PENSION FUND OF THE PENSION PLANS OF THE UNIVERSITY OF GUELPH COMBINED FINANCIAL STATEMENTS

For the Year Ended September 30, 2011

March 8, 2012

Independent Auditor's Report

To the Board of Governors of the University of Guelph

We have audited the accompanying combined financial statements of the Pension Fund of the Pension Plans of the University of Guelph (the "Plans"), which comprise the combined statement of net assets available for benefits as at September 30, 2011 and the combined statement of changes in net assets available for benefits for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information. The combined financial statements have been prepared by management based on the financial reporting provisions of Section 76 of Regulation 909 to the Pension Benefits Act of the Province of Ontario.

Management's responsibility for the combined financial statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with the financial reporting provisions of Section 76 of Regulation 909 to the Pension Benefits Act of the Province of Ontario, and for such internal control as management determines is necessary to enable the preparation of combined 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 combined financial statements based on our audit. We conducted our audit 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion
In our opinion, the combined financial statements present fairly, in all material respects, the combined net assets available for benefits of the Plans as at September 30, 2011 and the combined changes in their net assets available for benefits for the year then ended in accordance with the financial reporting provisions of Section 76 of Regulation 909 to the Pension Benefits Act of the Province of Ontario.

Basis of accounting and restriction on use
Without modifying our opinion, we draw attention to note 1 to the combined financial statements, which describes the basis of accounting. The combined financial statements are prepared to assist the Plans to meet the requirements of the Financial Services Commission of Ontario. As a result, the combined financial statements may not be suitable for another purpose. Our report is intended solely for the University of Guelph and the Financial Services Commission of Ontario and should not be used by parties other than the University of Guelph or the Financial Services Commission of Ontario.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

Pension Fund of the Pension Plans of the University of Guelph

Combined Statement of Net Assets Available for Benefits

As at September 30, 2011

(in thousands of dollars)

	2011	2010
ASSETS		
Pooled Fund of University of Guelph Pension Plans (Note 5)	853,955	864,442
Employer contributions receivable	990	902
Member contributions receivable	622	551
	855,567	865,895
LIABILITIES		
Accounts payable (Note 6)	860	1,815
Net Assets Available for Benefits	854,707	864,080

Pension Fund of the Pension Plans of the University of Guelph

Combined Statement of Changes in Net Assets Available for Benefits

For the year ended September 30, 2011

(in thousands of dollars)

	2011	2010
Increase in Net Assets		
Employer contributions	38,472	21,246
Member contributions	13,432	13,071
	51,904	34,317
Investment income	24,661	29,972
Net realized gains	26,366	14,052
Net increase in unrealized gains	-	8,653
	51,027	52,677
Total Increase in Net Assets	102,931	86,994
Decrease in Net Assets		
Net increase in unrealized loss	50,703	-
Pension payments	44,801	41,025
Refunds of contributions	15,363	8,706
Administrative expenses and professional fees (Note 7)	1,437	1,291
Total Decrease in Net Assets	112,304	51,022
Net Increase (Decrease) for the Year	(9,373)	35,972
Net Assets at Beginning of Year as previously reported	864,080	828,108
Net Assets at End of Year, at Market Value	854,707	864,080

1. Significant Accounting Policies

Basis of Presentation

These financial statements present the net assets under the control of the administrator of the University of Guelph's three pension plans (registered with Canada Revenue Agency and the Financial Services Commission of Ontario, registration #0324616, #0324632 and #0324624).

Basis of Accounting

These financial statements have been prepared in accordance with the significant accounting policies set out below to comply with the accounting requirements prescribed by the Financial Services Commission of Ontario for financial statements under section 76 of Regulation 909 of the Pension Benefits Act of the Province of Ontario. The basis of accounting used in these financial statements materially differs from Canadian generally accepted accounting principles because it excludes the actuarial liabilities of the plans. Consequently, these financial statements do not purport to show the adequacy of the plan's assets to meet its pension obligations.

Pooled Fund

The assets of the University of Guelph pension plans are administered as a single Pooled Fund. The value of the Pooled Fund is based on the fair value of the underlying investments. Fair values are determined using listed market values where available or comparable security prices as appropriate. Each of the University of Guelph Pension Plans interest in the Pooled Fund is calculated based on the units held by each Plan in the Pooled Fund.

Investment Income

Investment income consists of interest income, recognized as it accrues, plus dividend income, recognized as of the ex-dividend date, less investment counsel fees and trustee fees. Each of the University of Guelph Pension Plans pro-rata share of investment income, is calculated based on the units held by each plan in the Pooled Fund.

Net Realized Gain (Loss)

The net realized gain (loss) is based on the sale of investments, recorded at the settlement date and based on the average cost of the securities. Each of the University of Guelph Pension Plans pro-rata share of net realized gain, is calculated based on the units held by each plan in the Pooled Fund.

Contributions, Benefit Payments and Refunds

Contributions, benefit payments and refunds are recorded on the accrual basis.

Recently Issued Accounting Pronouncements

In December 2010, the Canadian Accounting Standards Board issued a comprehensive set of accounting standards applicable to Pension Plans effective for fiscal years beginning on or after January 1, 2011. The adoption of these standards is not expected to have a significant impact on the financial statements.

2. Investment Risk Management

The objective of the Pension Plans is to achieve medium to long-term growth of its investment portfolio to provide the Plans with assets sufficient to meet member's pension benefit payment obligations. The Plans' investment policy is established by the Board of Governors and is set out in the statement of investment policies and procedures (the SIPP).

The Plans invest in assets in accordance with the SIPP and are monitored by the Investment Management Committee. The Plans' investing activities expose it to a variety of financial risks including market risk, credit risk and liquidity risk.

The allocation of assets among various types of investments and the performance of investments held by the Plans are monitored by the Plans' investment managers on a monthly basis and reviewed by the Investment Management Committee on a quarterly basis.

The Pension Committee oversees how management monitors compliance with the Plans' risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the long-term objectives of the Plans.

a. Market risk

The Plans' investments are susceptible to market risk, which is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

The Plans market risk is affected by changes in the level or volatility of market rates or prices, such as interest rates, foreign exchange rates and equity prices. The sensitivity analysis provided below discloses the effect on net assets available for benefits as at September 30, 2011, assuming that a reasonably possible change in the relevant risk variable has occurred at September 30, 2011 and has been applied to the risk exposures in existence at that date to show the effects of the reasonably possible changes. The reasonably possible changes in market variables used in the sensitivity analysis were determined based on implied volatilities where available or on historical data.

The sensitivity analysis provided is hypothetical and should be used with caution as the impacts provided are not necessarily indicative of the actual impacts that would be experienced as the Plans' actual exposure to market rates may change. Changes in fair values or cash flows based on a variation in a market variable cannot be extrapolated because the relationship between the change in a market variable and the change in fair value or cash flows may not be linear. In addition, the effect of a change in a particular market variable on fair values or cash flows is calculated without considering interrelationships between the various market rates or mitigating actions that would be taken by the Plans.

i. Interest rate risk

Interest rate risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Plans are subject to interest rate risk though its holdings of variable interest rate instruments. The SIPP contains guidelines related to investments in interest bearing instruments, which address credit concentration, duration

2. Investment Risk Management (continued)

and distribution. These guidelines are designed to mitigate the interest rate risk at a level deemed acceptable by the Pension Committee.

As at September 30, 2011, had the market interest rates increased or decreased by 1% with all other variables held constant, the fair value of the fixed income holdings in the Plans would have decreased or increased respectively, by approximately $17.0 million.

ii. Currency risk

The Plans hold assets denominated in currencies other than the Canadian dollar, the Plans' functional currency. It is therefore exposed to currency risk as the value of the financial instruments denominated in other currencies will fluctuate due to the changes in exchange rates.

As at September 30, 2011, had the foreign exchange rates increased or decreased by 10% with all other market variables held constant, the fair value of the foreign currency assets of the Plans would have increased or decreased respectively, by approximately $39.1 million.

iii. Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

As at September 30, 2011, had the value of the equity portfolio increased or decreased by 10% with all other variables held constant, the value of equities would have increased or decreased respectively, by approximately $56.9 million.

b. Credit Risk

Credit risk is the risk one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Plans manage credit risk through the application and monitoring of its SIPP.

The Plans assess all counterparties for credit risk before contracting with them. The Plans' maximum exposure to credit risk is detailed in the following table:

[in thousands of dollars]	2011
Cash	29,056
Bonds and debentures	255,828
	284,884

2. Investment Risk Management (continued)

c. Liquidity Risk

Liquidity risk is the risk that the Plans may be unable to meet obligations in a timely manner. In addition to recurring expenses, the Plans are called upon to meet regular pension benefit payments as well as lump sum transfers that my occur upon retirement or termination of qualifying Plan members. The risk the Plans would be unable to meet such obligations is managed through the Plans' ongoing monitoring of the individual investment managers and in their ability to liquidate investments in which the Plans have invested. The risk in this area is assessed by the Plans to be insignificant.

3. Fair Value Measurement

Financial instruments measured at fair value are classified according to a fair value hierarchy that reflects the importance of the data used to perform each evaluation. The fair value hierarchy is made up of the following levels:

Level 1 – Unadjusted quoted prices in an active market for identical assets or liabilities.
Level 2 – Inputs other than quoted prices under Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3 – Inputs based on unobservable market data.

The following is an analysis of the investments of the Plan using the hierarchy related to the inputs to fair value measurement.

a. Cash

Cash is classified as Level 2.

b. Short-term notes and treasury bills

Short-term notes and treasury bills are classified as Level 2. These instruments mature within one year and are stated at cost, which, when combined with accrued interest income, approximates market value.

c. Bonds and debentures

Bonds and other interest bearing securities are classified as Level 2 when they are actively traded. They are classified as Level 2 when they are valued using observable inputs, including interest rate curves, credit spreads and volatilities. Bonds for which significant unobservable data is required in determining fair value are classified as Level 3.

d. Equities & Private equity funds

The Plans' equity positions are classified as Level 1 when the security is actively traded and a reliable quote is observable. Certain of the Plans' equities do not trade frequently and therefore observable prices may not be available. In such cases, fair value is determined using

3. Fair Value Measurement (continued)

observable market data (e.g., transactions for similar securities of the same issuer) and is classified as Level 2, unless the determination of fair value requires significant unobservable data, in which case the measurement is classified as Level 3.

The fair value hierarchy requires the use of observable data from active financial markets each time such data exists. Where a financial instrument contains inputs from multiple levels, it is classified at the lowest level of the hierarchy for which significant input has been considered in measuring fair value.

The following table presents the Plans' financial assets evaluated at fair value as at September 30, 2011, classified according to the fair value hierarchy described above:

[in thousands of dollars]	Level 1	Level 2	Level 3	2011 Total
Canadian				
Cash & Cash Equivalents		15,255		15,255
Bonds and debentures		254,098		254,098
Equities	187,904			187,904
Private equity funds		1,699	2,658	4,357
Foreign				
Cash & Cash Equivalents		13,801		13,801
Bonds and debentures		1,730		1,730
Equities	376,810			376,810
	564,714	286,583	2,658	853,955

During the year ended September 30, 2011 the Plans' Level 3 fair value measurements decreased by $1.8 million (2010 - $ nil) during the year.

4. Management of Capital

The capital of the Plans is represented by the net assets available for benefits. The University's objective when managing the Plan's capital is to safeguard the assets of the Plans to support the Plans' investment objectives. Investment performance and asset allocation is reviewed by the Investment Management Committee of the Board of Trustees and is reported to the Pension Committee.

5. Pooled Fund of the University of Guelph Pension Plans

(a) The quoted market values of investments in the Pooled Fund, related accrued interest and dividend income receivable, and accrued investment counsel and trustee fees payable as at September 30, 2011 and September 30, 2010 are as follows:

[in thousands of dollars]	2011	2010
Canadian		
Cash & Cash Equivalents	15,255	12,724
Bonds and debentures	254,098	254,607
Equities	187,904	198,326
Private equity funds	4,357	6,116
	461,614	471,773
Foreign		
Cash & Cash Equivalents	13,801	13,838
Bonds and debentures	1,730	1,994
Equities	376,810	376,837
	392,341	392,669
Total market value of Pooled Fund net assets	853,955	864,442

Fluctuations in the comparative figures noted above reflect changes in both asset mix and year end market values of securities held in the Pooled Fund.

The book value of assets held in the Pooled Fund at September 30, 2011 was $854.1 million (2010 - $813.8 million). The unrealized gain (loss) at September 30, 2011 was ($0.2) million (2010 - $50.6 million).

5. Pooled Fund of the University of Guelph Pension Plans (continued)

(b) The Individually Significant Investments

The book or market value of the following investments exceeds 1% of the book or market value of total pension fund assets at September 30, 2011.

[in thousands of dollars]	Book	Market
Canadian Bonds & Debentures		
Canada Housing Trust	36,753	38,047
Government of Canada	67,246	71,283
Province of Ontario	14,956	16,609
Province of Quebec	8,983	9,851
	127,938	135,790
Canadian Stocks		
Bank of Nova Scotia	7,010	9,082
Royal Bank of Canada	8,718	8,868
Suncor Energy Inc.	8,721	7,832
Toronto Dominion Bank	8,738	11,271
	33,187	37,053
Total	161,125	172,843

6. Accounts Payable

[in thousands of dollars]	2011	2010
Refund of contributions plus interest	398	577
Administration fees to the University of Guelph	361	1,053
Professional fees (actuary, audit, legal)	50	145
Provincial regulatory fees and Pension Benefit Guarantee Fund	51	40
	860	1,815

7. Administrative Expenses and Professional Fees

[in thousands of dollars]	2011	2010
Pooled Level Fees		
Investment Management Fees	3,878	3,454
Custodial and Performance Management Fees	377	442
	4,255	3,896
Plan Level Expenses		
University of Guelph Administrative Fee	544	622
Professional Fees:		
Actuarial Fees	780	557
Legal, Accounting and Auditing Fees	28	33
Other Fees*	85	79
	1,437	1,291

8. Related Party Transactions [in thousands of dollars]

During the year ended September 30, 2011, the University of Guelph charged the Pooled Fund $544 (2010 - $622) for administrative services.