Financial Statements of

THE SINKING FUND TRUSTEES OF THE CITY OF WINNIPEG

December 31, 2008

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, 2008 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, 2008 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 20, 2009

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 2008 audited financial statements of the Sinking Fund.

You will note in the financial statements that the Sinking Fund reported net income of $726,000 for the year ended December 31, 2008 and a balance of surplus in the amount of $1,817,000 as at December 31, 2008.

The rates of interest earned by the Fund for the years 1999 to 2008 are shown below:

1999.....7.10%	2004.....6.27%
2000.....7.43%	2005.....5.55%
2001.....6.91%	2006.....5.41%
2002.....6.61%	2007.....5.46%
2003.....6.02%	2008.....5.15%

Changes in the sinking fund reserve during 2008 are summarized as follows. The total reserve for retirement of debenture debt increased to $403,786,000 as at December 31, 2008 (2007 - $378,090,000) 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

J. L. FERRIER Trustee

E. STEFANSON 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)

	2008	2007
ASSETS		
Investment in bonds and debentures (Schedule 1)	**$ 369,536**	$ 347,082
Call loans - City of Winnipeg (Note 4)	**34,612**	31,552
Accrued interest receivable	**4,195**	4,191
Cash	**8**	5
	$ 408,351	$ 382,830
LIABILITIES, RESERVE AND SURPLUS		
Accounts payable - City of Winnipeg	**$ -**	$ 900
Accrued interest payable (Note 6)	**2,734**	2,734
Accrued liabilities	**14**	15
	2,748	3,649
Reserve for retirement of debenture debt (Note 7)	**403,786**	378,090
Surplus	**1,817**	1,091
	$ 408,351	$ 382,830

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)

	2008	2007
Interest income (Schedule 2)	**$ 23,060**	$ 22,573
Interest requirements - debenture debt reserves	**(12,737)**	(11,513)
Interest requirements - Manitoba Hydro bonds (Note 6)	**(9,473)**	(9,558)
Excess of interest earned over requirements	**850**	1,502
Administration expenses	**124**	115
Net income for the year	**$ 726**	$ 1,387

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)

	2008	2007
Balance, beginning of year	**$ 1,091**	$ 604
Add:		
Net income for the year	**726**	1,387
	1,817	1,991
Deduct:		
Appropriations for City of Winnipeg - provision for levies	**-**	900
Balance, end of year	**$ 1,817**	$ 1,091

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)

	2008	2007
Balance, beginning of year	**$ 378,090**	$ 356,369
Add:		
Installments - City of Winnipeg	**12,959**	12,958
Interest credited - debenture debt reserves	**12,737**	11,513
	403,786	380,840
Deduct:		
Applied to debt redemption	**-**	2,750
Balance, end of year	**$ 403,786**	$ 378,090

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, 2008
(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. Change in Accounting Policy

Effective January 1, 2007 the Fund adopted Canadian Institute of Chartered Accountants ("CICA") Handbook Sections 3855 and 3861 and accordingly formally designated the investments in bonds and debentures as Held to Maturity and continued to account for them at amortized cost. As the CICA has decided that non-publicly accountable enterprises will not be required to continue to apply these Sections of the CICA Handbook, the Fund has elected to use this exemption as of January 1, 2008 and therefore has applied the requirements of Section 3860 and Accounting Guideline 13 of the CICA Handbook retroactively to January 1, 2007. This change in accounting policy has no impact to the Fund's income for the years ended December 31, 2008 and 2007 and has no impact to the Reserve for Retirement of Debenture Debt or the Surplus held by the Fund as at December 31, 2008 and 2007. The change in accounting policy has been applied in accordance with CICA Handbook Section 1506.

3. Significant Accounting Policies

As new financial instruments standards will be included in the proposed set of generally accepted accounting principles ("GAAP") standards for non-publicly accountable enterprises presently under development by the CICA, CICA has decided that non-publicly accountable enterprises will not be required to apply the following Sections of the CICA Handbook: 1530, 3855, 3862, 3863 and 3865 which would otherwise have applied to the financial statements of the Fund for the year ended December 31, 2008. The Fund has elected to use this exemption and applies the requirements of Section 3860 and of Accounting Guideline 13 (AcG-13) of the CICA Handbook.

These financial statements have been prepared in accordance with Canadian GAAP. 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 on the investment.

3. *Significant Accounting Policies (continued)*

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.

e) Future accounting policy changes

In December 2006, the CICA issued Section 1535, Capital Disclosures. This Section will be applicable to financial statements relating to fiscal years beginning on or after August 1, 2008. Accordingly, the Fund will adopt the new standards for its fiscal year beginning January 1, 2009. Section 1535 requires the disclosure of information about externally imposed capital requirements. The Fund is currently evaluating the impact of the adoption of this new Section on its financial statements. The Fund does not expect that the adoption of this new Section will have a material impact on its financial statements.

4. *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.

5. *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, 2008 was 5.15% (2007 - 5.46%).

The term to maturity and related book and par values of investments in bonds and debentures held by the fund at December 31, 2008 are as follows:

Term To Maturity	Par Value	Book Value
Less than one year	$ 98,154	$ 97,143
Two to five years	86,380	84,623
Greater than five years	187,884	187,770
	$ 372,418	$ 369,536

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

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, 2008 the Fund's maximum credit risk exposure at fair market value was $421,971.

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.

6. *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, 2008 amounted to $131,500 (2007 - $131,500).

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.

7. *Reserve for Retirement of Debenture Debt*

As at December 31, 2008 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	
2009	$ 14,500	$ 96,582	$ 111,082	$ 119,020
2013	10,000	61,332	71,332	100,000
2014	15,000	52,761	67,761	100,000
2015	12,000	48,645	60,645	100,000
2017	20,000	12,966	32,966	50,000
2029	60,000	-	60,000	60,000
	$ 131,500	$ 272,286	$ 403,786	$ 529,020

7. ***Reserve for Retirement of Debenture Debt (continued)***

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, 2008, the reserve for retirement of debenture debt includes $131,500 (2007 - $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.

THE SINKING FUND TRUSTEES OF THE CITY OF WINNIPEG

Schedule 1

SCHEDULE OF INVESTMENTS

As at December 31
(in thousands of dollars)

	2008					2007	
	Par Value	**Market Value**	**%**	**Book Value**	**%**	Book Value	%
Investment in bonds and debentures							
Government of Canada and Government of Canada guaranteed	**$ 38,000**	**$ 39,071**	**10**	**$ 38,108**	**10**	$ 27,896	8
Provincial and Provincial guaranteed (Notes 6 and 7)	**220,953**	**226,899**	**59**	**220,726**	**60**	211,360	61
Municipal	**57,581**	**60,651**	**16**	**57,477**	**16**	57,458	17
City of Winnipeg	**6,013**	**6,567**	**1**	**5,909**	**2**	5,844	2
Supranationals	**7,000**	**7,513**	**2**	**7,066**	**2**	7,076	2
	$ 329,547	**340,701**	**88**	**329,286**	**90**	309,634	90
Bond residues and coupons							
Government of Canada		**21,176**	**6**	**19,656**	**5**	18,173	5
Provincial		**21,287**	**6**	**20,594**	**5**	19,275	5
		$ 383,164	**100**	**$ 369,536**	**100**	$ 347,082	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)

	2008	2007
Interest on bonds and debentures	**$ 19,170**	$ 18,588
Income accrued - bond residues and coupons	**2,802**	2,604
Call fund interest	**1,023**	1,205
Securities lending income	**51**	41
Net bond discount amortization	**14**	135
	$ 23,060	$ 22,573