FINANCIAL REPORT

Management's Responsibility for Financial Information

The consolidated financial statements of the WCB were prepared by management, which is responsible for the integrity and fairness of the data presented, including significant accounting judgments and estimates. This responsibility includes selecting appropriate accounting principles consistent with international financial reporting standards. Financial information contained elsewhere in this annual report conforms to these financial statements.

Management believes the system of internal controls, review procedures and established policies provide reasonable assurance that relevant and reliable financial information is produced and that assets are properly safeguarded. Management also believes that the WCB's operations are conducted in conformity with the law and with a high standard of business conduct. The internal auditor performs periodic audits designed to test the adequacy and consistency of the WCB's internal controls.

The Board of Directors is responsible for overseeing management in the performance of its financial reporting responsibilities and approved the financial statements and other financial information included in this annual report on March 15, 2013.

The Audit Committee assists the Board of Directors in its responsibilities. This Committee reviews and recommends approval of the consolidated financial statements and annual report. Internal and external auditors and actuaries have unlimited access to the Audit Committee. The Committee reviews the financial statements and the other contents of the annual report with management and the external auditors, and reports to the Board of Directors prior to their approval for publication.

The Chief Actuary of the WCB completed an actuarial valuation of the benefit liabilities included in the financial statements of the WCB and reported thereon in accordance with accepted actuarial practices. The firm of Eckler Ltd. has been appointed as a peer reviewer to the WCB. The Chief Actuary's opinion on the valuation of the benefit liabilities is provided on page 31. Eckler Ltd.'s actuarial review is provided on page 32.

Grant Thornton LLP, independent auditors appointed as a sub-agent to the Provincial Auditor General, has performed an independent audit of the consolidated financial statements of the WCB in accordance with Canadian generally accepted auditing standards. Their Auditors' Report, on page 33, outlines the scope of this independent audit and includes their opinion expressed on the 2012 consolidated financial statements.

Winston Maharaj
President and CEO

Lorena B. Trann, CMA, FCMA
Chief Financial Officer

March 15, 2013

2012 Management Discussion and Analysis

As an integral part of the annual report, the management discussion and analysis provides further insights into the operations and financial position of the WCB and should be read in conjunction with the consolidated financial statements and supporting notes.

2012 Results

In 2012, positive results in investment returns, premium revenue and claim costs produced an operating surplus of $91 million (budget, $21 million). After recording unbudgeted losses on the WCB pension plan, total comprehensive income was $68 million.

Investment returns were 9.7 per cent, resulting in $100 million of income ($41 million over budget). Premium revenues of $277 million were $19 million over budget.

The 2012 cost of claims of $216 million was $10 million under budget. A reduction in the cost and duration of claims was experienced in 2012. These results were influenced by successful prevention efforts and a continued focus by the WCB, employers and workers to help ensure workers return to health and meaningful work as soon as they can safely do so.

Other comprehensive loss of $23 million was experienced, an outcome of recording a loss on the WCB pension plan.

The WCB's accident fund reserve increased from $247 million to $338 million, allowing the WCB to exceed the accident fund reserve target level (calculated at $327 million for 2012). The WCB is fully funded with a funding ratio of 126.6 per cent and is striving to reach a funding ratio of 130 per cent.

Revenue

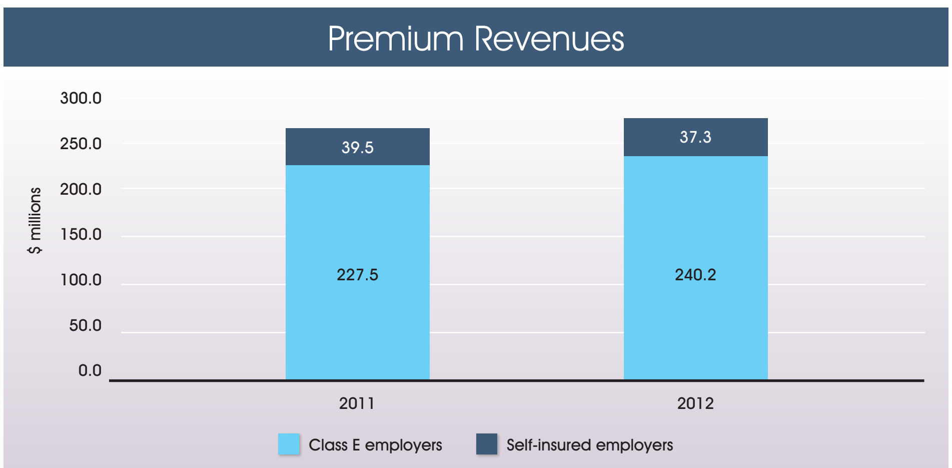
The WCB's revenue is derived from two sources: premium revenue and investment income.

Premium Revenue

Premium revenue is the largest revenue stream for the WCB. Premium revenue was $277 million in 2012 ($267 million in 2011), versus the budget of $259 million. The final average assessment rate per $100 of assessable payroll was $1.51, which is $0.01 over the budgeted average assessment rate of $1.50. Premiums are derived from Class E and self-insured employers:

- 2012 Class E employers' premiums were $240 million, up five per cent from 2011 due to increased assessable payrolls from 2012 and from 2011 adjustments.
- 2012 self-insured employers' premiums, which are calculated based on claim costs incurred, were $37 million ($39 million in 2011), a result of improved claims experience in 2012.

The chart below shows the components of the 2012 premium revenue:

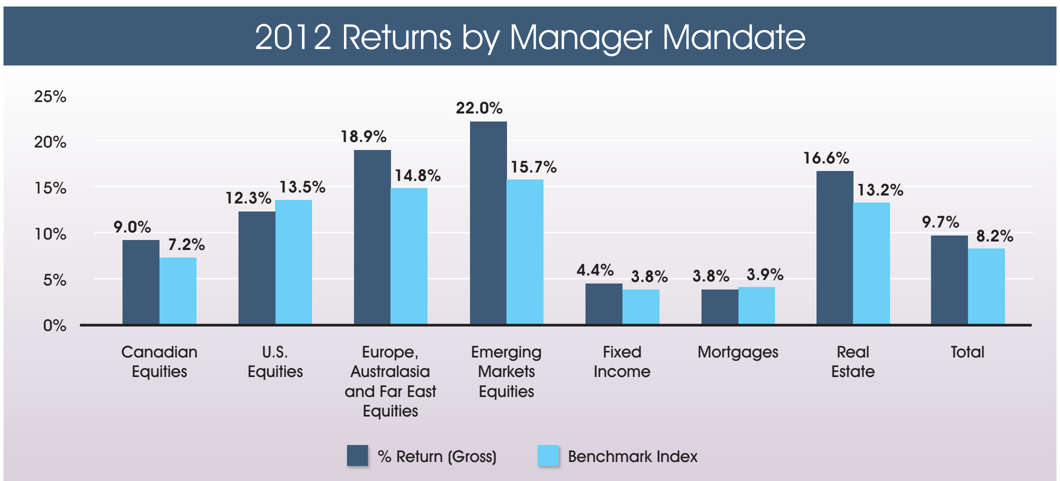


Investment Income

In 2012, the WCB experienced investment income of $100 million from its investment portfolio ($15 million in 2011). Investment income was budgeted at $58 million for 2012.

The investment portfolio is comprised of a variety of asset classes as set by policy. At December 31, 2012, the portfolio had a market value of $1.2 billion ($1.1 billion at the end of 2011) and an asset mix of 55 per cent equities and 45 per cent fixed income (53 per cent equities and 47 per cent fixed income in 2011).

The WCB has engaged a number of professional investment managers. Each of these managers has a mandate as well as a benchmark rate of return to achieve. The gross returns before expenses by manager mandate and a comparison of this result to the benchmark returns are displayed in the following chart:



The investment portfolio's gross rate of return was 9.7 per cent in 2012 (benchmark 8.2 per cent) and 1.8 per cent in 2011 (benchmark 3.5 per cent). In 2012, the portfolio benefitted from exposure to equity markets (Canadian, U.S., EAFE and Emerging Markets), and its allocation to real estate.

Global equity markets climbed a "wall of worry" in 2012. Despite fiscal and political concerns in Europe and the United States, and slowing growth in China and other emerging markets, stock markets around the world posted solid gains. In Canada, returns were positive, but lower than other markets due to the heavy weighting of the S&P/TSX in the underperforming resource sector.

The low interest rate environment continued in 2012; bond returns were positive with corporate bonds providing greater returns to investors than government issues.

Outlook: The low interest rate environment is expected to continue in 2013, as central banks will continue to intervene in the markets until fiscal issues in Europe and the United States are resolved.

While global economic activity is expected to be positive in 2013, there is still a great deal of uncertainty around the globe. The outlook for investment markets depends to a large extent on credible policy action by legislators, particularly in Europe, the U.S. and China, to address ongoing macroeconomic and fiscal concerns.

Claim Costs Incurred

Claim costs incurred are an estimate of the full costs for compensable injuries that occurred in 2012, together with adjustments to prior years' estimates. The estimates take into account claims that are in pay, reported but as yet unpaid claims, and unreported claims.

Claim costs incurred increased $21 million (11 per cent) to $216 million in 2012 with short term and long term disability costs impacted by actuarial adjustments and changes in administrative practice and survivor and healthcare benefits returning to normal levels.

(in millions of dollars)	Short Term Disability	Long Term Disability	Survivor Benefits	Healthcare Benefits	Rehabilitation Services	Total
2012	$ 66.2	$ 70.5	$ 11.8	$ 66.0	$ 1.4	$ 216.0
2011	59.9	49.1	0.3	84.2	1.7	195.2
(Decrease) increase	$ 6.3	$ 21.4	$ 11.6	$ (18.2)	$ (0.1)	$ 20.8

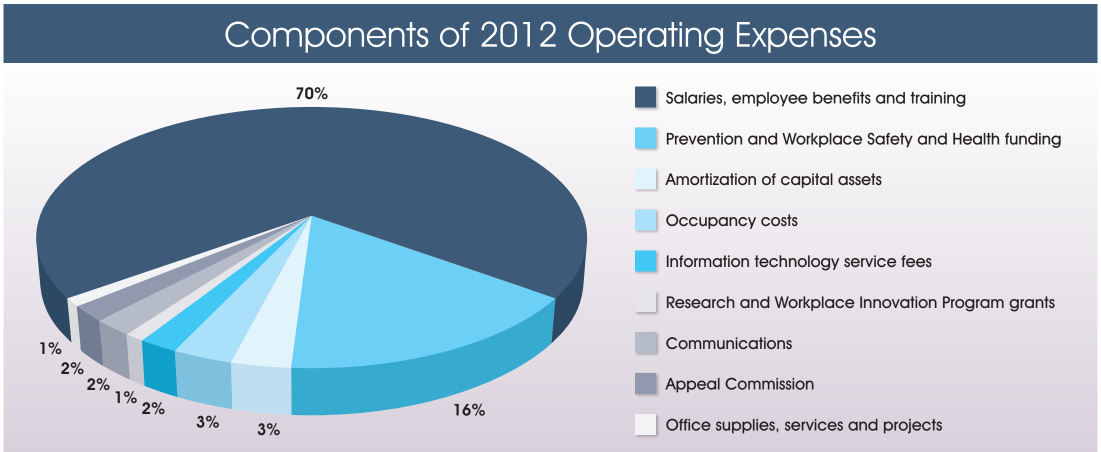
Benefit Liabilities

The benefit liabilities increased $32 million (3 per cent) in 2012 with short and long term disability increasing $25 million due to actuarial adjustments for wage loss and a change in administrative practice for permanent partial impairment awards. Healthcare benefits increased $11 million due to inflation and utilization.

(in millions of dollars)	Short Term Disability	Long Term Disability	Survivor Benefits	Healthcare Benefits	Rehabilitation Services	Total
2012	$ 133.7	$ 403.6	$ 135.8	$ 266.9	$ 22.5	$ 962.5
2011	126.1	386.1	139.1	256.0	22.9	930.2
(Decrease) increase	$ 7.8	$ 17.6	$ (3.3)	$ 10.9	$ (0.4)	$ 32.3

Operating Expenses

Operating expenses in 2012 were on budget at $70 million. Operating expenses increased $4 million from 2011 largely due to employee salary costs and benefits.



Operating Income

The operating income of $91 million increased the accident fund reserve to $338 million.

Other Comprehensive Loss and Total Comprehensive Income

The other comprehensive loss for 2012 was $23 million. This loss is the result of a reduction in the pension plan's prescribed discount rate for accounting purposes (4.50 per cent at December 31, 2012 versus 5.25 per cent at December 31, 2011). The 2012 loss increased accumulated other comprehensive loss to $56 million as at December 31, 2012 ($33 million in 2011).

The total comprehensive income for the year was $68 million, versus the budget of $21 million.

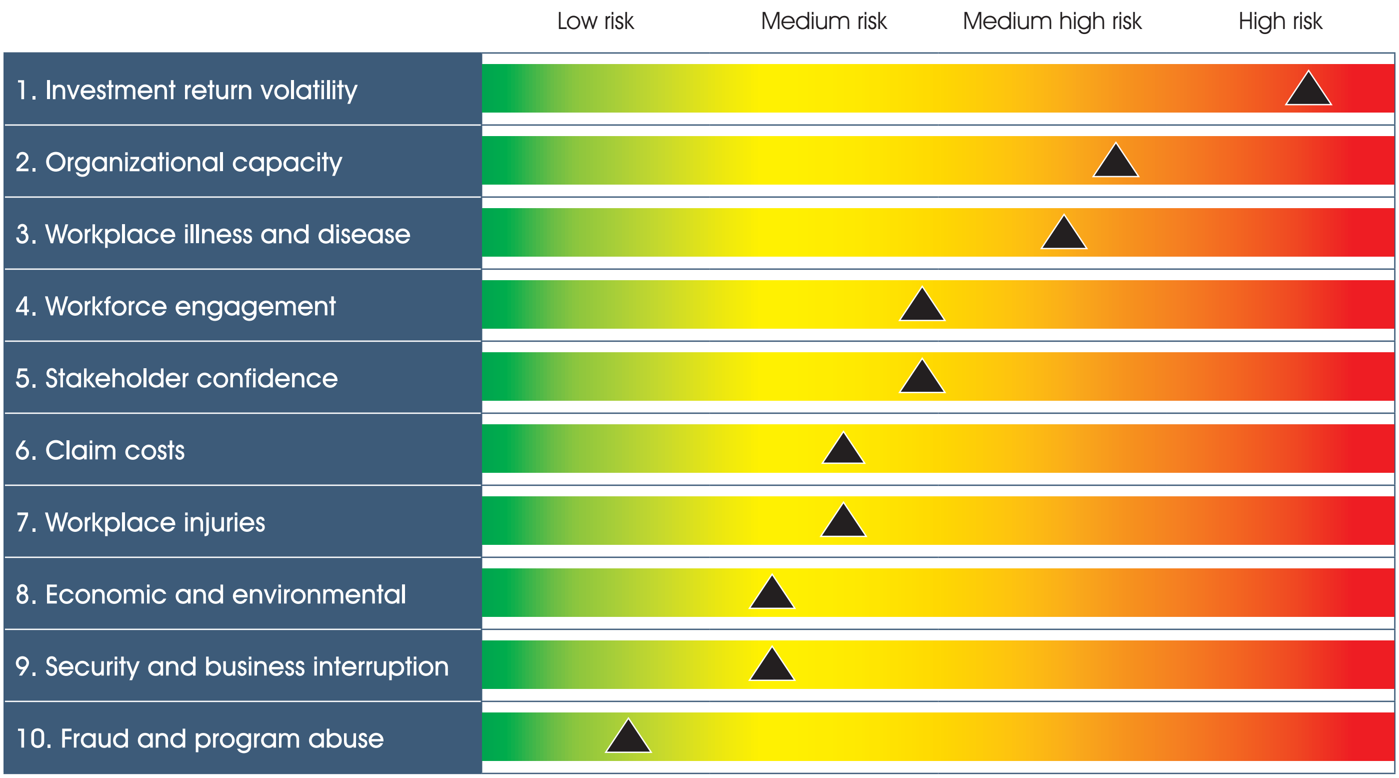
Balance Sheet

The 2012 funding ratio (ratio of total assets to total liabilities) was 126.6 per cent (121.3 per cent in 2011). This ratio is one measure of the financial strength of the WCB, as any amount over 100 per cent indicates the WCB is fully funded. The WCB is striving to achieve a funding ratio of 130 per cent.

The accident fund reserve was $338 million ($247 million in 2011), which exceeded the target balance of $327 million set by the WCB's Funding Policy. The 2013 – 2017 Five Year Plan financials show reductions to the reserves in the near term. By the end of the five year plan, it is predicted that both the accident fund reserve target and the funding ratio target will be met.

Risk Management

On an annual basis, the WCB identifies and assesses key corporate risks, and implements mitigation strategies to manage these risks, which are embedded in the strategic planning and budgeting cycles. Corporate risks are monitored and updated on a regular basis to reflect changes in the organization's risk profile. The most significant risks identified in 2012 are shown in the corporate risk profile below.



Actuarial Opinion

with respect to Future Benefit Liabilities of the Workers Compensation Board of Manitoba
based on an actuarial valuation as at December 31, 2012

I have completed an actuarial valuation as at December 31, 2012 of the benefit liabilities for insured and self-insured employers under *The Workers Compensation Act* of Manitoba as amended to the valuation date. The purpose of this valuation was to estimate the liabilities of the WCB with respect to injuries that occurred on or before the valuation date for inclusion in the 2012 financial statements which are prepared in accordance with International Financial Reporting Standards.

My estimate of the liabilities as at December 31, 2012 is $962.5 million. This includes provisions for claims arising from specific long latent occupational diseases.

I reviewed the data and have performed tests to confirm their reasonableness and consistency with that used in the prior valuation.

The assumptions used are consistent with those of the prior valuation. The discount rates used are 6.0 per cent for non-indexed benefits, 3.0 per cent for inflation linked benefits, and 2.0 per cent for wage linked benefits and are unchanged from the previous valuation. The discount rate for healthcare benefits is unchanged at -0.5 per cent. The mortality assumption for disability and survivor benefits and life insurance benefits is the Manitoba Life Table 2000-02 which is the same as was used in the prior valuation.

The assumptions and methods used in the valuation, as described in my report, are based on the current practices and administrative procedures of the WCB and on historical claims experience.

In my opinion, the data on which the valuation is based are sufficient and reliable for the purpose of the valuation.

In my opinion, the assumptions are appropriate for the purpose of the valuation.

In my opinion, the methods employed in the valuation are appropriate for the purpose of the valuation.

In my opinion, the amount of the benefit liabilities makes appropriate provision for all personal injury compensation obligations and the financial statements fairly present the results of the valuation.

This report has been prepared, and my opinions given, in accordance with accepted actuarial practice in Canada.

Respectfully submitted,

Michael Williams, F.S.A., F.C.I.A.
Chief Actuary, WCB

February 26, 2013

Actuarial Review

with respect to the Valuation of the Future Benefit Liabilities of the Workers Compensation Board of Manitoba
as at December 31, 2012

I have reviewed the actuarial valuation as at December 31, 2012 of the benefit liabilities for insured and self-insured employers under *The Workers Compensation Act* of Manitoba as amended to the valuation date. The valuation was performed by the Chief Actuary of the Workers Compensation Board of Manitoba. The purpose of the valuation was to estimate the liabilities of the WCB with respect to injuries that occurred on or before the valuation date for inclusion in the 2012 financial statements.

I have performed such tests of the data used, the assumptions made and the calculation models underlying the valuation as I considered necessary.

The valuation determined benefit liabilities as at December 31, 2012 to be $962.5 million. This includes provisions for claims arising from specific long latent occupational diseases and for the future cost of administering claims. In my opinion, this amount constitutes an appropriate provision for benefit liabilities as at December 31, 2012.

My review has been conducted, and my opinion given, in accordance with accepted actuarial practice in Canada.

Respectfully submitted,
Eckler Ltd.

Richard Border, F.I.A., F.C.I.A.

February 26, 2013

Independent Auditors' Report

To the Workers Compensation Board of Manitoba

We have audited the accompanying consolidated financial statements of the Workers Compensation Board of Manitoba, which comprise the consolidated statements of financial position as at December 31, 2012, and the consolidated statements of operations and comprehensive income, consolidated statements of changes in funded position and consolidated statements of cash flows for the year then ended, and 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 consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of The Workers Compensation Board of Manitoba as at December 31, 2012 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Grant Thornton LLP

Grant Thornton LLP
Chartered Accountants
Winnipeg, Canada

March 15, 2013

Consolidated Statement of Financial Position

December 31
(in thousands of dollars)

	Note	2012	2011
Assets			
Cash	3	$ 8,784	$ 11,937
Receivables and other	4	37,535	33,508
Investment portfolio	5	1,193,148	1,074,151
Deferred assessments	7	77,379	73,756
Property, plant and equipment	8	23,491	16,732
Intangible assets	9	3,299	3,680
		$ 1,343,636	$ 1,213,764
Liabilities and funded position			
Payables and accruals	10	12,204	10,643
Workers' retirement annuity fund	11	21,000	18,367
Employee benefits	12	65,917	41,027
Benefit liabilities	13	962,511	930,182
Total liabilities		1,061,632	1,000,219
Accident fund reserve		338,347	247,004
Accumulated other comprehensive loss		(56,343)	(33,459)
Funded position		282,004	213,545
		$ 1,343,636	$ 1,213,764

Authorized for issue on March 15, 2013 on behalf of the Board of Directors,

Michael D. Werier
Chairperson, Board of Directors

Wendy Sol
Audit Committee of the Board of Directors

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Operations and Comprehensive Income

Year Ended December 31
(in thousands of dollars)

	Note	2012	2011
Revenue			
Premium revenue	15	$ 277,458	$ 267,043
Investment income	5	99,674	14,518
Total revenue		377,132	281,561
Expenses			
Claim costs incurred	13	216,021	195,235
Operating expenses	16	69,768	66,049
Total expenses		285,789	261,284
Operating surplus		91,343	20,277
Other comprehensive loss			
Defined benefit plan remeasurements	12	(22,884)	(14,920)
Total comprehensive income		$ 68,459	$ 5,357

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Changes in Funded Position

Year Ended December 31
(in thousands of dollars)

	Note	2012	2011
Funded position			
Accident fund reserve			
Balance at beginning of year		$ 247,004	$ 226,727
Operating surplus		91,343	20,277
		338,347	247,004
Accumulated other comprehensive income			
Balance at beginning of year		$ (33,459)	$ (18,539)
Other comprehensive loss		(22,884)	(14,920)
		(56,343)	(33,459)
Funded position, end of year		$ 282,004	$ 213,545

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Cash Flows

Year Ended December 31
(in thousands of dollars)

	Note	2012	2011
Operating cash flows			
Premiums from employers		$ 269,807	$ 255,227
Investment income		35,520	33,542
Claim payments	13	(183,692)	(174,584)
Purchases of goods and services		(65,988)	(70,787)
Net operating cash flows		55,647	43,398
Investing cash flows			
Purchases of investments, net of sales	5	(50,234)	(33,187)
Asset acquisitions		(8,566)	(6,765)
Net investing cash flows		(58,800)	(39,952)
Net (decrease) increase in cash		(3,153)	3,446
Cash at beginning of year		11,937	8,491
Cash at end of year		$ 8,784	$ 11,937

The accompanying notes are an integral part of the consolidated financial statements.

Notes to Consolidated Financial Statements

Year Ended December 31, 2012
($ amounts in thousands of dollars unless otherwise noted)

1. NATURE OF OPERATIONS

Reporting Entity

The Workers Compensation Board of Manitoba (the WCB) is a statutory corporation created by the Manitoba Legislature. The WCB is a government agency of the Province of Manitoba that operates at arm's-length from government.

The WCB was created in 1917 under the authority of *The Workers Compensation Act (the Act)* of Manitoba. In accordance with the provisions of the *Act*, the WCB is responsible for:

- prevention of workplace injuries and occupational diseases in conjunction with the Manitoba Government's Workplace Safety and Health Division,
- administering payments to injured workers and suppliers of services to injured workers
- levying and collecting premiums from established classes of employers in amounts sufficient to cover the current and future costs of existing claims
- investing funds set aside for the future costs of claims as well as surplus funds.

An independent Workers Compensation Appeal Commission operates under the *Act* to make final rulings on any appeals pertaining to the WCB's assessment or benefits decisions.

The WCB's vision is *SAFE Work – A Way of Life*. The organization's mission is to promote safe and healthy workplaces, promote recovery and return to work, provide compassionate and supportive compensation services for workers and employers, and ensure responsible financial stewardship. The WCB compensates for lost wages, provides support and arranges for rehabilitative help, and has a responsibility to injured workers, their families and their employers to help injured workers return to health and meaningful work in a timely and safe manner.

The WCB has its corporate head office in Winnipeg, Manitoba.

Funding Policy

The workers compensation system is funded through premiums collected from employers. The WCB does not receive government funding or assistance. Available funds are invested and are used to protect the WCB and its ratepayers from general business risks and catastrophic events in areas such as investment returns or extraordinary claim costs. To that end, an accident fund reserve attributable to Class E employers exists.

The target balance for the accident fund reserve is based on a formula modified from the Minimum Contributing Capital and Surplus Requirements rules set out by the Office of the Superintendent of Financial Institutions, Canada. The calculation moves in tandem with changes in the size of the WCB's assets and liabilities, thereby calculating a reserve target that reduces risk to the organization. The target balance also includes a provision for the potential of new occupational diseases in the future. The target balance for the reserves was $327.3 million at the end of 2012 ($314.0 million in 2011).

The WCB's Funding Policy is intended to ensure that fiduciary responsibilities are carried out in accordance with the *Act* and that annual influences do not unduly distort the funding process. The WCB is committed to operating on a fully funded basis to a level funding standard. Full funding requires that current employers pay for the current and future cost of existing compensable injuries and their administration, rather than future generations of employers paying for those injuries. Under level funding, the cost of claims with lengthy latency periods is funded in a level manner over the workers' periods of exposure to the elements that led to the injuries or diseases.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The consolidated financial statements of the WCB are prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) in effect as at December 31, 2012, which have been adopted by the Accounting Standards Board of Canada (AcSB) as Canadian generally accepted accounting principles for public interest entities. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

Basis of Measurement

The consolidated financial statements of the WCB have been prepared on a historic cost basis except for investment properties and those financial assets and financial liabilities that have been measured at fair value. The WCB's functional currency is the Canadian dollar, which is the currency of the primary economic environment in which the WCB operates, which is also the presentation currency of the consolidated financial statements. All financial information presented in Canadian dollars has been rounded to the nearest thousand, unless otherwise stated.

Basis of Consolidation

These consolidated financial statements include the accounts of the WCB and its wholly owned real estate investment subsidiary. Intercompany balances and transactions are eliminated on consolidation.

Use of Estimates and Measurement Uncertainty

These financial statements have been prepared in accordance with IFRS, which requires the WCB to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting periods. As a result, some of the reported amounts are subject to measurement uncertainty. Measurement uncertainty exists when there is a variance between the recognized amount and another reasonable amount. Assumptions and estimates are reviewed on an ongoing basis, and any related revisions are recorded in the period in which they are adjusted. Consequently, actual results could differ from these estimates by significant amounts. Employee benefits (note 12) and benefit liabilities (note 13) are the most significant items based on accounting estimates.

Changes in Accounting Policies

Future Accounting and Reporting Changes

The IASB is working towards continual improvement through the development of new accounting standards and the annual improvements process. The IASB will issue a number of exposure drafts of new or revised standards over the next several years. The WCB monitors the IASB work plans and publications to address any developments that may impact the organization.

The IASB published IFRS 10, *Consolidated Financial Statements* to provide a principles-based definition of control that is applied to all types of investees to determine which are consolidated. The standard is applicable for years beginning on or after January 1, 2013. The WCB will continue to consolidate the accounts of its wholly owned real estate investment subsidiary.

The IASB published IFRS 13, *Fair Value Measurement,* applicable for years beginning on or after January 1, 2013. This standard provides a single source of guidance for fair value measurement and enhanced disclosure requirements. IFRS 13 is not expected to have a material impact on the WCB's financial statements.

Specific Accounting Policies

Cash

Cash includes cash on hand and balances with banks, net of any outstanding cheques. Cash and short term investments held by investment managers and custodians for investment purposes are included in the investment portfolio.

Receivables and other

Receivables are mainly assessed premiums due from employers, recorded at the estimated premium payable net of a provision for doubtful accounts. Sundry receivables consist of claim related overpayments, payroll related items and prepaid maintenance contracts.

Investment portfolio

The investment portfolio is managed according to the objectives and policies established by the Statement of Investment Policies and Objectives. The statement acknowledges that there is no single asset class that directly matches the obligations and objectives of the WCB, and that a portfolio diversified across a number of distinct asset classes represents the optimal means of meeting the WCB's investment objectives. The investment portfolio is comprised of:

- Portfolio investments consisting of financial assets accounted for in accordance with IFRS 9 *Financial Instruments,* and
- Investment properties consisting of real estate assets accounted for in accordance with IAS 40 *Investment Properties.*

Portfolio Investments

Classification

The WCB's investments have been designated at fair value through profit or loss (FVTPL). As such, all investments are reported at fair value. Income from interest and dividends is recognized in the period earned, and changes in fair value are presented in the period in which they arise.

Recognition and measurement

Investments are stated at fair value, which is the market value.

Publicly traded investments are stated at year end market prices as listed on the appropriate stock exchange, or as provided by the custodian from independent sources.

Pooled fund investments are valued at the most recent unit values supplied by the pooled fund administrator at year end.

Investments denominated in foreign currencies are translated into Canadian dollars at the exchange rates in effect at the statement of financial position date. Foreign currency exchange gains and losses are recorded in the period in which they arise.

Investment properties

The WCB owns real estate investment properties through its wholly owned real estate investment subsidiary. These properties are held to earn rentals or for capital appreciation or both, and are intended to be long term assets. The WCB views the investment properties as an integral component of the diversified investment portfolio with the same value and purpose as all other investment holdings.

The fair value of real estate investments is determined annually by management based on a combination of the most recent independent appraisals of the rental properties and market data available at year end, net of any liabilities against the properties. A gain or loss arising from a change in the fair value of investment property is recognized in profit or loss for the period in which it arises. Income received from property managers as an income distribution is recorded as investment income, as it is presumed to be the residual of rental income net of operating expenses. It is recorded in the period received, or accrued in the period in which it is expected to be received.

Deferred assessments

Deferred assessments represent the WCB's estimate of the present value of premiums which will be received in the future from self-insured employers to fund the future costs of existing claims that have arisen from their employees. As such, the fair value for deferred assessments is not readily determinable. The deferred assessments may be secured by irrevocable letters of credit or other suitable forms of guarantee.

Property, plant and equipment

Property, plant and equipment are valued at cost, less accumulated amortization and any accumulated impairment loss. Amortization is calculated on a straight line basis over the estimated useful life of the asset, as follows:

Building	40 years
Land	not amortized
Building renovations and leasehold improvements	2 to 10 years
Computer equipment	3 to 5 years
Furniture, fixtures and equipment	5 years

An item of property, plant and equipment is derecognized upon disposal or when no further economic benefits are expected from its use. Any gain or loss arising on derecognition is included in operating expenses.

The carrying amounts of the WCB's non-financial assets are reviewed at each reporting date to ensure that assets are not carried in excess of the recoverable amount.

Intangible assets

Acquired intangible assets, primarily computer software, are valued at cost less accumulated amortization. Amortization is calculated on a straight-line basis over the estimated useful life, and included in operating expenses.

Internally generated intangible assets, primarily software and systems development, including professional fees incurred to implement these assets, are valued at cost and amortized over their useful lives. Amortization is calculated on a straight-line basis over the estimated useful life, as follows:

Computer software	3 years
Internally generated systems development	10 years

The carrying amounts of the WCB's non-financial assets are reviewed at each reporting date to ensure that assets are not carried in excess of the recoverable amount.

Payables and accrued liabilities

Payables and accrued liabilities are obligations to pay for goods and services acquired in the normal course of operations. The WCB records a liability and an expense for goods upon receipt or transfer of control, and for services when they are performed. Other payables include various payroll related liabilities and deposits from self insured employers. The timing and amount of payables and accrued liabilities are readily determinable. These amounts are normally settled before the end of the next reporting period.

Workers' retirement annuity fund

In accordance with Section 42(2) of *The Workers Compensation Act*, where wage loss benefits are paid to a worker after a qualifying period, the WCB is required to invest on a worker's behalf an amount equal to a percentage between five per cent and seven per cent, to provide an annuity for the worker at retirement. In addition, the worker may contribute an amount of not more than the amount contributed by the WCB. This annuity fund is part of the WCB investment portfolio and is intended to establish or replace lost pension entitlement resulting from a work-related injury or illness.

Employee Benefits

The WCB has several employee benefit plans:

Short-term benefits

Short-term employee benefits are measured on an undiscounted basis and are expensed when the services are rendered. These benefits include wages, salary, vacation entitlements and group health plans.

Other benefit plans

The WCB sick leave plan is a multifaceted benefit plan. Sick leave credits are earned and payable in the form of sick leave in the current year. Unused sick leave credits are accumulated and carried forward to future periods, and are available to be taken as sick leave when the current year entitlement is exhausted. For employees that meet established criteria upon termination or retirement, the sick leave plan represents a post employment benefit plan that provides for payment of sick leave credits. For accounting purposes, it is treated as a defined benefit plan and the liability is valued on the basis of discount rates and other estimates that are consistent with the estimates used for defined benefit obligations. For this unfunded plan, where the WCB funds the obligation directly from its own resources, employee contributions are not required.

Pensions

The pension plan, comprised of the WCB Retirement Plan and the Supplementary Employee Retirement Plan, is funded by employee and employer contributions. The WCB Retirement Plan is a defined benefit pension plan that provides indexed pensions (two-thirds of the Consumer Price Index for Canada) based on years of service and the best five consecutive years average earnings in the last 12 years of employment. The Supplementary Employee Retirement Plan provides that the employees of the WCB whose pension benefits exceed the maximum pension benefit permitted under the federal *Income Tax Act* will receive pension benefits based on their total pensionable earnings.

The WCB measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year, using actuarial assumptions that are unbiased and mutually compatible. The assumptions represent management's best estimates of the variables that will determine the ultimate cost of post-employment benefits. Actuarial assumptions are comprised of demographic assumptions on matters such as mortality and employee turnover, and financial assumptions on matters such as salary and benefit levels, interest rates and return on investments. Given the long term nature of the plan and the use of these assumptions, the resulting estimates are subject to significant uncertainty.

The Projected Unit Credit Method is used to calculate the defined benefit obligations and current service costs. This method reflects service rendered by employees to the date of valuation and incorporates actuarial assumptions regarding discount rates used to determine the present value of benefits, projected rates of salary growth and long-term expected rate of return on plan assets.

Discount rates are based on the market yields of high-quality corporate bonds.

In accordance with IAS 19, the net interest approach is used to disaggregate the costs of the pension plan. The change in the net defined benefit liability is disaggregated into the following components:

- Service cost, or the additional liability that arises from employees providing service during the period.
- Net interest or the interest expense on the net defined benefit liability calculated using the discount rate.
- Remeasurements, which are other changes in the value of the defined benefit obligation such as changes in estimates and other changes in the value of plan assets.

Service cost and net interest are recognized in operating surplus whereas remeasurements are recognized in other comprehensive income.

When past service costs arise they are recognized immediately.

Benefit Liabilities
Under the provisions of the *Act*, the WCB has a legislated obligation to accept insurance risk from employers in exchange for premiums paid for WCB coverage.

The WCB's Chief Actuary prepares a valuation of the benefit liabilities of the WCB at each year end. This valuation is conducted in accordance with accepted actuarial practice in Canada, and is subject to peer review by the WCB's consulting external actuary. The benefit liabilities represent the actuarial present value of all future benefit payments expected to be made for claims or injuries which occurred in the current fiscal year or in any prior year. The benefit liabilities include provisions for all benefits provided by current legislation, policies and/or administrative practices in respect of existing claims, plus provisions for the future expenses of administering the existing claims. Differences arising from actual claims experience and assumptions used for the previous valuation, as well as the impacts of changes in legislation, policy, administrative practice or actuarial methods and assumptions, are recognized in the period that they occur.

The benefit liabilities also include an estimated liability for certain long latent occupational diseases. Due to the nature of the estimated liability for long latent occupational diseases and the extent of related historical claims information available, this liability is more uncertain by its nature than other benefit liabilities. As information is accumulated and analyzed, adjustments may be necessary to improve precision.

Fair Value of Other Financial Assets and Liabilities
Other financial assets and liabilities consist of cash, accounts receivable and accounts payable. The carrying value of these items approximates their fair value, consistent with the short term nature of these items.

Accumulated Other Comprehensive Income

Accumulated other comprehensive income (AOCI) is a subsection of the funded position. It is comprised of cumulative remeasurements arising from changes in the value of defined benefit obligations that in accordance with IFRS are recognized in other comprehensive income but excluded from the operating surplus.

Premium Revenue

The operations of the WCB are categorized, in accordance with the *Act*, into Class E (general employers pool) and several classes of self-insured employers.

General Employers Pool

Employers registered within Class E are subject to collective liability and premium revenue is estimated by applying applicable industry assessment rates to the employers' reported assessable payrolls for the current year. Any difference between the estimated premium revenue and the actual premium revenue is credited or charged to income in the year the determination is made.

Premium revenue is fully earned and recognized over the period that coverage is provided. Premium revenue reported in the period is recorded net of uncollectable account write-offs, interest and penalties on overdue amounts and adjustments of premiums for prior periods.

Self-Insured Employers

Self-insured employers – principally government bodies and railways and their subsidiaries – are subject to individual responsibility for costs attributable to claims arising from their employees, as well as administration expenses incurred on behalf of self-insured employers. As such, premium revenue from self-insured employers is recognized as these costs are incurred. Current costs are collected as billed while future costs are recorded as a deferred receivable.

The Government of Canada and its agencies are self-insured based on the *Government Employees Compensations Act*. Under this Act, the administration of this program is delegated to the WCB which acts as agent of the Government of Canada for the payment of compensation to federal employees in this province.

Foreign Currency Translation

Transactions in foreign currency are converted to Canadian dollars at the exchange rate in effect at the time of the transaction. Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rates in effect at the balance sheet date.

3. CASH AND LINES OF CREDIT

Cash reported in the consolidated statement of financial position is comprised of:

		2012		2011
Cash in transit and in banks	$	12,373	$	15,442
Cheques issued and outstanding		(3,589)		(3,505)
Net operating cash flows	$	8,784	$	11,937

In addition, the WCB has established an operating line of credit with its principal banker in the amount of $3.0 million. Advances on the line of credit bear interest at the bank's prime interest rate. The WCB has also established a revolving credit facility with the Province of Manitoba in the amount of $40.0 million. Advances on the revolving credit facility bear interest at the Province's preferred lending rate. Both credit facilities are unsecured.

The WCB did not utilize the credit facilities in 2012 ($0.3 million in 2011).

4. RECEIVABLES AND OTHER

Receivables and other reported in the consolidated statement of financial position is comprised of:

		2012		2011
Premiums – Class E employers	$	29,402	$	29,644
Provision for doubtful accounts		(1,414)		(1,141)
		27,988		28,503
Current assessment – Self-insured employers		7,379		3,231
Sundry		2,168		1,774
	$	37,535	$	33,508

5. INVESTMENT PORTFOLIO

The investment portfolio reported in the comprehensive statement of financial position is comprised of:

	2012	2011
Portfolio investments	$ 1,087,816	$ 992,009
Investment properties	105,332	82,142
	$ 1,193,148	$ 1,074,151

Fair Value of the Investment Portfolio

	2012	2011
Equities		
Canadian	$ 168,815	$ 153,028
Private placements	9,325	10,522
U.S.	181,363	159,472
Eurpoe, Australasia & Far East	91,816	77,222
Emerging markets	32,686	26,805
	484,005	427,049
Real estate (see table below)		
Portfolio investments	62,872	57,282
Investment properties	105,332	82,142
	168,204	139,424
Cash and short term investments	49,813	32,829
Fixed income	491,126	474,849
Total	$ 1,193,148	$ 1,074,151

Real Estate Portfolio

The real estate portfolio can be further broken down as follows:

	2012	2011
Rental properties and other net assets	$ 215,205	$ 176,297
Mortgages payable on investment properties	(47,001)	(36,873)
Real estate investments	$ 168,204	$ 139,424

The following table represents key facts related to mortgages payable on rental properties:

Interest rates	From 3.5% to 5.71%
Interest terms	Variable and fixed
Maturity dates	From 2013 to 2033

For 2012, scheduled principal and interest payments on these mortgages total $3.8 million. The scheduled amounts of principal repayments in each of the next five years are as follows:

2013	2014	2015	2016	2017	Thereafter	Total
$ 1,634	$ 16,562	$ 5,290	$ 916	$ 824	$ 21,775	$ 47,001

Investment Income

Investment income was derived from the following sources:

	2012	2011
Canadian equities	$ 5,016	$ 3,844
Foreign equities	6,536	5,327
Cash and short term investments	355	240
Fixed income	19,552	21,764
Real estate (see table below)	19,867	6,227
Market gains (losses):		
Realized	5,924	12,431
Unrealized	47,033	(30,739)
Investment income	104,283	19,094
Less:		
Management expenses	4,609	4,576
Portfolio expenses	4,609	4,576
Net investment income	$ 99,674	$ 14,518

Real Estate Income

The real estate income can be further broken down as follows:

	2012	2011
Rental income, net of expenses	$ 6,484	$ 6,052
Appraisal gains	13,383	175
	$ 19,867	$ 6,227

Purchases of Investments, Net of Sales

Purchases of investments, net of sales can be further broken down as follows:

	2012	2011
Purchases of investments	$ 578,386	$ 717,645
Proceeds on disposal of investments	(528,152)	(684,458)
Net purchases of investments	$ 50,234	$ 33,187

Purchases and sales activities occur primarily within the fixed income portfolio and short term investments.

Fair Value of Investments

For financial instruments measured at fair value in the statement of operations and accident fund reserve, disclosure on the fair value hierarchy is required.

The three levels of the fair value hierarchy are:

Level 1 – Unadjusted prices quoted in active markets for identical assets

Level 2 – Inputs other than quoted prices that are observable for the asset either directly or indirectly

Level 3 – Inputs that are not based on observable market data.

The following table illustrates the classification of the WCB's financial assets within the fair value hierarchy as at December 31:

2012

	Level 1	Level 2	Level 3	Total
Equities				
Canadian	$ 168,815	$ -	$ -	$ 168,815
Private placements	914	-	8,411	9,325
U.S.	181,363	-	-	181,363
Europe, Australasia & Far East	91,816	-	-	91,816
Emerging markets	32,686	-	-	32,686
	475,594	-	8,411	484,005
Cash and short term investments	49,813	-	-	49,813
Fixed income	382,563	108,563	-	491,126
Real estate	-	168,204	-	168,204
	$ 907,970	$ 276,767	$ 8,411	$ 1,193,148

2011

	Level 1	Level 2	Level 3	Total
Equities				
Canadian	$ 153,028	$ -	$ -	$ 153,028
Private placements	620	-	9,902	10,522
U.S.	159,472	-	-	159,472
Europe, Australasia & Far East	77,222	-	-	77,222
Emerging markets	26,805	-	-	26,805
	417,147	-	9,902	427,049
Cash and short term investments	32,829	-	-	32,829
Fixed income	368,198	106,651	-	474,849
Real estate	-	139,424	-	139,424
	$ 818,174	$ 246,075	$ 9,902	$ 1,074,151

The following table reconciles the changes in the WCB's level three fair value measurements to December 31:

	2012	2011
Balance at January 1	$ 9,902	$ 23,456
Market gains (losses:)		
Realized	-	(64)
Unrealized	1,690	(11,898)
Purchases	238	215
Sales	(3,419)	(1,807)
Transfers in (out)	-	-
Balance at December 31	$ 8,411	$ 9,902

Commitments

The WCB has contractual agreements to contribute further funding to a maximum of $8.6 million ($4.3 million in 2011) to specific investment projects to be financed from the existing portfolio or from available cash.

6. INVESTMENT RISK MANAGEMENT

In accordance with the Statement of Investment Policy and Objectives, the investment objective of the WCB is to generate a consistent, positive, real rate of return on invested assets. Recognizing the need to achieve a balance between risk and return, investment risk is managed through a portfolio that is diversified across a number of distinct asset classes, as well as geographic region and investment style.

The following sections describe the nature and extent of financial risk exposure and the related risk mitigation strategies.

Market Risk

The WCB invests in publicly and privately traded equities and fixed income instruments available on domestic and foreign exchanges. As these securities are affected by market changes and fluctuations, the WCB is exposed to market risk as a result of price changes due to economic fluctuations in capital markets.

The following table presents the effect of a material change in the key risk variable – the sector benchmark – for each of the equity mandates in the WCB investment portfolio:

	2012		2011	
	5 year annualized		5 year annualized	
Equities	+/- 1 standard deviation	+/- 2 standard deviation	+/- 1 standard deviation	+/- 2 standard deviation
% change in benchmark	20.1%	40.2%	19.8%	39.6%
Canadian	$33.5 million	$67.0 million	$30.3 million	$60.6 million
% change in benchmark	12.5%	25.0%	11.9%	23.8%
U.S.	$22.9 million	$45.7 million	$19.0 million	$38.0 million
% change in benchmark	17.3%	34.6%	16.2%	32.4%
Europe, Australasia and Far East	$15.9 million	$31.8 million	$12.5 million	$25.0 million
% change in benchmark	22.2%	44.4%	21.4%	42.8%
Emerging markets	$7.3 million	$14.5 million	$5.7 million	$11.5 million

Credit Risk Management

Credit exposure on fixed income securities arises from the possibility that the issuer of an instrument fails to meet its obligation to make interest payments and repay principal. To mitigate the risk of credit default, the minimum quality standard for individual bonds and debentures at time of purchase is BBB, as rated by an established bond rating service. To further mitigate this risk, bonds with a BBB rating are limited to a maximum of 15 per cent of the bond portfolio. The balance of the portfolio should be invested in bonds with a minimum rating of A or higher.

Of the fixed income assets in the investment portfolio, 90 per cent (90 per cent in 2011) have at least an A credit rating. The WCB does not anticipate that any borrowers will fail to meet their obligations.

Securities Lending

The WCB may lend, for fee income, any of its securities to third parties, provided the loans are secured by cash or readily marketable securities having a market value of at least 105 per cent of the market amount of the asset borrowed. As at December 31, 2012, these loans amounted to $97.3 million ($96.0 million in 2011). As at December 31, 2012, total collateral pledged to the WCB amounted to $102.2 million ($100.9 million in 2011).

Foreign Exchange Risk Management
The WCB has certain investments denominated in foreign currencies, which exposes the WCB to foreign currency risk. During 2012, the WCB did not undertake hedging strategies for the currency risk of foreign investments. While currency fluctuations influenced short term returns, these fluctuations are not expected to affect the long term position of the investment portfolio.

WCB has exposure to the U.S. dollar, with USD-denominated holdings of $315.8 million CAD ($274.3 million CAD in 2011) or 26.5 per cent of the portfolio (25.5 per cent in 2011).

The table below presents the effects of a material change in the Canadian/U.S. dollar exchange rates:

	CAD/USD	
	2012	2011
10% appreciation in the Canadian dollar	$ (25.8 million)	$ (24.9 million)

Interest Rate Risk Management
The WCB is exposed to interest rate risk to the extent that the fair value or future cash flows of a financial instrument fluctuate due to changes in market interest rates. These fluctuations are managed by actively controlling the duration of the fixed income portfolio. As at December 31, 2012, the duration of the WCB's bond portfolio was 8.4 years (8.2 years in 2011).

The following table shows the effects of a negative 50 and 100 basis point (where one basis point equals 1/100 of one per cent and 50 basis points equals 0.5 per cent) change in interest rates on the bond portfolio:

	2012		2011	
+/- basis point change	50 basis points	100 basis points	50 basis points	100 basis points
Bonds	$16.3 million	$32.6 million	$15.3 million	$30.6 million

Liquidity Risk Management
Liquidity risk is the risk that the WCB will be unable to meet its financial obligations. To manage this risk, and avoid liquidation of portfolio assets under unfavourable conditions, the WCB maintains two credit facilities as discussed in note 3.

7. DEFERRED ASSESSMENTS

The changes in deferred assessments were as follows:

	2012	2011
Balance at beginning of year	$ 73,756	$ 60,988
Increase in future cost liability	6,947	13,603
Decrease in pension related transactions	(1,420)	(564)
Interest allocation	(1,904)	(271)
Net change in deferred assessments	3,623	12,768
Balance at end of year	$ 77,379	$ 73,756

8. PROPERTY, PLANT AND EQUIPMENT

The changes in property, plant and equipment were as follows:

	Building and land	Building renovations and leaseholds	Computer equipment	Furnature, fixtures and equipment	Total
Cost					
As at December 31, 2011	$ 15,062	$ 4,689	$ 5,131	$ 2,430	$ 27,312
Additions	7,002	241	267	152	7,662
Disposals	-	-	(82)	-	(82)
As at December 31, 2012	22,064	4,930	5,316	2,582	34,892
Amortization					
As at December 31, 2011	(771)	(3,495)	(4,082)	(2,232)	(10,580)
Amortization charge	(72)	(210)	(523)	(98)	(903)
Disposals	-	-	82	-	82
As at December 31, 2012	(843)	(3,705)	(4,523)	(2,330)	(11,401)
Net carrying value, As at December 31, 2012	$ 21,221	$ 1,225	$ 793	$ 252	$ 23,491

	Building and land	Building renovations and leaseholds	Computer equipment	Furnature, fixtures and equipment	Total
Cost					
As at December 31, 2010	$ 9,739	$ 4,658	$ 6,937	$ 2,347	$ 23,681
Additions	5,323	31	605	83	6,042
Disposals	-	-	(2,411)	-	(2,411)
As at December 31, 2011	15,062	4,689	5,131	2,430	27,312
Amortization					
As at December 31, 2010	(699)	(3,305)	(5,871)	(2,141)	(12,016)
Amortization charge	(72)	(190)	(622)	(91)	(975)
Disposals	-	-	2,411	-	2,411
As at December 31, 2011	(771)	(3,495)	(4,082)	(2,232)	(10,580)
Net carrying value, As at December 31, 2011	$ 14,291	$ 1,194	$ 1,049	$ 198	$ 16,732

9. INTANGIBLE ASSETS

The changes in intangible assets were as follows:

	Computer software	Internally developed systems and software	Total
Cost			
As at December 31, 2011	$ 3,414	$ 13,539	$ 16,953
Additions	122	782	904
Disposals	-	-	-
As at December 31, 2012	3,536	14,321	17,857
Amortization			
As at December 31, 2011	(3,201)	(10,072)	(13,273)
Amortization charge	(168)	(1,117)	(1,285)
Disposals	-	-	-
As at December 31, 2012	(3,369)	(11,189)	(14,558)
Net carrying value, As at December 31, 2012	$ 167	$ 3,132	$ 3,299

	Computer software	Internally developed systems and software	Total
Cost			
As at December 31, 2010	$ 3,765	$ 13,162	$ 16,927
Additions	98	624	722
Disposals	(449)	(247)	(696)
As at December 31, 2011	3,414	13,539	16,953
Amortization			
As at December 31, 2010	(3,375)	(9,283)	(12,658)
Amortization charge	(275)	(1,036)	(1,311)
Disposals	449	247	696
As at December 31, 2011	(3,201)	(10,072)	(13,273)
Net carrying value, As at December 31, 2011	$ 213	$ 3,467	$ 3,680

10. PAYABLES AND ACCRUALS

Payables and accruals are comprised of:

	2012	2011
Accounts payable and accrued liabilities	$ 3,075	$ 2,376
Research and Workplace Innovation Program	2,374	2,463
Deposits from self-insured employers	5,765	4,834
Other payables	990	970
Balance at end of year	$ 12,204	$ 10,643

11. WORKERS' RETIREMENT ANNUITY FUND

The changes in the workers retirement annuity fund were as follows:

	2012	2011
Balance, as at January 1	$ 18,367	$ 17,346
Investment income	1,738	241
WCB contributions	1,441	1,549
Workers' contributions	423	405
Benefits paid	(969)	(1,174)
Balance at end of year	$ 21,000	$ 18,367

12. EMPLOYEE BENEFITS

Components of the employee benefits liability are:

	2012	2011
Employee pension plan	$ 52,059	$ 30,672
Sick leave plan	10,006	6,735
Employee vacation entitlements	3,575	3,414
Other	277	206
As at December 31	$ 65,917	$ 41,027

The WCB measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation of the Retirement Plan for funding purposes, which was filed with the pension regulators, was as at December 31, 2011. This funding valuation showed a funding deficit of $11.4 million (2010 valuation, deficit of $6.7 million), which the WCB is funding over fifteen years in accordance with pension regulations. The solvency deficit as at December 31, 2011 was $34.2 million (2010 valuation, deficit of $12.8 million). The WCB is not required to fund this deficiency as the WCB is exempt from the solvency and transfer deficiency provisions of the *Pension Benefits Act*.

Total cash payments for employee future benefits for 2012, consisting of cash contributed by the WCB to the funded pension plan and cash payments directly to beneficiaries for unfunded plans, were $4.8 million ($4.0 million in 2011). Based on historical experience and expected salary expense, the WCB expects to fund $5.0 million in 2013.

The key actuarial assumptions used to value the employee benefit liabilities for accounting purposes are as follows:

	Pension Plan		Sick Leave Plan	
	2012	2011	2012	2011
Discount rate	4.50%	5.25%	4.50%	5.25%
Rate of compensation increase	3.75%	3.75%	3.75%	3.75%

The rates shown in the 2012 column were effective as of December 31, 2012. The rates were applied in determining the benefit plan balances at December 31, 2012. The rates shown in the 2011 column were effective at December 31, 2011 and were applied in determining the 2012 benefit plan expense.

The actuarial present value of the defined benefit obligation is sensitive to changes in actuarial assumptions, the most significant assumption being the discount rate. The following table illustrates the sensitivity of the defined benefit obligations to a 1 per cent change in the discount rate:

	2012		2011	
	+1.0%	**-1.0%**	**+1.0%**	**-1.0%**
Pension plan	$ (33,753)	$ 33,753	$ (24,534)	$ 24,534
Sick leave plan	(903)	1,051	(590)	699

The WCB's defined benefit plan expenses are as follows:

	Pension Plan 2012	Pension Plan 2011	Sick Leave Plan 2012	Sick Leave Plan 2011
Current service cost	$ 4,484	$ 3,486	$ 348	$ 306
Net interest expense	1,430	726	346	342
Remeasurements	20,008	14,606	2,876	314
Total benefit plan expenses	$ 25,922	$ 18,818	$ 3,570	$ 962

As at December 31, the funding status of the defined benefit plans is as follows:

	Pension Plan 2012	Pension Plan 2011	Sick Leave Plan 2012	Sick Leave Plan 2011
Fair value of plan assets	$ 121,018	$ 108,200	$ -	$ -
Defined benefit obligation	(173,077)	(138,872)	(10,006)	(6,735)
Net defined benefit liability	$ (52,059)	$ (30,672)	$ (10,006)	$ (6,735)

Details of the WCB's net defined benefit liability are as follows:

	Pension Plan 2012	Pension Plan 2011	Sick Leave Plan 2012	Sick Leave Plan 2011
Balance at January 1	$ (30,672)	$ (15,628)	$ (6,735)	$ (6,089)
Benefit cost recognized in income	(5,914)	(4,212)	(694)	(648)
Remeasurements reorganized in other comprehensive income	(20,008)	(14,606)	(2,876)	(314)
Employer contributions	4,535	3,774	299	316
Net change in net defined benefit liability	(21,387)	(15,044)	(3,271)	(646)
Net defined benefit liability at December 31	$ (52,059)	$ (30,672)	$ (10,006)	$ (6,735)

Details of the WCB's defined benefit obligations are as follows:

	Pension Plan 2012	Pension Plan 2011	Sick Leave Plan 2012	Sick Leave Plan 2011
Balance at January 1	$ (138,872)	$ (118,089)	$ (6,735)	$ (6,089)
Current service cost	(6,801)	(5,705)	(348)	(306)
Interest expense	(7,213)	(6,705)	(346)	(342)
Transfers to the plan	(737)	(88)	-	-
Remeasurements consisting of:				
Actuarial losses	(23,141)	(11,340)	(2,876)	(314)
Benefits paid	3,687	3,055	299	316
Net change in net defined benefit obligation	(34,205)	(20,783)	(3,271)	(646)
Defined benefit obligation at December 31	$ (173,077)	$ (138,872)	$ (10,006)	$ (6,735)

Details of the WCB's defined benefit plan assets are as follows:

	Pension Plan 2012	Pension Plan 2011
Balance at January 1	$ 108,200	$ 102,461
Interest income	5,783	5,979
Employer contributions	4,535	3,774
Employee contributions	2,317	2,219
Transfers to the plan	737	88
Remeasurements consisting of:		
Actuarial gains (losses)	3,133	(3,266)
Benefits paid	(3,687)	(3,055)
Net change in plan assets	12,818	5,739
Plan assets at December 31	$ 121,018	$ 108,200

The fair value of the pension plan assets as at December 31 is:

	Pension Plan 2012	2011
Equity		
Canadian	$ 36,775	$ 31,270
Foreign (including U.S.)	36,140	27,375
	72,915	58,645
Fixed income	44,081	42,414
Cash and short term	4,022	7,141
Plan assets at December 31	$ 121,018	$ 108,200

Related Party Transactions - Pension Plan

By definition, the WCB pension plan is a related party to the WCB. Transactions between the related parties are detailed below:

	2012	2011
Transactions:		
Contributions from employees	$ 2,317	$ 2,219
Contributions from employer	4,535	3,774

There were no amounts outstanding as at December 31, 2012 or December 31, 2011.

13. BENEFIT LIABILITIES

Benefit liabilities are determined in accordance with standards established by the Canadian Institute of Actuaries. The actuarial present value of future benefit payments reflects management's long term estimates of economic and actuarial assumptions and methods, which are based upon past experience and modified for current trends. As these assumptions may change over time to reflect underlying conditions, it is possible that such changes could cause a material change in the actuarial present value of the future payments. The fair value for benefit liabilities is not readily determinable.

The key actuarial assumptions used to value the benefit liabilities as at December 31 are as follows:

	2012	2011
Discount rate for non-indexed benefits	6.0%	6.0%
Discount rate for CPI-indexed benefits	3.0%	3.0%
Discount rate for wage-indexed benefits	2.0%	2.0%
Discount rate for healthcare benefits	(0.5%)	(0.5%)

An analysis of the components of and changes in benefit liabilities is as follows:

	2012						2011
	Short Term Disability	Long Term Disability	Survivor Benefits	Healthcare Benefits	Rehabilitation Services	Total	Total
As at beginning of year	$ 126,060	$ 386,076	$ 139,106	$ 256,040	$ 22,900	$ 930,182	$ 909,531
Add: Claim costs incurred							
Current year	99,095	13,631	2,986	54,838	5,247	175,797	167,644
Prior years	(32,895)	56,867	8,854	11,201	(3,803)	40,224	27,591
	66,200	70,498	11,840	66,039	1,444	216,021	195,235
Less: Claim payments made							
Current year	27,660	443	484	19,528	10	48,125	44,503
Prior years	30,882	52,491	14,705	35,654	1,835	135,567	130,081
	58,542	52,934	15,189	55,182	1,845	183,692	174,584
Balance at end of year	$ 133,718	$ 403,640	$ 135,757	$ 266,897	$ 22,499	$ 962,511	$ 930,182

The liability for short term disability claims is an estimate of future wage loss payments for claims that have yet to medically plateau or stabilize. The long term disability liability includes estimated future wage loss payments for those claims that have medically plateaued and stabilized, estimated future pension payments, and estimated future cost of claims relating to certain long latent occupational diseases. The liability for survivor benefits is composed of estimated future pension payments and other services provided to survivors of those who have lost their lives as a result of workplace injuries or illnesses. Healthcare liabilities are the estimated future medical costs for existing claims. The liability for rehabilitation services is composed of the estimated cost of future rehabilitation services which are externally supplied to the WCB.

Included in the benefit liabilities balance is $48.5 million ($44.4 million in 2011) for the estimated long latent occupational disease liability. The *Workers Compensation Act* of Manitoba lists specific illnesses and injuries presumed to be caused by firefighting, unless the contrary is proven. In 2011, the *Act* was amended to add four cancers to the list and to extend the presumptions to certain personnel of the fire commissioner's office. Consistent with actuarial standards, a liability has not been recorded with respect to the new cancers, except in the case of claims that were submitted to the WCB during 2011and 2012. In 2014, actuarial standards will require that this liability be recorded. Based on 2012 information, this liability could be as high as $8 million (2011 estimate, $10 million). While long latent liabilities are in general difficult to estimate, at this point, the WCB does not have sufficient experience to reliably estimate the liability for these additional cancers.

Also included in the benefit liability is $74.0 million ($71.3 million in 2011) for the future cost of administering existing claims.

Sensitivity of Actuarial Assumptions

The most significant assumption in the determination of the benefit liabilities is the discount rate.

The following table shows the sensitivity of the benefit liabilities to an immediate one per cent increase or decrease in the key assumptions used to determine the liabilities:

Change in liability in millions

	2012		2011	
+/- % change on assumed rates	**+1%**	**-1%**	**+1%**	**-1%**
Discount rate	$ (58)	$ 69	$ (61)	$ 72
Wage inflation rate	16	(15)	21	(18)
General inflation rate	18	(15)	16	(14)
Healthcare inflation rate	31	(26)	29	(24)

An increase in the discount rate results in a decrease to the benefit liabilities and vice versa.

An increase to any of the inflation rates results in an increase to the benefit liabilities. Each inflation rate affects only those benefits that are directly impacted by that type of inflation. For example, healthcare inflation only affects healthcare liabilities.

Liability Adequacy Test

IFRS 4 *Insurance Contracts* requires an insurer to apply a liability adequacy test that meets specified minimum requirements, as follows:

a. the test considers current estimates of all contractual cash flows, and of related cash flows such as claims handling costs, as well as cash flows resulting from embedded options and guarantees; and

b. if the test shows that the liability is inadequate, the entire deficiency is recognised in profit or loss.

If these minimum requirements are met, there are no further requirements.

The current claim benefit liability valuation meets the liability adequacy testing requirements of IFRS 4. Accordingly, a separate annual liability adequacy test is not required.

Claims Development

The table below compares actual claim liabilities to previous estimates back to the earliest period for which there is material uncertainty about the estimate and timing of claim payments.

	Injury Year						
Estimate of ultimate claims	**2006 & Prior**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
End of injury year	$ 1,458,654	$ 182,168	$ 203,916	$ 184,494	$ 181,728	$ 196,690	$ 202,359
1 year later	1,516,628	191,645	187,514	165,260	171,672	182,934	-
2 years later	1,531,656	189,544	175,901	172,820	170,445	-	-
3 years later	1,540,794	187,199	185,187	173,058	-	-	-
4 years later	1,591,397	190,159	184,284	-	-	-	-
5 years later	1,672,185	190,595	-	-	-	-	-
6 years later	1,692,401	-	-	-	-	-	-

	Injury Year						
Cumulative claims paid	**2006 & Prior**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
End of injury year	$ 158,624	$ 46,859	$ 50,599	$ 48,096	$ 46,249	$ 47,401	$ 47,263
1 year later	285,510	82,221	84,294	77,860	74,123	76,708	-
2 years later	383,157	96,974	96,378	87,285	84,207	-	-
3 years later	467,653	106,870	104,554	94,078	-	-	-
4 years later	547,097	113,748	110,788	-	-	-	-
5 years later	620,003	119,384	-	-	-	-	-
6 years later	688,743	-	-	-	-	-	-

	Injury Year							
	2006 & Prior	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**Total**
Cumulative estimate of ultimate claims	$ 1,692,401	$ 190,595	$ 184,284	$ 173,058	$ 170,445	$ 182,934	$ 202,359	$ 2,796,076
Less: Cumulative claims paid	688,743	119,384	110,788	94,078	84,207	76,708	47,263	1,221,171
Current year unpaid and unreported claims	1,003,658	71,211	73,496	78,980	86,238	106,226	155,096	1,574,905
Effect of discounting								(720,961)
Administration cost within benefit liability								74,046
Future dated long latency liability								34,521
Benefit liabilities								$ 962,511

14. BENEFIT LIABILITIES FOR SELF-INSURED EMPLOYERS

Note 13 contains a complete description of the components of the benefit liabilities for all employers. An analysis of the portion relating to self-insured employers is as follows:

	2012						2011
	Short Term Disability	**Long Term Disability**	**Survivor Benefits**	**Healthcare Benefits**	**Rehabilitation Services**	**Total**	**Total**
As at beginning of year	$ 14,512	$ 45,343	$ 24,890	$ 41,908	$ 1,944	$ 128,597	$ 118,246
Add: Claim costs incurred							
Current year	13,510	2,621	874	7,354	603	24,962	21,799
Prior years	(2,353)	10,002	2,192	2,107	(468)	11,480	13,027
	11,157	12,623	3,066	9,461	135	36,442	34,826
Less: Claim payments made							
Current year	3,989	117	249	2,481	1	6,837	6,440
Prior years	4,932	4,659	3,822	6,145	120	19,678	18,035
	8,921	4,776	4,071	8,626	121	26,515	24,475
Balance at end of year	$ 16,748	$ 53,190	$ 23,885	$ 42,743	$ 1,958	$ 138,524	$ 128,597

Included in premiums and claim costs for self-insured employers are payments in the amount of $4.2 million ($4.0 million in 2011) made by self-insured employers directly to injured workers on the WCB's behalf. These amounts are reported to the WCB for inclusion in these financial statements.

Included in the benefit liabilities balance is $16.2 million ($14.2 million in 2011) for self-insured employers' share of the long latent occupational disease liability and $9.8 million ($9.3 million in 2011) for the future cost of administering existing claims.

15. PREMIUM REVENUE

	2012	2011
Premiums – Class E employers	$ 240,175	$ 227,494
Assessments – Self-insured employers	33,660	26,781
Increase in deferred assessments (Note 7)	3,623	12,768
Total premium revenue	$ 277,458	$ 267,043

16. OPERATING EXPENSES

	2012	2011
Salaries, employee benefits and training	$ 48,738	$ 44,347
Information technology service fees	1,682	1,630
Occupancy costs	2,093	2,093
Office supplies, services and projects	243	934
Communications	1,226	1,250
Professional fees	1,567	1,161
Donations	95	98
Amortization of capital assets	2,188	2,287
	57,832	53,800
Appeal Commission	1,259	1,222
Research and Workplace Innovation Program grants	870	1,279
Recoveries from the Government of Canada	(1,405)	(1,319)
Prevention and Workplace Safety and Health funding (Note 17)	11,212	11,067
Total operating expenses	$ 69,768	$ 66,049

Of the total operating expenses, $5.8 million ($5.5 million in 2011) was allocated to self-insured employers based on the current year's transaction volumes.

The WCB administers the *Government Employees Compensation Act* program for the Government of Canada. The operation of this program is reflected only to the extent of the recoveries of operating expenses.

17. RELATED PARTY TRANSACTIONS

The WCB is a statutory corporation created by the Manitoba Legislature. The WCB is a government agency of the Province of Manitoba that operates at arm's-length from government. As an agency of the Province of Manitoba, the WCB applies the exemption for government-related entities in IAS 24 *Related Party Disclosures.*

Pursuant to *The Workplace Safety and Health Act* of Manitoba, the Province may pay the expenses incurred in the administration of that Act out of the consolidated fund and may, subsequently, recover such portion as it may determine from the WCB under *The Workers Compensation Act* of Manitoba. For 2012, the amount charged to operations under this provision was $8.8 million ($8.7 million in 2011).

Also, under Section 84.(1) of *The Workers Compensation Act* of Manitoba, the Province may pay the costs incurred in respect of worker advisors and may recover them from the WCB. For 2012, the amount charged to operations under this provision was $0.7 million ($0.7 million in 2011).

In addition to the legislated obligations referred to above, included in these financial statements are amounts resulting from routine operating transactions conducted at prevailing market prices with various provincial government controlled ministries, agencies and Crown corporations with which the WCB may be considered related. This includes the provision of assistance, in the form of medical opinions and appeal services, for the Province of Manitoba relating to criminal injury claims. The provincial government is also a self-insured employer under *The Workers Compensation Act* of Manitoba. Account balances resulting from these transactions are included in these financial statements and are settled on normal trade terms.

Included in the WCB's investment portfolio as at December 31, 2012 are guaranteed debentures issued by the Province of Manitoba in the amount of $3.2 million ($1.1 million in 2011).

Other Related Party Disclosures

In addition to the related government entities above, the key management personnel of the WCB (comprised of the WCB executive personnel and the Board of Directors) are deemed related parties. By definition, close family members of the key management personnel are also related parties of the WCB. Any transactions or business relationships are incidental, and carried out at normal trade terms.

The WCB has a pension plan for the benefit of WCB employees, which is a related party by definition of IAS 24 *Related Party Disclosure*. Detailed information on transactions with the pension plan can be found in Note 12.

Key Management Compensation

The following table shows total compensation for the executive personnel of the WCB:

	2012	2011
Short-term employee benefits	$ 1,301	$ 1,277
Post-employee benefits	598	194
	$ 1,899	$ 1,471

Short-term employee benefits include salary, vacation, car allowances, group health and dental benefits, group life insurance, and the employer's share of contributions to the Canada Pension Plan and employment insurance. Post-employment benefits include the estimated current service cost accrued for pension and other post-employment benefits.

The following table shows the total compensation for the Board of Directors of the WCB:

	2012	2011
Fees	$ 135	$ 113
Benefits	1	1
	$ 136	$ 114

The Board of Directors is comprised of 10 members appointed by the Government of Manitoba. Members' remuneration is set out in Order in Council passed by Lieutenant Governor in Council.

18. COMMITMENTS

The WCB has signed operating leases for office premises and office equipment expiring at various times until December 31, 2021. The minimum lease obligations over the next five years are:

2013	2014	2015	2016	2017	Thereafter	Total
$ 681	$ 426	$ 317	$ 68	$ 73	$ 293	$ 1,858

The WCB began a capital project to repair the exterior cladding on its office building located at 333 Broadway in 2010. The project is scheduled to be completed in early 2013. The estimated cost of the project is $14.3 million, with $12.5 million of capital cost incurred as at December 31, 2012.

19. CONTINGENCIES

The WCB is party to various claims and lawsuits related to the normal course of business that are currently being contested. In the opinion of management, the outcome of such claims and lawsuits are not determinable. However, based on the total amount of all such actions, WCB has concluded that their outcomes, either individually or in aggregate, will not have a material effect on the results of operations or financial position.

20. AUDITOR INDEPENDENCE

Grant Thornton LLP did not provide non-audit services to the WCB in 2012 or 2011.