Workplace Safety and Insurance Board

Third Quarter 2011 Report to Stakeholders

Workplace Safety and Insurance Board
Commission de la sécurité professionnelle et de l'assurance contre les accidents du travail

Table of Contents

Management's Discussion and Analysis

Basis of presentation

The following Management's Discussion and Analysis ("MD&A") of financial condition and results of operations, as approved by the Board of Directors of the Workplace Safety and Insurance Board ("WSIB") is prepared for the three and nine months ended September 30, 2011.

IFRS replaces current Canadian GAAP for publicly accountable enterprises, including the WSIB, effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Accordingly, the accompanying unaudited condensed consolidated interim financial statements for the three months ended September 30, 2011 have been prepared in accordance with IAS 34, Interim Financial Statements, using accounting policies consistent with IFRS. The transition to IFRS required a restatement of the WSIB's 2010 financial information from its original Canadian GAAP basis such that the 2010 comparative information presented in the consolidated financial statements and the MD&A reflect accounting policies consistent with IFRS.

Readers of the MD&A should refer to Note 5 of the accompanying condensed consolidated interim financial statements, for a discussion of IFRS and its impact on the WSIB's consolidated financial statements.

In this MD&A, "WSIB," the "Agency," or the words "our," "us" or "we" refer to the WSIB. This MD&A is dated December 14, 2011, and all amounts herein are denominated in millions of Canadian dollars, unless otherwise stated.

The information in this MD&A includes amounts based on informed judgments and estimates. Forward-looking statements contained in this discussion represent management's expectations, estimates and projections regarding future events based on information currently available, involving assumptions, inherent risks and uncertainties. Readers are cautioned that actual results may differ materially from projections in cases in which future events and circumstances do not occur as expected.

1 Operating Results

A discussion of our operating results for the three and nine months ended September 30, 2011.

In the third quarter of 2011, the WSIB experienced improvements in many areas mainly due to its new approaches to helping workers reintegrate into the workplace, delivering quality health care, and dealing with high-impact claims.

The WSIB continued to experience strong operational performance in the three months ended September 30, 2011 with all underlying drivers of the Unfunded Liability (UFL) contributing, with the exception of investment returns due to adverse market conditions. For the nine months ended September 30, 2011, the WSIB generated comprehensive income attributable to WSIB stakeholders of $106 million, inclusive of a $247 million loss on our investment portfolio, a $1,397 million improvement over the comparable period in 2010, exclusive of investment returns, as detailed in the following table.

($ millions)	Nine months ended September 30 2011	2010	Favourable (Unfavourable)
Premiums Revenue	$ 2,847	$ 2,597	$ 250
Other income (loss)	1	2	(1)
Benefit costs	2,049	3,196	1,147
Loss (recovery) of Retirement Income Fund	53	55	2
Administrative and other expenses	271	273	2
Legislated obligations and commitments	157	154	(3)
			$ 1,397

Premium revenues continued to be strong in the third quarter reflecting the 2% premium rate increase implemented in 2011 combined with a 4.2% increase in insurable payroll.

Our results were adversely impacted during the third quarter by investment returns of negative 4.7%. We expect investment returns will remain volatile through the fourth quarter of 2011 and into 2012.

We continue to see positive trends in our benefit costs, which, excluding a one-time actuarial adjustment of $516 million recorded in 2010, improved by $631 million year-over-year. This improvement was largely attributable to a reduction in lost time claims registered during 2011 combined with improved return to work outcomes for injured workers and a $478 million reduction in our claims inventory as at September 30, 2011.

The positive improvements in claim costs and durations are the result of a number of strategies implemented to improve recovery and return to work (RTW) outcomes. Through a combination of new and redesigned roles and business processes, WSIB staff are engaging workers and employers much earlier and helping facilitate return to work directly in the workplace.

The WSIB's new Work Reintegration Program introduced in late 2010, which included the in-sourcing of labour market re-entry services, is yielding impressive early results. At the end of third quarter 2011, 74% of all cases closed had a RTW outcome. The average time of a work transition plan is also down to five months, compared to 19 months in 2009 under the prior outsourced model. Program costs have fallen from $120.9 million in the third quarter of 2009 to $86.1 million (including administrative costs) at the end of third quarter 2011.

In addition, the comprehensive Health Care Strategy initiated by the WSIB in 2010 is also driving improved outcomes. The strategy focuses on integrating health care, RTW, and case management to support the recovery of injured workers. It aims to realize the benefits of early RTW for workers and employers, and includes:

- improved cost efficiencies through strategic procurements;
- implementing a Narcotic Strategy focusing on reducing the dosage and usage of opioids;
- improved access to Regional Evaluation Centres and Specialty Clinics across the province to align with new approaches and focus;
- introducing a High Impact Claims programs to improve recovery outcomes for low back, shoulder and fracture injuries; and

- expanding access to expert medical resources to provide medical opinions and discuss cases directly with workers' physicians.

The low back initiative includes a standardized case management model that integrates return to work and health recovery activities. Key features include:

- specialized teams of case managers;
- worker education, including the provision of the "Back Booklet" to all workers suffering a low back injury;
- Low Back Program of Care (evidence-based health care delivery plan) for workers requiring chiropractic or physiotherapy treatment; and
- early involvement of RTW Specialists (number of interventions has increased from 4,091 to 5,171 through the third quarter of 2011 compared to the same period in 2010).

Despite significant inflationary pressures in health care costs, we have seen a year-over-year drop of 4.5% in our medical expenditures. This marks the second year in a row that health care costs have gone down and represents a significant improvement from previous years. Between 2000 and 2009, the cost of health care increased at an annual average rate of 7.6% despite a decrease in the number of new claims.

Our administrative expenses continue to be well controlled and are below 2010 levels. The combination of all of these factors noted has allowed the WSIB to achieve a comprehensive income attributable to WSIB stakeholders of $106 million for the nine months ended September 30, 2011, notwithstanding a $247 million loss on investments due to adverse market conditions.

Highlights for the three months ended September 30, 2011 compared to the three months ended September 30, 2010

Comprehensive income attributable to WSIB stakeholders for the three months ended September 30, 2011 decreased $979 million compared to the three months ended September 30, 2010, as detailed below:

- Premiums increased $40 million reflecting a 2% increase in premium rates and a 2.8% increase in insurable payroll, consisting of a 2.2% increase in employment growth and a 0.6% increase in average wages.
- Investments and other income decreased $1,534 million reflecting an investment loss of $659 million compared to an investment gain of $875 million.
- Expenses decreased $318 million or 33.4% primarily attributed to lower benefit costs, due to fewer lost time injuries, faster and more efficient claims management, better management of health care and lower external provider costs along with the implementation of the WSIB's new work re-integration program.

Highlights for nine months ended September 30, 2011 compared to the nine months ended September 30, 2010

Comprehensive income attributable to WSIB stakeholders for the nine months ended September 30, 2011 increased $577 million compared to the nine months ended September 30, 2010, as detailed below:

- Premiums increased $250 million reflecting a 2% increase in premium rates and a 4.2% increase in insurable payroll, consisting of a 2.1% increase in employment growth and a 2.1% increase in average wages.

- Investments and other income decreased $941 million reflecting an investment loss of $246 million compared to an investment gain of $694 million.
- Expenses decreased $1,148 million or 31.2% driven by those factors noted above.

The following table sets out the WSIB's quarterly and year-to-date operating results:

($ millions)	**Three months ended September 30**		**Nine months ended September 30**	
	2011	**2010**	**2011**	**2010**
Condensed Consolidated Interim Statement of Comprehensive Income (Loss)				
Revenues				
Premiums	$ 985	$ 945	$ 2,847	$ 2,597
Investment income (loss)	(659)	875	(247)	693
Other income	-	-	1	2
	326	1,820	2,601	3,292
Expenses				
Benefit costs – paid	695	758	2,157	2,311
Benefit costs – claims administration costs	83	77	252	232
Benefit costs – inventory movements in benefit liabilities	(309)	37	(360)	137
Benefit costs – actuarial assumption changes	-	(77)	-	516
Benefit costs	469	795	2,049	3,196
Loss of Retirement Income Fund expense	17	18	53	55
Administrative and other expenses	94	84	271	273
Legislated obligations and commitments	54	55	157	154
	634	952	2,530	3,678
Comprehensive income (loss) for the period	**(308)**	**868**	**71**	**(386)**
Less: amount attributable to non-controlling interest	(87)	110	(35)	85
Comprehensive income (loss) attributable to WSIB stakeholders	**$ (221)**	**$ 758**	**$ 106**	**$ (471)**
Condensed Consolidated Interim Statements of Cash Flows				
Cash provided (required) by operating activities	$ 147	$ (90)	$ 24	$ (251)
Cash provided (required) by investing activities	$ (133)	$ 89	$ (26)	$ 258
Cash provided (required) by financing activities	$ (13)	$ 6)	$ (7)	$ 41
Other measures				
Unfunded liability[1]			$ (12,332)	$ (12,438)
Funding ratio[2]			54.7%	54.7 %
Return on Investments[3]	(4.7%)	6.8 %	(2.0%)	5.1 %

[1] Unfunded liability represents the deficiency of net assets attributable to WSIB stakeholders.
[2] Funding ratio is calculated as total assets, excluding non-controlling interest in pooled investments, divided by total liabilities.
[3] Return on investments is calculated as the change in the fair value of the investment portfolio, taking into account capital contributions and withdrawals.

2 Financial Condition

A discussion of the significant changes in our Condensed Consolidated Interim Balance Sheets.

	September 30	December 31	Change	
($ millions)	**2011**	**2010**	**$**	**%**
Cash and cash equivalents	$ 999	$ 1,009	(10)	(1.0)
Receivables	1,062	872	190	21.8
Investments	14,377	14,674	(297)	(2.0)
Payables and accruals	1,116	955	161	16.9
Benefit liabilities	23,990	24,350	(360)	(1.5)
Unfunded liability	(12,332)	(12,438)	106	(0.9)

Cash and cash equivalents decreased $10 million or 1% reflecting a decrease of $33 million attributable to an excess of operating costs over premiums received, $17 million attributable to an increase in collateral used for investments partially offset by a decrease in cash held for investments and a $6 million increase in cash held for the Loss of Retirement Income Fund.

Receivables increased $190 million primarily attributed to the timing of the receipt of experience rating surcharges.

Investments decreased $297 million or 2.0% as a result of market returns on our investment portfolio.

Payables and accruals increased $161 million, or 16.9%, reflecting increased experience rating refunds to be granted in future years attributed to the 2011 injury year for employers with improved claims experiences.

Benefit liabilities decreased $360 million or 1.5% reflecting fewer lost time injuries, better management of claims and health care costs, the impact of the new work re-integration program on external provider costs and the reduction of liabilities related to worker pensions and future economic loss benefits. These reductions in benefit liabilities were partially offset by a $57 million increase to reflect the impact of increasing the level of full indexation from 2.5% to 2.8% for 2012 and incorporating expected changes to income taxes for 2012.

Unfunded liability decreased $106 million or 0.9% reflecting $106 million of comprehensive income attributable to WSIB stakeholders. The corresponding funding ratio improved modestly to 54.7% on September 30, 2011 from 54.6% at December 31, 2010.

3 Summary of Quarterly Results

A summary view of our quarterly financial performance

The following table highlights selected financial information for the eight consecutive quarters ended September 30, 2011:

($ millions)	2011 Q3	2011 Q2	2011 Q1	2010[2] Q4	2010[2] Q3	2010[2] Q2	2010[2] Q1	2009[1] Q4
Premiums	985	978	884	850	945	872	780	895
Investment and other income (loss)	(659)	122	291	597	875	(452)	272	446
Benefit costs paid	695	718	744	756	758	777	776	882
Benefit costs – claims administration	83	83	86	72	77	69	86	106
Change in benefit liability	(309)	(112)	61	447	(40)	435	258	(28)
Benefit costs	469	689	891	1,275	795	1,281	1,120	960
Administrative and legislated expenses	148	138	142	154	139	147	141	95
Comprehensive income (loss) attributable to WSIB stakeholders	(221)	240	87	(74)	758	(969)	(260)	203
Funding ratio (%)	54.7	55.9	55.4	54.6	54.7	51.2	54.1	54.2

Notes:
[1] Data for the fourth quarter of 2009 is presented in accordance with Canadian GAAP.
[2] Certain accounting and measurement methods previously applied under Canadian GAAP have been amended to comply with IFRS.

4 Liquidity and Capital Resources

A discussion of cash flow, liquidity, credit facilities and other arrangements.

The WSIB commenced presenting its condensed consolidated interim statements of cash flows using the indirect method effective July 1, 2011, as it is more consistent with industry practice and focuses on the difference between net income and net cash flow from operations. As such, it provides a more useful link among the principal financial statements.

The purpose of liquidity management is to ensure there is sufficient cash to meet the WSIB's financial commitments and obligations as they fall due. The WSIB believes it has the flexibility to obtain, from current cash holdings and ongoing operations, the funds needed to fulfill its cash requirements during the current financial period. The WSIB has three sources of funds, including premiums charged to employers, investment income and cash and short-term investments. Funds are used primarily for the payment of benefit costs and operating expenses. As at September 30, 2011, the WSIB held $726 million or 4.8% of its total invested assets as cash and cash equivalents of which $554 million is held as collateral for investment contracts.

Cash provided (required) by operating activities

($ millions)	Three months ended September 30 2011	Three months ended September 30 2010	Nine months ended September 30 2011	Nine months ended September 30 2010
Comprehensive income (loss)	$ (308)	$ 868	$ 71	$ (386)
Net adjustments for non-cash revenues and expenses	731	(924)	331	(679)
Net change in non-cash balances related to operations	(276)	(34)	(378)	814
Cash provided (required) by operating activities	$ 147	$ (90)	$ 24	$ (251)

Cash provided by operating activities for the three months ended September 30, 2011 was $147 million generated by: a comprehensive loss of $308 million, non-cash revenues and expenses of $731 million and an increase in non-cash balances related to operations of $276 million.

- The non-cash revenues and expenses of $731 million consist of $849 million of decreases in the fair value of investments offset by $118 million of non-cash dividend and interest adjustments.
- The increase in non-cash balances related to operations of $276 million primarily reflects a $309 million decrease in benefit liabilities offset by $33 million reduction in current assets.

Cash provided by operating activities for the nine months ended September 30, 2011 was $24 million generated by: a comprehensive income of $71 million, non-cash revenues and expenses of $331 million and an increase in non-cash balances related to operations of $378 million.

- The non-cash expenses and revenues of $331 million was made up of a $671 million decrease in the fair value of investments offset by $340 million of non-cash dividend and interest adjustments.
- The increase in non-cash balances related to operations of $378 million primarily reflects a $360 million decrease in benefit liabilities and an increase in current assets of $18 million.

Cash provided (required) by investing activities

	Three months ended September 30		Nine months ended September 30	
($ millions)	**2011**	**2010**	**2011**	**2010**
Cash provided (required) by investing activities	$ (133)	$ 89	$ (26)	$ 258

Cash required by investing activities for the three months ended September 30, 2011 was $133 million reflecting the purchase of investments and other assets of $236 million partially offset by income received from investments of $103 million.

Cash required by investing activities for the nine months ended September 30, 2011 was $26 million reflecting the purchase of investments and other assets of $358 million partially offset by income received from investments of $332 million.

Cash provided (required) by financing activities

	Three months ended September 30		Nine months ended September 30	
($ millions)	**2011**	**2010**	**2011**	**2010**
Cash provided (required) by financing activities	$ (13)	$ (6)	$ (7)	$ 41

Cash required by financing activities for the three months ended September 30, 2011 was $13 million reflecting distributions paid to non-controlling interests.

Cash required by financing activities for the nine months ended September 30, 2011 was $7 million reflecting the net contribution from non-controlling interests of $8 million offset by $15 million of payments related to mortgages and leases.

Credit facilities

The WSIB maintains a $150 million unsecured line of credit with a commercial bank for general corporate purposes. As at September 30, 2011, the WSIB had utilized $0.4 million of this credit facility to support letters of credit in favour of the Ontario Ministry of Finance related to real estate transactions completed by WSIB Investment (Realty) Limited, a wholly owned subsidiary of the WSIB.

Other arrangements

At September 30, 2011, the WSIB had commitments to fund real estate and infrastructure investment obligations of $84 million (2010 - $nil) and $199 (2010 - $223), respectively.

5 Critical Accounting Estimates and Judgments

A description of our accounting estimates that are critical to determining our financial results and changes to accounting policies.

The preparation of consolidated financial statements in accordance with IFRS requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods covered by the consolidated financial statements.

Management makes judgments involving assumptions and estimates relating to our obligations to administer the Workplace Safety and Insurance Act, 1997, some of which relate to matters that are inherently uncertain. The determination of these obligations is fundamental to our financial results and requires management to make assumptions about administrative costs, equity market performance, health care costs, inflation, and injured worker loss of earnings, interest rates and mortality rates.

During the third quarter of 2011, there were no material method or assumption changes. We continue to review our more significant assumptions regarding benefit liabilities, employee future benefit liabilities, investment returns and changes in regulatory policies. Accordingly, changes in any of these assumptions may result in material changes to our financial position. A summary of our more significant estimates and judgments are discussed below.

Benefit liabilities. Benefit liabilities are determined through an actuarial valuation, which estimates the present value of future payments for loss of earnings, labour market re-entry costs, short and long-term disability costs, health care costs, survivor benefit costs, retirement income benefits and claims administration costs. Benefit liabilities represent an actuarially determined provision for future benefit payments and the future cost of administering claims incurred on or before period end. The provision for benefit liabilities has been determined by estimating future benefit payments in accordance with the adjudication practices in effect at the validation date and relevant legislation. The change in present value of future benefit payments for reported and unreported work-related injuries and illnesses, and the change in future claim administration costs will be recorded as benefit costs on the WSIB's condensed consolidated interim financial statements. Benefit liabilities are reviewed each quarter and adjusted based on new information available or any changes in benefit payments and practices or relevant legislation. For example, the discount rate used to calculate the present value of future benefit liabilities is based on the expected long-term return on invested assets. Benefit liabilities do not include any provision for payment of Schedule 2 claims. The costs of these claims are not considered WSIB's liabilities because they are the liability of Schedule 2 employers.

Employee future benefits. Employee future benefits represent the estimated value of benefit liabilities for pension and other post-employment benefit plans. Actuarial valuations are performed as at December 31 of each year based on various assumptions including the discount rate, rate of compensation increase, retirement age, mortality and the anticipated cost of health care in future periods. The discount rate is determined by the WSIB with reference to AA credit-rated bonds that have maturity dates approximating the WSIB's duration at period end and are denominated in the same currency as the benefit obligations. Other assumptions are determined with reference to long-term expectations.

Investments. WSIB's financial assets are carried at their fair values. The fair values of investments are the quarter or year-end quoted prices where available. Where quoted prices are not available, estimated fair values are calculated based on the yields and values of comparable marketable securities. The cost of short-term securities, treasury bills and term deposits maturing within a year, plus accrued interest income, approximates their fair value. The carrying value of receivables and payables approximates their fair value because of the short-term nature of these instruments. Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognized in profit or loss. Fair values for investment properties are determined using market appraisals derived using internal and external resources. External appraisals are carried out by independent appraisers annually at a minimum. The methodologies use a combination of techniques such as discounted cash flows, capital expenditures or general market conditions in the interim period between appraisals. The internal valuation process includes the combination of the direct capitalization income approach and discounted cash flow calculations.

6 Recent Accounting Pronouncements

A discussion of IFRS developments that have, will, or might affect the WSIB.

The International Accounting Standards Board ("IASB") has issued the following standards, which have not yet been adopted by the WSIB. Each of the standards is effective for periods beginning on or after January 1, 2013 with early adoption permitted. The WSIB has not yet completed its assessment of the impact of early adopting any of the new standards.

Accounting standards not yet effective

IFRS 9 - Financial Instruments ("IFRS 9"), was issued in November 2009 and contains requirements for financial assets. This accounting standard addresses the classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39, Financial Instruments – Recognition and Measurement ("IAS 39") for debt instruments, with a new mixed measurement model that has only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income (loss). Where such equity instruments are measured at fair value through other comprehensive income (loss), dividends are recognized in profit or loss to the extent not clearly representing a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in other comprehensive income (loss) indefinitely. Requirements for financial liabilities were added in October 2010 and largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income (loss). The IASB has issued an exposure draft proposing to defer the effective date of IFRS 9 to annual periods beginning on or after January 1, 2015.

IFRS 10 - Consolidation ("IFRS 10"), requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, Consolidation - Special Purpose Entities, and parts of IAS 27, Consolidated and Separate Financial Statements. The IASB published proposals to define investment entities as a separate type of entity that would be exempt from the accounting requirements in IFRS 10 Consolidated Financial Statements.

IFRS 11 - Joint Arrangements (“IFRS 11”), requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures and SIC-13, Jointly Controlled Entities - Non-monetary Contributions by Venturers.

IFRS 12 - Disclosure of Interests in Other Entities (“IFRS 12”), establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off-balance sheet vehicles. The IFRS standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity’s interests in other entities.

IFRS 13 - Fair Value Measurement (“IFRS 13”), is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosure.

Amendments to existing standards not yet effective

In addition to the issuance of new standards, there have been amendments to existing standards, including IAS 1, Presentation of Financial Statements (“IAS 1”), IAS 19, Employee Benefits (“IAS 19”), IAS 27, Separate Financial Statements (“IAS 27”) and IAS 28, Investments in Associates and Joint Ventures (“IAS 28”). IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 to 13. Amendments to IAS 27 and IAS 28 are applicable to annual periods beginning on or after January 1, 2013, with early adoption permitted. The amendments to IAS 1 will require that entities group items presented in other comprehensive income based on an assessment of whether such items may, or may not, be reclassified to earnings at a subsequent date. Amendments to IAS 1 are applicable to annual periods beginning on or after July 1, 2012, with early adoption permitted. Amendments to IAS 19 eliminate an entity’s option to defer the recognition of certain gains and losses related to post-employment benefits and require remeasurement of associated assets and liabilities in other comprehensive income. Amendments to IAS 19 are applicable on a modified retrospective basis to annual periods beginning on or after January 1, 2013, with early adoption permitted.

IFRS 4, Insurance Contracts. In July 2010, an exposure draft was released on insurance contracts that proposes to change the accounting basis for insurance contracts to fair value. Currently, the IASB, jointly with the Financial Accounting Standards Board (FASB), is developing a standard that will replace IFRS 4. This is an important standard that may have a significant impact on the WSIB’s condensed consolidated interim financial statements. No impact is expected on the WSIB’s condensed consolidated interim financial statements until the final standard becomes effective.

IAS 17, Leases, is to be re-exposed with revised proposals in the first quarter of 2012. It is expected to reaffirm the IASB’s position on the initially issued exposure draft in August 2010 that proposed a major change to lease accounting. Other changes are also expected to be included. The proposed exposure draft will include the new accounting model for leases where both lessees and lessors would record the assets and liabilities on the balance sheet at the present value of the lease payments arising from all lease contracts. The new classification would be the right-of-use model, replacing the operating and capital (termed finance under IFRS) lease accounting models that exist under Canadian generally accepted accounting principles. The impact of adopting the proposed changes will be determined once the final standard is issued.

7 Outlook

The outlook for our business.

The provision of insurance for workplace injuries is affected by changes to trends in demographics, the economy, health care and regulatory changes. The WSIB continues to experience improvement in its financial and operational performance driven by the implementation of several key initiatives that commenced in 2010, including work reintegration and our health care strategy. We believe the reduction of injuries and establishing healthy and safe workplaces continues to be the best way to improve our performance.

We anticipate realizing continued improved financial performance in 2011 on our core operating activities.

Premium revenues are expected to meet or marginally exceed our expectations for 2011 reflecting stronger employment growth in the Province of Ontario.

We anticipate investment and other income will be significantly below 2010 levels given recent equity market volatility. The WSIB continues to implement its Strategic Investment Plan to reduce the volatility of its investment portfolio to short-term market swings. If world equity markets continue to be volatile, our investment returns will continue to be adversely affected.

As a result of continued operational improvements, we anticipate benefit costs, excluding any adjustments for actuarial assumption changes, to continue to trend lower. We continue to review our assumptions on various components of benefit liabilities and employee benefit plans. Changes to our assumptions could have a significant impact on the valuation of these liabilities.

Administrative and other expenses are expected to be at or below 2010 levels as a result of operating efficiencies.

Professor Harry W. Arthurs is expected to deliver his findings from his Funding Review in early 2012 and it is anticipated that he will make several recommendations that may have a significant impact on the WSIB. At this time, we are not able to assess the potential impact to the WSIB of Professor Arthurs' recommendations.

8 Internal Control Over Financial Reporting

A statement of responsibilities regarding internal control over financial reporting.

The WSIB's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS. WSIB's management is responsible for establishing and maintaining adequate internal control over financial reporting for the WSIB. All internal control systems have inherent limitations and may become inadequate because of changes in conditions. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to consolidated financial statement preparation and presentation. There have been no changes in the WSIB's internal control over financial reporting during the period ended September 30, 2011 that have materially affected, or are reasonably likely to materially affect, WSIB's internal control over financial reporting.

9 Risk Factors

A discussion of significant risk factors affecting our business.

The WSIB is subject to risk in all areas of its operation, consistent with most large, complex organizations. The WSIB's 2010 Annual Report summarizes our approach to mitigate risk. A brief discussion of the more significant risks that could influence our financial results are discussed below.

Economic risk. The WSIB is impacted by economic risks including domestic factors such as the rate of inflation, interest rates, currency values, employment levels, capital market activities and government reaction to worldwide economic influences. The WSIB is also impacted by international factors such as capital markets performance, inflation rates, currency values and other factors that may affect foreign demand for goods and services produced in Ontario. The WSIB is particularly susceptible to the effects of changes in the employment structure of the Ontario economy. When employment moves from traditional industries to new industries not required to be covered by the Workplace Safety and Insurance Act, 1997, during times of economic recovery or growth, premium revenue and return-to-work opportunities can be adversely affected.

Benefit costs risk. Benefit costs are comprised of payments to claimants and service providers and the change in the level of benefit liabilities. Benefit costs are influenced by factors such as the discount rate used to value future claims, health care inflation, availability and utilization, injury severity and duration, availability of return-to-work programs and re-employment opportunities at injury employers, wage growth, new medical findings that impact the recognition of occupational diseases, legislated changes to benefit rates or modifying the recognition of workplace injuries, which are sometimes applied retroactively and precedents established through various claims appeals processes. These factors add considerable uncertainty to the WSIB's operations and put pressure on future premium rates and our funding model.

Investment return risk. The WSIB is reliant on a stream of investment returns to fund a portion of its operation. Investment risks include credit risk, liquidity risk and market risk (currency, interest rate and price). Each of these risks is discussed in detail in our 2010 Annual Report. Investment returns in recent years have been volatile and continue to be so in 2011. Insufficient investment returns (i.e., below our long-term target of 7%) will require the WSIB to monetize investments to fund operations and in the long-term will exert pressure to increase premium rates. The WSIB continues to implement its Strategic Investment Plan to reduce volatility while continuing to produce an acceptable level of return over the long-term.

Premium revenue risk. The WSIB sets premiums on an annual basis to cover a portion of its anticipated operating costs. Actual factors, many of which are beyond the control of the WSIB, can change between the time of premium setting and the fiscal year to which the premium relates, causing premiums to be insufficient to cover annual operating costs and leading to an increase in both the size of the unfunded liability and pressure to increase future premium rates.

Technology and operational risk. The WSIB utilizes information technology systems to process large volumes of transactional activity and maintain claims and employer data. Significant disruption to customer service could occur if these systems were to fail or be compromised. The WSIB has a business continuity plan, including the availability of back-up systems to mitigate this risk. Additionally, our information systems and business processes may not be as efficient and have the functionality expected by our stakeholders and require a significant investment in information technology over time to maintain and improve stakeholder satisfaction.

WORKPLACE SAFETY AND INSURANCE BOARD

Condensed Consolidated Interim Balance Sheets
(millions of Canadian dollars)
(unaudited)

	September 30 2011	December 31 2010
Assets		
Cash and cash equivalents (note 6)	$ 999	$ 1,009
Receivables	1,062	872
Investments (note 7)	14,377	14,674
Property, equipment and other assets	200	194
Intangible assets	99	101
Total assets	**$ 16,737**	**$ 16,850**
Liabilities		
Payables and accruals	$ 1,116	$ 955
Loss of Retirement Income Fund liability	1,198	1,193
Employee benefit plans	808	788
Benefit liabilities	23,990	24,350
Long-term debt	137	139
Total liabilities	**27,249**	**27,425**
Deficiency of assets		
Unfunded liability	(12,332)	(12,438)
Non-controlling interest	1,820	1,863
Total deficiency of assets	**(10,512)**	**(10,575)**
Total liabilities and deficiency of assets	**$ 16,737**	**$ 16,850**

The accompanying notes form an integral part of these Condensed Consolidated Interim Financial Statements.

WORKPLACE SAFETY AND INSURANCE BOARD
Condensed Consolidated Interim Statements of Comprehensive Income (Loss)
(millions of Canadian dollars)
(unaudited)

	Three months ended September 30 2011	Three months ended September 30 2010	Nine months ended September 30 2011	Nine months ended September 30 2010
Revenues				
Premiums for the period	$ 734	$ 693	$ 2,121	$ 1,904
Premiums for unfunded liability	251	252	726	693
	985	945	2,847	2,597
Investment income (loss) (note 7)	(659)	875	(247)	693
Other income	-	-	1	2
	326	**1,820**	**2,601**	**3,292**
Expenses				
Benefit costs	469	795	2,049	3,196
Loss of Retirement Income Fund expense	17	18	53	55
Administrative and other expenses (note 8)	94	84	271	273
Legislated obligations and commitments (note 9)	54	55	157	154
	634	**952**	**2,530**	**3,678**
Comprehensive income (loss) for the period	**(308)**	**868**	**71**	**(386)**
Less: Amount attributable to non-controlling interest	(87)	110	(35)	85
Comprehensive income (loss) attributable to WSIB stakeholders	**$ (221)**	**$ 758**	**$ 106**	**$ (471)**

The accompanying notes form an integral part of these Condensed Consolidated Interim Financial Statements.

WORKPLACE SAFETY AND INSURANCE BOARD
Condensed Consolidated Interim Statement of Changes in Deficiency of Assets
(millions of Canadian dollars)
(unaudited)

		September 30 2011
Unfunded liability		
Balance at January 1, 2010	$	(11,893)
Comprehensive loss attributable to WSIB stakeholders for the period		(471)
Balance at September 30, 2010		(12,364)
Comprehensive loss attributable to WSIB stakeholders for the period		(74)
Balance at December 31, 2010		(12,438)
Comprehensive income attributable to WSIB stakeholders for the period		106
Balance at September 30, 2011	**$**	**(12,332)**
Non-controlling interest		
Balance at January 1, 2010	$	1,633
Comprehensive income attributable to non-controlling interest for the period		85
Change in ownership share in the pooled investments		69
Balance at September 30, 2010		1,787
Comprehensive income attributable to non-controlling interest for the period (note 10)		76
Balance at December 31, 2010		1,863
Comprehensive loss attributable to non-controlling interest for the period		(35)
Change in ownership share in the pooled investments (note 10)		(8)
Balance at September 30, 2011	**$**	**1,820**
Deficiency of assets	**$**	**(10,512)**

The accompanying notes form an integral part of these Condensed Consolidated Interim Financial Statements.

WORKPLACE SAFETY AND INSURANCE BOARD

Condensed Consolidated Interim Statements of Cash Flows
(millions of Canadian dollars)
(unaudited)

	Three months ended September 30 2011	Three months ended September 30 2010	Nine months ended September 30 2011	Nine months ended September 30 2010
Operating activities:				
Net income (loss)	$ (308)	$ 868	$ 71	$ (386)
Adjustments for:				
Amortization of net premium on investments	3	5	10	15
Amortization of property, equipment and intangible assets	7	5	20	17
Changes in fair value through profit and loss	849	(832)	671	(386)
Dividends, interest and income from associates	(131)	(105)	(381)	(335)
Interest expense	3	3	11	10
Net adjustments for non-cash expenses and revenues	731	(924)	331	(679)
Change in non-cash balances related to operations:				
Receivables	(37)	(141)	(190)	(174)
Other assets	4	(6)	(13)	(12)
Payables and accruals	103	65	159	275
Loss of Retirement Income Fund liability	(42)	80	5	80
Employee benefit plans	5	8	21	(8)
Benefit liabilities	(309)	(40)	(360)	653
Net change in non-cash balances related to operations	(276)	(34)	(378)	814
Net cash provided (required) by operating activities	**147**	**(90)**	**24**	**(251)**
Investing activities:				
Dividends, interest and income from associates received	103	84	332	305
Purchase of investments	(5,161)	(3,068)	(14,502)	(11,689)
Sale of investments	4,929	3,076	14,155	11,650
Purchase and sale of property, equipment and intangible assets, net	(4)	(3)	(11)	(8)
Net cash provided (required) by investing activities	**(133)**	**89**	**(26)**	**258**
Financing activities:				
Disposition of non-controlling interests	5	9	51	88
Distributions paid by subsidiaries to non-controlling interests	(13)	(10)	(43)	(34)
Repayment and interest on mortgages and finance leases	(5)	(5)	(15)	(13)
Net cash provided (required) by financing activities	**(13)**	**(6)**	**(7)**	**41**
Increase (decrease) in cash and cash equivalents	**1**	**(7)**	**(9)**	**48**
Cash and cash equivalents, beginning of period	999	482	1,009	427
Effect of exchange rate fluctuations on cash held	(1)	-	(1)	-
Cash and cash equivalents, end of period	**$ 999**	**$ 475**	**$ 999**	**$ 475**

The accompanying notes form an integral part of these Condensed Consolidated Interim Financial Statements.

WORKPLACE SAFETY AND INSURANCE BOARD
Notes to Condensed Consolidated Interim Financial Statements
(millions of Canadian dollars)
(unaudited)

1. Description of Business

Workplace Safety and Insurance Board (the "WSIB") is a statutory corporation created by an Act of the Ontario Legislature in 1914 and domiciled in the Province of Ontario. The WSIB is responsible for administering the Workplace Safety and Insurance Act, 1997. The WSIB's registered office is 200 Front Street West, Toronto, Ontario M5V 3J1.

2. Basis of Preparation and Adoption of IFRS

These condensed consolidated interim financial statements of the WSIB were prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). In June 2011, the WSIB prepared condensed consolidated interim financial statements for the three months ended March 31, 2011, the WSIB's initial presentation of its results and interim financial position under IFRS.

These condensed consolidated interim financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34 and IFRS 1, First-time Adoption of International Financial Reporting Standards ("IFRS 1"). Subject to certain transition elections disclosed in note 5, the WSIB has consistently applied the same accounting policies in its opening IFRS consolidated balance sheet at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 5 discloses the impact of the transition to IFRS on the WSIB's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the WSIB's annual consolidated financial statements for the year ended December 31, 2010.

The policies applied in these condensed consolidated interim financial statements are based on IFRS policies the WSIB expects to adopt in its first annual consolidated financial statements prepared in accordance with IFRS, and that the WSIB expects to be applicable at the time. Any subsequent changes to IFRS that are given effect in the WSIB's annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these condensed consolidated interim financial statements, including the transition adjustments recognized on changeover to IFRS.

These condensed consolidated interim financial statements were approved by the Board of Directors of WSIB on December 14, 2011.

These condensed consolidated interim financial statements should be read in conjunction with the WSIB's annual consolidated financial statements for the year ended December 31, 2010 prepared under Canadian generally accepted accounting principles ("GAAP"), and the condensed consolidated interim financial statements for the three months ended March 31, 2011 along with the accounting policies used in their preparation as these condensed consolidated interim financial statements follow the same accounting policies and methods of application. Note 3 of the WSIB's condensed consolidated interim financial statements for the three months ended March 31, 2011 discloses IFRS information for the year ended December 31, 2010 that is material to an understanding of these condensed consolidated interim financial statements. The condensed consolidated interim financial statements have been prepared on the historical cost basis except for the following material items in the condensed consolidated balance sheets: (i) financial

WORKPLACE SAFETY AND INSURANCE BOARD
Notes to Condensed Consolidated Interim Financial Statements
(millions of Canadian dollars)
(unaudited)

instruments are measured at fair value through profit or loss ("FVTPL"); (ii) derivative financial instruments are measured at fair value; (iii) investment properties are measured at fair value; (iv) loans and receivables are carried at amortized cost; (v) the defined employees benefit plans' asset is recognized as the net total of the plan assets, plus unrecognized past service cost and unrecognized actuarial losses, less unrecognized actuarial gains and the present value of the defined benefit obligation; and (vi) benefit liabilities, which are determined through an actuarial valuation that estimates the present value of all future benefit payments. These condensed consolidated interim financial statements have been prepared on a going concern basis, as the WSIB has developed a comprehensive plan to address its unfunded liability. These condensed consolidated interim financial statements are presented in Canadian dollars, which is the WSIB's functional currency. All financial information is presented in Canadian dollars and has been rounded to the nearest million.

3. Significant Accounting Judgments and Estimates

The preparation of condensed consolidated interim financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated interim financial statements and notes to the condensed consolidated interim financial statements. Actual results could differ from those estimates. The estimates are based on management's best knowledge of current events and actions the WSIB may undertake in the future. Actual results could differ from those estimates. Significant areas requiring the WSIB to make estimates and judgements include investments, benefit liabilities and employee future benefits and are further discussed below.

Investments. The WSIB's financial assets are carried at their fair values. The fair values of investments are the quarter or year-end quoted prices where available. Where quoted prices are not available, estimated fair values are calculated based on the yields and values of comparable marketable securities. The cost of short-term securities, treasury bills and term deposits maturing within a year, plus accrued interest income, approximates their fair value. The carrying value of receivables and payables approximates their fair values because of the short-term nature of these instruments. Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognized in profit or loss. Fair values for investment properties are derived using internal and external resources. External appraisals are carried out by independent appraisers annually at a minimum. The methodologies use a combination of techniques such as discounted cash flows, capital expenditures or general market conditions in the interim period between appraisals. The internal valuation process includes the combination of the direct capitalization income approach and discounted cash flow calculations.

Benefit liabilities. Benefit liabilities are determined through an actuarial valuation, which estimates the present value of future payments for loss of earnings, labour market re-entry, short and long-term disability, health care, survivor benefits, retirement income benefits and claim administration costs. Benefit liabilities represent an actuarially determined provision for future benefit payments and the future cost of administering claims incurred on or before period end. The provision has been determined by estimating future benefit payments in accordance with the adjudication practices in effect at the validation date and relevant legislation. The change in present value of future benefit payments for reported and unreported work-related injuries and illnesses, and the change in future claims administration costs, will be recorded as benefit costs on the WSIB's condensed consolidated interim financial statements. Benefit liabilities are

WORKPLACE SAFETY AND INSURANCE BOARD
Notes to Condensed Consolidated Interim Financial Statements
(millions of Canadian dollars)
(unaudited)

reviewed each quarter and adjusted based on information available and any changes in benefit payments and practices or relevant legislation. The benefit liabilities do not include any provision for payment of self-insured employers ("Schedule 2") claims. The costs of these claims are not considered the WSIB's liabilities because they are the liability of Schedule 2 employers.

Employee future benefits. Actuarial valuations of benefit liabilities for pension and other post-employment benefit plans are performed as at December 31 of each year based on the WSIB's assumptions on the discount rate, rate of compensation increase, mortality and the trend in the health care cost rate. The discount rate is determined by the WSIB with reference to AA credit-rated bonds that have maturity dates approximating the WSIB's obligation terms at period end and are denominated in the same currency as the benefit obligations. Other assumptions, such as employee turnover disability and early retirement, are determined with reference to long-term expectations.

Impairment.

a) *Financial assets.* All the WSIB's financial assets are carried at fair value.

b) *Non-financial assets.* The carrying amounts of the WSIB's non-financial assets, other than investment property, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For assets that cannot be tested individually, they are grouped together in the smallest group of assets that generates cash inflows that are largely independent of the cash flow of other assets or groups of assets, called the "cash generating unit" or CGU. An impairment loss is recognized if the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

4. Accounting Standards and Amendments to Existing Standards Not Yet Effective

Accounting standards not yet effective

The IASB has issued the following standards, which have not yet been adopted by the WSIB. Each of the standards is effective for periods beginning on or after January 1, 2013 with early adoption permitted. The

WORKPLACE SAFETY AND INSURANCE BOARD
Notes to Condensed Consolidated Interim Financial Statements
(millions of Canadian dollars)
(unaudited)

WSIB has not yet completed its assessment of the impact of early adopting any of the new standards. The WSIB continues to actively monitor developments in these areas.

IFRS 9 - Financial Instruments (“IFRS 9”), was issued in November 2009 and contains requirements for financial assets. This accounting standard addresses the classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39, Financial Instruments – Recognition and Measurement (“IAS 39”) for debt instruments, with a new mixed measurement model that has only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent not clearly representing a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in other comprehensive income indefinitely. Requirements for financial liabilities were added in October 2010 and largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income. The IASB has issued an exposure draft on August 4, 2011 proposing to defer the effective date of IFRS 9 to annual periods beginning on or after January 1, 2015.

IFRS 10 - Consolidation (“IFRS 10”), requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces Standing Interpretations Committee (SIC) 12, Consolidation - Special Purpose Entities and parts of IAS 27, Consolidated and Separate Financial Statements.

IFRS 11 - Joint Arrangements (“IFRS 11”), requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. A joint arrangement is an arrangement in which two or more parties have joint control. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures and SIC 13, Jointly Controlled Entities - Non-monetary Contributions by Venturers.

IFRS 12 - Disclosure of Interests in Other Entities (“IFRS 12”), establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off-balance sheet vehicles. The IFRS standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity’s interests in other entities. The standard also requires enhanced disclosures of how control was determined and any restrictions that might exist on consolidated assets and liabilities within the consolidated financial statements.

IFRS 13 - Fair Value Measurement (“IFRS 13”), is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction

WORKPLACE SAFETY AND INSURANCE BOARD
Notes to Condensed Consolidated Interim Financial Statements
(millions of Canadian dollars)
(unaudited)

between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosure.

Amendments to existing standards not yet effective

In addition to the issuance of new standards, there have been amendments to existing standards, including IAS 1, Presentation of Financial Statements (“IAS 1”), IAS 19, Employee Benefits (“IAS 19”), IAS 27, Separate Financial Statements (“IAS 27”) and IAS 28, Investments in Associates and Joint Ventures (“IAS 28”).

IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 to 13. Amendments to IAS 27 and IAS 28 are applicable to annual periods beginning on or after January 1, 2013, with early adoption permitted.

The amendments to IAS 1 will require that entities group items presented in other comprehensive income based on an assessment of whether such items may, or may not, be reclassified to earnings at a subsequent date. Amendments to IAS 1 are applicable to annual periods beginning on or after July 1, 2012, with early adoption permitted.

Amendments to IAS 19 eliminate an entity’s option to defer the recognition of certain gains and losses related to post-employment benefits and require remeasurement of associated assets and liabilities in other comprehensive income. Amendments to IAS 19 are applicable on a modified retrospective basis to annual periods beginning on or after January 1, 2013, with early adoption permitted.

IFRS 4, Insurance Contracts - In July 2010, an exposure draft was released on insurance contracts that proposes to change the accounting basis for insurance contracts to fair value. Currently, the IASB, jointly with the Financial Accounting Standards Board (FASB), is developing a standard that will replace IFRS 4. This is an important standard that may have a significant impact on the WSIB’s consolidated financial statements. No impact is expected on the WSIB’s consolidated financial statements until the final standard becomes effective.

IAS 17, Leases, A second exposure draft is expected in the first half of 2012. It is expected to reaffirm the IASB’s position on the initially issued exposure draft in August 2010 that proposed a major change to lease accounting. Other changes are also expected to be included. The proposed exposure draft will include the new accounting model for leases where both lessees and lessors would record the assets and liabilities on the balance sheet at the present value of the lease payments arising from all lease contracts. The new classification would be the right-of-use model, replacing the operating and capital (termed finance under IFRS) lease accounting models that exist under Canadian GAAP. The impact of adopting the proposed changes will be determined once the final standard is issued.

WORKPLACE SAFETY AND INSURANCE BOARD
Notes to Condensed Consolidated Interim Financial Statements
(millions of Canadian dollars)
(unaudited)

5. Transition to International Financial Reporting Standards

The effect of the WSIB's transition to IFRS is summarized as follows: (i) transition elections; (ii) reconciliation of equity and comprehensive income (loss) as previously reported under Canadian GAAP to IFRS; (iii) explanatory notes; and (iv) adjustments to the consolidated statement of cash flows.

(i) Transition elections

The adoption of IFRS requires the application of IFRS 1, which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires retrospective application of IFRS effective at the end of the WSIB's first annual reporting period. However, IFRS 1 also provides certain optional exemptions and mandatory exceptions to this retrospective treatment.

The transition elections used in the preparation of these condensed consolidated interim financial statements and notes are the same transition elections as disclosed in the condensed consolidated interim financial statements and notes thereto for the three months ended March 31, 2011. Refer to the condensed consolidated interim financial statements and notes thereto for the three months ended March 31, 2011 for details of the transitional exceptions and exemptions to full retrospective application of IFRS applied by the WSIB in its preparation of the opening IFRS consolidated balance sheet as at January 1, 2010, the WSIB's transition date.

WORKPLACE SAFETY AND INSURANCE BOARD
Notes to Condensed Consolidated Interim Financial Statements
(millions of Canadian dollars)
(unaudited)

(ii) Reconciliation of equity and comprehensive income (loss) as previously reported under Canadian GAAP to IFRS

The following table shows a reconciliation of the condensed consolidated interim balance sheet from previous Canadian GAAP to IFRS. Explanatory notes have been included thereafter.

	September 30, 2010		
	Canadian GAAP	Adj.	IFRS
Assets			
Cash and cash equivalents	$ 475	$ -	$ 475
Receivables	1,057	1	1,058
Employee benefit plans	28	(28)	-
Investments (note 5 (iii) (b))	14,461	109	14,570
Property, equipment and other assets (note 5 (iii) (c))	118	74	192
Intangible assets	96	-	96
Total assets	**$ 16,235**	**$ 156**	**$ 16,391**
Liabilities			
Payables and accruals	$ 1,022	$ 1	$ 1,023
Long-term debt	117	11	128
Loss of Retirement Income Fund liability	1,134	-	1,134
Employee benefit plans (note 5 (iii) (d))	513	267	780
Benefit liabilities	23,903	-	23,903
Total liabilities	**26,689**	**279**	**26,968**
Deficiency of assets			
Unfunded liability	(13,723)	1,359	(12,364)
Accumulated other comprehensive income (note 5 (iii) (f))	1,495	(1,495)	-
	(12,228)	(136)	(12,363)
Non-controlling interest	1,774	13	1,787
Total deficiency of assets	**(10,454)**	**(123)**	**(10,577)**
Total liabilities and deficiency of assets	**$ 16,235**	**$ 156**	**$ 16,391**

WORKPLACE SAFETY AND INSURANCE BOARD
Notes to Condensed Consolidated Interim Financial Statements
(millions of Canadian dollars)
(unaudited)

The following table is a reconciliation of the condensed consolidated interim statements of comprehensive income (loss) from previous Canadian GAAP to IFRS for the three and nine months ended September 30, 2010.

	Three months ended September 30, 2010			Nine months ended September 30, 2010		
	Canadian GAAP	**Adj.**	**IFRS**	**Canadian GAAP**	**Adj.**	**IFRS**
Revenues						
Premiums for the period (note 5 (iii) (e), (g))	$ 769	$ (76)	$ 693	$ 2,133	$ (229)	$ 1,904
Premiums for the unfunded liability (note 5 (iii) (e), (g))	248	4	252	678	15	693
	1,017	(72)	945	2,811	(214)	2,597
Investment income (note 5 (iii) (e), (f))	205	670	875	512	181	693
Other income	-	-	-	2	-	2
	1,222	598	1,820	3,325	(33)	3,292
Expenses						
Benefit costs (note 5 (iii) (g))	878	(83)	795	3,453	(257)	3,196
Loss of Retirement Income Fund expense (note 5 (iii) (e))	89	(71)	18	106	(51)	55
Administrative and other expenses (note 5 (iii) (e), (g))	46	38	84	153	120	273
Legislated obligations and commitments (note 5 (iii) (g))	59	(4)	55	166	(12)	154
	1,072	(120)	952	3,878	(200)	3,678
Excess (deficiency) of revenues over expenses before non-controlling interest	150	718	868	(553)	167	(386)
Less: Amount attributable to non-controlling interest	26	84	110	64	21	85
Excess (deficiency) of revenues over expenses	**124**	**634**	**758**	**(617)**	**146**	**(471)**
Other comprehensive income (loss) (note 5 (iii)(f))						
Unrealized net gains (losses) on available-for-sale financial assets arising during the period	789	(789)	-	318	(318)	-
Realized gains (losses) included in income	(73)	73	-	(158)	158	-
Unrealized gains (losses) on investments, net of amounts realized before non-controlling interest	716	(716)	-	160	(160)	-
Non-controlling interest in (income) loss	(84)	84	-	(20)	20	-
Unrealized gains (losses) on investments, net of amounts realized after non-controlling interest	632	(632)	-	140	(140)	-
Comprehensive income (loss) attributable to WSIB stakeholders	**$ 756**	**$ 2**	**$ 758**	**$ (477)**	**$ 6**	**$ (471)**

WORKPLACE SAFETY AND INSURANCE BOARD
Notes to Condensed Consolidated Interim Financial Statements
(millions of Canadian dollars)
(unaudited)

(iii) Explanatory notes

a) *Investments.* The WSIB has elected to redesignate all its investments to fair value through profit and loss classification.

b) *Fair value adjustment.* Under Canadian GAAP, investment properties are carried at cost less accumulated amortization and are measured at fair value from the date of transition. The WSIB has elected the fair value model to account for its investment properties subsequent to initial recognition. Under the fair value method, investment properties are carried at fair value on the consolidated balance sheets. The properties are not amortized and changes in fair value of the properties are recognized in income in the period they occur.

c) *Property, equipment and other assets.* The WSIB elected to value its head office in downtown Toronto at fair value at the date of transition. Under Canadian GAAP, the head office was measured on an amortized cost basis. Post-transition, the WSIB follows the cost model.

d) *Employee benefits.* The WSIB elected to recognize all cumulative actuarial gains and losses that existed at its transition date in the opening unfunded liability for all its employee benefit plans. Subsequent to transition, the WSIB will continue to use the corridor approach.

e) *Reclassification of expenses.* Under IAS 1, Presentation of Financial Statements, no offsetting of expenses against income is permitted unless specified through another standard. Under IAS 18, Revenue, expenses previously offset against premiums are now included as part of administrative and other expenses. Investment expenses previously offset against investment income under Canadian GAAP are now reported as part of administrative and other expenses. Loss of Retirement Income Fund expense is reported separately net of income. These reclassifications do not impact overall comprehensive income.

f) *Investment income.* The WSIB elected to redesignate all its investments to the fair value through profit or loss classification from the available-for-sale category. The redesignation has no overall impact on the unfunded liability on transition but resulted in a reclassification of unrealized gains and losses from other comprehensive income to investment income. The other comprehensive income category is now eliminated.

g) *Schedule 2.* Schedule 2 claims are ultimately paid by Schedule 2 employers and therefore there is no insurance risk and accordingly these transactions are not recorded in premiums and claims in comprehensive income (loss). Beginning January 1, 2010, due to IFRS, Schedule 2 is now treated as reimbursements and not included the consolidated statement of comprehensive income (loss).

(iv) Adjustments to the consolidated statement of cash flows

The transition from Canadian GAAP to IFRS had no significant impact on cash flows generated by the WSIB.

WORKPLACE SAFETY AND INSURANCE BOARD
Notes to Condensed Consolidated Interim Financial Statements
(millions of Canadian dollars)
(unaudited)

6. Cash and Cash Equivalents

Components of cash and cash equivalents on the condensed consolidated interim balance sheets are:

	September 30 2011	December 31 2010	January 1 2010
Cash available for operating purposes	$ 273	$ 306	$ 45
Cash held for investment purposes	554	557	365
Cash restricted for investment purposes	20	-	-
Cash held for Loss of Retirement Income Fund purposes	152	146	17
Cash and cash equivalents	**$ 999**	**$ 1,009**	**$ 427**

The WSIB maintains a $150 unsecured line of credit with a commercial bank for general corporate purposes. As at September 30, 2011, the WSIB utilized $0.4 (December 31, 2010 - $0.4) of this credit facility to support letters of credit in favour of the Ontario Ministry of Finance related to certain real estate transactions completed by WSIB Investment (Realty) Limited, a wholly owned subsidiary of the WSIB. Cash restricted for investment purpose is held to meet mark to market requirements for derivative instruments.

7. Investments and Investment Revenue

Investments at estimated fair value and cost are as follows:

	September 30, 2011		December 31, 2010	
	Fair value	Cost	Fair value	Cost
Held-for-trading:				
Foreign-exchange contracts				
Domestic	$ 3,796	$ -	$ 3,529	$ -
Foreign – US	(2,730)	-	(2,604)	-
– Global	(1,270)	-	(903)	-
Futures	(11)	-	4	-
Total held-for-trading	**(215)**	**-**	**26**	**-**
Fair value through profit or loss:				
Fixed income securities				
Bonds	5,134	4,712	5,022	4,778
Equity securities				
Domestic	1,293	1,182	1,600	1,113
Foreign – US	2,553	2,917	3,223	2,924
– Global	2,266	2,511	2,545	2,292
Total return*	1,951	1,756	992	938
Infrastructure pooled fund	107	110	99	102

WORKPLACE SAFETY AND INSURANCE BOARD
Notes to Condensed Consolidated Interim Financial Statements
(millions of Canadian dollars)
(unaudited)

	September 30, 2011		December 31, 2010	
	Fair value	**Cost**	**Fair value**	**Cost**
Infrastructure bonds	24	24	15	14
Real estate debentures	294	151	308	160
Total fair value through profit or loss	**13,622**	**13,363**	**13,804**	**12,321**
Investments in associates	342	238	330	228
Investment properties	434	442	398	372
Loss of Retirement Income Fund annuities	67	67	67	67
Total investments	**14,250**	**14,110**	**14,625**	**12,988**
Investment receivables:				
Amount due from pending trades	164	164	16	16
Receivable for fund shares sold	6	6	-	-
Accrued income	87	87	57	57
	257	257	73	73
Investment payables:				
Amount due from pending trades	(126)	(126)	(24)	(24)
Payable for fund shares repurchased	(3)	(3)	-	-
Foreign withholding taxes	(1)	(1)	-	-
	(130)	(130)	(24)	(24)
Net investment assets	**$ 14,377**	**$ 14,237**	**$ 14,674**	**$ 13,037**

* Total return investment portfolios comprised of hedge fund units and diversified beta funds

As at September 30, 2011, Net Investment Assets of $14,377 (December 31, 2010 - $14,674) are shown before deduction of non-controlling interest of $1,820 (December 31, 2010 - $1,863)

Revenue by category of investments (financial instruments) is as follows:

	Three months ended September 30		Nine months ended September 30	
	2011	**2010**	**2011**	**2010**
Held-for-trading				
Foreign exchange contracts	$ (249)	$ 37	$ (175)	$ 57
Fair value through profit or loss				
Bonds	228	152	338	346
Amortization of premium/discount on bonds	(3)	(4)	(10)	(15)
Equity securities	(806)	643	(685)	164
Infrastructure investments	9	-	9	-
Total return*	135	27	210	78
Real estate debentures	3	4	12	17
	(434)	822	(126)	590

WORKPLACE SAFETY AND INSURANCE BOARD
Notes to Condensed Consolidated Interim Financial Statements
(millions of Canadian dollars)
(unaudited)

	Three months ended September 30		Nine months ended September 30	
	2011	**2010**	**2011**	**2010**
Investment properties	12	13	33	34
Short-term securities	1	2	2	3
Income from associates	11	1	19	9
Investment income (loss)	**(659)**	**875**	**(247)**	**693**
Investment expenses**	(20)	(14)	(50)	(40)
Investment properties expense**	(9)	(7)	(21)	(20)
Net investment income (loss)	(688)	854	(318)	633
Less: Amount attributable to non-controlling interest	(87)	110	(35)	85
Total net investment income (loss) attributable to WSIB stakeholders	**$ (601)**	**$ 744**	**$ (283)**	**$ 548**

* Total return investment income includes income from hedge and diversified beta funds.
**These expenses are included in administrative and other expenses.

Investment income (loss) is comprised of:

	Three months ended September 30		Nine months ended September 30	
	2011	**2010**	**2011**	**2010**
Gross gains	$ 849	$ 858	$ 2,072	$ 1,689
Gross losses	(1,666)	(95)	(2,698)	(1,338)
Interest and dividend income	147	111	360	333
Income from associates	11	1	19	9
Investment income (loss)	**$ (659)**	**$ 875**	**$ (247)**	**$ 693**

The WSIB participates in a securities lending program through an intermediary that is a financial institution for the purpose of generating fee income. Non-cash collateral, which exceeds the fair value of the loaned securities by at least 102%, is held for the WSIB until the underlying securities have been returned to the financial institution. The fair value of the loaned securities is monitored on a daily basis by an intermediary financial institution with additional collateral obtained or refunded as the fair value of the underlying securities fluctuates. While in the possession of counterparties, the loaned securities may be resold or repledged by such counterparties. The intermediary indemnifies the WSIB against any shortfalls in collateral. These transactions are conducted under terms that are usual and customary to security lending activities as well as requirements determined by exchanges where a financial institution acts as an intermediary.

As at September 30, 2011, the WSIB had loaned securities with a fair value of approximately of $585 (December 31, 2010 - $559; January 1, 2010 - $1,243) and has accepted eligible securities as collateral with a fair value of approximately $622 (December 31, 2010 - $591; January 1, 2010 - $1,310).

WORKPLACE SAFETY AND INSURANCE BOARD
Notes to Condensed Consolidated Interim Financial Statements
(millions of Canadian dollars)
(unaudited)

8. Administrative and Other Expenses

Administrative and other expenses as at September 30 consist of the following:

	Three months ended September 30		Nine months ended September 30	
	2011	**2010**	**2011**	**2010**
Salaries and fringe benefits	$ 93	$ 87	$ 279	$ 261
Staff benefit plans	23	22	67	66
Investment expenses	20	14	50	40
Bad debt expense	9	10	32	44
Occupancy costs	10	10	30	31
Equipment and maintenance	6	7	28	31
Investment properties expenses	9	7	21	20
Amortization expense	6	5	17	17
Other	4	3	11	10
Communications	3	3	7	8
Travel and vehicle maintenance	1	1	4	3
New systems development and integration	2	-	4	1
Supplies and services	1	1	3	3
Total expenses	187	170	553	535
Claim administration costs charged to benefit liabilities	(83)	(77)	(252)	(233)
Administrative charge to self-insurers	(10)	(9)	(30)	(29)
Total administrative and other expenses	**$ 94**	**$ 84**	**$ 271**	**$ 273**

9. Related Party Transactions

Ontario government

Pursuant to the Workplace Safety and Insurance Act, 1997, the WSIB is considered an “Administrative agency” of the Provincial Government of Ontario and accordingly, the WSIB and the Ontario government are considered to be related parties. The WSIB has elected to adopt the related party exemption under IAS 24, Related Party Disclosures, which allows the WSIB to omit disclosure of the significant transactions with related parties.

Legislated obligations and commitments

Pursuant to the Workplace Safety and Insurance Act, 1997, the WSIB is required to reimburse the Government of Ontario for all administrative costs of the Occupational Health and Safety Act. The WSIB is also required to fund the Workplace Safety and Insurance Appeals Tribunal (“WSIAT”) and the offices of the Worker and Employer Advisor. These reimbursements and associated amounts charged to employers are determined and approved by the Minister of Labour. The WSIB is also

WORKPLACE SAFETY AND INSURANCE BOARD
Notes to Condensed Consolidated Interim Financial Statements
(millions of Canadian dollars)
(unaudited)

committed to providing funding for the Institute for Work & Health and the Safe Workplace Associations, clinics, and training centres. The total amount of funding provided under these legislated obligations and commitments for the three and nine months ended September 30, 2011 was $54 and $157, respectively (for the three and nine months ended September 30, 2010 - $55 and $154, respectively).

10. Change in Ownership Share in the Pooled Investments

The decrease in ownership share in the pooled investments of $8 for the nine months ended September 30, 2011 represents a net contribution from the employee pension plan of $9 less a sale of third party minority interest of $17.

The increase in ownership share in the pooled investments of $69 for the nine months ended September 30, 2010 represents a net contribution from the employee pension plan of $56 and a net purchase of third party minority interest of $13.

11. Commitments and Contingencies

As at September 30, 2011, the WSIB had entered into commitments to fund real estate +and infrastructure investments for $84 (2010 - $nil) and $199 (2010 - $223), respectively.

12. Comparative Figures

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