Financial Statements of

THE SINKING FUND TRUSTEES OF THE CITY OF WINNIPEG

December 31, 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 2011 audited financial statements of the Sinking Fund.

You will note in the financial statements that the Sinking Fund reported a net loss of $192,000 for the year ended December 31, 2011 and a balance of deficit in the amount of $2,227,000 as at December 31, 2011.

The rates of interest earned by the Fund for the years 2002 to 2011 are shown below:

2002	6.61%	2007	5.46%
2003	6.02%	2008	5.15%
2004	6.27%	2009	4.39%
2005	5.55%	2010	3.81%
2006	5.41%	2011	3.41%

Changes in the sinking fund reserve during 2011 are summarized as follows. The total reserve for retirement of debenture debt increased to $349,382,000 as at December 31, 2011 (2010 - $329,561,000) 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

Deloitte

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 statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, and the statements of loss, deficit and cash flows for the years ended December 31, 2011 and December 31, 2010, 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 Accounting Standards for Private Enterprises ("ASPE"), 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 audits. We conducted our audits 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 in our audits 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, 2011, December 31, 2010 and January 1, 2010, and the results of its operations and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with Canadian accounting standards for private enterprises.

Deloitte & Touche LLP

Chartered Accountants
February, 29, 2012
Winnipeg Manitoba

THE SINKING FUND TRUSTEES OF THE CITY OF WINNIPEG

STATEMENT OF FINANCIAL POSITION

As at December 31, 2011, December 31, 2010 and January 1, 2010
(in thousands of dollars)

	December 31 2011	December 31 2010	January 1 2010
ASSETS			
Investment in bonds and debentures (Schedule 1)	**$ 342,539**	$ 297,048	$ 303,293
Call loans - City of Winnipeg	**-**	29,209	6,482
Accrued interest receivable	**4,822**	3,945	3,886
Cash	**2,497**	7	6
	$ 349,858	$ 330,209	$ 313,667
LIABILITIES, RESERVE AND SURPLUS			
Accrued interest payable (Note 4)	**2,688**	2,666	2,666
Accrued liabilities	**15**	17	16
	2,703	2,683	2,682
Reserve for retirement of debenture debt (Note 5)	**349,382**	329,561	310,683
(Deficit) Surplus (Note 9)	**(2,227)**	(2,035)	302
	$ 349,858	$ 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)

	2011	2010
Interest income (Schedule 2)	**$ 15,704**	$ 15,835
Interest requirements - debenture debt reserves	**(10,960)**	(10,017)
Interest requirements - Manitoba Hydro bonds (Note 8)	**(8,044)**	(8,023)
(Deficit) of interest earned under requirements	**(3,300)**	(2,205)
Net gain on disposal of investments	**3,230**	-
	(70)	(2,205)
Administration expenses	**122**	132
Net loss for the year	**$ (192)**	$ (2,337)

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)

	2011	2010
Balance, beginning of year	**$ (2,035)**	$ 302
Less:		
Net loss for the year	**(192)**	(2,337)
Balance, end of year (Note 9)	**$ (2,227)**	$ (2,035)

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)

	2011	2010
Balance, beginning of year	**$ 329,561**	$ 310,683
Add:		
Installments - City of Winnipeg (Note 8)	**8,861**	8,861
Interest credited - debenture debt reserves	**10,960**	10,017
	349,382	329,561
Deduct:		
Applied to debt redemption (Note 5)	**-**	-
Balance, end of year	**$ 349,382**	$ 329,561

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)

	2011	2010
CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Net loss	**$ (192)**	$ (2,337)
Income accrued - bond residues and coupons	**(256)**	(264)
Net bond premium amortization	**1,448**	441
Interest requirements - debenture debt reserves	**10,960**	10,017
Net gain on disposal of investments	**(3,230)**	-
Change in non-cash operating accounts	**(858)**	(57)
	7,872	7,800
FINANCING ACTIVITIES		
Installments - City of Winnipeg (Note 8)	**8,861**	8,861
INVESTING ACTIVITIES		
Acquisition of investments in bonds and debentures	**(134,082)**	(37,694)
Proceeds from bond and debenture sales	**77,719**	-
Proceeds from bond and debenture maturities	**12,911**	43,761
	(43,452)	6,067
Increase (Decrease) in cash and call loans	**(26,719)**	22,728
Cash and call loans, beginning of period	**29,216**	6,488
Cash and call loans, end of period	**$ 2,497**	$ 29,216
Cash and call loans consists of:		
Cash	**$ 2,497**	$ 7
Call loans	**-**	29,209
	$ 2,497	$ 29,216

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, 2011
(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 Accounting Standards for Private Enterprises and CICA Handbook Section 1500 - First Time Adoption has been applied. An explanation of the Fund's transition to Canadian Accounting Standards for Private Enterprises is provided in Note 7. 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.

THE SINKING FUND TRUSTEES OF THE CITY OF WINNIPEG

NOTES TO THE FINANCIAL STATEMENTS

As at December 31, 2011
(in thousands of dollars)

3. *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, 2011 was 3.41% (2010 - 3.81%).

The term to maturity and related book and par values of investments in bonds and debentures held by the fund at December 31, 2011 are as follows:

	2011		2010	
Term To Maturity	**Par Value**	**Book Value**	Par Value	Book Value
Less than one year	$ 26,085	$ 26,553	$ 18,868	$ 18,942
Two to five years	217,820	220,609	178,409	178,812
Greater than five years	94,526	95,377	99,309	99,294
	$ 338,431	$ 342,539	$ 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, 2011 the Fund's maximum credit risk exposure at fair market value was $356,395 (2010 - $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.

4. *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, 2011 amounted to $117,000 (2010 - $117,000).

NOTES TO THE FINANCIAL STATEMENTS

As at December 31, 2011
(in thousands of dollars)

4. *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 $2,688 at December 31, 2011 (2010 - $2,666).

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.

5. *Reserve for Retirement of Debenture Debt*

As at December 31, 2011 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	$ 79,960	$ 89,960	$ 100,000
2014	15,000	69,565	84,565	100,000
2015	12,000	64,970	76,970	100,000
2017	20,000	17,887	37,887	50,000
2029	60,000	-	60,000	60,000
	$ 117,000	$ 232,382	$ 349,382	$ 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, 2011, the reserve for retirement of debenture debt includes $117,000 (2010 - $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.

6. *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

NOTES TO THE FINANCIAL STATEMENTS

As at December 31, 2011
(in thousands of dollars)

7. *Transition to Canadian Accounting Standards for Private Enterprises*

These are the Fund's first financial statements prepared in accordance with Canadian Accounting Standards for Private Enterprises.

The significant accounting policies in Note 2 have been applied in preparing the financial statements for the year ended December 31, 2011, the comparative information presented in these financial statements for the year ended December 31, 2010 and in the preparation of an opening Canadian Accounting Standards for Private Enterprises statement of financial position at January 1, 2010, the Fund's date of transition.

In preparing its opening Canadian Accounting Standards for Private Enterprises statement of financial position, there were no adjustments required to amounts previously reported in the Fund's financial statements prepared in accordance with Canadian generally accepted accounting principles. Consequently, the transition to Canadian Accounting Standards for Private Enterprises has no effect on the Fund's financial position, financial performance and cash flows.

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 purchased $17,121 Par Value City of Winnipeg 9.375% debentures due February 11, 2013 at a price of $111.12 and effective yield of 1.47% on September 1, 2011; and $204 Par Value City of Winnipeg 6.25% debentures due November 17, 2017 at a price of $119.64 and effective yield of 2.44% on October 25, 2011. These purchases were in the normal course of operations for the Fund and were at fair value.

In addition, for the year ended December 31, 2011, 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 $8,861 (2010 - $8,861) in levies to the Fund at the amounts prescribed by the applicable Sinking Fund debenture By-laws.

The City of Winnipeg paid $129 (2010 - $123) 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 $8,044 (2010 - $8,023) 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 $75 (2010 - $nil) 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, 2011, December 31, 2010 and January 1, 2010
(in thousands of dollars)

	December 31 2011					December 31 2010		January 1 2010	
	Par Value	**Market Value**	**%**	**Book Value**	**%**	Book Value	%	Book Value	%
Investment in bonds and debentures									
Government of Canada and Government of Canada guaranteed	**$ 5,358**	**$ 5,870**	**2**	**$ 5,761**	**2**	$ 2,886	1	$ 5,000	1
Provincial and Provincial guaranteed (Notes 4 and 5)	**261,562**	**223,719**	**64**	**218,660**	**64**	215,401	73	216,731	72
Municipal	**72,289**	**76,726**	**22**	**73,351**	**21**	67,246	23	52,079	18
City of Winnipeg	**19,825**	**21,461**	**6**	**21,307**	**6**	4,470	1	6,461	2
Supranationals	**-**	**-**	**0**	**-**	**0**	7,045	2	7,056	2
	$ 359,034	**327,776**	**94**	**319,079**	**93**	297,048	100	287,327	95
Bond residues and coupons									
Government of Canada		**-**		**-**		-		15,966	5
Provincial		**23,800**	**6**	**23,460**	**7**	-	0	-	0
		$ 351,576	**100**	**$ 342,539**	**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)

	2011	2010
Interest on bonds and debentures	**$ 16,711**	$ 15,833
Income accrued - bond residues and coupons	**256**	264
Short - term investments interest	**156**	158
Securities lending income	**29**	21
Net bond (premium) discount amortization	**(1,448)**	(441)
	$ 15,704	$ 15,835