Financial Statements of

THE SINKING FUND TRUSTEES OF THE CITY OF WINNIPEG

December 31, 2010

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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 ("the Fund"), which comprise the statement of financial position as at December 31, 2010, and the statements of loss, (deficit) surplus and the reserve for retirement of debenture debt 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 generally accepted accounting principles, 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 Fund as at December 31, 2010, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Winnipeg Manitoba
April 11, 2011

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 2010 audited financial statements of the Sinking Fund.

You will note in the financial statements that the Sinking Fund reported a net loss of $2,337,000 for the year ended December 31, 2010 and a balance of deficit in the amount of $2,035,000 as at December 31, 2010.

The rates of interest earned by the Fund for the years 2001 to 2010 are shown below:

2001.....6.91%	2006.....5.41%
2002.....6.61%	2007.....5.46%
2003.....6.02%	2008.....5.15%
2004.....6.27%	2009.....4.36%
2005.....5.55%	2010.....3.81%

Changes in the sinking fund reserve during 2010 are summarized as follows. The total reserve for retirement of debenture debt increased to $329,561,000 as at December 31, 2010 (2009 - $310,683,000) of which $117,000,000 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.

Respectfully submitted,

E. STEFANSON Chairman

J. L. FERRIER Trustee

N. THEODOROU Trustee

G. STESKI Trustee

L. DERRY Secretary

THE SINKING FUND TRUSTEES OF THE CITY OF WINNIPEG

STATEMENT OF FINANCIAL POSITION

As at December 31
(in thousands of dollars)

	2010	2009
ASSETS		
Investment in bonds and debentures (Schedule 1)	**$ 297,048**	$ 303,293
Call loans - City of Winnipeg (Note 3)	**29,209**	6,482
Accrued interest receivable	**3,945**	3,886
Cash	**7**	6
	$ 330,209	$ 313,667
LIABILITIES, RESERVE AND SURPLUS		
Accrued interest payable (Note 5)	**2,666**	2,666
Accrued liabilities	**17**	16
	2,683	2,682
Reserve for retirement of debenture debt (Note 6)	**329,561**	310,683
(Deficit) Surplus	**(2,035)**	302
	$ 330,209	$ 313,667

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)

	2010	2009
Interest income (Schedule 2)	**$ 15,835**	$ 20,975
Interest requirements - debenture debt reserves	**(10,017)**	(12,957)
Interest requirements - Manitoba Hydro bonds (Note 5)	**(8,023)**	(9,405)
(Deficit) of interest earned under requirements	**(2,205)**	(1,387)
Administration expenses	**132**	128
Net loss for the year	**$ (2,337)**	$ (1,515)

See accompanying notes and schedules to the financial statements

THE SINKING FUND TRUSTEES OF THE CITY OF WINNIPEG

STATEMENT OF (DEFICIT) SURPLUS

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

	2010	2009
Balance, beginning of year	**$ 302**	$ 1,817
Less:		
Net loss for the year	**(2,337)**	(1,515)
Balance, end of year	**$ (2,035)**	$ 302

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)

	2010	2009
Balance, beginning of year	**$ 310,683**	$ 403,786
Add:		
Installments - City of Winnipeg	**8,861**	12,959
Interest credited - debenture debt reserves	**10,017**	12,957
	329,561	429,702
Deduct:		
Applied to debt redemption (Note 6)	**-**	119,019
Balance, end of year	**$ 329,561**	$ 310,683

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, 2010
(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

The Fund is not required to apply the following Sections of the Canadian Institute of Chartered Accountants (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, 2010.
The Fund has elected to use this exemption and applies the requirements of Section 3860 and 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

As at December 31, 2010
(in thousands of dollars)

2. Significant Accounting Policies (continued)

e) Future Accounting Policies

The CICA has issued a new accounting framework applicable to Canadian private enterprises. Effective for fiscal years beginning on January 1, 2011, private enterprises will have to choose between International Financial Reporting Standards (IFRS) and GAAP for private enterprises, whichever suits them best. The Fund currently plans to adopt the new accounting standards for private enterprises for fiscal year beginning on January 1, 2011, and the impact of this transition has not yet been determined.

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, 2010 was 3.81% (2009 - 4.36%).

The term to maturity and related book and par values of investments in bonds and debentures held by the fund at December 31, 2010 are as follows:

Term To Maturity	Par Value	Book Value
Less than one year	$ 18,868	$ 18,942
Two to five years	178,409	178,812
Greater than five years	99,309	99,294
	$ 296,586	$ 297,048

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, 2010 the Fund's maximum credit risk exposure at fair market value was $340,378.

The Fund limits credit risk by investing in 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.

NOTES TO THE FINANCIAL STATEMENTS

As at December 31, 2010
(in thousands of dollars)

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, 2010 amounted to $117,000 (2009 - $117,000).

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

As at December 31, 2010 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	
2013	$ 10,000	$ 73,445	$ 83,445	$ 100,000
2014	15,000	63,689	78,689	100,000
2015	12,000	59,261	71,261	100,000
2017	20,000	16,166	36,166	50,000
2029	60,000	-	60,000	60,000
	$ 117,000	$ 212,561	$ 329,561	$ 410,000

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, 2010, the reserve for retirement of debenture debt includes $117,000 (2009 - $117,000) 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.

THE SINKING FUND TRUSTEES OF THE CITY OF WINNIPEG

NOTES TO THE FINANCIAL STATEMENTS

As at December 31, 2010
(in thousands of dollars)

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 & 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

Schedule 1

SCHEDULE OF INVESTMENTS

As at December 31
(in thousands of dollars)

	2010					2009	
	Par Value	**Market Value**	**%**	**Book Value**	**%**	Book Value	%
Investment in bonds and debentures							
Government of Canada and Government of Canada guaranteed	**$ 2,755**	**$ 2,933**	**1**	**$ 2,886**	**1**	$ 5,000	2
Provincial and Provincial guaranteed (Notes 5 and 6)	**196,322**	**202,161**	**66**	**196,519**	**66**	206,962	68
Municipal	**86,009**	**90,032**	**29**	**86,128**	**29**	61,848	20
City of Winnipeg	**4,500**	**4,595**	**1**	**4,470**	**2**	6,461	2
Supranationals	**7,000**	**7,503**	**3**	**7,045**	**2**	7,056	2
	$ 296,586	**307,224**	**100**	**297,048**	**100**	287,327	94
Bond residues and coupons							
Government of Canada		**-**	**0**	**-**	**0**	15,966	6
Provincial		**-**	**0**	**-**	**0**	-	0
		$ 307,224	**100**	**$ 297,048**	**100**	$ 303,293	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)

	2010	2009
Interest on bonds and debentures	**$ 15,833**	$ 18,706
Income accrued - bond residues and coupons	**264**	2,356
Call fund interest	**158**	155
Securities lending income	**21**	40
Net bond (premium) discount amortization	**(441)**	(282)
	$ 15,835	$ 20,975