Financial Statements of

HEALTHCARE EMPLOYEES BENEFITS PLAN - MANITOBA - DISABILITY AND REHABILITATION PLAN

Year ended December 31, 2008

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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, 2008 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, 2008 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

May 20, 2009

HEALTHCARE EMPLOYEES BENEFITS PLAN - MANITOBA - DISABILITY AND REHABILITATION PLAN

Statement of Net Assets

December 31, 2008, with comparative figures for 2007

	2008	2007
Assets		
Cash	$ 5,757,467	$ 1,791,861
Premiums and other receivables	2,251,262	1,967,344
Prepaid expenses	33,289	39,001
Due from Manulife Financial (note 4)	101,464	145,857
Capital assets (note 5)	84,377	325,359
Investments (note 6)	113,214,296	100,643,033
	$ 121,442,155	$ 104,912,455
Liabilities and Net Assets		
Premiums payable and accrued liabilities	$ 777,731	$ 672,262
Due to Healthcare Employees Pension Plan - Manitoba (note 10)	179,826	212,789
Obligations for (note 8):		
IBNR	15,171,000	11,580,000
Disabled lives	66,032,000	53,217,000
	81,203,000	64,797,000
	82,160,557	65,682,051
Net assets represented by:		
Capital fund	84,377	325,359
Internally restricted fund (note 9)	10,000,000	–
Unrestricted fund	29,197,221	38,905,045
	39,281,598	39,230,404
	$ 121,442,155	$ 104,912,455

See accompanying notes to financial statements.

Approved by the Trustees:

M Todorian Chair

Brian Ellis Vice-Chair

HEALTHCARE EMPLOYEES BENEFITS PLAN - MANITOBA - DISABILITY AND REHABILITATION PLAN

Statement of Changes in Net Assets

Year ended December 31, 2008, with comparative figures for 2007

	2008	2007
Increases:		
Premiums	$ 30,848,731	$ 28,303,500
Investment income	7,371,344	2,617,543
	38,220,075	30,921,043
Decreases:		
Claims incurred	16,293,373	15,445,708
Claim-related expenses	701,515	845,886
Amortization of capital assets	319,524	306,471
Administrative - HEBP (note 10)	4,371,306	3,868,337
Administrative - Manulife Financial	77,163	85,331
	21,762,881	20,551,733
Net increase prior to changes in obligations	16,457,194	10,369,310
Changes in obligations for:		
IBNR	(3,591,000)	628,000
Disabled lives	(12,815,000)	2,404,000
	(16,406,000)	3,032,000
Increase in net assets	$ 51,194	$ 13,401,310

	Unrestricted Fund	Internally Restricted Fund	Capital Fund	2008 Total	2007 Total
Net assets, beginning of year	$ 38,905,045	$ –	$ 325,359	$ 39,230,404	$ 25,829,094
Increase (decrease) in net assets	370,718	–	(319,524)	51,194	13,401,310
Transfer for internally restricted (note 9)	(10,000,000)	10,000,000	–	–	–
Transfer for capital assets (note 5)	(78,542)		78,542	–	–
Net assets, end of year	$ 29,197,221	$10,000,000	$ 84,377	$ 39,281,598	$ 39,230,404

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. The Internally Restricted Fund represents amounts restricted by the Board of Trustees for claims fluctuation reserves, operational risk reduction reserves and investment fluctuations. 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. Premiums are recorded on an accrual basis.

(g) Transaction costs:

Transaction costs are incremental costs directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. Transaction costs incurred are expensed and included in investment income.

(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. Actual results could differ from those estimates.

3. Change in accounting policy:

On January 1, 2008, the Plan adopted two new accounting standards: Handbook Section 3862, *Financial Instruments - Disclosures*, and Handbook Section 3863, *Financial Instruments - Presentation*.

Sections 3862 and 3863 replace Handbook Section 3861, *Financial Instruments - Disclosure and Presentation*, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

The revised and enhanced disclosures with respect to these standards are included in note 11 to the financial statements.

4. Due from Manulife Financial:

Due from Manulife Financial represents the ASO Plan surplus of $101,464 (2007 - $145,857). 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.

5. Capital assets:

	Cost	Accumulated amortization	2008 Net book value	2007 Net book value
Computer projects	$ 1,011,183	$ 926,806	$ 84,377	$ 325,359

In fiscal 2008, $78,542 (2007 - $30,206) was transferred from the Unrestricted Fund to the Capital Fund for the computer projects.

6. Investments:

	2008	2007
Bond pooled funds	$ 113,214,296	$ 100,643,033

Investments are held in bond pooled funds which earned a return of 7 percent (2007 - 2.6 percent).

7. 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.

8. 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.

8. Obligations for (continued):

(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 3.44 percent (2007 - 4.27 percent).

9. Internally restricted:

The Board of Trustees has approved the establishment of claims fluctuation reserves, operational risk reduction reserves, and investment reserves. The claims fluctuation reserve has been established at an amount equal to 10 percent of the current year's premiums and is fully funded. The operational risk reduction reserve has been established at an amount equal to 10 percent of the current year's premiums. The investment reserve has been established at an amount equal to 10 percent of the current year's surplus.

10. 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.

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11. Risk management and fair value:

(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.

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

Less than one year	$ 3,011,500
One to five years	49,791,648
After five years	60,411,148
Total market value	$ 113,214,296

As at December 31, 2008, 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 $6.9 million. 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 the 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.

11. Risk management and fair value (continued):

(ii) Foreign currency risk (continued):

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

As at December 31, 2008	Actual currency exposure	%
Canadian	$ 110,497,153	97.6
US dollar	2,717,143	2.4
	$ 113,214,296	100.0

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 approximately $272,000.

(iii) Other price risk:

The Plan believes it is not exposed to any other price risk in relation to the Plan's financial instruments.

(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	Market value	
AAA	$ 47,210,361	41.7%
AA	29,096,074	25.7%
A	34,303,932	30.3%
BBB	1,924,643	1.7%
Short-term investments	679,286	0.6%
	$ 113,214,296	100%

11. Risk management and fair value (continued):

(b) Credit risk (continued):

Credit risk associated with premiums and other receivables is minimized due to their nature. Premiums are collected from participating members through the payroll process. No provision for doubtful premiums and other receivables has been recorded in either 2008 or 2007.

(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 premiums payable and accrued liabilities and due to HEPP 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 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.

(e) Fair value:

The fair value of the financial assets and liabilities of the Plan approximates their carrying value due to their short-term nature (except investments which are stated at market value, note 6).