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

For the Year Ended September 30, 2010

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Auditors' Report

To the Board of Governors of the University of Guelph

We have audited the combined statement of net assets available for benefits of the Pension Fund of the Pension Plans of the University of Guelph (the "Plans") as at September 30, 2010 and the combined statement of changes in net assets available for benefits for the year then ended. These financial statements have been prepared to comply with Section 76 of Regulation 909 to the Pension Benefits Act of the Province of Ontario. These financial statements are the responsibility of the pension plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these combined financial statements present fairly, in all material respects, the combined net assets available for benefits as at September 30, 2010 and the combined changes in net assets available for benefits for the year then ended in accordance with the basis of accounting as disclosed in note 1 to the financial statements.

These financial statements, which have not been, and were not intended to be, prepared in accordance with Canadian generally accepted accounting principles, are solely for the information and use of the Board of Governors of the University of Guelph and the Financial Services Commission of Ontario for complying with Section 76 of Regulation 909 to the Pension Benefits Act of the Province of Ontario. These financial statements are not intended to be and should not be used by anyone other than the specified users or for any other purpose.

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, 2010
(in thousands of dollars)

	2010	Restated (Note 9) 2009
ASSETS		
Pooled Fund of University of Guelph Pension Plans (Note 5)	864,442	827,567
Employer contributions receivable	902	800
Member contributions receivable	551	470
	865,895	828,837
LIABILITIES		
Accounts payable (Note 6)	1,815	729
Net Assets Available for Benefits	864,080	828,108

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, 2010
(in thousands of dollars)

	2010	Restated (Note 9) 2009
Increase in Net Assets		
Employer contributions	21,246	14,420
Member contributions	13,071	13,551
	34,317	27,971
Investment income	29,972	24,370
Net realized gains	14,052	-
Net increase in unrealized gains	8,653	118,161
	52,677	142,531
Total Increase in Net Assets	86,994	170,502
Decrease in Net Assets		
Net realized losses	-	97,473
Pension payments	41,025	38,448
Refunds of contributions	8,706	10,080
Administrative expenses and professional fees (Note 7)	1,291	1,404
Total Decrease in Net Assets	51,022	147,405
Net Increase (Decrease) for the Year	35,972	23,097
Net Assets at Beginning of Year as previously reported	828,108	796,241
Prior period Adjustment (Note 9)	-	8,770
Net Assets at Beginning of Year as restated	828,108	805,011
Net Assets at End of Year, at Market Value	864,080	828,108

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.

Change in Accounting Policies

During 2009, The Canadian Institute of Chartered Accountants (CICA) amended Handbook Section 3862, Financial Instruments - Disclosures. The amendment included the requirement for enhanced disclosure on the inputs to fair value measurement. This disclosure includes the classification within a hierarchy that prioritizes the inputs to fair value measurement. The hierarchy places the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to inputs not based on observable market data (Level 3).

The only impact of the amendment is enhanced disclosure, which has been provided in note 3. As permitted by the transition rules of the amendment, comparative information has not been provided.

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.

1. Significant Accounting Policies (continued)

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.

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, 2010, assuming that a reasonably possible change in the relevant risk variable has occurred at September 30, 2010 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.

2. Investment Risk Management (continued)

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 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, 2010, 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 $16.2 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, 2010, 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 $38.9 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, 2010, 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 $58.1 million.

2. Investment Risk Management (continued)

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

[in thousands of dollars]	2010
Cash	26,562
Bonds and debentures	256,601
	283,163

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.

3. Fair Value Measurement (continued)

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 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, 2010, classified according to the fair value hierarchy described above:

[in thousands of dollars]	Level 1	Level 2	Level 3	2010 Total
Canadian				
Cash & Cash Equivalents		12,724		12,724
Bonds and debentures		254,607		254,607
Equities	198,326			198,326
Private equity funds		1,699	4,417	6,116
Foreign				
Cash & Cash Equivalents		13,838		13,838
Bonds and debentures		1,994		1,994
Equities	376,784	53		376,837
	575,110	284,915	4,417	864,442

There were no changes in the Plans' Level 3 fair value measurements during the year ended September 30, 2010.

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, 2010 and September 30, 2009 are as follows:

[in thousands of dollars]	2010	2009
Canadian		
Cash & Cash Equivalents	12,724	23,190
Bonds and debentures	254,607	252,249
Equities	198,326	199,344
Private equity funds	6,116	6,115
	471,773	480,898
Foreign		
Cash & Cash Equivalents	13,838	9,328
Bonds and debentures	1,994	4,093
Equities	376,837	333,248
	392,669	346,669
Total market value of Pooled Fund net assets	864,442	827,567

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, 2010 was $813.8 million (2009 - $785.6 million). The unrealized gain at September 30, 2010 was $50.6 million (2009 - $41.9 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, 2010.

[in thousands of dollars]	Book	Market
Canadian Bonds & Debentures		
Canada Housing Trust	37,165	38,188
Government of Canada	74,777	77,764
Province of Ontario	12,869	13,759
Province of Quebec	9,792	10,417
	134,603	140,128
Canadian Stocks		
Royal Bank of Canada	7,906	9,407
Suncor Energy Inc.	8,131	9,583
Toronto Dominion Bank	6,943	9,774
	22,980	28,764
Total	157,583	168,892

6. Accounts Payable

[in thousands of dollars]	2010	2009
Refund of contributions plus interest	577	160
Administration fees to the University of Guelph	1,053	431
Professional fees (actuary, audit, legal)	145	104
Provincial regulatory fees and Pension Benefit Guarantee Fund	40	34
	1,815	729

7. Administrative Expenses and Professional Fees

[in thousands of dollars]	2010	2009
Pooled Level Fees		
Investment Management Fees	3,454	2,595
Custodial and Performance Management Fees	442	540
	3,896	3,135
Plan Level Expenses		
University of Guelph Administrative Fee	622	615
Professional Fees:		
Actuarial Fees	557	581
Legal, Accounting and Auditing Fees	33	39
Other Fees*	79	169
	1,291	1,404
Total Administrative Expenses and Professional Fees	5,187	4,539

* includes Provincial regulatory fees and Pension Benefit Guarantee Fund.

8. Related Party Transactions [in thousands of dollars]

During the year ended September 30, 2010, the University of Guelph charged the Pooled Fund $622 (2009 - $615) for administrative services.

9. Prior Period Adjustment

During the year the University of Guelph discovered that amounts had been accrued as owing to plan members who were members of the plan and had not submitted application for refund. As a result, amounts were incorrectly recorded as refunds of contributions in the Statement of Changes in Net Assets Available for Benefits and as accounts payable in the Statement of Net Assets Available for Benefits.

The effect of the correction of error done retroactively with restatement is summarized below:

[in thousands of dollars]	2009	2009 (restated)
Accounts payable	8,861	729
Refunds of Contributions	9,442	10,080
Net Assets available for benefits - Beginning of year	796,241	805,011
Net Assets available for benefits - End of year	819,976	828,108

10. Comparative Numbers

Certain comparative numbers have been reclassified to conform to the current year presentation.