

**Lakehead University
Pension Investment Fund
Financial Statements**
For the year ended December 31, 2011

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Independent Auditor's Report

To the Administrator Lakehead University Pension Investment Fund

We have audited the accompanying financial statements of Lakehead University Pension Investment Fund, which comprise the statement of financial position as at December 31, 2011, and the statement of changes in net assets available for benefits for the year then ended, and a summary of significant accounting policies and other explanatory information. These financial statements have been prepared by management based on the financial reporting provisions of Section 76 of Regulation 909 of the Pension Benefits Act of Ontario.

Management's Responsibility for the Financial Statements

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

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

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

Independent Auditor's Report (cont'd)

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2011, and the changes in net assets available for benefits for the year then ended in accordance with the financial reporting provisions of Section 76 of Regulation 909 of the Pension Benefits Act of Ontario.

Basis of Accounting and Restriction on Use

Without modifying our opinion, we draw attention to Note 2 in the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the Administrator of the Fund to meet the requirements of the Financial Services Commission of Ontario. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the Administrator of the Fund and the Financial Services Commission of Ontario and should not be used by parties other than the Administrator of the Fund or the Financial Services Commission of Ontario.

BDO Canada LLP

Chartered Accountants, Licensed Public Accountants

Thunder Bay, Ontario
June 15, 2012

Lakehead University Pension Investment Fund Statement of Financial Position.

For the year ended December 31

2011

2010

	Professional and Administrative Staff Plan (Ontario Registration Number 246058)	Employee Pension Plan (Ontario Registration Number 526921)	Total	Professional and Administrative Staff Plan (Ontario Registration Number 246058)	Employee Pension Plan (Ontario Registration Number 526921)	Total
Assets						
Cash	\$ 175,931	\$ 28,878	\$ 204,809	\$ 1,579,621	\$ 255,227	\$ 1,834,848
Investments, at market value (Note 3, Schedules 1 and 2) (cost 2011- \$201,048,023 ; cost 2010- \$193,416,402)	170,628,115	27,465,433	198,093,548	177,178,700	28,465,761	205,644,461
HST receivable	2,650	435	3,085	5,261	850	6,111
Sponsor's contributions receivable	438,325	73,815	512,140	290,267	64,475	354,742
Employees' contributions receivable	246,089	75,385	321,474	254,036	66,662	320,698
	171,491,110	27,643,946	199,135,056	179,307,885	28,852,975	208,160,860
Liabilities						
Accounts payable (Note 4)	183,892	30,184	214,076	248,013	41,300	289,313
Net assets available for benefits	\$171,307,218	\$27,613,762	\$198,920,980	\$179,059,872	\$28,811,675	\$207,871,547

On behalf of the Administrator



The accompanying notes are an integral part of these financial statements.

Lakehead University Pension Investment Fund Statement of Changes in Net Assets Available for Benefits

For the year ended December 31

	2011			2010		
	Professional and Administrative Staff Plan (Ontario Registration Number 246058)	Employee Pension Plan (Ontario Registration Number 526921)	Total	Professional and Administrative Staff Plan (Ontario Registration Number 246058)	Employee Pension Plan (Ontario Registration Number 526921)	Total
Income (loss)						
Investment income	\$ 6,116,768	\$ 1,004,033	\$ 7,120,801	\$ 4,936,407	\$ 797,600	\$ 5,734,007
Net realized gains (losses) on investments	5,641,659	926,046	6,567,705	1,294,266	209,121	1,503,387
Net unrealized change in market value of investments	(12,625,804)	(2,556,730)	(15,182,534)	10,965,231	1,599,472	12,564,703
Other cash receipts - pension transfers (Note 5)	230,509	37,837	268,346	18,176	2,937	21,113
Contributions - employees	2,251,449	622,681	2,874,130	2,081,723	591,136	2,672,859
- sponsor	3,813,210	589,803	4,403,013	2,564,512	557,250	3,121,762
	5,427,791	623,670	6,051,461	21,860,315	3,757,516	25,617,831
Expenses						
Administration and professional fees (Note 7)	1,404,539	229,872	1,634,411	1,079,439	177,608	1,257,047
Increase in net assets before benefits paid	4,023,252	393,798	4,417,050	20,780,876	3,579,908	24,360,784
Benefits Paid						
Pension benefits and refunds (Note 6)	11,775,906	1,591,711	13,367,617	10,265,272	700,012	10,965,284
Increase (decrease) in net assets available for benefits	(7,752,654)	(1,197,913)	(8,950,567)	10,515,604	2,879,896	13,395,500
Net assets available for benefits, beginning of year	179,059,872	28,811,675	207,871,547	168,544,268	25,931,779	194,476,047
Net assets available for benefits, end of year	\$ 171,307,218	\$ 27,613,762	\$ 198,920,980	\$ 179,059,872	\$ 28,811,675	\$ 207,871,547

The accompanying notes are an integral part of these financial statements.

Lakehead University Pension Investment Fund

Notes to Financial Statements

December 31, 2011

1. Description of Plans

The Lakehead University Pension Investment Fund ("the Fund") consists of two plans. The following description of the Professional and Administrative Staff Plan ("PP") and the Lakehead University Employee Pension Plan ("LUEPP") is a summary only. For more complete information, reference should be made to the Plan Agreements.

The assets of the Fund are held by Northern Trust. Advisory Research Inc., Addenda Capital (formerly Cooperators), Dimensional Fund Advisors Canada ULC, Jarislowsky Fraser Limited, Letko Brosseau & Associates Inc. and State Street Global Advisors act as managers for the Fund and have discretionary investment authority.

The Fund is a Registered Pension Trust as defined in the Income Tax Act and is not subject to income taxes.

Professional and Administrative Staff Plan

The Plan is a contributory defined contribution pension plan. The Plan provides for a defined benefit guarantee for service prior to January 1, 1997. Under the Plan, contributions of 6.5% (2010 - 6.5%) of earnings were made by faculty and librarians and 8.05% (2010 - 8.05%) by the Plan sponsor. For other members, contributions of 8.05% (2010 - 8.05%) of earnings were made by employees and 8.05% (2010 - 8.05%) by the Plan sponsor.

Lakehead University Employee Pension Plan

The Plan is a contributory defined contribution pension plan. Under the Plan, employees contribute 7.9% (2010 - 7.9%) of their earnings except for contracted employees who contribute 7.15% (2010 - 7.15%) of their earnings. The Plan sponsor matches employee contributions. For contract lecturers, contributions of 6.5% (2010 - 6.5%) of earnings were made by employees and 7.9% (2010 - 7.9%) by the Plan sponsor.

2. Significant Accounting Policies

Basis of Presentation

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. These regulations require pension plans to adhere to the provisions of *Section 4600 - Pension Plans in Part IV - Accounting Standards for Pension Plans* of the Canadian Institute of Chartered Accountants (CICA) Handbook, although they permit the exclusion of the actuarial liabilities of the Plan. Consequently, these financial statements do not purport to show the adequacy of the Plan's assets to meet its pension obligations.

Lakehead University Pension Investment Fund Notes to Financial Statements

December 31, 2011

2. Significant Accounting Policies (cont'd)

Investments

Investments are stated at fair value which is based on CLOSING quoted market prices. The Fund has early adopted *International Financial Reporting Standards (IFRS) 13* with respect to the fair value measurement of its investments and there were no effect of this change.

Dividend income is recognized as of the ex-dividend date. The purchase and sale of securities are recorded on a trade date basis.

Realized gains and losses from security transactions are based on the average cost of the security.

Use of Estimates

The preparation of financial statements in accordance with the accounting principles described in the significant accounting policies requires the Fund Administrator to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from the Fund Administrator's best estimates as additional information becomes available in the future.

Foreign Currency Translation

At the transaction date, each asset, liability, revenue and expense is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year-end date, monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at that date and the resulting foreign exchange gains and losses are included in income in the current period.

Lakehead University Pension Investment Fund Notes to Financial Statements

December 31, 2011

3. Investments

	2011		2010	
	Market Value	Cost	Market Value	Cost
Canadian equities	\$ -	\$ -	\$ 23,991,456	\$ 19,326,199
Foreign equities	-	-	16,369,386	15,502,505
Canadian unit trust equities	103,199,374	105,751,226	78,823,109	72,260,218
US unit trust equities	21,698,877	24,751,736	6,817,599	8,521,159
Canadian unit trust bonds	65,742,440	63,032,543	71,828,877	70,172,011
US partnerships	7,435,851	7,495,512	7,600,908	7,495,512
Accrued income	17,006	17,006	57,698	57,698
Rights and warrants	-	-	155,428	81,100
	\$ 198,093,548	\$ 201,048,023	\$ 205,644,461	\$ 193,416,402

Lakehead University Pension Investment Fund Notes to Financial Statements

December 31, 2011

3. Investments (cont'd)

Individually significant investments

The cost or market value of the following investments exceeds 1% of the cost or market value of total pension fund investments at December 31, 2011:

	2011 Cost	2011 Market Value
Canadian Equity Fund		
Jarislowsky Fraser Investments - Equity Fund (1)	\$ 55,613,569	\$ 58,380,329
Letko Brosseau - RSP Equity Fund (2)	11,176,835	9,341,943
Bond Fund		
Addenda Capital (6)	36,428,955	37,652,972
Jarislowsky Fraser Investments Bond Fund (1)	26,603,588	28,089,469
Letko Brosseau - RSP Balanced Fund (2)	35,657,580	32,173,860
Foreign Equity Fund		
Advisory Research - Small Cap Value Fund II (3)	7,495,512	7,435,851
State Street Global Advisors - Global Equity Unit Trust (5)	15,982,286	15,949,651
Dimensional Fund Advisors - International Small Cap (4)	8,786,456	5,766,231
Miscellaneous - Other		
Jarislowsky Fraser Investments - Short Term Investments (1)	\$ 3,303,242	\$ 3,303,242

- (1) Jarislowsky Fraser investments are pooled funds administered by Jarislowsky Fraser Limited.
- (2) Letko Brosseau investments are pooled funds administered by Letko, Brosseau & Associates Inc.
- (3) Advisory Research investments are pooled funds administered by Advisory Research Inc.
- (4) Dimensional Fund investments are pooled funds administered by Dimensional Fund Advisors Canada ULC
- (5) State Street Global Advisors investments are a pooled fund administered by State Street Global Advisors, Ltd.
- (6) Addenda Capital (formerly Co-operators) investments are a pooled fund administered by Addenda Capital.

Lakehead University Pension Investment Fund Notes to Financial Statements

December 31, 2011

4. Accounts Payable

	2011	2010
Investment Management		
Addenda Capital	\$ 22,266	\$ 25,524
Gluskin Sheff & Associates Inc,	-	71,902
Letko, Brosseau & Associates Inc.	113	-
Jarislowsky Fraser Limited	55,625	41,298
State Street Global Advisors, Ltd.	8,803	759
Other		
BDO Canada LLP - Audit	8,175	8,400
Eckler Ltd. - Actuarial	25,324	3,001
AON Hewitt - Actuarial	-	81,079
Proteus - Investment Advisors	26,993	26,993
Northern Trust - Custodial Services	12,255	15,222
Ontario Pension Commission	10,002	10,837
Administration	44,520	4,298
	\$ 214,076	\$ 289,313

5. Pension Transfers

Pension transfers into the Lakehead University Plans were \$268,346 (2010 - \$21,113).

Transfers between the Lakehead University Employee Pension Plan and the Professional and Administrative Staff Plan were \$130,222 (2010 - \$115,196). Funds are transferred for members of the Lakehead University Employee Pension Plan that transfer to the Professional and Administrative Staff Plan when changing benefit classification effective January 1, 2011.

6. Pension Benefits and Refunds

	2011	2010
Pension benefits	\$ 7,539,655	\$ 7,545,597
Refunds	5,827,962	3,419,687
	\$ 13,367,617	\$ 10,965,284

Lakehead University Pension Investment Fund Notes to Financial Statements

December 31, 2011

7. Administrative Expenses and Professional Fees

	2011	2010
Investment management fees	\$ 1,111,574	\$ 839,158
Actuarial fees	192,780	233,077
Investment counselling	107,971	104,150
Commodity tax consulting	17,148	-
Audit fees	9,013	4,621
Custodial service fees	58,489	58,886
Other - Pension Commission	10,002	10,837
Administration	115,269	12,429
Goods and services tax rebate	12,165	(6,111)
	\$ 1,634,411	\$ 1,257,047

8. Related Party Transactions

The Pension Fund does not hold any securities of the employer sponsor or its related parties.

9. Income Taxes

The Fund is not subject to income tax since it is a Registered Pension Trust as defined by the Income Tax Act (Canada).

10. Statement of Cash Flows

A statement of cash flows is not presented since the cash flow information is readily apparent from other financial statements or is adequately disclosed in the notes to the financial statements.

11. Financial Instruments

The carrying value of GST/HST, sponsor's and employees' contributions receivable, and accounts payable approximates their fair value because of their short-term nature.

Risks arising from financial instruments:

Interest Rate Risk

Interest rate risk refers to the adverse consequences of interest rate changes on the Fund's financial position and revenue. This risk arises from the Fund's investments whose returns are linked to interest rates. The Plan invests in pooled funds that may hold debt instruments linked to interest rates.

Lakehead University Pension Investment Fund

Notes to Financial Statements

December 31, 2011

11. Financial Instruments

Foreign Currency Risk

Foreign currency exposure arises from the Fund's holdings of foreign equity or debt instruments. The Fund invests in mutual funds that may hold debt or equity instruments denominated in a foreign currency and as such would be exposed to fluctuations in currency risks. All of the Fund's investments are denominated in Canadian or US Dollars. US Dollar investments are translated into Canadian Dollars at the market rate at the end of the fiscal period. Investments denominated in foreign currencies are noted on the Schedule of Cost and Market Value of Investments by type (Schedule 1). An increase or decrease of 1% in the US exchange rate would result in an increase or decrease of net assets available for benefits of \$291,000.

Market Risk

Concentrations of market risk exist when a significant portion of the portfolio is invested in securities with similar characteristics and/or similar economic, political or other conditions that may prevail. The Fund Administrator believes that the investments in which the Fund invests spreads the market risk over different market sectors. The Fund Administrator uses a variety of investment management companies to ensure the portfolio is balanced to help mitigate market risk. An increase or decrease of 1% of the Fund's investment portfolio would result in an increase or decrease of net assets available for benefits of \$1,981,000.

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The maximum credit exposure to the Fund is represented by the fair value of the contributions receivable and investments presented in the Statement of Net Assets Available for Benefits. A portion of the Fund's cash equivalents are invested in short term debt instruments guaranteed by the Federal and certain provincial governments.

Financial Instruments Fair Value Hierarchy

Disclosure of a three-level hierarchy for fair value measurements is based upon transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1:

For securities valued based on unadjusted quoted prices in active markets for identical assets.

Level 2:

For securities valued based on inputs, other than quoted prices included in Level 1, that are observable for the asset, either directly or indirectly.

Level 3:

For securities valued based on inputs that are based on unobservable market data.

As at December 31, 2011 and 2010 the Fund's investments are Level 1 within the fair value hierarchy. There were no transfers between levels during the year.

Lakehead University Pension Investment Fund Notes to Financial Statements

December 31, 2011

12. Capital Management

The Fund's capital is its net assets available for benefits. The Fund's objective when managing capital is to safeguard the Fund's ability to continue to provide pension and related payments to its members. The Fund is not exposed to any externally imposed capital restrictions.

13. Actuarial Valuation

In the event that an actuarial valuation discloses a going concern unfunded liability or a solvency deficiency as defined by the Pension Benefits Act (1987), the University will be obligated to make additional contributions as required by the Act. The most recent actuarial valuation of the Plan at December 31, 2009, reported that based on then current provisions, the Plan had both a going concern unfunded liability and a solvency deficiency, and that additional University contributions would be required upon filing. The University is making special payments under Regulation 990 of the Pension Benefits Act of \$126,600 monthly to the Plan. These payments are expected to continue until the next scheduled actuarial valuation on December 31, 2012, at which point they will be reassessed.

14. Contingent Liability

The Financial Services Commission of Ontario (FSCO) has raised an issue with a Plan amendment made to the Professional and Administrative Staff Plan in 2000. The amendment provided that pensioner increases would be granted only to the extent that the funds in the Retirement Account of the Plan are sufficient to support the increase. FSCO has indicated that the amendment may be considered void unless a court agrees the amendment is necessary to rectify the language of the Plan to reflect its original intent, or the Plan is further amended to comply with requirements of the Pension Benefits Act.

The University has retained legal counsel to assist with the matter. While the ultimate outcome is uncertain, it is possible that the amendment should not have been applied to pensions which commenced before January 1, 2008 (scenario 1 below) or, alternatively, before February 25, 2000 (scenario 2 below). In each case, the assets of the Plan would be reduced by an account payable for pension increases that should have been paid between 2000 and 2010, and future obligations (for additional benefits payable after December 31, 2010) would be increased. The Plan Actuary has estimated the potential impact as follows:

	Account Payable for Pension Increases Since 2000	Increases in Future Obligations for Pension Increases After 2010
For all pensions commencing before January 1, 2008 (Scenario 1)	\$8.4 million	\$20.4 million
For all pensions commencing before February 25, 2000 (Scenario 2)	\$4.1 million	\$7.6 million

Lakehead University Pension Investment Fund

Schedule 1 - Cost and Market Value of Investments by Type

December 31 2011 2010

	Cost		Market value	
	Cost	Market value	Cost	Market Value
Equities				
Common stock				
Canada - CAD	\$ -	\$ -	\$ 19,326,199	\$ 23,991,456
Foreign - USD	-	-	15,502,505	16,369,386
Total common stock			34,828,704	40,360,842
Rights/warrants				
Canada - CAD	-	-	81,100	155,428
Unit trust equity				
Canada - CAD	105,751,226	103,199,374	72,260,218	78,823,109
Foreign - USD	24,751,736	21,698,877	8,521,159	6,817,599
Total unit trust equity	130,502,962	124,898,251	80,781,377	85,640,708
Total equities	130,502,962	124,898,251	115,691,181	126,156,978
Fixed Income				
Unit trust bonds				
Canada - CAD	63,032,543	65,742,440	70,172,011	71,828,877
Partnerships				
Foreign - USD	7,495,512	7,435,851	7,495,512	7,600,908
Accrued income	201,031,017	198,076,542	193,358,704	205,586,763
	17,006	17,006	57,698	57,698
Total investments	\$ 201,048,023	\$ 198,093,548	\$ 193,416,402	\$ 205,644,461

The accompanying notes are an integral part of these financial statements.

**Lakehead University Pension Investment Fund
Schedule 2 - Cost and Market Value of Investments
by Investment Manager**

For the year ended December 31	2011		2010	
	Cost	Market Value	Cost	Market Value
Advisory Research Inc.	\$ 7,495,512	\$ 7,435,851	\$ 7,495,512	\$ 7,600,908
Addenda Capital (formerly Cooperators)	36,428,955	37,652,972	43,395,294	44,158,498
Dimensional Fund Advisors Canada ULC	8,786,456	5,766,231	8,521,159	6,817,599
Gluskin Sheff & Associates Inc.	-	-	20,227,457	25,352,574
Jarislowsky Fraser Limited	85,520,399	89,773,040	53,071,023	62,087,935
Letko, Brosseau & Associates Inc.	46,834,415	41,515,803	45,180,798	43,236,546
State Street Global Advisors	15,982,286	15,949,651	15,502,505	16,369,386
Wentworth, Hauser and Violich Investment Counsel	-	-	22,654	21,015
	\$ 201,048,023	\$ 198,093,548	\$193,416,402	\$205,644,461

The accompanying notes are an integral part of these financial statements.