Financial Statements of

HEALTHCARE EMPLOYEES BENEFITS PLAN - MANITOBA - THE GROUP LIFE INSURANCE PLAN

Years ended December 31, 2011 and 2010

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of Healthcare Employees Benefits Plan - Manitoba - The Group Life Insurance Plan

We have audited the accompanying financial statements of Healthcare Employees Benefits Plan - Manitoba - The Group Life Insurance Plan, which comprise the statements of financial position as at December 31, 2011 and December 31, 2010, the statements of changes in net assets available for benefits and changes in benefit obligations for the years ended December 31, 2011 and December 31, 2010, and notes, comprising 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 pension plans, 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.

Auditors' 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 of 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 our 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, we consider 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 Healthcare Employees Benefits Plan - Manitoba - The Group Life Insurance Plan as at December 31, 2011 and December 31, 2010, and its changes in net assets available for benefits and changes in its benefit obligations for the years ended December 31, 2011 and December 31, 2010 in accordance with Canadian accounting standards for pension plans.

KPMG LLP

Chartered Accountants

June 21, 2012

Winnipeg, Canada

HEALTHCARE EMPLOYEES BENEFITS PLAN - MANITOBA - THE GROUP LIFE INSURANCE PLAN

Statements of Financial Position

December 31, 2011 and 2010

	Active Plan	Paid-up Plan	2011 Total	2010 Total
Assets				
Cash	$ 1,711,343	$ 142,470	$ 1,853,813	$ 1,645,341
Premiums receivable	736,968	–	736,968	596,402
Investments, at fair value (note 3):				
Equity pooled funds	11,845,187	5,618,785	17,463,972	17,553,637
Bond pooled funds	24,393,135	3,972,205	28,365,340	27,526,534
Prepaid expenses	6,719	–	6,719	6,423
Due to (from) plans	54,310	(54,310)	–	–
Due from The Great-West Life Assurance Company (note 4)	3,762,621	–	3,762,621	1,157,367
Total assets	$ 42,510,283	$ 9,679,150	$ 52,189,433	$ 48,485,704
Liabilities				
Claims payable and accrued liabilities	$ 1,591,412	$ 38,049	$ 1,629,461	$ 1,589,031
Government remittances payable	6,292	–	6,292	7,177
Due to Healthcare Employees Pension Plan - Manitoba (note 13)	115,130	–	115,130	50,652
Total liabilities	$ 1,712,834	$ 38,049	$ 1,750,883	$ 1,646,860
Net assets available for benefits	$ 40,797,449	$ 9,641,101	$ 50,438,550	$ 46,838,844
Actuarial value of benefit obligations (note 6):				
Future paid-up insurance	–	9,245,000	9,245,000	8,427,000
Disability life waiver	15,662,000	–	15,662,000	12,599,000
	15,662,000	9,245,000	24,907,000	21,026,000
Commitment (note 14)				
Excess of net assets available for benefits over benefit obligations (note 7)	$ 25,135,449	$ 396,101	$ 25,531,550	$ 25,812,844

See accompanying notes to financial statements.

Approved by the Trustees:

Brian Ellis Chair

Vice-Chair

HEALTHCARE EMPLOYEES BENEFITS PLAN - MANITOBA - THE GROUP LIFE INSURANCE PLAN

Statements of Changes in Net Assets Available for Benefits

Years ended December 31, 2011 and 2010

	Active Plan	Paid-up Plan	2011 Total	2010 Total
Increases:				
Premiums	$ 10,053,848	$ –	$ 10,053,848	$ 9,658,609
Investment income (note 8)	1,340,763	321,009	1,661,772	1,404,762
Current period change in fair value of investments	–	–	–	2,035,036
	11,394,611	321,009	11,715,620	13,098,407
Decreases:				
Current period change in fair value of investments	68,057	439,969	508,026	–
Claims incurred	5,893,443	234,776	6,128,219	8,669,544
Administrative expenses (note 9)	1,193,792	75,383	1,269,175	1,271,899
Stop loss premiums [note 11(d)]	210,494	–	210,494	205,066
	7,365,786	750,128	8,115,914	10,146,509
Increase (decrease) in net assets available for benefits	4,028,825	(429,119)	3,599,706	2,951,898
Net assets available or benefits, beginning of year	36,768,624	10,070,220	46,838,844	43,886,946
Net assets available for benefits, end of year	$ 40,797,449	$ 9,641,101	$ 50,438,550	$ 46,838,844

See accompanying notes to financial statements.

HEALTHCARE EMPLOYEES BENEFITS PLAN - MANITOBA - THE GROUP LIFE INSURANCE PLAN

Statements of Changes in Benefit Obligations

Years ended December 31, 2011 and 2010

	Active Plan	Paid-up Plan	2011 Total	2010 Total
Actuarial value of benefit obligations, beginning of year	$ 12,599,000	$ 8,427,000	$ 21,026,000	$ 21,855,000
Claims paid	–	(235,000)	(235,000)	(278,000)
Interest accrued on benefits	–	499,000	499,000	483,000
Effect of experience gains and losses	–	554,000	554,000	21,000
Effect of change in valuation basis	3,063,000	–	3,063,000	(1,055,000)
Actuarial value of benefit obligations, end of year	$ 15,662,000	$ 9,245,000	$ 24,907,000	$ 21,026,000

See accompanying notes to financial statements.

1. General and description of the Plan:

The Healthcare Employees Benefits Plan - Manitoba (HEBP) is jointly trusteed which includes the group life insurance plan (the Plan) for healthcare employees in Manitoba.

The Plan is a trust under the *Income Tax Act.* By virtue of Canada Revenue Agency (CRA) administrative rules, the Plan is viewed as a health and welfare trust and calculates its income for tax purposes under CRA administrative guidelines.

The group life insurance plan provides basic, dependent and family life insurance and accidental death and dismemberment benefits to participating employees. The group life insurance plan is comprised of two plans: the Active Plan and the Paid-up Plan (the Plans). The Active Plan began January 1, 1983 and serves those employees who joined subsequent to that date. The Paid-up Plan is for a closed group of employees who were part of the plan prior to January 1, 1983. Claims administration for these plans is provided by The Great-West Life Assurance Company (Great-West Life).

2. Significant accounting policies:

(a) Basis of preparation:

The Plan adopted Canadian accounting standards for pension plans on January 1, 2011 with a transition date of January 1, 2010. Canadian accounting standards for pension plans requires the Plan, in selecting or changing accounting policies that do not relate to its investment portfolio or pension obligations, to comply on a consistent basis with either International Financial Reporting Standards (IFRS) or Canadian accounting standards for private enterprises (ASPE). The Plan has chosen to comply on a consistent basis with ASPE. In accordance with these standards, the statement of net assets is replaced by the statement of financial position and a statement of changes in benefit obligations was added, which details the changes in actuarial value of benefit obligations. There were no adjustments to previously reported amounts as a result of implementing these changes.

The statement of financial position was revised to include the actuarial value of benefit obligations and the resulting excess of net assets available for benefits. A statement of changes in benefit obligations was also added, which details the changes in the actuarial value of benefit obligations. There were no adjustments to the previously reported amounts as a result of implementing these changes.

2. Significant accounting policies (continued):

These financial statements are prepared on a going concern basis and present the aggregate financial position of the Plan as a separate financial reporting entity, independent of the participating employers and members. Only the assets and obligations to members eligible to participate in the Plan have been included in these financial statements. These financial statements do not portray the funding requirements of the Plan or the benefit security of the individual plan members.

(b) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship, cash and investments are subsequently measured at fair value. All other financial instruments are subsequently measured at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Plan has elected not to carry any such financial instruments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs. These costs are amortized using the straight-line method.

(c) Fair value measurement:

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

In determining fair value, the Plan has early adopted the guidance in IFRS 13, *Fair Value Measurement* (IFRS 13), commencing January 1, 2010. As allowed under IFRS 13, if an asset or a liability measured at fair value has a bid and an ask price, the price within the bid-ask spread that is the most representative of fair value in the circumstances shall be used to measure fair value. The Plan uses closing market price as a practical expedient for fair value measurement. There is no impact from the adoption of these standards on the value of investments from those previously reported.

When available, the Plan measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

2. Significant accounting policies (continued):

If a market for a financial instrument is not active, then the Plan establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models.

All changes in fair value, other than interest and dividend income, are recognized in the statement of changes in net assets available for benefits as part of the current period change in fair value of investments.

The equity pooled funds and bond pooled funds are recorded at fair values established by the respective fund trustee.

(d) Foreign currency transactions and balances:

Transactions in foreign currencies are translated into Canadian dollars at the exchange rate at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into Canadian dollars at the exchange rate at that date.

Foreign currency differences arising on retranslation are recognized in the statement of changes in net assets available for benefits within current period change in fair value of investments.

(e) Investment transactions and income recognition:

(i) Investment transactions:

Investment transactions are accounted for on a trade date basis.

(ii) Income recognition:

Investment income includes interest and dividend income. Investment income has been accrued as reported by the issuer of the pooled funds.

(f) Premiums:

Premiums recorded in the statement of changes in net assets available for benefits include the employees’ and employers’ share of the premiums required for the group life insurance coverage. Premiums are recorded on an accrual basis.

2. Significant accounting policies (continued):

(g) Claims:

Claims are recorded in the period in which they are paid or payable. Any claims not paid at fiscal year-end are reflected in claims payable and accrued liabilities.

(h) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in net assets during the year. Significant items subject to such estimates and assumptions include the determination of the actuarial value of benefit obligations. Actual results could differ from those estimates.

3. Investments:

	Active Plan	Paid-up Plan	2011 Total	2010 Total
Equity pooled funds	$ 11,845,187	$ 5,618,785	$ 17,463,972	$ 17,553,637
Bond pooled funds	24,393,135	3,972,205	28,365,340	27,526,534
	$ 36,238,322	$ 9,590,990	$ 45,829,312	$ 45,080,171

The investments of the Plan are in equity and bond pooled funds which yielded rates of return as follows: Active Plan - return of 3.6 percent (2010 - return of 8.0 percent), Paid-up Plan - loss of 1.2 percent (2010 - return of 9.3 percent).

4. Due from The Great-West Life Assurance Company:

The amount due from The Great-West Life Assurance Company represents funds held by The Great-West Life Assurance Company as a reserve for claim fluctuations and accumulated annual claims experience.

Interest was earned on the amount due from The Great-West Life Assurance Company in the amount of 1.20 percent (2010 - 0.25 percent to 0.40 percent).

5. Role of the actuaries:

The actuaries have been appointed pursuant to the Trust Agreement. With respect to the preparation of financial statements, the actuaries have been engaged to carry out estimations of the Plan's future paid-up insurance and disability life waiver to the members. The estimations are made in accordance with accepted actuarial practice and reported thereon to the Board of Trustees. In performing the estimation of the liabilities, which are by their nature inherently variable, assumptions are made as to the investment rate of return, mortality, retirement and termination rates and salary increments in the future.

6. Benefit obligations:

(a) Future paid-up insurance:

The computation of the obligation for future paid-up insurance is performed at least every three years by Eckler Ltd., an independent actuary. The most recent actuarial valuation indicated that at December 31, 2011 the assets of the Paid-up Plan exceeded the actuarially computed liability for future obligations by approximately $396,000 (2010 - $1,643,000). The next actuarial valuation will be prepared as at December 31, 2012.

The assumptions used in determining the actuarial present value of the obligation for future paid-up insurance are management's best estimate and were developed by reference to expected long-term market conditions. Two significant long-term actuarial assumptions used in the valuation were:

(i) the salary escalation rate was assumed to be 4.0 percent (2010 - 4.0 percent) annually;

(ii) the asset rate of return and discount rate were assumed to be 5.5 percent (2010 - 6.0 percent).

In addition, the actuarial valuation reflects assumptions with regard to mortality, retirement and termination rates.

Since there is no intention of extinguishing the future paid-up insurance obligation in the near term, the obligation is calculated by using the going concern actuarial basis. As underlying conditions change over time, management's best estimate assumptions may also change, which could cause a material change in the actuarial value of the obligation for future paid-up insurance.

6. Benefit obligations (continued):

(b) Disability life waiver:

The obligation for disability life waiver represents the present value of future life insurance claims for members on disability and the present value of future life insurance payments for unreported claims of disabled members and has been estimated, using the experience tables of the November 2001 Group Life Waiver Study prepared by the Canadian Institute of Actuaries and a discount rate of 2.08 percent (2010 - 2.86 percent), in the amount of $15,662,000 (2010 - $12,599,000). The calculation of the obligation for disability life waiver has been completed by Morneau Shepell, an independent actuary, as at December 31, 2011. The next actuarial calculation will be prepared as at December 31, 2012.

7. Excess of net assets available for benefits over benefit obligations:

The Board of Trustees has approved the establishment of contribution stabilization reserves and investment reserves. The contribution stabilization reserves have been established at amounts equal to 50 percent of the current year's premiums. The investment reserves have been established at amounts equal to 10 percent of the market value of the investments, for each of the Active Plan and Paid-up Plan. At December 31, 2011, the Board of Trustees has restricted $8,300,000 (2010 - $7,900,000) and $396,100 (2010 - $1,000,000) in the Active Plan and Paid-up Plan, respectively, of the excess of net assets available for benefits over benefit obligations for these reserves.

8. Investment income:

	Active Plan	Paid-up Plan	2011 Total	2010 Total
Equity pooled funds	$ 335,847	$ 162,507	$ 498,354	$ 296,613
Bond pooled funds	1,004,916	158,502	1,163,418	1,108,149
	$ 1,340,763	$ 321,009	$ 1,661,772	$ 1,404,762

9. Administrative expenses:

	Active Plan	Paid-up Plan	2011 Total	2010 Total
Investment manager fees	$ 100,000	$ 26,041	$ 126,041	$ 118,832
Administrative:				
Great West Life	333,516	5,508	339,024	387,866
HEBP (note 13)	760,276	43,834	804,110	765,201
	$ 1,193,792	$ 75,383	$ 1,269,175	$ 1,271,899

9. Administrative expenses (continued):

The details of HEBP administrative expenses are as follows:

	2011	2010
Salaries and benefits	$ 605,187	$ 546,667
Trustee and custodial fees	10,752	11,426
Actuarial fees	22,514	41,234
Audit fees	5,530	4,226
Legal fees	17,376	1,468
Other administrative expenses	142,751	160,180
	$ 804,110	$ 765,201

10. Capital management:

The main objective of the Plan is to sustain a certain level of net assets, including internally restricted funds, in order to meet the obligations of the Plan. The Plan fulfills its primary objective by adhering to specific investment policies outlined in its Statement of Investment Policies and Procedures (the SIPP), which is reviewed annually by the Plan. The Plan manages net assets by engaging knowledgeable investment managers who are charged with the responsibility of investing existing funds and new funds (current year's employee and employer contributions) in accordance with the approved SIPP. Increases in net assets are a direct result of investment income generated by investments held by the Plan and contributions into the Plan by eligible employees and by the employers. The main use of net assets is for benefit payments to eligible Plan members.

11. Risk management:

(a) Market risk:

(i) Interest rate risk:

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair values of financial instruments. The Plan's fixed income investments are exposed to the risk that the value of interest-bearing investments will fluctuate due to changes in the level of market interest rates. The Plan's exposure to interest rate risk is concentrated in its investment in the bond pooled funds. To properly manage the Plan's interest rate risk, appropriate guidelines on the weighting and duration for fixed income investments are set and monitored.

11. Risk management (continued):

The remaining terms to contractual maturity of fixed income investments at December 31 are as follows:

	2011	2010
Less than one year	$ 5,195,185	$ 4,950,435
One to five years	8,605,073	7,525,957
After five years	14,565,082	15,050,142
Total market value	$ 28,365,340	$ 27,526,534

As at December 31, 2011, if the prevailing interest rates were raised or lowered by 100 basis points, with all other factors held constant, net assets would likely have decreased or increased, respectively, by approximately $1,583,000 (2010 - $1,753,000). The Plan's interest rate sensitivity was determined based on portfolio weighted duration.

(ii) Foreign currency risk:

Foreign currency exposure arises from the Plan's investment in equity and bond pooled funds, which hold investments denominated in U.S. currency. Fluctuations in the relative value of the Canadian dollar against this currency can result in a positive or negative effect on the fair value of investments. The Plan's foreign currency risk is monitored by the investment manager on a quarterly basis.

The Plan's exposure in investments to foreign currencies to Canadian dollars is shown below:

As at December 31, 2011	Actual currency exposure	%
Canadian	$ 36,500,218	79.6
US dollar	9,329,094	20.4
	$ 45,829,312	100.0

As at December 31, 2010	Actual currency exposure	%
Canadian	$ 35,600,682	79.0
US dollar	9,479,489	21.0
	$ 45,080,171	100.0

11. Risk management (continued):

A 10 percent increase or decrease in exchange rates, with all other variables held constant, would result in a charge in unrealized gains (losses) of $933,000 (2010 - $948,000).

(iii) Other price risk:

The Plan's investments in equity pooled funds are sensitive to market fluctuations. To properly manage the Plan's other price risk, appropriate guidelines on asset diversification to address specific security, geographic, sector and investment manager risks are set by the Board of Trustees and monitored by the investment managers on a quarterly basis. As at December 31, 2010 a decline of 10 percent in equity values, with all other variables held constant, would have impacted the Plan's equity investments by an approximate unrealized loss of $1,583,000 (2010 - $1,755,000).

(b) Credit risk:

The Plan is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due or requested. The Plan's greatest concentration of credit risk is in its fixed income securities. The fair value of the fixed income securities includes consideration of the creditworthiness of the debt issuer. All transactions in listed securities are settled or paid for upon delivery using approved brokers. The risk of default is considered minimal, as payment is made on a purchase once the securities have been received from the broker. For sales transactions, the securities are released once the broker has made payment.

The breakdown of the Plan's bond pooled funds by credit ratings from various rating agencies is presented below:

Credit rating	2011 Market value		2010 Market value	
AAA	$ 11,490,799	40.5%	$ 12,045,611	43.8%
AA	6,265,904	22.1%	5,161,225	18.8%
A	7,913,930	27.9%	8,844,276	32.1%
BBB	2,464,948	8.7%	1,475,422	5.3%
Short-term investments	229,759	0.8%	–	–
	$ 28,365,340	100.0%	$ 27,526,534	100%

Credit risk associated with premiums receivable is minimized due to their nature. Premiums are collected from participating members through the payroll process. No provision for doubtful premiums receivable has been recorded in either 2011 or 2010.

11. Risk management (continued):

(c) Liquidity risk:

Liquidity risk is the possibility that investments of the Plan cannot be readily converted into cash when required. The Plan may be subject to liquidity constraints because of insufficient volume in the markets for the securities of the Plan or other securities may be subject to legal or contractual restrictions on their resale. Liquidity risk is managed by investing the majority of the Plan's assets in investments that are traded in an active market and can be readily disposed. The Plan's claims payable and accrued liabilities and due to Healthcare Employees Pension Plan - Manitoba balances have contracted maturities of less than one year.

(d) Claims and premiums risk:

The nature of the unpaid claims is such that the establishment of an obligation is based on known facts and interpretation of circumstances, on a case by case basis, and is therefore a complex and dynamic process influenced by a variety of factors.

Consequently, the establishment of obligations and premium rates relies on the judgment and opinions of a number of professionals, on historical precedent and trends, on prevailing legal, economic, social and regulatory trends and on expectations as to future developments. The process of determining premium rates and reserves necessarily involves risks that the actual results will deviate, perhaps substantially, from the best estimates made.

To offset the Plan incurring abnormally high claims experience in any one fiscal period, the Plan has purchased stop loss coverage from The Great-West Life Assurance Company. The stop loss coverage becomes effective when basic life insurance claims paid are in excess of 110 percent of premiums collected in any fiscal year.

12. Fair value of financial instruments:

The fair value of the financial assets and liabilities of the Plan approximates their carrying value due to their short-term nature (except for cash and investments which are stated at fair value, note 3).

The Plan's assets which are recorded at fair value are required to be classified into one of three levels, depending on the inputs used for valuation. The hierarchy of inputs is summarized below:

12. Fair value of financial instruments (continued):

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Changes in valuation methods may result in transfers into or out of an investment's assigned level.

The following is a summary of the classification used as of December 31 in valuing the Plan's investments carried at fair value:

December 31, 2011	Level 1	Level 2	Level 3	Total
Cash	$ 1,853,813	$ –	$ –	$ 1,853,813
Equity pooled funds	17,217,510	246,462	–	17,463,972
Bond pooled funds	–	28,365,340	–	28,365,340
	$ 19,071,323	$ 28,611,802	$ –	$ 47,683,125

December 31, 2010	Level 1	Level 2	Level 3	Total
Cash	$ 1,645,341	$ –	$ –	$ 1,645,341
Equity pooled funds	17,384,119	169,518	–	17,553,637
Bond pooled funds	–	27,526,534	–	27,526,534
	$ 19,029,460	$ 27,696,052	$ –	$ 46,725,512

There were no transfers between Level 1 and Level 2 in the years ended December 31, 2011 and 2010.

13. Related party transactions:

HEBP and the Healthcare Employees Pension Plan - Manitoba (HEPP) have a certain number of common trustees and a cost sharing agreement to allocate certain costs based on factors such as square footage, number of employees and time usage. The balance due to HEPP is non-interest bearing, and has no fixed terms of repayment.

14. Commitment:

The Plan leases office space under various operating leases with varying expiry dates up to December 31, 2015. The Plan's allocation of annual lease payments to expiry is as follows:

2012	$	41,000
2013		41,000
2014		41,000
2015		42,000
	$	165,000