The Fund will pay to the City of Winnipeg the amount of levies actually received by the Fund together with accumulated interest in respect thereof. In the event of a Sinking Fund deficit at the maturity of a Sinking Fund issue, The City of Winnipeg Charter, Section 304(2), authorizes The City of Winnipeg, if it so chooses, to apply to the Minister of Finance to borrow an amount of money sufficient to discharge the Sinking Fund debt in full.

THE SINKING FUND TRUSTEES OF THE CITY OF WINNIPEG

Schedule 1

SCHEDULE OF INVESTMENTS

As at December 31
(in thousands of dollars)

	December 31 2014					December 31 2013	
	Par Value	**Market Value**	**%**	**Book Value**	**%**	Book Value	%
Investment in bonds and debentures							
Government of Canada and Government of Canada guaranteed	$ -	$ -	-	$ -	-	$ 5,487	3
Provincial and Provincial guaranteed (Notes 5 and 6)	**99,963**	**100,198**	**60**	**100,066**	**60**	125,627	58
Municipal	**14,404**	**14,549**	**9**	**14,485**	**9**	35,962	17
City of Winnipeg	**20,122**	**20,768**	**13**	**20,766**	**13**	18,006	8
Corporates	**23,700**	**23,792**	**14**	**23,779**	**14**	17,112	8
	$ 158,189	**159,307**	**96**	**159,096**	**96**	202,194	94
Bond residues and coupons							
Provincial		**4,991**	**3**	**4,976**	**3**	13,143	6
City of Winnipeg		**1,133**	**1**	**1,135**	**1**	-	-
		$ 165,431	**100**	**$ 165,207**	**100**	$ 215,337	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)

	2014	2013
Interest on bonds and debentures	**$ 9,985**	$ 13,334
Income accrued - bond residues and coupons	**133**	311
Bank and short-term investments interest	**109**	412
Securities lending income	**3**	11
Net bond (premium) discount amortization	**(2,315)**	(1,341)
	$ 7,915	$ 12,727