Financial Statements of

THE SINKING FUND TRUSTEES OF THE CITY OF WINNIPEG

December 31, 2012

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 2012 audited financial statements of the Sinking Fund.

You will note in the financial statements that the Sinking Fund reported a net loss of $4,176,000 for the year ended December 31, 2012 and a balance of deficit in the amount of $6,403,000 as at December 31, 2012.

The rates of interest earned by the Fund for the years 2003 to 2012 are shown below:

2003.....6.02%	2008.....5.15%
2004.....6.27%	2009.....4.39%
2005.....5.55%	2010.....3.81%
2006.....5.41%	2011.....3.41%
2007.....5.46%	2012.....2.95%

Changes in the sinking fund reserve during 2012 are summarized as follows. The total reserve for retirement of debenture debt increased to $370,194,000 as at December 31, 2012 (2011 - $349,382,000) 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

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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 which comprise the statement of financial position as at December 31, 2012, and the statement of loss, statement of deficit, statement of reserve for retirement debenture debt, and statement of cash flows 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 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.

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 in our audit 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 Sinking Fund Trustees of The City of Winnipeg as at December 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

Deloitte LLP

Chartered Accountants
March 21, 2013
Winnipeg Manitoba

THE SINKING FUND TRUSTEES OF THE CITY OF WINNIPEG

STATEMENT OF FINANCIAL POSITION

As at December 31
(in thousands of dollars)

	December 31 2012	December 31 2011
ASSETS		
Cash and short-term investments (Note 3)	$ 43,272	$ 2,497
Accrued interest receivable	4,707	4,822
Investment in bonds and debentures (Schedule 1)	318,515	342,539
	$ 366,494	$ 349,858
LIABILITIES, RESERVE AND DEFICIT		
Accrued interest payable (Note 5)	2,688	2,688
Accrued liabilities	15	15
	2,703	2,703
Reserve for retirement of debenture debt (Note 6)	370,194	349,382
(Deficit) (Note 9)	(6,403)	(2,227)
	$ 366,494	$ 349,858

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)

	2012	2011
Interest income (Schedule 2)	$ 15,173	$ 15,704
Interest requirements - debenture debt reserves	(11,951)	(10,960)
Interest requirements - Manitoba Hydro bonds (Note 8)	(8,023)	(8,044)
(Deficit) of interest earned under requirements	(4,801)	(3,300)
Net gain on disposal of investments	758	3,230
	(4,043)	(70)
Administration expenses	133	122
Net loss for the year	$ (4,176)	$ (192)

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)

	2012	2011
Balance, beginning of year	$ (2,227)	$ (2,035)
Less:		
Net loss for the year	(4,176)	(192)
Balance, end of year (Note 9)	$ (6,403)	$ (2,227)

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)

	2012	2011
Balance, beginning of year	$ **349,382**	$ 329,561
Add:		
Installments - City of Winnipeg (Note 8)	**8,861**	8,861
Interest credited - debenture debt reserves	**11,951**	10,960
	370,194	349,382
Deduct:		
Applied to debt redemption (Note 6)	**-**	-
Balance, end of year	$ **370,194**	$ 349,382

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)

	2012	2011
CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Net loss	$ (4,176)	$ (192)
Income accrued - bond residues and coupons	(468)	(256)
Net bond premium amortization	3,324	1,448
Interest requirements - debenture debt reserves	11,951	10,960
Net gain on disposal of investments	(758)	(3,230)
Change in non-cash operating accounts	114	(858)
	9,987	7,872
FINANCING ACTIVITIES		
Installments - City of Winnipeg (Note 8)	8,861	8,861
INVESTING ACTIVITIES		
Acquisition of investments in bonds and debentures	(19,236)	(134,082)
Proceeds from bond and debenture sales	15,078	77,719
Proceeds from bond and debenture maturities	26,085	12,911
	21,927	(43,452)
Increase (Decrease) in cash and short-term investments	40,775	(26,719)
Cash and short-term investments, beginning of period	2,497	29,216
Cash and short-term investments, end of period	$ 43,272	$ 2,497
Cash and short-term investments consists of:		
Cash	$ 718	$ 2,497
Short-term investments	42,554	-
	$ 43,272	$ 2,497

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, 2012
(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 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.

3. *Cash and Short-Term Investments*

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

Short-term investments represent short-term debt securities of Schedule 1 Canadian Chartered Banks with a term to maturity of less than one year.

THE SINKING FUND TRUSTEES OF THE CITY OF WINNIPEG

NOTES TO THE FINANCIAL STATEMENTS

As at December 31, 2012
(in thousands of dollars)

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, 2012 was 2.95% (2011 - 3.41%).

The term to maturity and related book and par values of investments in bonds and debentures held by the fund at December 31, 2012 are as follows:

	2012		2011	
Term To Maturity	**Par Value**	**Book Value**	Par Value	Book Value
Less than one year	$ 132,459	$ 132,758	$ 26,085	$ 26,553
Two to five years	125,291	125,757	217,820	220,609
Greater than five years	60,000	60,000	94,526	95,377
	$ 317,750	$ 318,515	$ 338,431	$ 342,539

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, 2012 the Fund's maximum credit risk exposure at fair market value was $370,249 (2011 - $356,395).

The Fund limits credit risk by investing in short-term investments and 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.

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, 2012 amounted to $117,000 (2011 - $117,000).

NOTES TO THE FINANCIAL STATEMENTS

As at December 31, 2012
(in thousands of dollars)

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.

Accrued interest receivable and identical offsetting accrued interest payable on the Manitoba Hydro bonds amounted to $2,688 at December 31, 2012 (2011 - $2,688).

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, 2012 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	$ 86,800	$ 96,800	$ 100,000
2014	15,000	75,735	90,735	100,000
2015	12,000	70,965	82,965	100,000
2017	20,000	19,694	39,694	50,000
2029	60,000	-	60,000	60,000
	$ 117,000	$ - 253,194	$ 370,194	$ 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, 2012, the reserve for retirement of debenture debt includes $117,000 (2011 - $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.

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 and 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, 2012
(in thousands of dollars)

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 $2,033 Par Value City of Winnipeg 9.375% debentures due February 11, 2013 at a price of $107.86 and effective yield of 1.30% on February 17, 2012. This purchase was in the normal course of operations for the Fund and was at fair value.

In addition, for the year ended December 31, 2012, 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 (2011 - $8,861) in levies to the Fund at the amounts prescribed by the applicable Sinking Fund debenture By-laws.

The City of Winnipeg paid $1,801 (2011 - $129) 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 $8,023 (2011 - $8,044) 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 $108 (2011 - $75) 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
(in thousands of dollars)

	December 31 2012				December 31 2011			
	Par Value	**Market Value**	**%**	**Book Value**	**%**	Market Value	%	Book Value	%
Investment in bonds and debentures									
Government of Canada and Government of Canada guaranteed	**$ 5,358**	**$ 5,690**	**2**	**$ 5,625**	**2**	$ 5,870	2	$ 5,761	2
Provincial and Provincial guaranteed (Notes 5 and 6)	**220,037**	**223,115**	**69**	**220,599**	**69**	223,719	64	218,660	64
Municipal	**49,275**	**51,160**	**16**	**49,595**	**16**	76,726	22	73,351	21
City of Winnipeg	**19,859**	**20,085**	**6**	**19,943**	**6**	21,461	6	21,307	6
	$ 294,529	**300,050**	**93**	**295,762**	**93**	327,776	94	319,079	93
Bond residues and coupons									
Provincial		**22,939**	**7**	**22,753**	**7**	23,800	6	23,460	7
		$ 322,989	**100**	**$ 318,515**	**100**	$ 351,576	100	$ 342,539	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)

	2012	2011
Interest on bonds and debentures	**$ 17,995**	$ 16,711
Income accrued - bond residues and coupons	**468**	256
Bank and short-term investments interest	**14**	156
Securities lending income	**20**	29
Net bond (premium) discount amortization	**(3,324)**	(1,448)
	$ 15,173	$ 15,704