Financial Statements of

THE SINKING FUND TRUSTEES OF THE CITY OF WINNIPEG

December 31, 2020

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 2020 audited financial statements of the Sinking Fund Trustees of The City of Winnipeg (the "Fund").

You will note in the financial statements that the Sinking Fund reported no net income or accumulated surplus for the year ended and as at December 31, 2020.

The total reserve for retirement of debenture debt is $60,000,000 as at December 31, 2020 (2019 - $60,000,000) which 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 debentures held by the Fund.

As a result of the February 2029 debt being assumed by Manitoba Hydro, the role of the Sinking Fund Trustees is greatly reduced, as there are no investments to actively manage. Effective January 1, 2018, and thereafter, City Council will appoint four City of Winnipeg employees as Sinking Fund Trustees.

Respectfully submitted,

C. KLOEPFER, FCPA, CGA, FCA, ICD.D.
Chair

R. PROVENCHER, CPA, CMA
Secretary

T. YANCHISHYN, CPA, CA
Trustee

P. OLAFSON, CPA, CA
Trustee

KPMG LLP
1900 - 360 Main Street
Winnipeg MB
R3C 3Z3

Telephone (204) 957-1770
Fax (204) 957-0808
www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Sinking Fund Trustees of The City of Winnipeg

Opinion

We have audited the financial statements of The Sinking Fund Trustees of The City of Winnipeg (the "Entity"), which comprise the statement of financial position as at December 31, 2020, the statements of income and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2020, and its results of operations, and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Financial Statements" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

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Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represents the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants

Winnipeg, Canada

April 22, 2021

THE SINKING FUND TRUSTEES OF THE CITY OF WINNIPEG

STATEMENT OF FINANCIAL POSITION

As at December 31
(in thousands of dollars)

	2020	2019
ASSETS		
Cash (note 3)	**$ 7**	$ -
Due from City of Winnipeg (note 8)	**-**	7
Accrued interest receivable	**1,474**	1,474
Investment in debentures (note 4)	**60,000**	60,000
	$ 61,481	$ 61,481
LIABILITIES AND RESERVE		
Accrued interest payable (note 5)	**$ 1,474**	$ 1,474
Accrued liabilities	**7**	7
	1,481	1,481
Reserve for retirement of debenture debt (note 6)	**60,000**	60,000
	$ 61,481	$ 61,481

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)

	2020	2019
Interest income on debentures	**$ 3,540**	$ 3,540
Interest requirements - Manitoba Hydro debentures (note 8)	**(3,540)**	(3,540)
Contributions from City of Winnipeg:		
Contribution towards administration expenses (note 8)	**8**	8
	8	8
Administration expenses	**8**	8
Net income for the year	**$ -**	$ -

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)

	2020	2019
CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Change in non-cash operating accounts	**$ 7**	$ (1)
Increase (decrease) in cash and short-term investments	**7**	(1)
Cash and short-term investments, beginning of period	**-**	1
Cash, end of period	**$ 7**	$ -

See accompanying notes and schedule to the financial statements

THE SINKING FUND TRUSTEES OF THE CITY OF WINNIPEG

NOTES TO THE FINANCIAL STATEMENTS

As at December 31, 2020
(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 debentures

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.

For these 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

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

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

	2020		2019	
Term To Maturity	**Par Value**	**Book Value**	Par Value	Book Value
Greater than five years	**$ 60,000**	**$ 60,000**	$ 60,000	$ 60,000

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, 2020 the Fund's maximum credit risk exposure at fair market value was $60 million (2019 - $60 million).

c) Other risk

The global pandemic related to an outbreak of COVID-19 has cast additional uncertainty on the assumptions used by the Trustees in making its judgements and estimates. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results, performance and valuation of investments of the Fund in future periods.

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, the Sinking Fund is required to:

a) Hold the Manitoba Hydro Electric Board debentures issued by Manitoba Hydro to the City of Winnipeg in connection with the Winnipeg Hydro portion of the City of Winnipeg's debt. The debentures were issued for the purpose of enabling the City of Winnipeg to repay the Winnipeg Hydro portion of the City of Winnipeg'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 of Winnipeg's debt. The debentures are guaranteed by the Province and are non-transferable and non-redeemable prior to maturity. The debentures pay interest twice annually, in February and August, at a rate of 5.9%.

The book value of the Manitoba Hydro Electric Board debentures as at December 31, 2020 amounted to $60 million (2019 - $60 million).

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

Accrued interest receivable and identical offsetting accrued interest payable on the Manitoba Hydro debentures amounted to $1.5 million at December 31, 2020 (2019 - $1.5 million).

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

As the receipt of the Manitoba Hydro debentures represents full funding of all future Sinking Fund installments and interest related to the Winnipeg Hydro portion of the City of Winnipeg'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

As at December 31, 2020 the reserve for retirement of debenture debt is allocated towards Sinking Fund debentures as follows:

Maturity Year	Amortized Cost		Maturity Value
	Hydro Portion	Total	
2029	$ 60,000	$ 60,000	$ 60,000

As at December 31, 2020, the reserve for retirement of debenture debt includes $60 million (2019 - $60 million), representing full funding of all future Sinking Fund installments and interest on the Winnipeg Hydro portion of the City of Winnipeg's Sinking Fund debt as provided for by the Manitoba Hydro Electric Board debentures held by the Sinking Fund.

7. Capital

The Fund's objective when managing capital is to pay The City of Winnipeg at or before the maturity of each respective sinking fund debenture all amounts collected from interest earned thereon.

The Fund invests in securities with maturities that match the current sinking fund debenture maturity dates.

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 at no charge. The Fund is the managed party under the Investment Management Agreement.

For the year ended December 31, 2020, the Fund and the City of Winnipeg entered into the following transactions:

The Fund paid $3.5 million (2019 - $3.5 million) 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 City of Winnipeg contributed $8 thousand (2019 - $8 thousand) towards administration expenses.

The City of Winnipeg's Council, on September 27, 2017, approved the foregoing of investment management fees that were charged by the City of Winnipeg to the Fund, in the amount of $100 thousand per year. Furthermore, the City of Winnipeg will absorb the administrative costs associated with the Fund.

As at December 31, 2020, the amount due from the City of Winnipeg is $nil (2019 - $7 thousand).