Financial Statements of

HEALTHCARE EMPLOYEES BENEFITS PLAN - MANITOBA - DISABILITY AND REHABILITATION PLAN

Year ended December 31, 2006

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AUDITORS' REPORT

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

We have audited the statement of net assets of the Healthcare Employees Benefits Plan - Manitoba - Disability and Rehabilitation Plan as at December 31, 2006 and the statement of changes in net assets 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 net assets of the Plan as at December 31, 2006 and the changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

Signed **"KPMG LLP"**

Chartered Accountants

Winnipeg, Canada

April 5, 2007

HEALTHCARE EMPLOYEES BENEFITS PLAN - MANITOBA - DISABILITY AND REHABILITATION PLAN

Statement of Net Assets

December 31, 2006, with comparative figures for 2005

	2006	2005
Assets		
Cash	$ 1,814,509	$ 846,844
Premiums and other receivables	1,879,921	1,484,639
Prepaid expenses	48,417	37,510
Due from Manulife Financial (note 3)	133,676	239,646
Capital assets (note 4)	601,624	767,633
Investments (note 5)	89,855,524	79,588,181
	$ 94,333,671	$ 82,964,453
Liabilities and Net Assets		
Premiums payable and accrued liabilities	$ 504,440	$ 610,376
Due to Healthcare Employees Pension Plan - Manitoba (note 8)	171,137	487,575
Obligations for (note 7):		
IBNR	12,208,000	12,780,000
Disabled lives	55,621,000	52,769,000
	67,829,000	65,549,000
	68,504,577	66,646,951
Net assets represented by:		
Capital fund	601,624	767,633
Unrestricted fund	25,227,470	15,549,869
	25,829,094	16,317,502
	$ 94,333,671	$ 82,964,453

See accompanying notes to financial statements.

On behalf of the Board of Trustees:

Chair

Brian Ellis Vice-Chair

HEALTHCARE EMPLOYEES BENEFITS PLAN - MANITOBA - DISABILITY AND REHABILITATION PLAN

Statement of Changes in Net Assets

Year ended December 31, 2006, with comparative figures for 2005

	2006	2005
Increases:		
Premiums	$ 26,465,213	$ 25,148,805
Investment income	3,635,071	4,459,372
	30,100,284	29,608,177
Decreases:		
Claims incurred	13,792,053	12,263,571
Claim-related expenses	805,455	639,258
Amortization of capital assets	300,812	–
Administrative - HEBP (note 8)	3,312,353	3,490,020
Administrative - Manulife Financial	98,019	109,395
	18,308,692	16,502,244
Net increase prior to changes in obligations	11,791,592	13,105,933
Changes in obligations for:		
IBNR	572,000	(2,606,637)
Disabled lives	(2,852,000)	1,544,035
	(2,280,000)	(1,062,602)
Increase in net assets	$ 9,511,592	$ 12,043,331

	Unrestricted Fund	Capital Fund	2006 Total	2005 Total
Net assets, beginning of year	$ 15,549,869	$ 767,633	$ 16,317,502	$ 4,274,171
Increase (decrease) in net assets	9,812,404	(300,812)	9,511,592	12,043,331
Transfer for capital assets (note 4)	(134,803)	134,803	–	–
Net assets, end of year	$ 25,227,470	$ 601,624	$ 25,829,094	$ 16,317,502

See accompanying notes to financial statements.

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* and is not subject to income taxes.

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 Financial for claims with disability dates on or before May 31, 2002 (Insured Plan). The employers' share of the Plan was self-insured for claims with disability dates on or before May 31, 2002, but administered by Manulife Financial on an Administrative Services Only (ASO Plan) basis. Claims adjudication for the Plan is provided by Manulife Financial for claims with disability dates on or before 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:

Bond pooled funds are recorded at market values established by the respective fund trustee.

2. Significant accounting policies (continued):

(d) Investment income:

Investment income includes interest and dividend income as well as realized and unrealized gains and losses on investments during the year. Interest income has been accrued as reported by the issuer of the pooled funds.

(e) 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, will be amortized on a straight-line basis over three years as the projects are completed. Amortization expense is reported in the Capital Fund.

(f) Premiums:

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

(g) 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. Actual results could differ from those estimates.

3. Due from Manulife Financial:

Due from Manulife Financial represents the ASO Plan surplus of $133,676 (2005 - $239,646). At May 31, 2002, the Trustees terminated the insured arrangement with Manulife Financial for claims with disability dates on or after June 1, 2002. Manulife Financial holds reserves to fund the fully insured portion of the claims with disability dates on or before May 31, 2002 until the release of all related liabilities.

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.

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.

4. Capital assets:

			2006	2005
	Cost	Accumulated amortization	Net book value	Net book value
Computer projects	$ 902,436	$ 300,812	$ 601,624	$ 767,633

In fiscal 2006, $134,803 (2005 - $105,638) was transferred from the Unrestricted Fund to the Capital Fund for the computer projects.

5. Investments:

	2006	2005
Bond pooled funds	$ 89,855,524	$ 79,588,181

Investments are held in bond pooled funds which earned interest at 4.2 percent (2005 - 6.4 percent).

6. Role of the actuary:

The actuary has been appointed pursuant to the Trust Agreement. With respect to the preparation of financial statements, the actuary has been engaged to carry out an estimation of the Plan's obligations for IBNR and disabled lives 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.

7. Obligations for:

(a) Incurred but not reported (IBNR):

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

(b) Disabled lives:

This obligation is calculated annually by an independent actuary 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 4.09 percent (2005 - 3.98 percent).

8. 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. The balance due to HEPP is non-interest bearing, and has no fixed terms of repayment.

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.

IBNR and disabled lives obligations 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, 2006. 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 Plan manages investment risk by a diversified policy of investing in bonds through bond pooled funds.

9. Underlying risks (continued):

(c) Claims and premiums risk:

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

10. Comparative figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.