Financial Statements of

THE SINKING FUND TRUSTEES OF THE CITY OF WINNIPEG

December 31, 2007

Deloitte.

Deloitte & Touche LLP
360 Main Street
Suite 2300
Winnipeg MB R3C 3Z3
Canada

Tel: 204-942-0051
Fax: 204-947-9390
www.deloitte.ca

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, 2007 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 amounts and 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, 2007 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.

Chartered Accountants

Deloitte & Touche LLP

Winnipeg, Manitoba
March 17, 2008

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 2007 audited financial statements of the Sinking Fund.

You will note in the financial statements that the Sinking Fund reported net income of $1,387,000 for the year ended December 31, 2007.

The Trustees appropriated $900,000 of the accumulated surplus towards levy commutations, leaving a balance of surplus in the amount of $1,091,000 as at December 31, 2007.

The rates of interest earned by the Fund for the years 1998 to 2007 are shown below:

1998.....7.07%	2003.....6.02%
1999.....7.10%	2004.....6.27%
2000.....7.43%	2005.....5.55%
2001.....6.91%	2006.....5.41%
2002.....6.61%	2007.....5.46%

Changes in the sinking fund reserve during 2007 are summarized as follows. The total reserve for retirement of debenture debt increased to $378,090,000 as at December 31, 2007 (2006 - $356,369,000) of which $131,500,000 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.

Respectfully submitted,

J. S. McCALLUM Chairman

G. V. STESKI 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)

	2007	2006
ASSETS		
Investment in bonds and debentures (Note 7 and Schedule 1)	**$ 347,082**	$ 334,318
Call loans - City of Winnipeg (Note 3)	**31,552**	22,036
Accrued interest receivable	**4,191**	4,067
Cash	**5**	2
	$ 382,830	$ 360,423
LIABILITIES, RESERVE AND SURPLUS		
Accounts payable - City of Winnipeg	**$ 900**	$ 700
Accrued interest payable (Note 5)	**2,734**	2,736
Accrued liabilities	**15**	14
	3,649	3,450
Reserve for retirement of debenture debt (Note 6)	**378,090**	356,369
Surplus	**1,091**	604
	$ 382,830	$ 360,423

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)

	2007	2006
Interest income (Schedule 2)	**$ 22,573**	$ 21,344
Interest requirements - debenture debt reserves	**(11,513)**	(10,348)
Interest requirements - Manitoba Hydro bonds (Note 5)	**(9,558)**	(9,726)
Excess of interest earned over requirements	**1,502**	1,270
Administration expenses	**115**	118
Net income for the year	**$ 1,387**	$ 1,152

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)

	2007	2006
Balance, beginning of year	**$ 604**	$ 152
Add:		
Net income for the year	**1,387**	1,152
	1,991	1,304
Deduct:		
Appropriations for City of Winnipeg - provision for levies	**900**	700
Balance, end of year	**$ 1,091**	$ 604

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)

	2007	2006
Balance, beginning of year	**$ 356,369**	$ 334,568
Add:		
Installments - City of Winnipeg	**12,958**	12,958
Interest credited - debenture debt reserves	**11,513**	10,348
	380,840	357,874
Deduct:		
Applied to debt redemption (Note 6)	**2,750**	1,505
Balance, end of year	**$ 378,090**	$ 356,369

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, 2007
(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 represent held-to-maturity investments and 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 represent held-to-maturity investments and 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.

d) Use of estimates

Financial statements prepared in accordance with Canadian generally accepted accounting principles 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. Actual results could differ from these estimates.

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 day notice. Call loans are recorded at cost, which together with accrued interest income, approximates fair value.

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, 2007 was 5.46% (2006 - 5.41%).

The term to maturity and related book and par values of investments in bonds and debentures held by the fund at December 31, 2007 are as follows:

Term To Maturity	Par Value	Book Value
Two to five years	$ 118,881	$ 113,460
Greater than five years	234,098	233,622
	$ 352,979	$ 347,082

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, 2007 the Fund's maximum credit risk exposure at fair market value was $390,509.

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, 2007 amounted to $131,500 (2006 - $134,250).

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.

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
Serial Debt :			
By-laws 7054/97	$ 2,750	$ -	$ 2,750

As at December 31, 2007 the reserve for retirement of debenture debt is allocated as follows :

	Hydro Portion	Other Purposes	Total
Sinking Fund Debt	$ 131,500	$ 246,590	$ 378,090

As at December 31, 2007, the reserve for retirement of debenture debt includes $131,500 (2006 - $131,500) 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. ***Change in Accounting Policy***

Effective January 1, 2007, the Fund adopted the Canadian Institute of Chartered Accountants Handbook Section 3855 Financial Instruments - Recognition and Measurement and Section 3861 Financial Instruments - Disclosure and Presentation and, as a result, now measures and presents its call loans at fair value. In accordance with the transitional provisions of Section 3855, recognition, derecognition and measurement policies followed in financial statements for periods prior to the effective date of this Section are not reversed. Therefore, the new accounting policy was applied at January 1, 2007 and the 2006 comparative financial statements were not restated. The implementation of the change in accounting policy did not affect the carrying value of the call loans at January 1, 2007.

Investments in bonds and debentures are classified as held-to-maturity investments as defined under Section 3855 and, as a result, continue to be measured and presented at amortized cost.

THE SINKING FUND TRUSTEES OF THE CITY OF WINNIPEG

Schedule 1

SCHEDULE OF INVESTMENTS

As at December 31
(in thousands of dollars)

	2007					2006	
	Par Value	Market Value	%	Book Value	%	Book Value	%
Investment in bonds and debentures							
Government of Canada and Government of Canada guaranteed	$ 28,000	$ 28,735	8	$ 27,896	8	$ 27,819	8
Provincial and Provincial guaranteed (Notes 5 and 6)	211,514	214,013	60	211,360	61	201,343	61
Municipal	57,581	58,407	16	57,458	17	57,441	17
City of Winnipeg	6,013	6,695	2	5,844	2	5,786	2
Supranationals	7,000	7,061	2	7,076	2	7,085	2
	$ 310,108	314,911	88	309,634	90	299,474	90
Bond residues and coupons							
Government of Canada		19,793	6	18,173	5	16,804	5
Provincial		20,062	6	19,275	5	18,040	5
		$ 354,766	100	$ 347,082	100	$ 334,318	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)

	2007	2006
Interest on bonds and debentures	**$ 18,588**	$ 18,085
Income accrued - bond residues and coupons	**2,604**	2,422
Call fund interest	**1,205**	612
Securities lending income	**41**	39
Net bond discount amortization	**135**	186
	$ 22,573	$ 21,344