Financial Statements of

HEALTHCARE EMPLOYEES PENSION PLAN - MANITOBA

Years ended December 31, 2011 and 2010

KPMG

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of the Healthcare Employees Pension Plan - Manitoba

We have audited the accompanying financial statements of Healthcare Employees Pension Plan - Manitoba, 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 pension 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 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 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 Pension Plan - Manitoba as at December 31, 2011 and December 31, 2010, and changes in its net assets available for benefits and the changes in its pension 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 20, 2012

Winnipeg, Canada

HEALTHCARE EMPLOYEES PENSION PLAN - MANITOBA

Statements of Financial Position

December 31, 2011 and 2010

	2011	2010
Assets		
Cash	$ 42,106,107	$ 50,629,131
Contributions receivable:		
Employer	10,396,821	8,304,829
Employee	9,838,262	8,679,643
Other receivables	1,267,517	1,020,767
Investment income receivable	13,132,389	3,833,498
Investments (note 4)	3,971,310,412	3,948,341,824
Capital assets (note 5)	2,384,705	1,493,466
Total assets	$ 4,050,436,213	$ 4,022,303,158
Liabilities		
Accounts payable and accrued liabilities	$ 3,819,692	$ 3,721,493
Government remittances payable	54,498	48,092
Due to brokers	334,086	2,442,177
Total liabilities	4,208,276	6,211,762
Net assets available for benefits	4,046,227,937	4,016,091,396
Actuarial value of pension obligations (note 14)	4,593,597,000	4,382,057,000
Commitment (note 15)		
Deficiency of net assets available for benefits over pension obligations	$ (547,369,063)	$ (365,965,604)

See accompanying notes to financial statements.

Approved by the Trustees:

_________________ Chair

_________________ Vice-Chair

HEALTHCARE EMPLOYEES PENSION PLAN - MANITOBA

Statements of Changes in Net Assets Available for Benefits

Years ended December 31, 2011 and 2010

	2011	2010
Increase in net assets:		
Pension fund contributions:		
Employer:		
Current year required	$ 137,573,579	$ 115,977,439
Past years' required	661,522	729,428
Buybacks	69,794	32,769
Employee:		
Current year required	120,863,005	115,977,439
Past years' required	465,181	729,428
Buybacks	155,257	36,774
Reciprocal transfers	2,891,180	1,686,866
Investment income (note 6)	132,442,075	114,810,575
Current period change in fair value of investments	–	255,476,597
Total increase in net assets	395,121,593	605,457,315
Decrease in net assets:		
Current period change in fair value of investments	163,368,094	–
Pension payments (note 7)	182,416,545	157,149,503
Administrative expenses (note 8)	19,200,413	17,601,960
Total decrease in net assets	364,985,052	174,751,463
Increase in net assets available for benefits	30,136,541	430,705,852
Net assets available for benefits, beginning of year	4,016,091,396	3,585,385,544
Net assets available for benefits, end of year	$ 4,046,227,937	$ 4,016,091,396

See accompanying notes to financial statements.

HEALTHCARE EMPLOYEES PENSION PLAN - MANITOBA

Statements of Changes in Pension Obligations

Years ended December 31, 2011 and 2010

	2011	2010
Actuarial value of pension obligations, beginning of year	$ 4,382,057,000	$ 4,100,012,000
Benefits accrued	217,844,000	209,792,000
Benefits paid	(178,854,000)	(162,132,000)
Interest accrued on benefits	285,089,000	267,062,000
Increase in benefits accrued due to data corrections	2,300,000	10,700,000
Effect of actuarial changes	(63,441,000)	–
Effect of experience gains and losses	(51,398,000)	(43,377,000)
Actuarial value of pension obligations, end of year	$ 4,593,597,000	$ 4,382,057,000

See accompanying notes to financial statements.

1. General:

Healthcare Employees Pension Plan - Manitoba (the Plan) is governed by a Board of Trustees appointed by signatory employers and unions. The Plan has received approval from Canada Revenue Agency (CRA) for registration as a Specified Multi-Employer Plan and the Manitoba Pension Commission has registered the Plan as a Multi-unit Pension Plan.

2. Description of the plan:

The following description of the Plan is a summary only. For more complete information reference should be made to the Plan Text.

(a) General:

The Plan is a multi-employer defined benefit pension plan for all employees of participating healthcare facilities in the Province of Manitoba.

(b) Funding policy:

Employers and employees are required to contribute to the Plan a certain percentage of the members' earnings up to the legislated Year's Maximum Pensionable Earnings (YMPE) plus a certain percentage of the members' earnings in excess of the YMPE, as established by the settlors of the Plan.

Commencing January 1, 2011, the following contribution rate percentages have been approved for 2011, 2012 and 2013:

		Employer	Employee
January 1, 2011	Below YMPE	7.8%	6.8%
	Above YMPE	9.4%	8.4%
April 1, 2012	Below YMPE	7.8%	7.6%
	Above YMPE	9.4%	9.2%
April 1, 2013	Below YMPE	7.9%	7.9%
	Above YMPE	9.5%	9.5%

2. Description of the plan (continued):

Employers and employees contributed equally to fund the benefits under the Plan for the year ended December 31, 2010 as follows:

2010	Below YMPE	6.8%
	Above YMPE	8.4%

(c) Normal retirement pension benefits:

Normal retirement pension benefits commence the first month coincident with or immediately following the attainment of age 65. The annual earned pension payable to a member on normal or postponed retirement is based on years of service and contributory earnings.

(d) Early retirement pension benefits:

A member may elect to retire early provided that:

- the member has completed at least two years of service and attained age 55; or
- the total of the member's age plus years of service total at least 80.

If at the member's early retirement date:

- the member has attained age 60 and two years of service; or
- the member's age plus years of service total at least 80,

then the member shall receive normal pension benefits.

If at the member's early retirement date the member's age is between 55 and 60 and the member has not achieved the total of 80 based on age and years of service, pension benefits will be reduced in accordance with the Plan Text.

(e) Postponed retirement benefits:

Retirement benefits cannot be postponed beyond the end of the year in which a member turns 71 years of age.

2. Description of the plan (continued):

(f) Death benefits:

Prior to May 31, 2010:

Prior to retirement, upon the death of a member who has completed two years of service, the beneficiary is eligible to receive a death benefit.

If less than two years of service has been completed, then the beneficiary is eligible to receive the related contributions plus interest.

Effective May 31, 2010:

All members are eligible for death benefits. Before retirement or disability payment commencement, members are eligible to receive the commuted value of their vested accrued pension for service prior to January 1, 1985 and service after December 31, 1984. After retirement or disability payable commencement, the benefit is based on the payment form elected by the member.

(g) Benefits on termination:

Prior to May 31, 2010:

In the event of termination after two years of service, the terminating member is entitled to a return of their contributions plus the value of their earned pension.

If less than two years service has been completed then the terminating member shall receive their contributions plus credited interest.

Effective May 31, 2010:

In the event of termination, the terminating member will receive the value of their pension entitlement.

(h) Income taxes:

The Plan is a Pension Trust as defined in the *Income Tax Act* and is not subject to income taxes.

3. Significant accounting policies:

(a) Basis of presentation:

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.

The statement of financial position was revised to include the actuarial value of pension obligations and the resulting deficiency. A statement of changes in pension obligations was also added, which details the changes in the actuarial value of pension obligations. A summary of transitional adjustments recorded to net assets available for benefits and increase in net assets available for benefits is provided in note 16.

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 net assets of the Plan and obligations to the 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 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.

3. Significant accounting policies (continued):

(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.

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.

3. Significant accounting policies (continued):

Fair values of investments are determined as follows:

(i) Short-term investments:

Short-term investments are valued at cost plus accrued interest, which approximates fair value, with maturities up to one year.

(ii) Bonds:

Bonds are valued using published market quotations or by a yield-to-maturity calculation where published rates are not available.

Bond pooled fund units are recorded at fair values established by the respective fund trustee.

(iii) Mortgages:

Mortgage investments held in mortgage pooled funds are recorded at fair values established by the respective fund trustee.

(iv) Equities:

All listed equities are traded on major stock exchanges and are valued based on the quoted market price as at year end. If a closing trade price is unavailable, a latest bid price is reflected. If no bid price is available, the most recent trade price is used.

All private equities are valued by the general partner, who in its determination of fair value considers any legal sale or other liquidity restrictions on the investment.

(v) Real estate:

Real estate investments held in pooled funds are recorded at fair values established by the respective fund asset manager. Real estate properties are recorded at fair value as established by an annual appraisal conducted by qualified external real estate appraisers and, if applicable, are reduced by any assessed impairment between the appraisal and year-end dates.

3. Significant accounting policies (continued):

(d) 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 software, computer hardware, and office equipment, are amortized on a straight-line basis over three years.

Computer projects are amortized on a straight-line basis over three years as the projects are completed.

(e) 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.

(f) Investment transactions and income recognition:

(i) Investment transactions:

Investment transactions are accounted for on a trade date basis.

(ii) Income recognition:

Investment income has been accrued as reported by the issuer of the pooled funds and bonds. Dividend income from publicly traded securities is recorded as of the ex-dividend date. Interest income has been accrued as earned.

3. Significant accounting policies (continued):

(g) Contributions:

Contributions from the members are recorded on an accrual basis. Cash received from members for credited service and cash transfers from other pension plans are recorded when received.

(h) Benefits:

Benefit payments to members, termination refunds to former members, and transfer payments to other plans are recorded in the period in which they are paid or payable. Any benefit payment accruals not paid are reflected in accounts payable and accrued liabilities.

(i) 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 pension obligations. Actual results could differ from those estimates.

4. Investments:

	2011	2010
Bonds	$ 1,370,945,651	$ 1,121,053,743
Canadian equities	1,071,815,512	1,286,760,949
U.S. equities	555,140,204	432,603,373
International equities	496,248,966	547,580,558
Real estate	397,448,612	341,367,437
Short-term investments	46,630,200	42,945,197
Mortgages	33,081,267	176,030,567
	$ 3,971,310,412	$ 3,948,341,824

5. Capital assets:

	Cost	Accumulated amortization	2011 Net book value	2010 Net book value
Computer software	$ 2,286,868	$ 2,029,064	$ 257,804	$ 181,092
Computer hardware and office equipment	5,153,178	4,492,118	661,060	665,900
Computer projects	5,062,513	3,596,672	1,465,841	646,474
	$ 12,502,559	$ 10,117,854	$ 2,384,705	$ 1,493,466

6. Investment income:

	2011	2010
Bonds	$ 50,151,723	$ 42,360,851
Canadian equities	27,665,572	26,740,795
International equities	23,364,637	11,726,012
Real estate	16,762,544	16,363,721
U.S. equities	8,508,199	5,759,813
Mortgages	5,085,009	11,387,129
Security lending income	547,762	303,011
Short-term investments	356,629	169,243
	$ 132,442,075	$ 114,810,575

7. Pension payments:

	2011	2010
Retirement benefit payments	$ 148,196,212	$ 134,873,689
Termination benefit payments	34,220,333	22,275,814
	$ 182,416,545	$ 157,149,503

8. Administrative expenses:

	2011	2010
Investment management fees	$ 11,320,743	$ 10,526,831
Salaries and benefits	4,537,285	4,040,139
Amortization of capital assets	894,271	747,669
Trustee and custodial fees	957,823	721,032
Actuarial fees	356,761	457,623
Special project expenses (recovery)	(34,845)	180,642
Audit fees	57,812	48,698
Legal fees	33,606	40,018
Other administrative expenses	1,076,957	839,308
	$ 19,200,413	$ 17,601,960

9. Capital risk management:

The main objective of the Plan is to sustain a certain level of net assets in order to meet the pension obligations of the Plan. The Plan fulfils 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.

The primary risk the Plan faces is that the Plan's asset growth and contribution rates will be insufficient to cover the Plan's liabilities (funding risk) resulting in an unfunded liability (funding deficiency). If a funding deficiency reaches a certain level, or persists, it may need to be eliminated through contribution rate increases, pension benefit reductions or a combination of the two.

The Plan's net funded position can change relatively quickly if there are changes in the value of the investments or liabilities. Either can result in a mismatch between the Plan's assets and its liabilities. The most significant contributors to funding risk are:

- declining interest rates
- declining long-term investment rates of return
- unexpected increases in inflation and salary escalation

9. Capital risk management (continued):

The Plan's liabilities are affected by non-economic factors like changes in member demographics. The Plan's assets are subject to financial instrument risks which are explained in more detail in note 10 to these financial statements.

10. Risk management:

(a) Market risk:

(i) 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 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 has invested approximately 37 percent (2010 - 34 percent) of its investments in fixed income securities as at December 31, 2011. To properly manage the Plan's interest rate risk, appropriate guidelines on the weighting and duration for bonds and other fixed income investments are set and monitored.

The remaining terms to contractual maturity of the Plan's bond portfolio at December 31 are as follows:

	2011	2010
Less than one year	$ 2,632,178	$ 2,348,050
One to five years	605,285,075	509,628,872
After five years	763,028,398	609,076,821
Total carrying value	$ 1,370,945,651	$ 1,121,053,743

The Plan holds the above fixed income securities directly and indirectly through pooled funds. An increase of 100 basis points in interest rates, with all other variables held constant, will impact fixed income investments by an estimated loss of $91.1 million (2010 - $71.0 million). The Plan's interest rate sensitivity was determined based on portfolio weighted duration.

10. Risk management (continued):

(ii) Foreign currency risk:

Foreign currency risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Plan primarily invests in financial instruments and enters into transactions denominated in various foreign currencies, other than its measurement currency. Fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or a negative effect on the fair value of investments. The Plan and its investment managers have the ability to utilize derivative instruments to mitigate foreign currency risk, subject to the approval of the Plan's Investment Committee. The Plan is exposed to fluctuations in the U.S. dollar, Japanese yen and European currencies, notably the Euro, British pound sterling and Swiss franc.

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

As at December 31, 2011	Actual currency exposure	%
Canadian	$ 2,934,535,048	73.1
US dollar	675,851,528	16.8
Euro	172,683,430	4.3
British pound sterling	70,273,553	1.8
Japanese yen	51,497,155	1.3
Swiss franc	49,436,886	1.2
Other currencies	59,138,919	1.5
	$ 4,013,416,519	100.0

As at December 31, 2010	Actual currency exposure	%
Canadian	$ 2,982,737,847	74.6
US dollar	577,544,767	14.4
Euro	201,452,717	5.0
Japanese yen	73,726,077	1.9
British pound sterling	59,472,747	1.5
Swiss franc	53,510,907	1.3
Other currencies	50,525,893	1.3
	$ 3,998,970,955	100.0

A 10 percent increase or decrease in exchange rates, with all other variables held constant, would result in a change in unrealized gains (losses) of $107.9 million (2010 - $101.6 million).

10. Risk management (continued):

(iii) Market price risk:

The Plan's investments in equities 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 and monitored. A decline of 10 percent in equity values, with all other variables held constant, will impact the Plan's equity investments by an approximate loss of $212.3 million (2010 - $226.7 million).

(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 portfolio by credit rating from various rating agencies is presented below:

Credit rating	2011 Market value		2010 Market value	
AAA	$ 631,413,320	46.1%	$ 627,861,219	56.0%
AA	282,010,239	20.5%	238,888,534	21.3%
A	318,548,735	23.2%	254,303,990	22.7%
BBB	137,951,687	10.1%	–	–
Not rated	1,021,670	0.1%	–	–
	$ 1,370,945,651	100.0%	$ 1,121,053,743	100.0%

Credit risk associated with contributions and other receivables is minimized due to their nature. The majority of the receivable balances are due from member facilities and are collected from participating members through the payroll process. No provision for doubtful contributions and other receivables has been recorded in either 2011 or 2010. The carrying amounts of fixed income investments and contributions and other receivables represent the maximum credit exposure to the Plan.

10. Risk management (continued):

(c) Liquidity risk:

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Over 89 percent (2010 - 86 percent) of the Plan's investments are in liquid securities traded in public markets. These include all U.S. and international equities and the majority of Canadian equities, which is over 53 percent (2010 - 57 percent) of the Plan assets and is all exchange traded, and bonds. Although market events could lead to some investments becoming illiquid, management believes the diversity of the Plan's portfolio and current contribution levels will ensure that liquidity is available for benefit payments. The Plan's financial statement liabilities have contracted maturities of less than one year. The Plan also maintains cash on hand for liquidity purposes and to pay accounts payable and accrued liabilities. At December 31, 2011, the Plan had cash in the amount of $42.1 million (2010 - $50.6 million).

The Plan's fixed income securities are diversified at December 31 as follows:

	2011		2010	
	Market value	Average coupon rate	Market value	Average coupon rate
Federal	$ 550,263,412	3.38%	$ 576,102,037	3.69%
Provincial/ municipal	357,110,459	5.15%	273,292,566	5.47%
Corporate	463,571,780	5.18%	271,659,140	5.53%
Mortgages	33,081,267		176,030,567	
	$ 1,404,026,918		$ 1,297,084,310	

11. Fair value of financial instruments:

The determination of the fair value of investments is as described in note 3(c) with fair values of investments disclosed in note 4. The fair values of other financial assets and liabilities, being cash, investment income receivable, contributions receivable, other receivables, accounts payable and accrued liabilities, government remittances payable and due to brokers, approximate their carrying values due to the short-term nature of these financial instruments.

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:

11. Fair value of financial instruments (continued):

- quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- 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 2); and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

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

The following is a summary of the inputs used as of December 31, 2011 and 2010 in valuing the Plan's investments:

2011	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Cash	$ 42,106,107	$ –	$ –	$ 42,106,107
Short-term investments	–	46,630,200	–	46,630,200
Bonds	–	1,370,945,651	–	1,370,945,651
Mortgages	–	33,081,267	–	33,081,267
Canadian equities	1,011,825,171	49,871,812	10,118,529	1,071,815,512
U.S. equities	555,140,204	–	–	555,140,204
International equities	496,248,966	–	–	496,248,966
Real estate	–	–	397,448,612	397,448,612
	$ 2,105,320,448	$ 1,500,528,930	$ 407,567,141	$ 4,013,416,519

2010	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Cash	$ 50,629,131	$ –	$ –	$ 50,629,131
Short-term investments	–	42,945,197	–	42,945,197
Bonds	–	1,121,053,743	–	1,121,053,743
Mortgages	–	176,030,567	–	176,030,567
Canadian equities	1,239,622,200	38,148,938	8,989,811	1,286,760,949
U.S. equities	432,603,373	–	–	432,603,373
International equities	547,580,558	–	–	547,580,558
Real estate	–	–	341,367,437	341,367,437
	$ 2,270,435,262	$ 1,378,178,445	$ 350,357,248	$ 3,998,970,955

11. Fair value of financial instruments (continued):

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

The reconciliation of investments measured at fair value using unobservable inputs (Level 3) is presented as follows:

	Canadian equities	Real estate	Total
Balance, December 31, 2009	$ 8,270,891	$ 317,300,598	$ 325,571,489
Purchases	–	30,785,514	30,785,514
Sales	(1,506,718)	(17,283,855)	(18,790,573)
Realized gains	–	1,284,550	1,284,550
Current period change in fair value of investments	2,225,638	9,280,630	11,506,268
Balance, December 31, 2010	8,989,811	341,367,437	350,357,248
Purchases	–	35,448,661	35,448,661
Sales	–	(12,900,764)	(12,900,764)
Realized gains	–	2,019,327	2,019,327
Current period change in fair value of investments	1,128,718	31,513,951	32,642,669
Balance, December 31, 2011	$ 10,118,529	$ 397,448,612	$ 407,567,141

The Plan did not use or consider alternative assumptions for valuation of Level 3 securities as those are valued independently by investment managers or third party providers.

11. Fair value of financial instruments (continued):

Section 3.29 of the Manitoba Pension Benefits Act Regulation requires disclosure of each investment asset that has a fair value greater than one percent of the fair value of the investment assets of the Plan. As of December 31, 2011, the Plan held the following investments that met this criteria:

Bonds:		
Government of Canada bonds, 3.00 percent, maturing June 1, 2014	$	40,827,677
Equities:		
Teck Resources Ltd.		40,420,296
Talisman Energy Inc.		41,452,019
Bank of Nova Scotia		51,358,632
Royal Bank of Canada		58,373,540
Canadian Natural Resources Ltd.		63,466,340
Toronto Dominion Bank		74,863,377

12. Role of the actuary and auditor:

The actuary has been appointed pursuant to the Plan Text and the Trust Agreement. With respect to the preparation of financial statements, the actuary has been engaged to carry out a valuation of the Plan’s assets and liabilities, which consists of a provision for future obligations of the Plan to the members. The valuation is made in accordance with accepted actuarial practice, applicable legislation and any direction received from regulatory authorities, and reported thereon to the Board of Trustees. In performing the valuation of the liabilities, which are by their nature inherently variable, assumptions are made as to the investment rate of return, inflation rates and salary escalation in the future, taking into consideration the circumstances of the healthcare employees and the nature of the liabilities. The actuary, in their review of the management information provided by the Plan used in the valuation, also makes use of the work of the external auditors. The Actuary’s Report outlines the scope of their work and opinion.

The external auditors have been appointed by the Board of Trustees to conduct an independent and objective audit of the financial statements of the Plan in accordance with generally accepted auditing standards and report thereon to the Board of Trustees. In carrying out their audit, the auditors also make use of the work of the actuary and their report on the Plan’s liabilities. The Auditors’ Report outlines the scope of their audit and their opinion.

13. Related party:

The Plan and the Healthcare Employees Benefits Plan - Manitoba (HEBP) 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. Other receivables include an amount of $823,062 (2010 - $444,537) due from HEBP. The balance due from HEBP is non-interest bearing, and has no fixed terms of repayment.

14. Pension obligations:

As at December 31, 2011, the date of the most recent actuarial valuation, the actuarial value of pension obligations was $4,593,597,000 (2010 -$4,382,057,000). Since there is no intention of extinguishing the pension obligations in the near term, the obligations are calculated by using the going concern actuarial basis. The projected unit credit actuarial cost method was used by AON Hewitt, the actuary, to determine the actuarial value of pension obligations and the required current service contributions.

Four significant long-term actuarial assumptions used in the valuation were:

(a) the liability discount rate was assumed to be 6.5 percent (2010 - 6.5 percent);

(b) the asset rate of return was assumed to be 6.5 percent (2010 - 6.5 percent);

(c) inflation rate was assumed to be 2.5 percent (2010 - 3.0 percent); and

(d) the salary escalation rate was assumed to be 4.0 percent (2010 - 4.0 percent) plus merit and promotion.

The assumptions used in determining the actuarial value of pension obligations are going concern assumptions adopted by the Trustees and were developed by reference to expected long-term market conditions. As underlying conditions change over time, going concern assumptions adopted by the Trustees may also change, which could cause a material change in the actuarial value of pension obligations.

14. Pension obligations (continued):

The actuarial valuation is prepared for financial statement purposes in accordance with the recommendations of Canadian accounting standards for pension plans and ASPE using a discount rate equivalent to the current yield on high-quality long term corporate bond and other assumptions that represent management's best estimate of future events.

The actuarial valuation as at December 31, 2011 indicates a deficiency of actuarial value of net assets over actuarial value of pension obligations of $309,100,000 (2010 - $264,841,000) as well as a solvency deficiency of $2,095,047,000 (2010 - $927,089,000). In November of 2010 the Plan received confirmation of solvency exemption from the Manitoba Pension Commission. Based on this exemption, the Plan is not required to fund on a solvency basis, but must still undertake a solvency valuation and disclose the current deficit, if any. The Plan is still required to apply the going concern test and fund on a going concern basis.

The actuarial valuation is filed with the Office of the Superintendent of Pensions for assessment as to whether the Plan is appropriately funded over time. An actuarial valuation must be performed at least once every three years in accordance with the requirements of The Pension Benefits Act. The next actuarial valuation of the Plan will be completed as at December 31, 2012.

15. 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	$ 293,000
2013	295,000
2014	295,000
2015	297,000
	$ 1,180,000

16. Transition adjustments:

(a) Net assets available for benefits:

The following table summarizes the impact of the transition to Canadian accounting standards for pension plans on the Plan's net assets available for benefits as of January 1, 2010:

Net assets available for benefits:	
As previously reported under Canadian generally accepted accounting principles, December 31, 2009	$ 3,573,018,544
Adjustment for accrued benefit payments now included as a component of actuarial value of pension obligations	12,367,000
Restated, January 1, 2010	$ 3,585,385,544

(b) Increase in net assets available for benefits:

As a result of the retrospective application of Canadian accounting standards for pension plans, the Plan recorded the following adjustments to changes in net assets available for benefits for the year ended December 31, 2010:

Changes in net assets available for benefits:	
As previously reported under Canadian generally accepted accounting principles for the year ended December 31, 2010	$ 425,723,852
Adjustment to termination benefit payments as accrued benefit payments are now included as a component of actuarial value of pension obligations	4,982,000
Restated for the year ended December 31, 2010	$ 430,705,852