Financial Statements of

HEALTHCARE EMPLOYEES PENSION PLAN - MANITOBA

Year ended December 31, 2007

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AUDITORS' REPORT

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

We have audited the statement of net assets of the Healthcare Employees Pension Plan - Manitoba 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

May 26, 2008

HEALTHCARE EMPLOYEES PENSION PLAN - MANITOBA

Statement of Net Assets

December 31, 2007, with comparative figures for 2006

	2007	2006
Assets		
Cash	$ 28,105,716	$ 27,363,408
Contributions and other receivables (note 6)	13,864,702	13,514,883
Investment income receivable	3,649,021	7,761,204
Investments (note 7)	3,556,815,097	3,366,317,999
Capital assets (note 8)	1,898,552	2,803,934
	$ 3,604,333,088	$ 3,417,761,428
Liabilities and Net Assets		
Accrued termination benefits	$ 17,936,000	$ 16,137,000
Accrued liabilities	3,466,835	3,486,463
Due to brokers	119,112	22,545
	21,521,947	19,646,008
Net assets represented by:		
Pension Fund	3,580,912,589	3,395,311,486
Capital Fund	1,898,552	2,803,934
	3,582,811,141	3,398,115,420
Contingency (note 14)		
	$ 3,604,333,088	$ 3,417,761,428

See accompanying notes to financial statements.

Approved on behalf of the Trustees:

______________ Chair

______________ Vice-Chair

HEALTHCARE EMPLOYEES PENSION PLAN - MANITOBA

Statement of Changes in Net Assets

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

	Pension Fund	Capital Fund	2007 Total	2006 Total
Increase in net assets:				
Pension fund contributions:				
Employer	$ 91,393,799	$ –	$ 91,393,799	$ 84,418,460
Employee	91,393,799	–	91,393,799	84,418,460
Reciprocal transfers and buybacks:				
Employer	1,125,861	–	1,125,861	646,208
Employee	1,051,621	–	1,051,621	724,759
Investment income (note 9)	111,890,902		111,890,902	98,574,039
Current period change in market value of investments	39,697,602	–	39,697,602	301,019,949
Total increase in net assets	336,553,584	–	336,553,584	569,801,875
Decrease in net assets:				
Pension payments	101,724,801	–	101,724,801	91,247,538
Termination refunds	32,616,124	–	32,616,124	19,992,030
Investment management fees	10,492,224	–	10,492,224	9,530,753
Administrative expenses	3,958,449	–	3,958,449	3,936,116
Amortization of capital assets	–	1,541,460	1,541,460	1,432,772
Professional fees	116,026	–	116,026	99,524
Special project expenses	312,527	–	312,527	779,028
Custodial fees	745,726	–	745,726	708,479
Actuarial fees	350,526	–	350,526	385,849
Total decrease in net assets	150,316,403	1,541,460	151,857,863	128,112,089
Increase (decrease) in net assets prior to inter-fund transfers	186,237,181	(1,541,460)	184,695,721	441,689,786
Inter-fund transfers (note 8)	(636,078)	636,078	–	–
Increase (decrease) in net assets	185,601,103	(905,382)	184,695,721	441,689,786
Net assets, beginning of year	3,395,311,486	2,803,934	3,398,115,420	2,956,425,634
Net assets, end of year	$ 3,580,912,589	$ 1,898,552	$ 3,582,811,141	$ 3,398,115,420

See accompanying notes to financial statements.

1. General:

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 contribute equally to fund the benefits under the Plan.

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.

The settlors of the Plan approved the following contribution rate percentages for 2006 and 2007:

		January 1 to June 30	July 1 to December 31
2006	Below YMPE	6.4%	6.6%
	Above YMPE	8.0%	8.2%
2007	Below YMPE	6.6%	6.8%
	Above YMPE	8.2%	8.4%

2. Description of the plan (continued):

(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 69 years of age.

(f) Death benefits:

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.

2. Description of the plan (continued):

(g) Benefits on termination:

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

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

(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:

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 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 Pension Fund.

(c) Investments:

Investments are stated at market value as follows:

3. Significant accounting policies (continued):

(i) Short-term investments:

Short-term investments are valued at cost plus accrued interest, which approximates market 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 market values established by the respective fund trustee.

(iii) Mortgages:

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

(iv) Equities:

All listed equities traded on recognized exchanges are priced based on the latest price reported by the exchange. 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 market value considers any legal sale or other liquidity restrictions on the investment. Purchases and sales are recorded on the closing date of the transactions.

(v) Real estate:

Real estate investments held in pooled funds are recorded at market values established by the respective fund trustee. Real estate properties are recorded at market value as established by an annual appraisal conducted by qualified external real estate appraisers. Real estate acquired within the year is recorded at cost, which approximates its market value.

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. Amortization expense is reported in the Capital Fund.

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

(e) Foreign currency transactions and balances:

Assets and liabilities denominated in foreign currency are translated into Canadian dollars at the exchange rate prevailing at the financial statement date. Revenues and expenses denominated in foreign currencies are translated at the exchange rate prevailing at the transaction date.

(f) Income recognition:

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.

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.

(g) 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 accrued benefit payments.

3. Significant accounting policies (continued):

(h) 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 current period change in market value of investments.

(i) Unrealized gains (losses):

The net unrealized gains (losses) for the year are reflected in the statement of changes in net assets.

(j) 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.

4. 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 impact of adopting this EIC did not have a material impact on the net assets or changes in net assets of the Plan as transaction costs were previously included in current period change in market value of investments in the statement of changes in net assets.

5. Future accounting changes:

On December 1, 2006, the CICA issued three new accounting standards: Handbook Section 1535, *Capital Disclosures*, Handbook Section 3862, *Financial Instruments – Disclosures*, and Handbook Section 3863, *Financial Instruments – Presentation*. These new standards became effective for the Plan on January 1, 2008.

Section 1535 specifies the disclosure of: (i) an entity's objectives, policies and procedures and process 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.

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 Plan is currently assessing the impact that these new standards will have on their financial statements for the year ended December 31, 2008.

6. Contributions and other receivables:

	2007	2006
Contributions receivable - employer	$ 6,368,702	$ 6,211,619
Contributions receivable - employee	6,368,702	6,211,619
Due from Healthcare Employees Benefits Plan - Manitoba	241,378	213,146
Other receivables	885,920	878,499
	$ 13,864,702	$ 13,514,883

7. Investments:

	2007	2006
Short-term investments	$ 32,708,507	$ 30,097,788
Bonds	800,418,725	766,637,557
Mortgages	356,537,043	344,214,090
Canadian equities	1,274,050,235	1,192,011,611
U.S. equities	380,103,180	389,337,450
Global equities	415,493,435	439,698,927
Real estate	297,503,972	204,320,576
	$ 3,556,815,097	$ 3,366,317,999

8. Capital assets:

			2007	2006
	Cost	Accumulated amortization	Net book value	Net book value
Computer software	$ 2,047,005	$ 1,761,259	$ 285,746	$ 254,739
Computer hardware and office equipment	2,792,669	2,378,329	414,340	495,074
Computer projects	3,291,916	2,093,450	1,198,466	2,054,121
	$ 8,131,590	$ 6,233,038	$ 1,898,552	$ 2,803,934

In fiscal 2007, $636,078 (2006 - $1,069,626) was transferred from the Pension Fund to the Capital Fund for the acquisition of capital assets.

9. Investment income:

	2007	2006
Short-term investments	$ 1,889,806	$ 1,642,475
Bonds	37,320,723	36,968,385
Mortgages	19,523,387	18,854,054
Canadian equities	26,124,285	18,980,852
U.S. equities	5,254,469	4,916,550
Global equities	11,020,944	10,270,396
Real estate	10,582,100	6,716,382
Security lending income	175,188	224,945
	$111,890,902	$ 98,574,039

10. Interest rate and foreign currency risk:

(a) Bonds and mortgages - interest rate risk:

	2007		2006	
	Carrying value	Average coupon rate	Carrying value	Average coupon rate
Federal	$ 335,935,739	5.08%	$ 302,344,808	5.639%
Provincial/Municipal	238,684,864	6.09%	217,426,238	6.030%
Corporate	225,798,122	5.66%	246,866,511	5.362%
Mortgages	356,537,043		344,214,090	
	$ 1,156,955,768		$ 1,110,851,647	

Interest rate risk refers to the adverse consequences of interest rate changes on the Plan's cash flows, financial position and income. This 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 charges in nominal interest rates and equity markets. The Plan holds the above fixed income securities directly and in-directly through pooled funds.

Pension liabilities are exposed to the long-term expectation of rate of return on investments as well as expectations of inflation and salary escalation. The Plan's primary exposure is to a decline in the long-term rate of return which may result in higher contribution rates required to meet pension obligations.

The Plan has invested approximately 33 percent of its investments 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) Bonds - maturity profile:

	2007	2006
Less than one year	$ 1,214,235	$ –
One to five years	368,315,078	283,836,187
After five years	430,889,412	482,801,370
Total carrying value	$ 800,418,725	$ 766,637,557

10. Interest rate and foreign currency risk (continued):

(c) Foreign currency risk:

Foreign currency exposure arises from the Plan holding investments denominated in currencies other than the Canadian dollar. 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.

11. 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.

12. Related party:

The Plan and the Healthcare Employees Benefit 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.

13. Obligations for pension benefits:

As at December 31, 2007, the date of the most recent actuarial valuation, the actuarial present value of the accrued pension benefits was $3,361,456,000 (2006 - $3,063,934,000) and the actuarial value of the Plan assets was $3,445,449,000 (2006 - $3,074,838,000). 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 Towers Perrin, the actuary, to determine the actuarial liability and the required current service contributions.

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

(a) the asset rate of return was assumed to be 6.5 percent (2006 - 6.5 percent);

(b) inflation rate was assumed to be 3.0 percent (2006 - 3.0 percent); and

(c) the salary escalation rate was assumed to be 4.5 percent for 2008 and 2009 and 4.0 percent thereafter (2006 - 3.2 percent for 2006 and 2007 and 4.0 percent thereafter) plus merit and promotion.

The assumptions used in determining the actuarial present value of accrued pension benefits 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 accrued pension benefits.

Actuarial value of net assets has been determined using the five year moving average market method. Under this method all experience gains and losses are averaged over a five year period.

13. Obligations for pension benefits (continued):

The actuarial present value of benefits as at December 31, 2007 and December 31, 2006 and the principal components of changes in actuarial present values during the year were as follows:

	December 31, 2007	December 31, 2006
Market value of net assets	$ 3,580,913,000	$ 3,395,311,000
Deferred investment gains	(135,464,000)	(320,473,000)
Actuarial value of net assets	$3,445,449,000	3,074,838,000
Actuarial present value of accrued pension benefits - beginning of period	3,063,934,000	2,758,167,000
Benefits accrued	184,965,000	170,208,000
Benefits paid	(134,341,000)	(111,240,000)
Interest accrued on benefits	200,775,000	181,167,000
Increase in benefits accrued due to data corrections	13,444,000	10,793,000
Effect of actual experience, change in reserves for contribution short-fall, change in administrative expenses and change in actuarial basis	32,679,000	54,839,000
Actuarial present value of accrued pension benefits, end of period	3,361,456,000	3,063,934,000
Excess of actuarial value of net assets over actuarial present value of accrued pension benefits	$ 83,993,000	$ 10,904,000

The actuarial valuation as at December 31, 2007 indicates a solvency deficiency of $61,050,000. As is required by legislation, this solvency deficiency will be funded by special payments, aggregating $13,647,000 annually, to the Plan over the next five years, out of current contributions in those years. Should these special payments not be sufficient in returning the Plan to solvency, contribution rate increases or pension benefit reductions may be necessary.

14. Contingency:

In 2002, the Plan incorrectly calculated the split of pension assets in certain marriage break-ups. The Plan has reviewed all affected calculations and has estimated an outstanding liability to members which is recorded as a liability as of December 31, 2007. The costs associated with any actions to be brought against the Plan regarding these errors are not determinable. Amounts paid by the Plan in the future for legal or actuarial fees related to any future actions will be recorded as incurred.