Financial Statements of

HEALTHCARE EMPLOYEES BENEFITS PLAN - MANITOBA - DISABILITY AND REHABILITATION PLAN

Year ended December 31, 2004

KPMG

KPMG LLP
Chartered Accountants
Suite 2000 - One Lombard Place
Winnipeg MB R3B 0X3
Canada

Telephone (204) 957-1770
Fax (204) 957-0808
Internet www.kpmg.ca

AUDITORS' REPORT

To the Board of Trustees of Healthcare Employees Benefits Plan - Manitoba - Disability and Rehabilitation Plan

We have audited the statement of financial position of the Healthcare Employees Benefits Plan - Manitoba - Disability and Rehabilitation Plan as at December 31, 2004 and the statement of changes in fund balances for the year then ended. These financial statements are the responsibility of the Plan'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 Plan as at December 31, 2004 and the changes in its fund balances and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Winnipeg, Canada

June 3, 2005

HEALTHCARE EMPLOYEES BENEFITS PLAN - MANITOBA - DISABILITY AND REHABILITATION PLAN

Statement of Financial Position

December 31, 2004, with comparative figures for 2003

		2004		2003
Assets				
Cash and short-term deposits	$	2,442,138	$	2,373,111
Premiums and other receivables		1,208,778		2,748,444
Prepaid expenses		175,966		56,371
Due from Manulife Financial [notes 2(e) and 11]		64,818		293,030
Capital assets (note 3)		661,995		79,811
Investments		65,167,428		50,507,842
	$	69,721,123	$	56,058,609
Liabilities and Fund Balances				
Premiums payable and accrued liabilities	$	762,712	$	715,774
Due to Healthcare Employees Pension Plan - Manitoba (note 7)		197,842		226,799
Reserves for:				
IBNR (note 6)		10,173,363		10,269,329
Disabled lives (note 6)		54,313,035		48,737,140
		64,486,398		59,006,469
		65,446,952		59,949,042
Fund balances:				
Capital fund		661,995		79,811
Unrestricted fund (note 4)		3,612,176		(3,970,244)
		4,274,171		(3,890,433)
	$	69,721,123	$	56,058,609

See accompanying notes to financial statements.

On behalf of the Board of Trustees:

__________ Trustee

__________ Trustee

HEALTHCARE EMPLOYEES BENEFITS PLAN - MANITOBA - DISABILITY AND REHABILITATION PLAN

Statement of Changes in Fund Balances

Year ended December 31, 2004, with comparative figures for 2003

	2004	2003
Increases:		
Premiums	$ 23,330,971	$ 20,305,350
Investment income	4,258,999	2,942,617
	27,589,970	23,247,967
Decreases:		
Claims incurred	10,499,715	9,282,283
Claim-related expenses	401,590	335,750
Administrative - HEBP (note 7)	2,918,682	1,970,382
Administrative - Manulife Financial	125,450	223,904
	13,945,437	11,812,319
Net increase before the undernoted	13,644,533	11,435,648
Appropriations from (to) reserves for:		
IBNR	95,966	1,519,510
Disabled lives	(5,575,895)	(7,883,736)
	(5,479,929)	(6,364,226)
Net increase	8,164,604	5,071,422
Fund balances, beginning of year	(3,890,433)	(8,961,855)
Fund balances, end of year	$ 4,274,171	$ (3,890,433)
Capital fund	$ 661,995	$ 79,811
Unrestricted fund	3,612,176	(3,970,244)
Fund balances, end of year	$ 4,274,171	$ (3,890,433)

See accompanying notes to financial statements.

HEALTHCARE EMPLOYEES BENEFITS PLAN - MANITOBA - DISABILITY AND REHABILITATION PLAN

Notes to Financial Statements

Year ended December 31, 2004

---

1. General:

The Healthcare Employees Benefits Plan - Manitoba (HEBP) is a jointly trusteed, not-for-profit organization which includes the disability and rehabilitation plan (the Plan) for healthcare employees in Manitoba.

The Plan is registered as a health and welfare trust under the *Income Tax Act.*

The disability and rehabilitation plan was established on October 1, 1988 to administer the long-term disability plan for employees of participating healthcare facilities of Manitoba. The employees' share of the Plan was insured with Manulife until May 31, 2002 (Insured Plan) The ~~employers' share of the Plan was self-insured, but administered by Manulife Financial (Manulife)~~ on an Administrative Services Only (ASO Plan) basis. Claims adjudication for the Plan was provided by Manulife until May 31, 2002. Claims with disability dates on or after June 1, 2002 are self-administered and self-insured.

2. Significant accounting policies:

(a) Basis of presentation:

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) Fund accounting:

Assets, liabilities, revenues and expenses related to the Plan's capital assets are recorded in the Capital Fund. All other assets, liabilities, revenues and expenses are reported in the Unrestricted Fund.

(c) Investments:

Investments are recorded at market value.

(d) Investment income:

Investment income includes interest and dividend income as well as realized and unrealized gains and losses on investments during the year.

2. Significant accounting policies (continued):

(e) Due from Manulife Financial:

Due from Manulife Financial represents the ASO Plan surplus of $64,818 (2003 - $293,030). At May 31, 2002, the Trustees terminated the insured arrangement with Manulife Financial.

Due to the termination of the Insured Plan with Manulife Financial at May 31, 2002, no reserves for the fully insured portion of the plan are required at December 31, 2004. Manulife Financial holds reserves to fund this terminated plan until the release of all related liabilities.

(f) Capital assets:

Capital assets are recorded at cost less accumulated amortization. Repairs and maintenance costs are charged to expense. Betterments which extend the estimated useful life of an asset are capitalized. When a capital asset no longer contributes to the Plan's ability to provide services, its carrying amount is written-down to its residual value. Capital assets, which include computer projects in progress, will be amortized on a straight-line basis over three years as the projects are completed. Amortization expense will be reported in the Capital Fund.

(g) Premiums:

Premiums recorded in the statement of changes in fund balances include the employees' and employers' share of the premiums required for the disability coverage.

(h) Measurement uncertainty:

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 fund balances, and appropriations from (to) reserves during the year. Actual results could differ from those estimates.

3. Capital assets:

	Cost	Accumulated amortization	2004 Net book value	2003 Net book value
Computer projects in progress	$ 661,995	$ –	$ 661,995	$ 79,811

In fiscal 2004, $582,184 (2003 - $79,811) was transferred from the Unrestricted Fund to the Capital Fund for the computer projects in progress.

4. Unrestricted fund:

The unrestricted fund balance represents the excess of claims and expenses over premiums and investment income since the inception of the Plan.

5. Role of the actuary:

The actuary has been appointed pursuant to the Trust Agreement. With respect to preparation of financial statements, the actuary is engaged to carry out an estimation of the Plan's IBNR and disabled lives reserves, which consist of provisions for future obligations to the members. The estimation is 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 future claims, members' ages, benefit amounts, rates of recovery and interest rates.

6. Reserves:

(a) Incurred but not reported (IBNR):

This reserve is maintained to pay those claims which have been incurred but not reported at the date of the financial statements. This reserve is calculated as the estimated claims cost for six months.

(b) Disabled lives:

This reserve is calculated annually by an external actuary, Morneau Sobeco, under each plan for every disabled member receiving benefits. It reflects the liability for future benefit payments and is developed on the basis of the member's age, benefit amount and normal rates of recovery and an assumed interest rate of 3.88 percent (2003 - 4.40 percent).

6. Reserves (continued):

(c) Measurement uncertainty:

These reserves represent estimates for the full amount of all claims costs and the projected final settlements of claims incurred to the year end date. These reserves are calculated taking into account the time value of money plus explicit provisions for adverse deviations. These estimates of future loss activity are necessarily subject to uncertainty and are selected from a wide range of possible outcomes. These reserves are adjusted up or down as additional information affecting the estimated amounts becomes known during the course of claims settlement. All changes in estimates are recorded as changes to the provisions in the current year.

7. Related party transactions:

HEBP and the Healthcare Employee's 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.

8. Assets earning investment income:

	2004	2003
Cash and short-term deposits	$ 2,442,138	$ 2,373,111
Investments	65,167,428	50,507,842
Due from Manulife Financial	64,818	293,030
	$ 67,674,384	$ 53,173,983

Investments are held in bond pooled funds which earned interest at 7.6 percent (2003 - 6.5 percent). Interest is earned on the due from Manulife Financial as follows: Unrestricted deposit account balance at the 1-year GIC rate less .5 percent and on cash flows at 90-day T-bill rate less .5 percent.

9. Underlying risks:

(a) Interest rate risk:

Interest rate risk refers to the adverse consequences of interest rate changes on the Plan's cash flows, financial position, and income. The risk arises from differences in the timing and amount of cash flows related to the Plan's assets and liabilities. The value of the Plan's assets is affected by short-term changes in nominal interest rates and equity markets.

9. Underlying risks (continued):

IBNR and disabled lives reserves are exposed to the long-term expectation of interest rates. The Plan's primary exposure is to a decline in long-term interest rates which may result in higher contribution rates required to meet benefit obligations.

The Plan has invested substantially all of its assets in fixed income securities as at December 31, 2004. The returns on fixed income securities are particularly sensitive to changes in nominal interest rates.

(b) Investment risk:

Investment risk arises from the potential for an investee to fail or to default on its contractual obligations to the Plan. The disability and rehabilitation plan manages investment risk by a diversified policy of investing in bonds through bond pooled funds.

(c) Claims and premiums risk:

The nature of the unpaid claims is such that the establishment of reserves 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 reserves 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.

10. Fair value:

The carrying amount of certain financial assets and liabilities are a reasonable estimate of the fair values because of the short maturity of those instruments. Those short-term financial assets are comprised of cash and short-term deposits, premiums and other receivables and due from Manulife. Short-term financial liabilities are comprised of premiums payable and accrued liabilities and due to Healthcare Employees Pension Plan - Manitoba.

10. Fair value (continued):

Other financial assets and liabilities are comprised of investments (note 8) and the reserves. Since there is no intention of extinguishing the obligations for disability payments in the near term, the fair value is best approximated by using the same actuarial basis as for the establishment of these reserves. As underlying conditions change over time, management's best estimate assumptions may also change, which could cause a material change in the actuarial present values of these accrued benefits and related funding receivables.

11. Terminal accounting:

Manulife Financial is to provide the Plan with terminal accounting in respect of the Insured Plan for the seven year period from June 1, 2002 to May 31, 2009. The deficit of the Insured Plan as at May 31, 2002 will be carried over as the opening balance for the terminal accounting period, with the $1,800,000 payment applied as a premium payment in the terminal accounting period. Any surplus generated during the terminal accounting period will first be applied to the deficit carried forward from May 31, 2002 and any other deficits arising during the terminal accounting period. Manulife Financial is obliged to pay the Plan any remaining surplus at the end of the terminal accounting period within 60 days thereof, together with interest from May 31, 2009 to the date of payment. Should the Insured Plan generate a deficit during the terminal accounting period or generate a surplus that is insufficient to eliminate the deficit existing as of May 31, 2002, no further amounts shall be owing or paid by the Plan in respect of any deficit existing at the end of the terminal accounting period.

12. Statement of cash flows:

A separate statement of cash flows is not presented since the cash flows are readily apparent from the statement of financial position and statement of changes in fund balances.