Financial Statements of

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

Year ended December 31, 2003

KPMG LLP
Chartered Accountants
Suite 2000 - One Lombard Place
Winnipeg MB R3B 0X3
Canada

Telephone (204) 957-1770
Telefax (204) 957-0808
www.kpmg.ca

AUDITORS' REPORT

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

We have audited the statement of financial position of Healthcare Employees Benefits Plan - Manitoba - The Group Life Insurance Plan as at December 31, 2003 and the statement of changes in fund balances 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 financial position of the Plan as at December 31, 2003 and the changes in its fund balances and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Winnipeg, Canada

April 8, 2004

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

Statement of Financial Position

December 31, 2003, with comparative figures for 2002

	Active	Paid-up	2003 Total	2002 Total
Assets				
Cash and short-term deposits	$ 520,940	$ 22,902	$ 543,842	$ 764,171
Premiums receivable	175,280	–	175,280	549,564
Investments, at market value:				
Equity pooled funds	8,740,403	4,253,465	12,993,868	11,539,576
Bond pooled funds	8,421,634	4,096,405	12,518,039	10,794,357
Prepaid expenses	8,199	–	8,199	9,017
Due to/from plans	150,438	(150,438)	–	–
Due from The Great-West Life Assurance Company	3,448,838	–	3,448,838	1,102,722
Capital assets (note 3)	15,348	–	15,348	–
	$ 21,481,080	$ 8,222,334	$ 29,703,414	$ 24,759,407
Liabilities and Fund Balances				
Premiums payable and accrued liabilities	$ 1,206,420	$ 17,324	$ 1,223,744	$ 1,186,221
Due to Healthcare Employees Pension Plan - Manitoba (note 9)	64,065	–	64,065	37,882
Reserves for:				
Future paid-up insurance (note 6)	–	5,338,229	5,338,229	5,338,229
Disability life waiver (note 6)	3,500,000	–	3,500,000	3,400,000
	3,500,000	5,338,229	8,838,229	8,738,229
	4,770,485	5,355,553	10,126,038	9,962,332
Fund balances:				
Capital fund	15,348	–	15,348	–
Internally restricted fund	5,100,000	900,000	6,000,000	5,600,000
Unrestricted fund (note 4)	11,595,247	1,966,781	13,562,028	9,197,075
	16,710,595	2,866,781	19,577,376	14,797,075
	$ 21,481,080	$ 8,222,334	$ 29,703,414	$ 24,759,407

See accompanying notes to financial statements.

On behalf of the Board of Trustees:

_______________ Trustee

_______________ Trustee

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

Statement of Changes in Fund Balances

Year ended December 31, 2003, with comparative figures for 2002

	Active	Paid-up	2003 Total	2002 Total
Increases:				
Premiums	$ 6,490,437	$ –	$ 6,490,437	$ 6,133,220
Investment income	2,078,461	998,791	3,077,252	–
	8,568,898	998,791	9,567,689	6,133,220
Decreases:				
Claims incurred	3,831,507	138,739	3,970,246	5,201,269
Administrative - HEBP (note 9)	234,796	12,347	247,143	275,818
Administrative and interest - Great-West Life	251,976	3,092	255,068	267,486
Stop loss premiums [note 8(d)]	155,532	–	155,532	146,645
Investment loss	–	–	–	1,159,077
Investment manager fees	39,797	19,602	59,399	56,609
	4,513,608	173,780	4,687,388	7,106,904
Net increase (decrease) prior to appropriations to (from) reserves	4,055,290	825,011	4,880,301	(973,684)
Appropriations to reserves for:				
Disability life waiver	(100,000)	–	(100,000)	(400,000)
Net increase (decrease) after appropriations to (from) reserves	3,955,290	825,011	4,780,301	(1,373,684)
Fund balances - unrestricted, beginning of year	7,955,305	1,241,770	9,197,075	10,770,759
Transfer to internally restricted fund	(300,000)	(100,000)	(400,000)	(200,000)
Fund balances - unrestricted, end of year	$ 11,610,595	$ 1,966,781	$ 13,577,376	$ 9,197,075
Capital fund	$ 15,348	$ –	$ 15,348	$ –
Unrestricted fund	11,595,247	1,966,781	13,562,028	9,197,075
Fund balances - unrestricted, end of year	$ 11,610,595	$ 1,966,781	$ 13,577,376	$ 9,197,075

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.*

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.

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:

Investments are recorded at market value.

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 will be reported in the Capital Fund.

(e) Investment income:

Investment income includes interest and dividend income as well as realized and unrealized gains and losses on investments during the year.

(f) Measurement uncertainty:

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 fund balances, and appropriations from (to) reserves during the year. Actual results could differ from those estimates.

3. Capital assets:

	Cost	Accumulated amortization	2003 Net book value	2002 Net book value
Computer projects in progress - Active Plan	$ 15,348	$ –	$ 15,348	$ –

4. Unrestricted fund:

The unrestricted fund balance represents the excess of premiums and investment income over claims and expenses since the inception of the Plan.

All of the employee benefits provided by the insurance underwriter under this policy are full experience rated. Full experience rating means that the insurance underwriter returns to the Plan any excess premiums over incurred claims plus expenses. Any deficiency which may occur would be offset against existing or future surplus.

5. Role of the actuary:

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

6. Reserves:

(a) Future paid-up insurance:

The computation of the reserve for future paid-up insurance obligations is performed at least every three years by an independent actuary. The most recent actuarial valuation indicated that at December 31, 2001 the assets of the Paid-up Plan exceeded the actuarially computed liability for future obligations by approximately $2.6 million.

The assumptions used in determining the actuarial present value of the reserve for future paid-up insurance obligations 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 5.0% for 2002 through 2006 and 4% thereafter;

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

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

Since there is no intention of extinguishing the future paid-up insurance obligations in the near term, the obligations are 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 reserve for future paid-up insurance obligations.

6. Reserves (continued):

(b) Disability life waiver:

The Board of Trustees has approved a reserve for disability life waiver of $3,500,000 based on the value of the waived premiums at December 31, 2003, discounted at 6.5%, a 10% allowance for fluctuations in waived premiums and an allowance for investment return fluctuations.

7. Assets earning investment income:

	Active Plan	Paid-up Plan	2003 Total	2002 Total
Cash and short-term deposits	$ 520,940	$ 22,902	$ 543,842	$ 764,171
Equity pooled funds	8,740,403	4,253,465	12,993,868	11,539,576
Bond pooled funds	8,421,634	4,096,405	12,518,039	10,794,357
	$ 17,682,977	$ 8,372,772	$ 26,055,749	$ 23,098,104

The investments of the Plan are in equity and bond pooled funds which yielded rates of return as follows: Active Plan - 13.5% (2002 - 5.2%), Paid-up Plan - 13.6% (2002 - 5.1%).

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 50% of its assets in fixed income securities as at December 31, 2003. The returns on fixed income securities are particularly sensitive to changes in nominal interest rates.

8. Underlying risks (continued):

(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 Group Life 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 Group Life Plan's holding of foreign equities. The Plan's net foreign currency exposure was as follows:

	2003		2002	
Country	Active plan market value	Paid-up plan market value	Active plan market value	Paid-up plan market value
United States	$ 3,321,479	$ 1,616,333	$ 3,058,912	$ 1,459,641

(d) Claims and premiums risk:

The nature of the unpaid claims is such that the establishment of reserves 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 reserves 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% 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.

10. Fair value:

The carrying amount of certain financial assets and liabilities are a reasonable estimate of the fair values because of the short maturity of those instruments. Those short-term financial assets are comprised of cash and short-term deposits and premiums receivable. Short-term financial liabilities are comprised of premiums payable and accrued liabilities and due to Healthcare Employees Pension Plan - Manitoba.

Other financial assets and liabilities are comprised of investments, due from The Great-West Life Assurance Company and the reserves. Since there is no intention of extinguishing the obligations for benefit payments in the near term, the fair value is best approximated by using the same actuarial assumptions as for the establishment of these assets and reserves. As underlying conditions change over time, management's best estimate assumptions may also change, which could cause a material change in the actuarial present values of these accrued benefits and related funding receivables.

11. Statement of cash flows:

A separate statement of cash flows is not presented since the cash flows are readily apparent from the statement of financial position and statement of changes in fund balances.

12. Comparative figures:

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