Financial Statements of

HEALTHCARE EMPLOYEES BENEFITS PLAN - MANITOBA - DISABILITY AND REHABILITATION PLAN

Year ended December 31, 2007

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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, 2007 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, 2007 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 4, 2008

HEALTHCARE EMPLOYEES BENEFITS PLAN - MANITOBA - DISABILITY AND REHABILITATION PLAN

Statement of Net Assets

December 31, 2007, with comparative figures for 2006

	2007	2006
Assets		
Cash	$ 1,791,861	$ 1,814,509
Premiums and other receivables	1,967,344	1,879,921
Prepaid expenses	39,001	48,417
Due from Manulife Financial (note 5)	145,857	133,676
Capital assets (note 6)	325,359	601,624
Investments (note 7)	100,643,033	89,855,524
	$ 104,912,455	$ 94,333,671
Liabilities and Net Assets		
Premiums payable and accrued liabilities	$ 672,262	$ 504,440
Due to Healthcare Employees Pension Plan - Manitoba (note 10)	212,789	171,137
Obligations for (note 9):		
IBNR	11,580,000	12,208,000
Disabled lives	53,217,000	55,621,000
	64,797,000	67,829,000
	65,682,051	68,504,577
Net assets represented by:		
Capital fund	325,359	601,624
Unrestricted fund	38,905,045	25,227,470
	39,230,404	25,829,094
	$ 104,912,455	$ 94,333,671

See accompanying notes to financial statements.

On behalf of the Board of Trustees:

Chair

Vice-Chair

HEALTHCARE EMPLOYEES BENEFITS PLAN - MANITOBA - DISABILITY AND REHABILITATION PLAN

Statement of Changes in Net Assets

Year ended December 31, 2007, with comparative figures for 2006

	2007	2006
Increases:		
Premiums	$ 28,303,500	$ 26,465,213
Investment income	2,617,543	3,635,071
	30,921,043	30,100,284
Decreases:		
Claims incurred	15,445,708	13,792,053
Claim-related expenses	845,886	805,455
Amortization of capital assets	306,471	300,812
Administrative - HEBP (note 10)	3,868,337	3,312,353
Administrative - Manulife Financial	85,331	98,019
	20,551,733	18,308,692
Net increase prior to changes in obligations	10,369,310	11,791,592
Changes in obligations for:		
IBNR	628,000	572,000
Disabled lives	2,404,000	(2,852,000)
	3,032,000	(2,280,000)
Increase in net assets	$ 13,401,310	$ 9,511,592

	Unrestricted Fund	Capital Fund	2007 Total	2006 Total
Net assets, beginning of year	$ 25,227,470	$ 601,624	$ 25,829,094	$ 16,317,502
Increase (decrease) in net assets	13,707,781	(306,471)	13,401,310	9,511,592
Transfer for capital assets (note 6)	(30,206)	30,206	–	–
Net assets, end of year	$ 38,905,045	$ 325,359	$ 39,230,404	$ 25,829,094

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. 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:

In 2007, the Plan adopted Canadian Institute of Chartered Accountants (CICA) Emerging Issues Committee Abstract No. 168, *Accounting by Pension Plans for Transaction Costs* (EIC-168), which requires that pension plans not include transaction costs in the fair value of investments. Under EIC-168, transaction costs are included in the statement of changes in net assets in the period incurred. EIC-168 is required to be applied retrospectively, without restatement of prior periods, for fiscal years ending on or after December 31, 2007.

The adoption of this EIC did not have a material impact on the net assets of the Plan as transaction costs were previously included in investment income in the statement of changes in net assets.

4. Recent accounting pronouncements issued and not yet applied:

The CICA issued the following accounting standards that will come into effect for the Plan's next fiscal year. The Plan is in the process of determining the impact that these standards will have on its financial reporting.

(a) Capital Disclosures:

Section 1535 - *Capital Disclosures* establishes standards for the disclosure of: (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

(b) Financial Instruments - Disclosures and Presentation:

Sections 3862 - *Financial Instruments - Disclosures* and 3863 - *Financial Instruments - Presentation* replace the existing Section 3861 - *Financial Instruments - Disclosure and Presentation*. These new sections revise and enhance disclosure requirements, and carry forward, unchanged, existing presentation requirements. These new sections require disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

5. Due from Manulife Financial:

Due from Manulife Financial represents the ASO Plan surplus of $145,857 (2006 - $133,676). 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.

6. Capital assets:

			2007	2006
	Cost	Accumulated amortization	Net book value	Net book value
Computer projects	$ 932,642	$ 607,283	$ 325,359	$ 601,624

In fiscal 2007, $30,206 (2006 - $134,803) was transferred from the Unrestricted Fund to the Capital Fund for the computer projects.

7. Investments:

	2007	2006
Bond pooled funds	$ 100,643,033	$ 89,855,524

Investments are held in bond pooled funds which earned interest at 2.6 percent (2006 - 4.2 percent).

8. 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.

9. 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 4.27 percent (2006 - 4.09 percent).

10. 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.

11. 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, 2007. 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.

(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.