Financial Statements of

HEALTHCARE EMPLOYEES BENEFITS PLAN - MANITOBA - THE GROUP LIFE INSURANCE PLAN

Year ended December 31, 2006

KPMG

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AUDITORS' REPORT

To the Board of Trustees of Healthcare Employees Benefits Plan - Manitoba - The Group Life Insurance Plan

We have audited the statement of net assets of Healthcare Employees Benefits Plan - Manitoba - The Group Life Insurance Plan as at December 31, 2006 and the statement of changes in net assets for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets of the Plan as at December 31, 2006 and the changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

Signed **“KPMG LLP”**

Chartered Accountants

Winnipeg, Canada

April 5, 2007

HEALTHCARE EMPLOYEES BENEFITS PLAN - MANITOBA - THE GROUP LIFE INSURANCE PLAN

Statement of Net Assets

December 31, 2006, with comparative figures for 2005

	Active	Paid-up	2006 Total	2005 Total
Assets				
Cash	$ 1,096,802	$ 198,448	$ 1,295,250	$ 897,577
Premiums receivable	458,865	–	458,865	372,484
Investments, at market value (note 3):				
Equity pooled funds	8,361,251	5,355,721	13,716,972	17,017,594
Bond pooled funds	17,407,710	4,828,097	22,235,807	15,992,506
Prepaid expenses	4,441	–	4,441	5,637
Due to/from plans	214,423	(214,423)	–	–
Due from The Great-West Life Assurance Company (note 4)	1,556,245	–	1,556,245	1,128,897
Capital assets (note 5)	47,077	–	47,077	58,220
	$ 29,146,814	$ 10,167,843	$ 39,314,657	$ 35,472,915
Liabilities and Net Assets				
Premiums payable and accrued liabilities	$ 1,148,249	$ 4,896	$ 1,153,145	$ 1,256,464
Due to Healthcare Employees Pension Plan - Manitoba (note 9)	22,388	–	22,388	45,426
Obligations for (note 7):				
Future paid-up insurance	–	7,846,000	7,846,000	6,896,910
Disability life waiver	8,520,000	–	8,520,000	9,100,000
	8,520,000	7,846,000	16,366,000	15,996,910
	9,690,637	7,850,896	17,541,533	17,298,800
Net assets represented by:				
Capital fund	47,077	–	47,077	58,220
Internally restricted funds	6,100,000	1,100,000	7,200,000	6,900,000
Unrestricted fund	13,309,100	1,216,947	14,526,047	11,215,895
	19,456,177	2,316,947	21,773,124	18,174,115
	$ 29,146,814	$ 10,167,843	$ 39,314,657	$ 35,472,915

See accompanying notes to financial statements.

On behalf of the Board of Trustees:

[signature] Chair

Brian Ellis Vice-Chair

HEALTHCARE EMPLOYEES BENEFITS PLAN - MANITOBA - THE GROUP LIFE INSURANCE PLAN

Statement of Changes in Net Assets

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

	Active	Paid-up	2006 Total	2005 Total
Increases:				
Premiums	$ 7,626,986	$ –	$ 7,626,986	$ 7,381,144
Investment income	2,269,107	1,051,362	3,320,469	3,065,124
	9,896,093	1,051,362	10,947,455	10,446,268
Decreases:				
Claims incurred	5,983,121	164,712	6,147,833	6,564,246
Amortization of capital assets	23,539	–	23,539	–
Administrative - HEBP (note 9)	234,093	12,320	246,413	297,902
Administrative and interest - Great-West Life	307,676	3,942	311,618	325,473
Stop loss premiums [note 8(d)]	160,178	–	160,178	161,999
Investment manager fees	64,497	25,278	89,775	82,989
	6,773,104	206,252	6,979,356	7,432,609
Net increase prior to changes in obligations	3,122,989	845,110	3,968,099	3,013,659
Changes in obligations for:				
Disability life waiver	580,000	–	580,000	(5,000,000)
Future paid-up insurance	–	(949,090)	(949,090)	–
Increase (decrease) in net assets	$ 3,702,989	$ (103,980)	$ 3,599,009	$ (1,986,341)

	Unrestricted fund Active	Unrestricted fund Paid-up	Internally restricted fund	Capital fund	2006 Total	2005 Total
Net assets, beginning of year	$ 9,794,968	$ 1,420,927	$ 6,900,000	$ 58,220	$ 18,174,115	$ 20,160,456
Increase (decrease) in net assets	3,726,528	(103,980)	–	(23,539)	3,599,009	(1,986,341)
Transfer to internally restricted funds	(200,000)	(100,000)	300,000	–	–	–
Transfer for capital assets (note 5)	(12,396)	–	–	12,396	–	–
Net assets, end of year	$13,309,100	$ 1,216,947	$ 7,200,000	$ 47,077	$ 21,773,124	$ 18,174,115

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 group life insurance 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 group life insurance plan is a not-for-profit plan which provides basic, dependent and family life insurance and accidental death and dismemberment benefits to participating employees. The group life insurance plan is comprised of two plans: the Active Plan and the Paid-up Plan (the Plans). The Active Plan began January 1, 1983 and serves those employees who joined subsequent to that date. The Paid-up Plan is for a closed group of employees who were part of the plan prior to January 1, 1983. Claims administration for these plans is provided by Great-West Life Assurance Company (Great-West Life).

2. Significant accounting policies:

(a) Basis of preparation:

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 contribution stabilization and investment fluctuations. All other assets, liabilities, revenues and expenses are reported in the Unrestricted Fund.

(c) Investments:

The equity pooled funds and bond pooled funds are recorded at market values established by the respective fund trustee.

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

(e) Premiums:

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

(f) 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.

(g) Investment income:

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

(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. Investments:

	Active plan	Paid-up plan	2006 Total	2005 Total
Equity pooled funds	$8,361,251	$ 5,355,721	$ 13,716,972	$ 17,017,594
Bond pooled funds	17,407,710	4,828,097	22,235,807	15,992,506
	$ 25,768,961	$ 10,183,818	$ 35,952,779	$ 33,010,100

The investments of the Plan are in equity and bond pooled funds which yielded rates of return as follows: Active Plan – 9.4 percent (2005 - 10.2 percent), Paid-up Plan – 11.3 percent (2005 - 10.3 percent).

4. Due from The Great-West Life Assurance Company:

The amount due from The Great-West Life Assurance Company represents funds held by The Great-West Life Assurance Company as a reserve for claim fluctuations and accumulated annual claims experience.

Interest was earned on the amount due from The Great-West Life Assurance Company ranging from .25 percent to 2.1 percent (2005 - .25 percent to 1.5 percent).

5. Capital assets:

			2006	2005
	Cost	Accumulated amortization	Net book value	Net book value
Computer projects - Active Plan	$ 70,616	$ 23,539	$ 47,077	$ 58,220

In fiscal 2006, $12,396 (2005 - $12,557) was transferred from Unrestricted Fund to the Capital Fund for the computer projects.

6. Role of the actuary:

The actuary has been appointed pursuant to the Trust Agreement. With respect to the preparation of financial statements, the actuary has been engaged to carry out an estimation of the Plan's future paid-up insurance and disability life waiver obligations to the members. The estimations are 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 the investment rate of return, mortality, retirement and termination rates and salary increments in the future.

7. Obligations for:

(a) Future paid-up insurance:

The computation of the obligation for future paid-up insurance is performed at least every three years by an independent actuary. The most recent actuarial valuation indicated that at December 31, 2004 the assets of the Paid-up Plan exceeded the actuarially computed liability for future obligations by approximately $1.8 million. As at December 31, 2006, management estimates the liability to be $7,846,000. The next actuarial valuation will be as at December 31, 2007.

The assumptions used in determining the actuarial present value of the obligation for future paid-up insurance are management's best estimate and were developed by reference to expected long-term market conditions. Two significant long-term actuarial assumptions used in the valuation were:

(i) the salary escalation rate was assumed to be 4.3 percent for 2005, 3.2 percent for 2006, 3.8 percent for 2007 and 4 percent thereafter;

(ii) the asset rate of return was assumed to be 6.5 percent.

In addition, the actuarial valuation reflects assumptions with regard to mortality, retirement and termination rates.

7. Obligations for (continued):

Since there is no intention of extinguishing the future paid-up insurance obligation in the near term, the obligation is calculated by using the going concern actuarial basis. As underlying conditions change over time, management's best estimate assumptions may also change, which could cause a material change in the actuarial value of the obligation for future paid-up insurance.

(b) Disability life waiver:

The Board of Trustees approved a change in the calculation of the obligation for disability life waiver as of December 31, 2005. The obligation for disability life waiver has been estimated, using the experience tables of the November 2001 Group Life Waiver Study prepared by the Canadian Institute of Actuaries, in the amount of $8,520,000 (2005 - $9,100,000). The calculation of the obligation for disability life waiver has been completed by an independent actuary.

8. 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.

Future paid-up insurance obligations are exposed to the long-term expectation of rate of return on investments as well as expectations of 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 future paid-up insurance obligations.

The Plan has invested approximately 57 percent of its assets in fixed income securities as at December 31, 2006. The returns on fixed income securities are particularly sensitive to changes in nominal interest rates.

(b) Investment risk:

Investment risk arises from the potential for an investee to fail or to default on its contractual obligations to the Plan. The Plan manages investment risk by a policy of investing in diversified equities and bonds through pooled investment funds.

(c) Foreign currency risk:

Foreign currency exposure arises from the Plan's holding of foreign equities. The Plan's net foreign currency exposure was as follows:

	2006		2005	
Country	Active plan market value	Paid-up plan market value	Active plan market value	Paid-up plan market value
United States	$ 4,300,815	$ 2,793,396	$ 5,223,552	$ 2,078,589

(d) Claims and premiums risk:

The nature of the unpaid claims is such that the establishment of an obligation 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.

To offset the Plan incurring abnormally high claims experience in any one fiscal period, the Plan has purchased stop loss coverage from The Great-West Life Assurance Company. The stop loss coverage becomes effective when basic life insurance claims paid are in excess of 110 percent of premiums collected in any fiscal year.

9. 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.

10. Comparative figures:

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