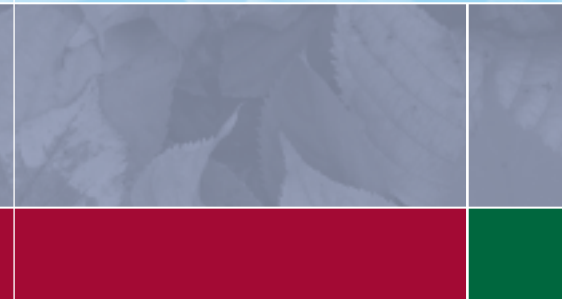


# Segregated Funds Audited Financial Statements

**December 31, 2008**



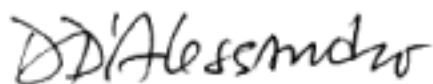


# Manulife Financial Certificate

The Manufacturers Life Insurance Company, referred to in this document as **Manulife Financial**, certifies that the Audited Financial Statements provide brief and plain disclosure of all material facts relating to the financial statements of: the Manulife Short-Term Securities Fund, the Manulife Bond Fund, the Manulife Diversified Investment Fund, the Manulife Equity Fund, the Equity Growth Fund, the Monarch Growth Fund, the Maritime Life FLAC Equity Fund, the Maritime Life Separate Investment Fund, and the Maritime Life Champion Growth Fund (collectively referred to as the "Funds") and the variable nature of the contract evidenced by the variable life insurance policy.

The Funds that are available to you depend on the contract you own. The underlying investments of the Funds may be units of mutual funds, pooled funds or other selected investments.

Subject to any applicable death and maturity guarantee, any part of the premium or other amount that is allocated to a segregated fund is invested at the risk of the policy owner and may increase or decrease in value according to the fluctuations in the market value of the assets of the segregated fund.



Dominic D'Alessandro  
President and CEO  
Manulife Financial



Paul Rooney  
President and CEO  
Manulife Canada

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# General Provisions (unaudited)

## **Investment Policy and Restrictions**

The Funds have been established to provide benefits which will vary in amount depending on the market value of the assets of each of the Funds. The investment policies and restrictions may change from time to time and you will be notified in writing of any material changes.

The Funds are managed in compliance with the individual variable insurance contract guidelines established by the Canadian Life and Health Insurance Association ("CLHIA") relating to segregated funds.

## **Mortgages and Real Estate**

Mortgages or real estate are not eligible investments for any of the Funds.

## **Reinvestment of Earnings**

The realized asset earnings in the Funds are reinvested in the Funds and increase the value of the units. The owner of the contract acquires no direct claim on the Fund assets but only on the contract benefits.

# MANULIFE SHORT-TERM SECURITIES FUND

## Investment Portfolio (audited)

As at December 31, 2008

No. of Units/Shares	Investment	Average Cost (\$)	Market Value (\$)
207,568	Manulife Canadian Money Market Fund	2,075,684	2,075,685
	<b>Total Investment 99.7%</b>	2,075,684	2,075,685
	<b>Other Assets/(Liabilities) 0.3%</b>	6,331	6,331
	<b>Total Net Assets</b>	<b>2,082,015</b>	<b>2,082,016</b>

## Top 25 Holdings of Underlying Fund (unaudited)

No. of Units/Shares	Investment	Average Cost (\$)	Market Value (\$)
<b>Manulife Canadian Money Market Fund</b>			
79,660,000	Government of Canada T-Bill, 0.88%, May-28-2009	79,107,285	79,143,525
79,510,000	Government of Canada T-Bill, 0.88%, Apr-02-2009	78,710,397	78,769,888
55,000,000	Government of Canada T-Bill, 0.88%, Apr-16-2009	54,500,200	54,607,610
54,620,000	Government of Canada T-Bill, 0.88%, May-14-2009	54,289,524	54,301,404
39,860,000	Government of Canada T-Bill, 0.88%, Apr-30-2009	39,530,756	39,626,786
34,500,000	Government of Canada T-Bill, 0.88%, Jun-25-2009	34,295,415	34,304,359
29,900,000	Government of Canada T-Bill, 0.88%, Oct-01-2009	29,431,168	29,494,965
29,900,000	Government of Canada T-Bill, 0.88%, Nov-26-2009	29,364,192	29,415,712
25,000,000	McCain Financial, 1.79%, Feb-09-2009	24,805,250	24,919,199
20,000,000	Bank of Nova Scotia, 1.54%, Feb-17-2009	19,869,400	19,936,060
19,950,000	Bank of Montreal, 1.55%, Feb-03-2009	19,826,709	19,904,793
19,950,000	Canadian Imperial Bank of Commerce, 1.54%, Feb-05-2009	19,824,914	19,901,890
19,163,000	Bank of Montreal, 1.56%, Jan-27-2009	19,075,617	19,130,543
16,000,000	HSBC Bank of Canada, FRN, 1.87%, Mar-16-2009	16,000,000	16,013,967
15,000,000	Enbridge Inc., 1.79%, Feb-03-2009	14,927,700	14,961,518
14,900,000	Bank of Nova Scotia FRN, 4.53%, Jan-02-2009	14,900,000	15,068,227
12,600,000	McCain Financial, 1.79%, Feb-10-2009	12,545,316	12,563,544
12,000,000	Honda Canada Finance, 2.72%, Mar-02-2009	12,000,000	12,027,751
7,940,000	Bank of Montreal FRN, 1.69%, Jan-30-2009	7,940,000	7,940,367
6,695,000	CNH Capital Canada, FRN, 1.87%, Jan-15-2009	6,695,000	6,700,840
6,645,000	Citigroup Inc. FRN, 2.76%, Jan-27-2009	6,645,000	6,678,129
5,500,000	McCain Financial, 1.79%, Feb-04-2009	5,458,970	5,484,500
3,280,000	Honda Canada Finance, 2.01%, Jan-02-2009	3,279,639	3,279,820

## Discussion of Financial Risk Management (audited)

### Financial Instrument Risk

The Fund is classified as a Canadian Money Market Fund, investing in corporate paper, bank paper and money market securities, issued or guaranteed by the Government of Canada, its provinces or municipalities, to achieve the objective of providing a high level of interest income while preserving capital and maintaining liquidity. The Fund's activities expose it to a variety of financial risks. Please refer to note 4 in the Notes to the Financial Statements section for an explanation of the various risks.

Risk management is an integral part of the investment manager's philosophy. All holdings have at least a minimum of upper medium grades set by recognized rating agencies. There is an allowed maximum of 10% per issuer (corporate and bank names) and credit quality is monitored based on research provided by credit analysts. Maximum overall terms are 90 or 180 days based on the Fund's mandate. The investment manager for the Fund has the final decision-making authority on investment decisions.

### Currency Risk

Please see note 4 for a definition of currency risk. As at December 31, 2008, the Fund's monetary assets did not have a significant exposure to currency risk.

### Interest Rate Risk

Please see note 4 for a definition of interest rate risk. The portfolio manager diversifies between corporate, bank and government securities maintaining corporate and bank issuers to shorter maturities. The portfolio manager monitors interest rates and uses this information to look at future trends in order to position the portfolio accordingly. This is a money market portfolio therefore interest sensitivity is not as large a factor as with a fixed income portfolio. The Fund has investment restrictions that prohibit it from investing more than 10% of its assets in any single issuer.

The table below includes the Fund's assets and trading liabilities at fair values, categorized by the earlier of contractual re-pricing or maturity dates.

December 31, 2008						
\$000's	Less than 1 year	1-3 years	3-5 years	More than 5 years	Non-Interest Bearing	Total
Investments	-	-	-	-	-	-
Cash and cash equivalents	2,075	-	-	-	-	2,075
Other assets	-	-	-	-	13	13
Liabilities	-	-	-	-	12	12

Management's best estimate of the effect on net assets due to an increase or decrease by 0.25% in prevailing interest rates, with all other variables held constant, is an increase or decrease in the Fund's net assets, respectively by approximately \$1,611. In practice, the actual results may differ and the difference could be material.

### Other Market Risk

Please see note 4 for a definition of other market risk. As at December 31, 2008, the Fund did not have any other significant market risk.

## Discussion of Financial Risk Management *(audited) (continued)*

### Credit Risk

Please see note 4 for a definition of credit risk. Impairment provisions have been provided for any losses that have been incurred by the balance sheet date. The Fund's main credit risk concentration arises from short term paper. The investment manager's independent compliance team monitors the Fund regularly for any credit-related limits and restrictions that are part of the Fund's investment policy statement. The Fund manager analyzes credit concentration based on industry and geographical location of the assets held by the Fund. The Fund minimizes its credit risk by monitoring counterparty creditworthiness.

As at December 31, 2008, the Fund invested in debt instruments and derivatives, as applicable, with the following credit ratings:

Portfolio by Rating Category	Percentage
AAA/Aaa/Bonds A++	98.36
AA/Aa/Bonds A+	0.54
A/Bonds A	1.10
BBB/Baa/Bonds B++	0.00
BB/Ba/Bonds B+	0.00
B/Bonds B	0.00
CCC/Caa	0.00
CC/Ca	0.00
C/Bonds Lower than B	0.00
Not Rated	0.00
<b>Total</b>	<b>100.00</b>

### Liquidity Risk

Please see note 4 for a definition of liquidity risk. As at December 31, 2008, all of the Fund's liabilities were current. The Fund is exposed to daily cash redemptions of redeemable units. Therefore, the Fund invests the majority of its assets in investments that are traded in an active market and can be readily disposed of.



**Statements of Net Assets** (audited)

As at December 31

	2008 (\$000's)	2007 (\$000's)
<b>Assets</b>		
Market value of investments	2,076	2,123
Cash and short-term investments	-	-
Distribution receivable	5	8
Receivable from investment units sold	-	-
Management fee distribution receivable {Note 2(c)(iii)}	-	-
Other assets	1	3
	<b>2,082</b>	<b>2,134</b>
<b>Liabilities</b>		
Bank overdraft	-	1
Payable for investment units purchased	-	-
Payable for management fees (including all GST)	-	-
Other liabilities	-	-
	<b>-</b>	<b>1</b>
<b>Net assets</b>	<b>2,082</b>	<b>2,133</b>

**Statements of Changes in Net Assets** (audited)

For the years ended December 31

	2008 (\$000's)	2007 (\$000's)
<b>Net assets, beginning of year</b>	<b>2,133</b>	<b>2,380</b>
<b>Increase/(decrease) in net assets resulting from operations</b>	<b>58</b>	<b>75</b>
<b>Transactions with unitholders</b>		
Unitholders' contributions	70	81
Unitholders' withdrawals	(295)	(413)
Transfers (to)/from other funds	116	10
<b>Net increase/(decrease) from unitholders' transactions</b>	<b>(109)</b>	<b>(322)</b>
<b>Net assets, end of year</b>	<b>2,082</b>	<b>2,133</b>

**Statements of Operations** (audited)

For the years ended December 31

	2008 (\$000's)	2007 (\$000's)
<b>Income</b>		
Distribution from underlying fund	81	100
Interest	-	-
Management fee distribution received	-	-
	<b>81</b>	<b>100</b>
<b>Expenses</b>		
Management fees	7	8
Fund administration expenses	16	17
	<b>23</b>	<b>25</b>
<b>Net investment income/(loss)</b>	<b>58</b>	<b>75</b>
Realized and unrealized gain/(loss)	-	-
<b>Net increase/(decrease) in net assets resulting from operations</b>	<b>58</b>	<b>75</b>

**Financial Statements - Supplementary Schedules** (audited)

For the years ended December 31

Product	Net asset value per unit (refer to Note 2d)		Units issued and outstanding		Management expense ratio (refer to Note 3b)				
	2008	2007	2008	2007	2008	2007	2006	2005	2004
Individual Investor 234	3.31	3.22	145,763	165,901	1.05	1.06	1.07	1.07	1.07
Individual Investor 235	3.31	3.22	422,067	440,832	1.05	1.06	1.07	1.07	1.07
Individual Accumulator 209	4.16	4.04	48,533	44,048	0.79	0.79	0.80	0.80	0.80

Note: See accompanying Notes to the Financial Statements.

# MANULIFE BOND FUND

## Investment Portfolio (audited)

As at December 31, 2008

No. of Units/Shares	Investment	Average Cost (\$)	Market Value (\$)
776,395	Manulife Canadian Bond Fund	7,554,489	8,081,034
	<b>Total Investment 94.3%</b>	7,554,489	8,081,034
	<b>Other Assets/(Liabilities) 5.7%</b>	488,701	488,701
	<b>Total Net Assets</b>	<b>8,043,190</b>	<b>8,569,735</b>

## Top 25 Holdings of Underlying Fund (unaudited)

No. of Units/Shares	Investment	Average Cost (\$)	Market Value (\$)
<b>Manulife Canadian Bond Fund</b>			
29,259,000	Province of Quebec, 4.50%, Dec-01-2018	29,039,187	29,449,915
21,643,000	Canada Housing Trust, 2.70%, Dec-15-2013	21,595,818	22,052,161
18,075,000	Province of Ontario, 4.75%, Jun-02-2013	18,947,540	19,471,475
12,189,000	Government of Canada, 5.00%, Jun-01-2037	15,498,625	15,590,462
13,842,000	Government of Canada, 3.50%, Jun-01-2013	14,408,138	14,904,374
12,130,000	Province of Quebec, 4.50%, Dec-01-2017	11,991,555	12,379,817
11,273,000	Province of Alberta, 4.40%, Dec-03-2012	11,654,929	11,994,077
11,771,050	Royal Office Finance, 5.21%, Nov-12-2032	11,770,932	11,644,335
9,793,000	African Development Bank, 4.00%, Jun-18-2013	9,783,697	10,252,928
8,933,000	Province of Quebec, 5.50%, Dec-01-2014	9,534,174	9,906,474
9,428,000	Province of Quebec, 5.00%, Dec-01-2038	9,220,857	9,543,069
7,198,000	City of Toronto, 5.05%, Jul-18-2017	7,236,512	7,448,059
7,064,000	Province of British Columbia, 4.80%, Dec-01-2017	7,180,971	7,226,437
6,647,000	GE Capital Canada Funding, 5.53%, Aug-17-2017	6,688,748	6,131,858
5,913,000	Bank of Nova Scotia, 3.93%, Feb-18-2010	5,847,515	6,018,458
5,818,000	Royal Bank of Canada, 5.13%, Sep-27-2010	5,817,069	6,010,256
5,310,000	Province of Ontario, 5.00%, Mar-08-2014	5,552,667	5,777,572
5,481,000	Province of Saskatchewan, 4.65%, Sep-05-2017	5,456,281	5,752,940
5,652,569	Ontario School Boards Financing Corporation, 5.38%, Jun-25-2032	5,652,569	5,713,193
5,168,000	African Development Bank, 4.85%, Jul-24-2012	5,161,178	5,581,311
5,487,000	Bank of Montreal, 5.18%, Jun-10-2015	5,484,476	5,496,218
5,474,000	Municipal Finance Authority of British Columbia, 4.60%, Apr-23-2018	5,452,761	5,494,829
5,259,000	PSP Capital Inc., 4.57%, Dec-09-2013	5,258,790	5,396,733
5,211,000	Commerzbank AG, 4.50%, Dec-15-2016	5,122,687	5,142,632
4,975,000	Nordea Bank AB, 3.95%, Aug-05-2010	4,890,414	4,904,504

## Discussion of Financial Risk Management (audited)

### Financial Instrument Risk

The Fund is classified as a Canadian Fixed Income Fund investing in bonds guaranteed by the Government of Canada, its provinces or municipalities, corporations, and chartered banks to achieve the objective of a high level of interest income. The Fund may also hold Canadian T-Bills and other money market instruments. The Fund's activities expose it to a variety of financial risks. Please refer to note 4 in the Notes to the Financial Statements section for an explanation of the various risks.

Risk management is an integral part of the investment manager's philosophy. The Fund invests in a variety of corporate bonds to diversify along a wide variety of credits. Portfolio duration and yield curve exposures are monitored and managed closely and carefully. The investment management team's portfolio manager and investment analyst make investment decisions concerning the holdings in the Fund however the portfolio manager holds the final decision-making authority.

### Currency Risk

Please see note 4 for a definition of currency risk. The Fund has investments in global bonds that are denominated in Canadian currency. Such bonds are referred to as Maple bonds, which give investors the opportunity to invest in foreign companies without the risk of currency exchange fluctuations. As at December 31, 2008, the Fund's monetary assets did not have a significant exposure to currency risk.

### Interest Rate Risk

Please see note 4 for a definition of interest rate risk. The Fund's overall interest rate risk is managed through managing the portfolio duration. In addition to maintaining the duration of the Fund within the range permitted by the investment guidelines, the investment manager maintains a desired level of interest rate sensitivity that matches the prevailing market volatility and the expected magnitude and direction of interest rates. The Fund has investment restrictions that prohibit it from investing more than 10% of its assets in any single issuer.

The table below includes the Fund's assets and trading liabilities at fair values, categorized by earlier of contractual re-pricing or maturity dates.

December 31, 2008						
\$000's	Less than 1 year	1-3 years	3-5 years	More than 5 years	Non Interest Bearing	Total
Investments	351	1,001	1,934	5,351	12	8,649
Cash and cash equivalents	3	–	–	–	–	3
Other assets	–	–	–	–	107	107
Liabilities	–	–	–	–	678	678

Management's best estimate of the effect on net assets due to an increase or decrease by 0.25% in prevailing interest rates, with all other variables held constant, is an increase or decrease in the Fund's net assets, respectively by approximately \$135,200. In practice, the actual results may differ and the difference could be material.

## Discussion of Financial Risk Management *(audited) (continued)*

### Other Market Risk

Please see note 4 for a definition of other market risk. As at December 31, 2008, the Fund did not have any other significant market risk.

### Credit Risk

Please see note 4 for a definition of credit risk. The Fund's main credit risk concentration arises from debt securities. The investment manager's independent compliance team monitors the Fund regularly for any credit-related limits and restrictions that are part of the Fund's investment policy statement. The Fund has investment restrictions that prohibit it from investing more than 10% with any single non-government issuer. The investment manager analyzes credit concentration based on industry and geographical location of the assets that the Fund holds. All transactions in listed securities are settled or paid for upon delivery using approved brokers. The delivery of securities sold is made only when the broker has received payment. The payment for purchases is made only when the securities have been received by the broker. If either party fails to meet its obligations, the trade in question will not take place.

As of December 31, 2008, the Fund invested in debt instruments and derivatives, as applicable, with the following credit ratings:

Portfolio by Rating Category	Percentage
AAA/Aaa/Bonds A++	30.07
AA/Aa/Bonds A+	26.29
A/Bonds A	37.07
BBB/Baa/Bonds B++	6.51
BB/Ba/Bonds B+	0.06
B/Bonds B	0.00
CCC/Caa	0.00
CC/Ca	0.00
C/Bonds Lower than B	0.00
Not Rated	0.00
<b>Total</b>	<b>100.00</b>

### Liquidity Risk

Please see note 4 for a definition of liquidity risk. As at December 31, 2008, all of the Fund's liabilities were current. The Fund is exposed to daily cash redemptions of redeemable units. Therefore, the Fund invests the majority of its assets in investments that are traded in an active market and can be readily disposed of.

**Statements of Net Assets** (audited)

As at December 31

	2008 (\$000's)	2007 (\$000's)
<b>Assets</b>		
Market value of investments	8,081	8,539
Cash and short-term investments	-	-
Distribution receivable	481	423
Receivable from investment units sold	34	-
Management fee distribution receivable {Note 2(c)(iii)}	-	-
Other assets	-	13
	<b>8,596</b>	<b>8,975</b>
<b>Liabilities</b>		
Bank overdraft	-	-
Payable for investment units purchased	-	-
Payable for management fees (including all GST)	-	-
Other liabilities	26	-
	<b>26</b>	<b>-</b>
<b>Net assets</b>	<b>8,570</b>	<b>8,975</b>

**Statements of Changes in Net Assets** (audited)

For the years ended December 31

	2008 (\$000's)	2007 (\$000's)
<b>Net assets, beginning of year</b>	<b>8,975</b>	<b>9,228</b>
<b>Increase/(decrease) in net assets resulting from operations</b>	<b>250</b>	<b>115</b>
<b>Transactions with unitholders</b>		
Unitholders' contributions	302	331
Unitholders' withdrawals	(954)	(583)
Transfers (to)/from other funds	(3)	(116)
<b>Net increase/(decrease) from unitholders' transactions</b>	<b>(655)</b>	<b>(368)</b>
<b>Net assets, end of year</b>	<b>8,570</b>	<b>8,975</b>

**Statements of Operations** (audited)

For the years ended December 31

	2008 (\$000's)	2007 (\$000's)
<b>Income</b>		
Distribution from underlying fund	481	423
Interest	-	-
Management fee distribution received	-	-
	<b>481</b>	<b>423</b>
<b>Expenses</b>		
Management fees	53	55
Fund administration expenses	131	132
	<b>184</b>	<b>187</b>
<b>Net investment income/(loss)</b>	<b>297</b>	<b>236</b>
Realized and unrealized gain/(loss)	(47)	(121)
<b>Net increase/(decrease) in net assets resulting from operations</b>	<b>250</b>	<b>115</b>

**Financial Statements - Supplementary Schedules** (audited)

For the years ended December 31

Product	Net asset value per unit (refer to Note 2d)		Units issued and outstanding		Management expense ratio (refer to Note 3b)				
	2008	2007	2008	2007	2008	2007	2006	2005	2004
Individual Investor 234	5.30	5.12	331,778	370,086	2.00	2.01	2.02	2.03	2.03
Individual Investor 235	5.30	5.12	1,278,890	1,367,598	2.00	2.01	2.02	2.03	2.03
Individual Accumulator 203	7.10	6.78	9,038	9,004	0.79	0.80	0.80	0.80	0.80

Note: See accompanying Notes to the Financial Statements.

# MANULIFE DIVERSIFIED INVESTMENT FUND

## Investment Portfolio (audited)

As at December 31, 2008

No. of Units/Shares	Investment	Average Cost (\$)	Market Value (\$)
3,187,311	SEAMARK Pooled Balanced Fund	40,857,166	39,436,604
	<b>Total Investment 96.8%</b>	40,857,166	39,436,604
	<b>Other Assets/(Liabilities) 3.2%</b>	1,294,250	1,294,250
	<b>Total Net Assets</b>	<b>42,151,416</b>	<b>40,730,854</b>

## Top 25 Holdings of Underlying Fund (unaudited)

No. of Units/Shares	Investment	Average Cost (\$)	Market Value (\$)
<b>SEAMARK Pooled Balanced Fund</b>			
20,300,000	Canada Housing Trust, 4.80%, Jun-15-2012	20,332,687	22,148,518
18,000,000	Province of Ontario, 4.70%, Jun-02-2037	17,149,500	17,997,210
12,800,000	Province of Ontario, 6.50%, Mar-08-2029	15,615,507	15,532,800
5,810,000	Government of Canada, 8.00%, Jun-01-2027	8,797,183	9,281,475
239,380	Royal Bank of Canada	6,048,709	8,641,618
8,215,000	Toronto-Dominion Bank, 5.14%, Nov-19-2012	8,268,468	8,563,850
6,689,000	Government of Canada, 5.00%, Jun-01-2037	8,396,367	8,551,887
195,700	Toronto-Dominion Bank	6,948,432	8,503,165
6,225,000	Government of Canada, 5.75%, Jun-01-2033	7,559,499	8,469,113
8,400,000	Province of Quebec, 4.50%, Dec-01-2018	8,395,740	8,450,904
162,750	Nestlé SA ADR	4,294,862	7,912,355
224,000	Loblaw Companies Limited	10,838,541	7,833,280
307,400	Fortis Inc.	8,644,290	7,558,966
213,200	Tim Hortons Inc.	6,782,511	7,438,548
7,250,000	Bank of Nova Scotia, 4.93%, Jun-08-2010	7,249,203	7,421,426
117,375	EnCana Corp.	2,383,541	6,685,680
304,950	Shaw Communications Inc., Class B	3,407,509	6,589,970
162,900	TELUS Corporation	8,528,829	6,054,993
266,200	Pfizer Inc.	10,271,495	5,773,257
93,600	Novartis AG, ADR	5,331,796	5,703,619
5,675,000	Honda Canada Finance, 5.31%, Nov-30-2010	5,675,000	5,703,545
5,000,000	Alberta Municipal Financing Corporation, 5.85%, Jun-01-2012	5,154,079	5,525,450
254,000	Nexen Inc.	8,482,469	5,448,300
5,000,000	Alberta Municipal Financing Corporation, 5.70%, Sep-01-2011	4,995,750	5,439,600
5,000,000	Royal Bank of Canada, 5.00%, Jan-20-2014	5,002,400	5,153,550

## Discussion of Financial Risk Management (audited)

### Financial Instrument Risk

Manulife Diversified Investment Fund is a Fund which invests fully in the units of the underlying SEAMARK Pooled Balanced Fund. In this context the Manulife Diversified Investment Fund falls under the category of 'Fund of Fund'. Please refer to the notes section for Financial Instrument Risk, notes 4 and 5. The underlying SEAMARK Pooled Balanced Fund seeks to preserve investment capital while generating superior long-term returns through capital gains augmented by current income. The asset mix at any time will be the result of a bottom-up approach driven by the availability of attractive individual investments at reasonable valuations.

### Financial Instrument Risk of the underlying fund

The table below indicates the financial instrument risks that may be applicable to the underlying fund which will also affect the segregated fund. Please refer to the notes section for Financial Instrument Risk, note 5b).

Risk	Applicable
Currency Risk	✓
Interest Rate Risk	✓
Other Market Risk	✓
Credit Risk	✓
Liquidity Risk	

**Statements of Net Assets** (audited)

As at December 31

	2008 (\$000's)	2007 (\$000's)
<b>Assets</b>		
Market value of investments	39,437	49,665
Cash and short-term investments	-	-
Distribution receivable	1,351	2,852
Receivable from investment units sold	-	-
Management fee distribution receivable {Note 2(c)(iii)}	-	-
Other assets	-	-
	<b>40,788</b>	<b>52,517</b>
<b>Liabilities</b>		
Bank overdraft	-	-
Payable for investment units purchased	-	-
Payable for management fees (including all GST)	-	-
Other liabilities	57	49
	<b>57</b>	<b>49</b>
<b>Net assets</b>	<b>40,731</b>	<b>52,468</b>

**Statements of Changes in Net Assets** (audited)

For the years ended December 31

	2008 (\$000's)	2007 (\$000's)
<b>Net assets, beginning of year</b>	<b>52,468</b>	<b>58,182</b>
<b>Increase/(decrease) in net assets resulting from operations</b>	<b>(6,854)</b>	<b>(1,162)</b>
<b>Transactions with unitholders</b>		
Unitholders' contributions	1,157	1,254
Unitholders' withdrawals	(5,994)	(5,969)
Transfers (to)/from other funds	(46)	163
<b>Net increase/(decrease) from unitholders' transactions</b>	<b>(4,883)</b>	<b>(4,552)</b>
<b>Net assets, end of year</b>	<b>40,731</b>	<b>52,468</b>

**Statements of Operations** (audited)

For the years ended December 31

	2008 (\$000's)	2007 (\$000's)
<b>Income</b>		
Distribution from underlying fund	2,601	4,004
Interest	63	-
Management fee distribution received	-	-
	<b>2,664</b>	<b>4,004</b>
<b>Expenses</b>		
Management fees	378	447
Fund administration expenses	726	813
	<b>1,104</b>	<b>1,260</b>
<b>Net investment income/(loss)</b>	<b>1,560</b>	<b>2,744</b>
Realized and unrealized gain/(loss)	(8,414)	(3,906)
<b>Net increase/(decrease) in net assets resulting from operations</b>	<b>(6,854)</b>	<b>(1,162)</b>

**Financial Statements - Supplementary Schedules** (audited)

For the years ended December 31

Product	Net asset value per unit (refer to Note 2d)		Units issued and outstanding		Management expense ratio (refer to Note 3b)				
	2008	2007	2008	2007	2008	2007	2006	2005	2004
Individual Investor 234	44.01	51.43	199,739	220,136	2.52	2.54	2.56	2.57	2.57
Individual Investor 235	44.01	51.43	500,526	524,015	2.52	2.54	2.56	2.57	2.57
Individual Accumulator 209	182.83	210.72	30,162	39,383	1.21	1.22	1.23	1.23	1.23
Individual Accumulator 203	182.83	210.72	24,315	28,228	1.21	1.22	1.23	1.23	1.23

Note: See accompanying Notes to the Financial Statements.

# MANULIFE EQUITY FUND

## Investment Portfolio (audited)

As at December 31, 2008

No. of Units/Shares	Investment	Average Cost (\$)	Market Value (\$)
9,774,526	Manulife Canadian Core Fund	119,075,154	88,103,668
	<b>Total Investment 99.9%</b>	119,075,154	88,103,668
	<b>Other Assets/(Liabilities) 0.1%</b>	118,154	118,154
	<b>Total Net Assets</b>	<b>119,193,308</b>	<b>88,221,822</b>

## Top 25 Holdings of Underlying Fund (unaudited)

No. of Units/Shares	Investment	Average Cost (\$)	Market Value (\$)
<b>Manulife Canadian Core Fund</b>			
449,130	Royal Bank of Canada	20,252,617	16,213,593
267,220	Barrick Gold Corporation	8,764,194	11,947,406
256,448	Toronto-Dominion Bank	16,617,964	11,142,666
10,100,000	Government of Canada T-Bill, 0.88%, Apr-02-2009	10,072,561	10,077,679
299,114	Bank of Nova Scotia	13,632,752	9,963,487
102,759	Potash Corporation of Saskatchewan Inc.	12,558,237	9,201,041
173,520	Canadian Natural Resources Limited	14,858,104	8,459,100
258,703	National Bank of Canada	13,248,013	8,097,404
137,837	EnCana Corp.	9,169,104	7,851,196
251,364	Husky Energy Inc.	10,607,130	7,759,607
630,570	Talisman Energy Inc.	11,646,024	7,680,343
169,040	Canadian National Railway Company	8,052,812	7,569,611
191,970	TransCanada Corporation	6,863,004	6,367,645
240,980	Suncor Energy Inc.	12,164,033	5,716,046
1,096,531	Bombardier Inc., Class B	7,520,782	4,879,563
120,360	Enbridge Inc.	4,638,922	4,761,442
118,940	Metro Inc., Class A	3,554,913	4,400,780
203,170	Nexen Inc.	6,547,734	4,357,997
62,360	George Weston Limited	3,479,519	3,738,482
161,740	Kinross Gold Corporation	3,147,832	3,639,150
151,942	Power Financial Corporation	5,281,095	3,631,414
8,470	Fairfax Financial Holdings Limited	2,988,854	3,303,300
77,190	Agrium Inc.	4,356,946	3,201,069
134,858	Shaw Communications Inc.	2,883,765	2,914,281
139,745	Great-West Lifeco Inc.	4,303,848	2,892,722

## Discussion of Financial Risk Management (audited)

### Financial Instrument Risk

Manulife Equity Fund is a Fund which invests fully in the units of the underlying Manulife Canadian Core Fund. In this context the Manulife Equity Fund falls under the category of 'Fund of Fund'. Please refer to the notes section for Financial Instrument Risk, notes 4 and 5. The underlying Manulife Canadian Core Fund seeks long-term capital growth by investing primarily in equity securities of large-cap Canadian companies.

### Financial Instrument Risk of the underlying fund

The table below indicates the financial instrument risks that may be applicable to the underlying fund which will also affect the segregated fund. Please refer to the notes section for Financial Instrument Risk, note 5b).

Risk	Applicable
Currency Risk	✓
Interest Rate Risk	
Other Market Risk	✓
Credit Risk	
Liquidity Risk	



**Statements of Net Assets** (audited)

As at December 31

	2008 (\$000's)	2007 (\$000's)
<b>Assets</b>		
Market value of investments	88,104	161,386
Cash and short-term investments	-	40
Distribution receivable	-	-
Receivable from investment units sold	184	-
Management fee distribution receivable {Note 2(c)(iii)}	-	-
Other assets	-	-
	<b>88,288</b>	<b>161,426</b>
<b>Liabilities</b>		
Bank overdraft	-	-
Payable for investment units purchased	-	-
Payable for management fees (including all GST)	-	-
Other liabilities	66	70
	<b>66</b>	<b>70</b>
<b>Net assets</b>	<b>88,222</b>	<b>161,356</b>

**Statements of Changes in Net Assets** (audited)

For the years ended December 31

	2008 (\$000's)	2007 (\$000's)
<b>Net assets, beginning of year</b>	<b>161,356</b>	<b>152,461</b>
<b>Increase/(decrease) in net assets resulting from operations</b>	<b>(64,231)</b>	<b>19,010</b>
<b>Transactions with unitholders</b>		
Unitholders' contributions	3,339	3,666
Unitholders' withdrawals	(12,175)	(13,724)
Transfers (to)/from other funds	(67)	(57)
<b>Net increase/(decrease) from unitholders' transactions</b>	<b>(8,903)</b>	<b>(10,115)</b>
<b>Net assets, end of year</b>	<b>88,222</b>	<b>161,356</b>

**Statements of Operations** (audited)

For the years ended December 31

	2008 (\$000's)	2007 (\$000's)
<b>Income</b>		
Distribution from underlying fund	1,323	18,676
Interest	55	40
Management fee distribution received	-	-
	<b>1,378</b>	<b>18,716</b>
<b>Expenses</b>		
Management fees	1,173	1,354
Fund administration expenses	2,535	2,822
	<b>3,708</b>	<b>4,176</b>
<b>Net investment income/(loss)</b>	<b>(2,330)</b>	<b>14,540</b>
Realized and unrealized gain/(loss)	(61,901)	4,470
<b>Net increase/(decrease) in net assets resulting from operations</b>	<b>(64,231)</b>	<b>19,010</b>

**Financial Statements - Supplementary Schedules** (audited)

For the years ended December 31

Product	Net asset value per unit (refer to Note 2d)		Units issued and outstanding		Management expense ratio (refer to Note 3b)				
	2008	2007	2008	2007	2008	2007	2006	2005	2004
Individual Investor 234	3.24	5.58	8,257,548	8,710,066	2.73	2.76	2.77	2.78	2.78
Individual Investor 235	3.24	5.58	15,137,717	16,029,317	2.73	2.76	2.77	2.78	2.78
Individual Accumulator 203	19.21	32.55	532,181	587,794	1.42	1.43	1.44	1.45	1.44
Variable Payout Annuity	6.25	10.53	1,515	1,080	0.79	0.79	0.80	0.80	0.80
Equity 65	20.15	33.84	21,077	24,399	0.52	0.53	0.53	0.54	0.54
Sun Alliance (Acadia Equity Linked)	5.87	10.31	299,482	343,092	0.60	0.64	0.64	0.62	0.62

Note: See accompanying Notes to the Financial Statements.

# EQUITY GROWTH FUND

## Investment Portfolio (audited)

As at December 31, 2008

No. of Units/Shares	Investment	Average Cost (\$)	Market Value (\$)
105,987	Manulife Canadian Core Fund	1,297,362	955,320
	<b>Total Investment 99.9%</b>	1,297,362	955,320
	<b>Other Assets/(Liabilities) 0.1%</b>	1,074	1,074
	<b>Total Net Assets</b>	<b>1,298,436</b>	<b>956,394</b>

## Top 25 Holdings of Underlying Fund (unaudited)

No. of Units/Shares	Investment	Average Cost (\$)	Market Value (\$)
<b>Manulife Canadian Core Fund</b>			
449,130	Royal Bank of Canada	20,252,617	16,213,593
267,220	Barrick Gold Corporation	8,764,194	11,947,406
256,448	Toronto-Dominion Bank	16,617,964	11,142,666
10,100,000	Government of Canada T-Bill, 0.88%, Apr-02-2009	10,072,561	10,077,679
299,114	Bank of Nova Scotia	13,632,752	9,963,487
102,759	Potash Corporation of Saskatchewan Inc.	12,558,237	9,201,041
173,520	Canadian Natural Resources Limited	14,858,104	8,459,100
258,703	National Bank of Canada	13,248,013	8,097,404
137,837	EnCana Corp.	9,169,104	7,851,196
251,364	Husky Energy Inc.	10,607,130	7,759,607
630,570	Talisman Energy Inc.	11,646,024	7,680,343
169,040	Canadian National Railway Company	8,052,812	7,569,611
191,970	TransCanada Corporation	6,863,004	6,367,645
240,980	Suncor Energy Inc.	12,164,033	5,716,046
1,096,531	Bombardier Inc., Class B	7,520,782	4,879,563
120,360	Enbridge Inc.	4,638,922	4,761,442
118,940	Metro Inc., Class A	3,554,913	4,400,780
203,170	Nexen Inc.	6,547,734	4,357,997
62,360	George Weston Limited	3,479,519	3,738,482
161,740	Kinross Gold Corporation	3,147,832	3,639,150
151,942	Power Financial Corporation	5,281,095	3,631,414
8,470	Fairfax Financial Holdings Limited	2,988,854	3,303,300
77,190	Agrium Inc.	4,356,946	3,201,069
134,858	Shaw Communications Inc.	2,883,765	2,914,281
139,745	Great-West Lifeco Inc.	4,303,848	2,892,722

## Discussion of Financial Risk Management (audited)

### Financial Instrument Risk

Equity Growth Fund is a Fund which invests fully in the units of the underlying Manulife Canadian Core Fund. In this context the Equity Growth Fund falls under the category of 'Fund of Fund'. Please refer to the notes section for Financial Instrument Risk, notes 4 and 5. The underlying Manulife Canadian Core Fund seeks long-term capital growth by investing primarily in equity securities of large-cap Canadian companies.

### Financial Instrument Risk of the underlying fund

The table below indicates the financial instrument risks that may be applicable to the underlying fund which will also affect the segregated fund. Please refer to the notes section for Financial Instrument Risk, note 5b).

Risk	Applicable
Currency Risk	✓
Interest Rate Risk	
Other Market Risk	✓
Credit Risk	
Liquidity Risk	

**Statements of Net Assets** (audited)

As at December 31

	2008 (\$000's)	2007 (\$000's)
<b>Assets</b>		
Market value of investments	955	1,647
Cash and short-term investments	-	6
Distribution receivable	-	-
Receivable from investment units sold	-	-
Management fee distribution receivable {Note 2(c)(iii)}	-	-
Other assets	1	-
	<b>956</b>	<b>1,653</b>
<b>Liabilities</b>		
Bank overdraft	-	-
Payable for investment units purchased	-	-
Payable for management fees (including all GST)	-	-
Other liabilities	-	-
	-	-
<b>Net assets</b>	<b>956</b>	<b>1,653</b>

**Statements of Changes in Net Assets** (audited)

For the years ended December 31

	2008 (\$000's)	2007 (\$000's)
<b>Net assets, beginning of year</b>	<b>1,653</b>	<b>1,609</b>
<b>Increase/(decrease) in net assets resulting from operations</b>	<b>(651)</b>	<b>218</b>
<b>Transactions with unitholders</b>		
Unitholders' contributions	16	14
Unitholders' withdrawals	(62)	(188)
Transfers (to)/from other funds	-	-
<b>Net increase/(decrease) from unitholders' transactions</b>	<b>(46)</b>	<b>(174)</b>
<b>Net assets, end of year</b>	<b>956</b>	<b>1,653</b>

**Statements of Operations** (audited)

For the years ended December 31

	2008 (\$000's)	2007 (\$000's)
<b>Income</b>		
Distribution from underlying fund	14	190
Interest	16	5
Management fee distribution received	-	-
	<b>30</b>	<b>195</b>
<b>Expenses</b>		
Management fees	19	21
Fund administration expenses	-	-
	<b>19</b>	<b>21</b>
<b>Net investment income/(loss)</b>	<b>11</b>	<b>174</b>
Realized and unrealized gain/(loss)	(662)	44
<b>Net increase/(decrease) in net assets resulting from operations</b>	<b>(651)</b>	<b>218</b>

**Financial Statements - Supplementary Schedules** (audited)

For the years ended December 31

Product	Net asset value per unit (refer to Note 2d)		Units issued and outstanding		Management expense ratio (refer to Note 3b)				
	2008	2007	2008	2007	2008	2007	2006	2005	2004
Nalaco Growth "R"	194.65	326.51	4,908	5,060	1.26	1.27	1.33	1.36	1.34

Note: See accompanying Notes to the Financial Statements.

# MONARCH GROWTH FUND

## Investment Portfolio (audited)

As at December 31, 2008

No. of Units/Shares	Investment	Average Cost (\$)	Market Value (\$)
1,130,760	Manulife Canadian Core Fund	13,709,828	10,192,217
	<b>Total Investment 100.2%</b>	13,709,828	10,192,217
	<b>Other Assets/(Liabilities) (0.2%)</b>	(22,335)	(22,335)
	<b>Total Net Assets</b>	<b>13,687,493</b>	<b>10,169,882</b>

## Top 25 Holdings of Underlying Fund (unaudited)

No. of Units/Shares	Investment	Average Cost (\$)	Market Value (\$)
<b>Manulife Canadian Core Fund</b>			
449,130	Royal Bank of Canada	20,252,617	16,213,593
267,220	Barrick Gold Corporation	8,764,194	11,947,406
256,448	Toronto-Dominion Bank	16,617,964	11,142,666
10,100,000	Government of Canada T-Bill, 0.88%, Apr-02-2009	10,072,561	10,077,679
299,114	Bank of Nova Scotia	13,632,752	9,963,487
102,759	Potash Corporation of Saskatchewan Inc.	12,558,237	9,201,041
173,520	Canadian Natural Resources Limited	14,858,104	8,459,100
258,703	National Bank of Canada	13,248,013	8,097,404
137,837	EnCana Corp.	9,169,104	7,851,196
251,364	Husky Energy Inc.	10,607,130	7,759,607
630,570	Talisman Energy Inc.	11,646,024	7,680,343
169,040	Canadian National Railway Company	8,052,812	7,569,611
191,970	TransCanada Corporation	6,863,004	6,367,645
240,980	Suncor Energy Inc.	12,164,033	5,716,046
1,096,531	Bombardier Inc., Class B	7,520,782	4,879,563
120,360	Enbridge Inc.	4,638,922	4,761,442
118,940	Metro Inc., Class A	3,554,913	4,400,780
203,170	Nexen Inc.	6,547,734	4,357,997
62,360	George Weston Limited	3,479,519	3,738,482
161,740	Kinross Gold Corporation	3,147,832	3,639,150
151,942	Power Financial Corporation	5,281,095	3,631,414
8,470	Fairfax Financial Holdings Limited	2,988,854	3,303,300
77,190	Agrium Inc.	4,356,946	3,201,069
134,858	Shaw Communications Inc.	2,883,765	2,914,281
139,745	Great-West Lifeco Inc.	4,303,848	2,892,722

## Discussion of Financial Risk Management (audited)

### Financial Instrument Risk

Monarch Growth Fund is a Fund which invests fully in the units of the underlying Manulife Canadian Core Fund. In this context the Monarch Growth Fund falls under the category of 'Fund of Fund'. Please refer to the notes section for Financial Instrument Risk, notes 4 and 5. The underlying Manulife Canadian Core Fund seeks long-term capital growth by investing primarily in equity securities of large-cap Canadian companies.

### Financial Instrument Risk of the underlying fund

The table below indicates the financial instrument risks that may be applicable to the underlying fund which will also affect the segregated fund. Please refer to the notes section for Financial Instrument Risk, note 5b).

Risk	Applicable
Currency Risk	✓
Interest Rate Risk	
Other Market Risk	✓
Credit Risk	
Liquidity Risk	

**Statements of Net Assets** (audited)

As at December 31

	2008 (\$000's)	2007 (\$000's)
<b>Assets</b>		
Market value of investments	10,192	17,749
Cash and short-term investments	-	1
Distribution receivable	-	-
Receivable from investment units sold	1	-
Management fee distribution receivable {Note 2(c)(iii)}	-	-
Other assets	-	3
	<b>10,193</b>	<b>17,753</b>
<b>Liabilities</b>		
Bank overdraft	-	-
Payable for investment units purchased	-	-
Payable for management fees (including all GST)	-	-
Other liabilities	23	-
	<b>23</b>	<b>-</b>
<b>Net assets</b>	<b>10,170</b>	<b>17,753</b>

**Statements of Changes in Net Assets** (audited)

For the years ended December 31

	2008 (\$000's)	2007 (\$000's)
<b>Net assets, beginning of year</b>	<b>17,753</b>	<b>16,116</b>
<b>Increase/(decrease) in net assets resulting from operations</b>	<b>(7,007)</b>	<b>2,401</b>
<b>Transactions with unitholders</b>		
Unitholders' contributions	386	373
Unitholders' withdrawals	(962)	(1,137)
Transfers (to)/from other funds	-	-
<b>Net increase/(decrease) from unitholders' transactions</b>	<b>(576)</b>	<b>(764)</b>
<b>Net assets, end of year</b>	<b>10,170</b>	<b>17,753</b>

**Statements of Operations** (audited)

For the years ended December 31

	2008 (\$000's)	2007 (\$000's)
<b>Income</b>		
Distribution from underlying fund	152	2,050
Interest	6	-
Management fee distribution received	-	-
	<b>158</b>	<b>2,050</b>
<b>Expenses</b>		
Management fees	91	98
Fund administration expenses	-	-
	<b>91</b>	<b>98</b>
<b>Net investment income/(loss)</b>	<b>67</b>	<b>1,952</b>
Realized and unrealized gain/(loss)	(7,074)	449
<b>Net increase/(decrease) in net assets resulting from operations</b>	<b>(7,007)</b>	<b>2,401</b>

**Financial Statements - Supplementary Schedules** (audited)

For the years ended December 31

	Net asset value per unit (refer to Note 2d)		Units issued and outstanding		Management expense ratio (refer to Note 3b)				
	2008	2007	2008	2007	2008	2007	2006	2005	2004
<b>Class A units</b>	48.72	81.89	209,234	216,741	0.55	0.56	0.58	0.58	0.58

Note: See accompanying Notes to the Financial Statements.

## MARITIME LIFE FLAC EQUITY FUND

## Statement of Investment Portfolio (audited)

As at December 31, 2008

No. of Shares	Securities	Book Value (\$)	Market Value (\$)	No. of Shares	Securities	Book Value (\$)	Market Value (\$)
<b>CANADIAN COMMON STOCK</b>							
<b>Consumer Discretionary 2.58%</b>							
134	Dorel Industries	4,530	3,633	472	Canadian Natural Resources Limited	36,650	23,010
120	Emera Inc.	2,563	2,662	68	Enbridge Inc.	2,384	2,686
85	Metro Inc., Class A	2,526	3,141	188	EnCana Corp.	12,908	10,669
90	Thomson Reuters Corporation	2,575	3,204	77	Husky Energy Inc.	3,351	2,375
		<b>12,194</b>	<b>12,640</b>	63	Imperial Oil Limited	2,906	2,581
<b>Financial Services 24.88%</b>				1,176	Nexen Inc.	34,368	25,072
59	Bank of Montreal	2,628	1,842	90	Petro-Canada	2,228	2,395
323	Bank of Nova Scotia	15,384	10,707	492	Suncor Energy Inc.	16,241	11,670
47	Canadian Imperial Bank of Commerce	3,464	2,396	2,094	Talisman Energy Inc.	45,120	25,505
27	Fairfax Financial Holdings Limited	8,795	10,310	565	TransCanada Corporation	19,252	18,690
679	Great-West Lifeco Inc.	21,130	14,049			<b>175,408</b>	<b>124,653</b>
101	Industrial Alliance Insurance and Financial Services Inc.	2,526	2,318	<b>Telecommunication Services 3.37%</b>			
62	Laurentian Bank of Canada	2,637	2,127	259	BCE Inc.	9,806	6,488
367	National Bank of Canada	18,284	11,483	61	Manitoba Telecom Services Inc.	2,564	2,164
695	Power Financial Corporation	21,520	16,465	83	Rogers Communications Inc., Class B	2,723	3,036
631	RioCan Real Estate Investment Trust	11,892	8,619	120	Shaw Communications Inc.	2,757	2,591
985	Royal Bank of Canada	49,252	35,460	224	Transcontinental Inc., Class A	2,563	2,202
138	Toronto-Dominion Bank	9,133	5,992			<b>20,413</b>	<b>16,481</b>
		<b>166,645</b>	<b>121,768</b>	<b>Transportation Services 3.24%</b>			
<b>Industrial Products 4.94%</b>				325	Canadian National Railway Company	16,709	14,541
4,789	Bombardier Inc., Class B	32,488	21,167	100	WestJet Airlines Ltd.	1,189	1,309
100	Stantec Inc.	2,244	2,988			<b>17,898</b>	<b>15,850</b>
		<b>34,732</b>	<b>24,155</b>	<b>Utilities 1.45%</b>			
<b>Information Technology 7.61%</b>				60	ATCO Ltd., Class I	2,125	2,260
283	CGI Group Inc., Class A	2,519	2,689	61	Canadian Utilities Limited, Class A	2,499	2,465
438	Open Text Corporation	14,767	16,057	96	Fortis Inc.	2,524	2,361
351	Research in Motion Limited	27,154	17,360			<b>7,148</b>	<b>7,086</b>
50	SXC Health Solutions Corporation	1,037	1,133	<b>Total Canadian Common Stock 93.78%</b>			
		<b>45,477</b>	<b>37,239</b>			<b>590,233</b>	<b>458,998</b>
<b>Materials 15.68%</b>				<b>Transaction Costs (Note 2)</b>			
422	Agrium Inc.	25,785	17,500			<b>(206)</b>	
534	Barrick Gold Corporation	16,020	23,859	<b>Total Common Stock 93.78%</b>			
329	Canfor Corporation	2,143	2,468			<b>590,027</b>	<b>458,998</b>
86	CCL Industries Inc., Class B	2,631	2,145	<b>Cash &amp; Other Investments 5.99%</b>			
270	Eldorado Gold Corporation	2,399	2,600			<b>29,319</b>	<b>29,319</b>
130	Kinross Gold Corporation	2,087	2,912	<b>Other Assets/(Liabilities) 0.23%</b>			
255	Potash Corporation of Saskatchewan Inc.	35,718	22,828			<b>1,111</b>	<b>1,111</b>
76	West Fraser Timber Co. Ltd.	2,199	2,417	<b>Total Net Assets</b>			
		<b>88,982</b>	<b>76,729</b>			<b>620,457</b>	<b>489,428</b>
<b>Merchandising 4.58%</b>							
163	Alimentation Couche-Tard Inc., Class B	2,293	2,287				
55	Empire Company Limited, Class A	2,474	2,668				
163	George Weston Limited	8,852	9,721				
75	Loblaw Companies Limited	2,225	2,621				
201	Rona Inc.	2,527	2,410				
56	Shoppers Drug Mart Corporation	2,965	2,690				
		<b>21,336</b>	<b>22,397</b>				

**Discussion of Financial Risk Management** (audited)**Financial Instrument Risk**

The Fund is classified as a Canadian Equity Fund investing in Canadian Large Cap equities but may also hold Canadian T-Bills and other financial instruments to achieve the objective of capital growth. The Fund's activities expose it to a variety of financial risks. Please refer to note 4 in the Notes to the Financial Statements section for an explanation of the various risks.

Risk management is an integral part of the investment manager's philosophy. Portfolios are diversified not only across sectors and specific securities, but also according to a wide variety of market and macroeconomic risk factors. The investment manager monitors specific risks and tests for portfolio sensitivity to different economic scenarios.

The investment manager uses quantitative research and techniques designed to enhance portfolio performance and operate within risk thresholds. There is a formal risk review process whereby the investment manager's Chief Investment Officer and portfolio managers meet to monitor risk factors every month.

**Currency Risk**

Please see note 4 for a definition of currency risk. A Fund's investment in equity instruments represents non-monetary assets and, therefore, does not expose the Fund to currency risk for the purpose of disclosures under CICA Handbook Section 3862. As of December 31, 2008 the Fund's monetary assets did not have a significant exposure to currency risk.

**Interest Rate Risk**

Please see note 4 for a definition of interest rate risk. The majority of the Fund's financial assets and liabilities are non-interest bearing. Accordingly, the Fund is not subject to significant amounts of risk due to fluctuations in the prevailing levels of market interest rates.

**Other Market Risk**

Please see note 4 for a definition of other market risk. The investment manager has buy and sell targets on all securities in the portfolios and monitor these on an actual time basis. In addition, a dedicated risk management team monitors each security and the overall portfolio. The investment manager's compliance department monitors the Fund for adherence to investment guidelines. It is the principal responsibility of the lead portfolio manager for the investment manager to adhere to client guidelines and restrictions. The Fund has investment restrictions that prohibit it from investing more than 10% of its assets in any one company.

Management's best estimate of the effect on net assets due to an increase or decrease by 5% in Canadian equity prices, with all other variables held constant, is an increase or decrease in the Fund's net assets, respectively by approximately \$22,950. In practice, the actual trading results may differ and the difference could be material.

**Credit Risk**

Please see note 4 for a definition of credit risk. As at December 31, 2008, the Fund had no significant investments in debt instruments and/or derivatives.

**Liquidity Risk**

Please see note 4 for a definition of liquidity risk. As at December 31, 2008, all of the Fund's liabilities were current. The Fund is exposed to daily cash redemptions of redeemable units. Therefore, the Fund invests the majority of its assets in investments that are traded in an active market and can be readily disposed of.

## MARITIME LIFE FLAC EQUITY FUND

### Statements of Net Assets (audited)

As at December 31

	<b>2008</b> (\$000's)	<b>2007</b> (\$000's)
<b>Assets</b>		
Market value of investments	459	888
Cash and short-term investments	29	8
Dividend receivable	1	2
Receivable from investment units sold	-	-
Management fee distribution receivable {Note 2(c)(iii)}	-	-
Other assets	-	-
	<b>489</b>	<b>898</b>
<b>Liabilities</b>		
Bank overdraft	-	-
Payable for investment units purchased	-	-
Payable for management fees (including all GST)	-	-
Other liabilities	-	2
	<b>-</b>	<b>2</b>
<b>Net assets</b>	<b>489</b>	<b>896</b>

### Statements of Operations (audited)

For the years ended December 31

	<b>2008</b> (\$000's)	<b>2007</b> (\$000's)
<b>Income</b>		
Dividends	13	6
Interest	1	1
Revenue from securities lending {Note 2(f)}	-	-
Management fee distribution received	-	-
	<b>14</b>	<b>7</b>
<b>Expenses</b>		
Management fees	-	-
Fund administration expenses	4	5
Transaction costs (Note 2)	3	4
	<b>7</b>	<b>9</b>
<b>Net investment income/(loss)</b>	<b>7</b>	<b>(2)</b>
Realized and unrealized gain/(loss)	(328)	99
<b>Net increase/(decrease) in net assets resulting from operations</b>	<b>(321)</b>	<b>97</b>



**Statements of Changes in Net Assets** (audited)

For the years ended December 31

	2008 (\$000's)	2007 (\$000's)
<b>Net assets, beginning of year (Note 2)</b>	<b>896</b>	<b>988</b>
Adjustment from last traded valuation basis to bid price valuation basis (Note 2)	-	(1)
<b>Net assets, beginning of year restated (Note 2)</b>	<b>896</b>	<b>987</b>
<b>Increase/(decrease) in net assets resulting from operations</b>	<b>(321)</b>	<b>97</b>
<b>Transactions with unitholders</b>		
Unitholders' contributions	4	2
Unitholders' withdrawals	(90)	(190)
Transfers (to)/from other funds	-	-
<b>Net increase/(decrease) from unitholders' transactions</b>	<b>(86)</b>	<b>(188)</b>
<b>Net assets, end of year</b>	<b>489</b>	<b>896</b>

**Financial Statements - Supplementary Schedules** (audited)

For the years ended December 31

Net asset value per unit, Management fees, Management expense ratio are all presented in this table on a Trading Valuation Basis (Note 2).

Fund Name	Net asset value per unit (refer to Note 2d)		Units issued and outstanding		Management expense ratio (refer to Note 3b)				
	2008	2007	2008	2007	2008	2007	2006	2005	2004
Maritime Life FLAC Equity Fund	204.41	338.60	2,403	2,655	0.59	0.50	0.63	0.69	0.69

**Reconciliation of Trading Net Asset and Trading Net Asset Value Per Units to GAAP Valuation Basis** (audited)

All investment funds are required to provide a reconciliation between the Trading NAV that is used to value client transactions, and the GAAP NAV that is required for financial reporting purposes (refer to Note 2 for details on the accounting policy change). Section 3855 requires that bid prices be used to value investments held rather than using the closing sale prices currently used for the purposes of determining Trading NAV.

Fund Name	December 31, 2008				Fund Name	December 31, 2007			
	Trading Valuation Basis	Valuation Impact	GAAP Valuation Basis			Trading Valuation Basis	Valuation Impact	GAAP Valuation Basis	
	Net Asset Value	Net Asset Value	Net Asset Value	Net Asset Value Per Unit		Net Asset Value	Net Asset Value	Net Asset Value	Net Asset Value Per Unit
Maritime Life FLAC Equity Fund	491,098	(1,670)	489,428	203.71	Maritime Life FLAC Equity Fund	898,992	(912)	898,080	338.26

Note: See accompanying Notes to the Financial Statements.

# MARITIME LIFE SEPARATE INVESTMENT FUND

## Statement of Investment Portfolio (audited)

As at December 31, 2008

No. of Shares	Securities	Book Value (\$)	Market Value (\$)	No. of Shares	Securities	Book Value (\$)	Market Value (\$)
<b>CANADIAN COMMON STOCK</b>							
<b>Consumer Discretionary 3.65%</b>							
1,750	Thomson Reuters Corporation	76,447	62,300				
		<b>76,447</b>	<b>62,300</b>				
<b>Financial Services 29.56%</b>							
800	Bank of Montreal	24,000	24,976				
1,675	Bank of Nova Scotia	39,005	55,526				
775	Canadian Imperial Bank of Commerce	27,839	39,502				
1,100	Great-West Lifeco Inc.	22,825	22,759				
600	Industrial Alliance Insurance and Financial Services Inc.	13,763	13,770				
4,020	Manulife Financial Corporation	92,125	83,455				
600	National Bank of Canada	38,486	18,774				
1,850	Power Financial Corporation	32,225	43,827				
2,400	Royal Bank of Canada	68,530	86,400				
800	Sun Life Financial Inc.	25,906	22,680				
2,150	Toronto-Dominion Bank	90,584	93,353				
		<b>475,288</b>	<b>505,022</b>				
<b>Health Care 0.90%</b>							
1,200	CML Healthcare Income Fund	17,945	15,408				
		<b>17,945</b>	<b>15,408</b>				
<b>Industrial Products 2.97%</b>							
5,800	Bombardier Inc., Class B	32,671	25,636				
1,100	Toromont Industries Ltd.	27,910	25,190				
		<b>60,581</b>	<b>50,826</b>				
<b>Materials 12.68%</b>							
1,000	Agrium Inc.	52,481	41,470				
1,775	Barrick Gold Corporation	56,557	79,307				
1,400	Goldcorp Inc.	44,471	53,704				
4,500	Yamana Gold Inc.	32,647	42,300				
		<b>186,156</b>	<b>216,781</b>				
<b>Merchandising 5.55%</b>							
1,600	Alimentation Couche-Tard Inc., Class B	19,547	22,448				
2,100	Reitmans Ltd.	41,724	24,423				
1,000	Shoppers Drug Mart Corporation	53,385	48,030				
		<b>114,656</b>	<b>94,901</b>				
				<b>Oil &amp; Gas 26.25%</b>			
				600	Canadian Natural Resources Limited	28,496	29,250
				200	Crescent Point Energy Trust	4,400	4,800
				400	Enbridge Inc.	15,546	15,800
				1,825	EnCana Corp.	60,260	103,569
				3,100	Nexen Inc.	95,745	66,092
				1,875	Petro-Canada	61,542	49,894
				2,150	Suncor Energy Inc.	23,691	50,998
				5,275	Talisman Energy Inc.	46,225	64,250
				1,100	TransCanada Corporation	40,671	36,388
				1,100	Vermilion Energy	25,283	27,533
						<b>401,859</b>	<b>448,574</b>
				<b>Telecommunication Services 9.35%</b>			
				1,300	Astral Media Inc., Class A NV	51,771	31,408
				1,445	BCE Inc.	46,198	36,197
				1,300	Rogers Communications Inc., Class B	51,206	47,554
				1,200	TELUS Corporation	65,596	44,592
						<b>214,771</b>	<b>159,751</b>
				<b>Transportation Services 2.93%</b>			
				1,120	Canadian National Railway Company	37,630	50,109
						<b>37,630</b>	<b>50,109</b>
				<b>Utilities 3.80%</b>			
				2,316	Energy Savings Income Fund	16,126	20,080
				4,050	Energy Savings Income Fund Temporary Units	-	144
				1,100	Fortis Inc.	26,684	27,049
				1,000	Keyera Facilities Income Fund	16,035	17,760
						<b>58,845</b>	<b>65,033</b>
<b>Total Canadian Common Stock 97.64%</b>						<b>1,644,178</b>	<b>1,668,705</b>
<b>Transaction Costs (Note 2)</b>						<b>(2,074)</b>	
<b>Total Common Stock 97.64%</b>						<b>1,642,104</b>	<b>1,668,705</b>
<b>Cash &amp; Other Investments 1.41%</b>						<b>24,142</b>	<b>24,142</b>
<b>Other Assets/(Liabilities) 0.95%</b>						<b>16,334</b>	<b>16,334</b>
<b>Total Net Assets</b>						<b>1,682,580</b>	<b>1,709,181</b>

**Discussion of Financial Risk Management** (audited)**Financial Instrument Risk**

The Fund is classified as a Canadian Equity Fund investing in Canadian equities to achieve the objective of providing investors with capital growth and above-average dividend income, with an acceptable level of volatility. The Fund's activities expose it to a variety of financial risks. Please refer to note 4 in the Notes to the Financial Statements sections for an explanation of the various risks.

Risk management begins with portfolio construction. The manager's main concern is the absolute portfolio risk, seeking good diversification by automatically scaling down any position which reaches 10% of the portfolio. Portfolios are monitored by the investment manager's compliance team to ensure that investment policies are respected.

**Currency Risk**

Please see note 4 for a definition of currency risk. A Fund's investment in equity instruments represents non-monetary assets and, therefore, does not expose the Fund to currency risk for the purpose of disclosures under CICA Handbook Section 3862. As of December 31, 2008, the Fund's monetary assets did not have a significant exposure to currency risk.

**Interest Rate Risk**

Please see note 4 for a definition of interest rate risk. The majority of the Fund's financial assets and liabilities are non-interest bearing. Accordingly, the Fund is not subject to significant amounts of risk due to fluctuations in the prevailing levels of market interest rates.

**Other Market Risk**

Please see note 4 for a definition of other market risk.

Management's best estimate of the effect on net assets due to an increase or decrease by 5% in Canadian equity prices, with all other variables held constant, is an increase or decrease in the Fund's net assets, respectively by approximately \$83,435. In practice, the actual trading results may differ and the difference could be material.

**Credit Risk**

Please see note 4 for a definition of credit risk. As at December 31, 2008, the Fund had no significant investments in debt instruments and/or derivatives.

**Liquidity Risk**

Please see note 4 for a definition of liquidity risk. As at December 31, 2008, all of the Fund's liabilities were current. The Fund is exposed to daily cash redemptions of redeemable units. Therefore, the Fund invests the majority of its assets in investments that are traded in an active market and can be readily disposed of.

## MARITIME LIFE SEPARATE INVESTMENT FUND

### Statements of Net Assets (audited)

As at December 31

	<b>2008</b> (\$000's)	<b>2007</b> (\$000's)
<b>Assets</b>		
Market value of investments	1,669	2,855
Cash and short-term investments	24	9
Dividend receivable	5	9
Receivable from investment units sold	18	-
Management fee distribution receivable {Note 2(c)(iii)}	-	-
Other assets	-	-
	<b>1,716</b>	<b>2,873</b>
<b>Liabilities</b>		
Bank overdraft	-	-
Payable for investment units purchased	4	-
Payable for management fees (including all GST)	3	5
Other liabilities	-	8
	<b>7</b>	<b>13</b>
<b>Net assets</b>	<b>1,709</b>	<b>2,860</b>

### Statements of Operations (audited)

For the years ended December 31

	<b>2008</b> (\$000's)	<b>2007</b> (\$000's)
<b>Income</b>		
Dividends	60	68
Interest	1	1
Revenue from securities lending {Note 2(f)}	-	-
Management fee distribution received	-	-
	<b>61</b>	<b>69</b>
<b>Expenses</b>		
Management fees	46	57
Fund administration expenses	-	1
Transaction costs (Note 2)	4	2
	<b>50</b>	<b>60</b>
<b>Net investment income/(loss)</b>	<b>11</b>	<b>9</b>
Realized and unrealized gain/(loss)	(973)	152
<b>Net increase/(decrease) in net assets resulting from operations</b>	<b>(962)</b>	<b>161</b>

**Statements of Changes in Net Assets** (audited)

For the years ended December 31

	2008 (\$000's)	2007 (\$000's)
<b>Net assets, beginning of year (Note 2)</b>	<b>2,860</b>	<b>2,925</b>
Adjustment from last traded valuation basis to bid price valuation basis (Note 2)	-	(3)
<b>Net assets, beginning of year restated (Note 2)</b>	<b>2,860</b>	<b>2,922</b>
<b>Increase/(decrease) in net assets resulting from operations</b>	<b>(962)</b>	<b>161</b>
<b>Transactions with unitholders</b>		
Unitholders' contributions	65	68
Unitholders' withdrawals	(254)	(291)
Transfers (to)/from other funds	-	-
<b>Net increase/(decrease) from unitholders' transactions</b>	<b>(189)</b>	<b>(223)</b>
<b>Net assets, end of year</b>	<b>1,709</b>	<b>2,860</b>

**Financial Statements - Supplementary Schedules** (audited)

For the years ended December 31

Net asset value per unit, Management fees, Management expense ratio are all presented in this table on a Trading Valuation Basis (Note 2).

Class of Units	Net asset value per unit (refer to Note 2d)		Units issued and outstanding		Management expense ratio (refer to Note 3b)				
	2008	2007	2008	2007	2008	2007	2006	2005	2004
SEIO	109.46	170.39	14,750	15,957	1.89	1.91	-	1.91	1.91
SIVA	109.83	170.86	905	907	1.89	1.91	-	1.91	1.91

**Reconciliation of Trading Net Asset and Trading Net Asset Value Per Units to GAAP Valuation Basis** (audited)

All investment funds are required to provide a reconciliation between the Trading NAV that is used to value client transactions, and the GAAP NAV that is required for financial reporting purposes (refer to Note 2 for details on the accounting policy change). Section 3855 requires that bid prices be used to value investments held rather than using the closing sale prices currently used for the purposes of determining Trading NAV.

Class of Units	December 31, 2008				Class of Units	December 31, 2007			
	Trading Valuation Basis	Valuation Impact	GAAP Valuation Basis			Trading Valuation Basis	Valuation Impact	GAAP Valuation Basis	
	Net Asset Value	Net Asset Value	Net Asset Value	Net Asset Value Per Unit		Net Asset Value	Net Asset Value	Net Asset Value	Net Asset Value Per Unit
SEIO	1,614,616	(4,602)	1,610,014	109.15	SEIO	2,718,873	(5,854)	2,713,019	170.02
SIVA	99,450	(283)	99,167	109.52	SIVA	154,921	(333)	154,588	170.49

Note: See accompanying Notes to the Financial Statements.



No. of Shares	Securities	Book Value (\$)	Market Value (\$)
700	Snap-on Incorporated	31,754	33,757
422	Sunoco Inc.	18,106	22,459
407	The Chubb Corp.	21,265	25,419
310	The Coca-Cola Company	17,387	17,167
500	The J.M. Smucker Company	24,311	26,549
330	Transocean Inc.	42,162	19,058
783	Verizon Communications	30,605	32,506
433	Wal-Mart Stores Inc.	26,665	29,700
1,041	Walt Disney Co.	34,314	28,887
584	Waste Management Inc.	20,161	23,672
873	Wells Fargo & Company	26,658	31,516
1,553	Western Digital Corporation	39,246	21,700
626	Zions Bancorporation	28,228	18,743
	<b>Total U.S. Common Stock 28.61%</b>	<b>1,574,049</b>	<b>1,465,644</b>
	<b>Transaction Costs (Note 2)</b>	<b>(3,675)</b>	
	<b>Total Common Stock 93.32%</b>	<b>5,266,723</b>	<b>4,781,122</b>

No. of Units/Shares	Investment	Coupon	Maturity	Average Cost (\$)	Market Value (\$)
	<b>SHORT TERM</b>				
	<b>Federal 6.23%</b>				
15,000	Canada	0.80%	Feb-2009	14,935	14,963
155,000	Canada	0.86%	Mar-2009	154,515	154,619
120,000	Canada	0.78%	Jan-2009	119,392	119,857
30,000	Canada	0.86%	Mar-2009	29,943	29,948
	<b>Total Short Term 6.23%</b>			<b>318,785</b>	<b>319,387</b>
	<b>Cash &amp; Other Investments 0.46%</b>			<b>23,584</b>	<b>23,584</b>
	<b>Other Assets/(Liabilities) (0.01%)</b>			<b>(675)</b>	<b>(675)</b>
	<b>Total Net Assets</b>			<b>5,608,417</b>	<b>5,123,418</b>

## Discussion of Financial Risk Management (audited)

### Financial Instrument Risk

The Fund is classified as a combination of Canadian Equity Fund and U.S. Equity Fund investing in Canadian equities, U.S. equities and Canadian T-Bills to achieve the objective of capital growth. The Fund's activities expose it to a variety of financial risks. Please refer to note 4 in the Notes to the Financial Statements section for an explanation of the various risks.

Risk management is an integral part of the investment manager's philosophy. The investment manager uses a team-based approach to ensure that the portfolio is aligned to the Fund's investment goals. The team interacts daily and meets formally on a regular basis to review strategies and assess factors affecting the portfolio. The investment manager constantly reviews markets and the performance of individual sectors and holdings. Investment recommendations are reviewed by the investment manager's investment committee before investment decisions are implemented.

### Currency Risk

Please see note 4 for a definition of currency risk. A Fund's investment in equity instruments represents non-monetary assets and, therefore, does not expose the Fund to currency risk for the purpose of disclosures under CICA Handbook Section 3862. As of December 31, 2008, the Fund's monetary assets did not have a significant exposure to currency risk.

### Interest Rate Risk

Please see note 4 for a definition of interest rate risk. The majority of the Fund's financial assets and liabilities are non-interest bearing. Accordingly, the Fund is not subject to significant amounts of risk due to fluctuations in the prevailing levels of market interest rates.

### Other Market Risk

Please see note 4 for a definition of other market risk. In order to manage market price risk, a risk factor is developed and applied to each security, based on qualitative and quantitative assessments. These risk factors include, but are not limited to earnings variability, earnings dispersion, management risk, financial risk, industry/business risk, valuation risk and growth risk. From these inputs, each company is ranked in terms of risk. The investment manager's portfolio manager, institutional service team and compliance team all have a responsibility to ensure that market positions adhere to the investment goals of the client. The Fund has investment restrictions that prohibit it from investing more than 10% of its assets in any one company.

Management's best estimate of the effect on net assets due to an increase or decrease by 5% in Canadian equity prices, with all other variables held constant, is an increase or decrease in the Fund's net assets, respectively by approximately \$165,774. In practice, the actual trading results may differ and the difference could be material.

Management's best estimate of the effect on net assets due to an increase or decrease by 5% in U.S. equity prices, with all other variables held constant, is an increase or decrease in the Fund's net assets, respectively by approximately \$73,282. In practice, the actual trading results may differ and the difference could be material.

**Discussion of Financial Risk Management** (audited) (continued)**Credit Risk**

Please see note 4 for a definition of credit risk. As at December 31, 2008, the Fund had no significant investments in debt instruments and/or derivatives.

**Liquidity Risk**

Please see note 4 for a definition of liquidity risk. As at December 31, 2008, all of the Fund's liabilities were current. The Fund is exposed to daily cash redemptions of redeemable units. Therefore, the Fund invests the majority of its assets in investments that are traded in an active market and can be readily disposed of.

**Statements of Net Assets** (audited)

As at December 31

	<b>2008</b> (\$000's)	<b>2007</b> (\$000's)
<b>Assets</b>		
Market value of investments	4,781	6,716
Cash and short-term investments	343	554
Dividend/Interest receivable	11	10
Receivable from investment units sold	-	1
Management fee distribution receivable {Note 2(c)(iii)}	-	-
Other assets	-	13
	<b>5,135</b>	<b>7,294</b>
<b>Liabilities</b>		
Bank overdraft	-	-
Payable for investment units purchased	-	-
Payable for management fees (including all GST)	12	16
Other liabilities	-	-
	<b>12</b>	<b>16</b>
<b>Net assets</b>	<b>5,123</b>	<b>7,278</b>

**Statements of Operations** (audited)

For the years ended December 31

	<b>2008</b> (\$000's)	<b>2007</b> (\$000's)
<b>Income</b>		
Dividends	140	122
Interest	13	22
Revenue from securities lending {Note 2(f)}	-	-
Management fee distribution received	-	-
	<b>153</b>	<b>144</b>
<b>Expenses</b>		
Management fees	173	192
Fund administration expenses	-	1
Transaction costs (Note 2)	10	9
	<b>183</b>	<b>202</b>
<b>Net investment income/(loss)</b>	<b>(30)</b>	<b>(58)</b>
Realized and unrealized gain/(loss)	(2,043)	293
<b>Net increase/(decrease) in net assets resulting from operations</b>	<b>(2,073)</b>	<b>235</b>



**Statements of Changes in Net Assets** (audited)

For the years ended December 31

	2008 (\$000's)	2007 (\$000's)
<b>Net assets, beginning of year (Note 2)</b>	<b>7,278</b>	<b>7,106</b>
Adjustment from last traded valuation basis to bid price valuation basis (Note 2)	-	(11)
<b>Net assets, beginning of year restated (Note 2)</b>	<b>7,278</b>	<b>7,095</b>
<b>Increase/(decrease) in net assets resulting from operations</b>	<b>(2,073)</b>	<b>235</b>
<b>Transactions with unitholders</b>		
Unitholders' contributions	889	907
Unitholders' withdrawals	(971)	(959)
Transfers (to)/from other funds	-	-
<b>Net increase/(decrease) from unitholders' transactions</b>	<b>(82)</b>	<b>(52)</b>
<b>Net assets, end of year</b>	<b>5,123</b>	<b>7,278</b>

**Financial Statements - Supplementary Schedules** (audited)

For the years ended December 31

Net asset value per unit, Management fees, Management expense ratio are all presented in this table on a Trading Valuation Basis (Note 2).

Product	Net asset value per unit (refer to Note 2d)		Units issued and outstanding		Management expense ratio (refer to Note 3b)				
	2008	2007	2008	2007	2008	2007	2006	2005	2004
Champion	22.90	32.13	224,106	226,344	2.63	2.71	-	2.68	2.68

**Reconciliation of Trading Net Asset and Trading Net Asset Value Per Units to GAAP Valuation Basis** (audited)

All investment funds are required to provide a reconciliation between the Trading NAV that is used to value client transactions, and the GAAP NAV that is required for financial reporting purposes (refer to Note 2 for details on the accounting policy change). Section 3855 requires that bid prices be used to value investments held rather than using the closing sale prices currently used for the purposes of determining Trading NAV.

Product	December 31, 2008				Product	December 31, 2007			
	Trading Valuation Basis	Valuation Impact	GAAP Valuation Basis			Trading Valuation Basis	Valuation Impact	GAAP Valuation Basis	
	Net Asset Value	Net Asset Value	Net Asset Value	Net Asset Value Per Unit		Net Asset Value	Net Asset Value	Net Asset Value	Net Asset Value Per Unit
Champion	5,131,454	(8,036)	5,123,418	22.86	Champion	7,271,433	(5,919)	7,265,514	32.10

Note: See accompanying Notes to the Financial Statements.

# Notes to the Financial Statements

For the years ended December 31, 2008 and December 31, 2007

## 1. THE FUNDS

The Funds were established under the authority of and are governed by the Insurance Companies Act (Canada). The Funds are maintained in connection with certain life insurance contracts (the "Policies"). Each of the Funds represent money from policy owners that is invested solely in underlying mutual funds or unit trusts or pooled funds or other selected investments and are segregated from other assets of Manulife Financial ("the Company"). The benefits payable under the Policies related to the Funds vary depending on the market value of the assets in the Funds.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as at the date of the financial statements and the amounts of income and expense during the reporting period. Actual results could differ from those estimates.

### a) Adoption of Accounting Policy Changes

#### CICA Handbook Section 3855

The Canadian Institute of Chartered Accountants ("CICA") issued CICA Handbook Section 3855 Financial Instruments – Recognition and Measurement, which establishes how financial instruments are recognized and measured for reporting purposes as well as the accounting treatment of transaction costs. The adoption of this section impacts valuation and disclosure of the net asset value of a segregated fund for financial reporting purposes (the "GAAP NAV"). Section 3855 was implemented by the company on January 1, 2007.

Prior to the adoption of CICA Section 3855, segregated funds accounted for investments at fair value using the closing or last trade price. However, under Section 3855, segregated funds are required to account for investments using closing bid prices, where available. CLHIA guidelines requires the use of GAAP for financial reporting, but the CLHIA has provided an exemption to use the close price as long as there is a reconciliation between Trading NAV and GAAP NAV. The Company is providing a reconciliation of the Trading NAV and the GAAP NAV which is disclosed in each of the Fund's financial statements.

Transaction costs, in accordance with Section 3855, are expensed and are included in "Transaction Costs" in the Statement of Operations. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an investment, which include fees and commission paid to agents, advisors, brokers and dealers. Prior to adoption of Section 3855, transaction costs were capitalized and included in the cost of purchases or proceeds from sale of investments. There is no impact on the net asset value of the segregated fund in using either of these methods.

#### CICA Handbook Sections 3862 and 3863

Effective January 1, 2008, the Company adopted CICA Section 3862, "Financial Instruments - Disclosures" and CICA Section 3863, "Financial Instruments – Presentation". The new Sections 3862 and 3863 replace Section 3861 "Financial Instruments – Disclosure and Presentation". Disclosure requirements are revised and enhanced, while presentation requirements remain essentially unchanged. The new disclosure requirements expand discussion around the significance of financial instruments for the Company's financial position and performance, the nature and extent of risks arising from financial instruments to which the company is exposed to and how the company manages those risks.

Manulife actively manages the asset allocation funds and therefore the various risk disclosures have been presented as required in CICA Section 3862. Manulife does not actively manage its fund of mutual funds and therefore the full quantitative and qualitative risk disclosures contemplated under Section 3862 have not been presented for the underlying funds. For these types of funds Manulife provides a global commentary that describes Manulife's manager of managers program that helps ensure proper selection and monitoring of the underlying fund managers.

#### CICA Handbook Section 1535

The CICA issued Handbook Section 1535, "Capital Disclosures", effective for fiscal years beginning on or after October 1, 2007. This new section requires expanded disclosure of information about the entity's capital. Disclosure requirements pertaining to Section 1535 are disclosed in note 9.

## b) Valuation of Investments

### (i) Underlying Funds

The Funds' assets are carried at the quoted market value, established by the net asset value per unit of the underlying funds held.

### (ii) Investments in Portfolio Funds

Investments are deemed to be categorized as held for trading in accordance with CICA Section 3855 Financial Instruments – Recognition and Measurement, and therefore, are recorded at fair value. Investments in securities are valued at their bid market value based on major securities exchange listings. If no bid price is available on the last market day, the security is valued at the last available traded price. The current value of individual securities may be estimated using valuation techniques based on assumptions that are not supported by observable market prices or rates. Assumptions used in these techniques may include the cost paid for the security, recent news reports about the issuer and general market indicators. Their fair value is determined using a valuation model that has been tested against the prices of actual market transactions and using the Manager's best estimate of the most appropriate model inputs. These are adjusted to reflect the spread for bid and ask prices to reflect costs to close out positions, counterparty credit spread and limitations in the models.

Short-term investments are valued at their bid quotations received from recognized investment dealers for financial reporting purposes.

Bonds are valued at their fair value based on the bid price from available public quotations from recognized dealers.

Derivative instruments are valued at current market value. Futures and forward contracts are valued at the gain/loss that would be realized if the position were to be closed at the reporting date. When the forward contracts are closed out or expire, realized gains or losses on forward contracts are recognized and are included in the Statement of Operations.

## c) Investment Transactions and Income

Investment transactions are accounted for on the day following the date the order to buy or sell is executed. Realized gains and losses from investment transactions and unrealized appreciation or depreciation of investments are calculated on an average cost basis.

Investment income is recorded as follows:

- (i) **Distributions** – Dividends, interest and capital gains from Underlying Funds are recorded on the distribution date.
- (ii) **Interest/Dividends** – Interest/Dividends from direct investments are recorded on an accrual basis.
- (iii) **Management Fee Distribution Received** – Management fee distributions are amounts received from the Company and the underlying fund manager for rebates to offset the management expense ratio embedded in the cost of units purchased in the underlying fund. Management fee distributions are calculated and accrued on a daily basis. There is no increase in the net management expense ratios charged to the unitholder.
- (iv) **Realized and Unrealized Gain/(Loss)** – The market value of units of the underlying funds owned by the Funds will fluctuate during the period based on the performance of the assets of the underlying funds. The unrealized gain (loss) of the units held in the underlying funds is recorded as the difference between the opening and closing market value of the units taking into account the change in the number of units owned throughout the period as a result of unitholder transactions.
- (v) **Foreign Exchange** – The reporting currency of all Funds are expressed in Canadian dollars. Foreign currency amounts are expressed in Canadian dollars as follows:
  - 1) Market value of investments, other assets and liabilities at the rate of exchange existing at the end of the period.
  - 2) Purchases and sales of investments, revenue and expenses at the rate of exchange existing on the respective dates of such transactions.
  - 3) Realized and unrealized gains and losses from the translation of foreign currencies are considered to be investment transactions.
- (vi) **Transaction Costs** – Commissions paid to agents, advisors, brokers and dealers relating to the acquisition, issue or disposal of an investment are included in transaction costs, reported on the Statements of Operations.

**d) Calculation of Unit Values**

Unit values are calculated daily before taking into consideration unitholders' transactions and payments made on that day. These unitholders' transactions are then reflected using that day's new unit value. Separate unit values are calculated on a daily basis for each class of units of each Fund. The net asset value of each class will be the sum of that class' proportionate share of the Fund's investment portfolio market value on a trade basis. A class' proportionate share of the Fund's investment portfolio market value will generally be determined by comparing that class' net asset value to the aggregate net asset value of the Fund as of close of business on the previous day. That amount will be adjusted further for the day's applicable unitholder transactions.

**e) Income Taxes**

The Funds are deemed to be inter-vivos trusts under the provisions of the Income Tax Act (Canada) and, accordingly, are not subject to tax on their net income, including net realized capital gains and losses for the calendar year, which is allocated to the beneficiary as at the end of the calendar year.

**f) Securities Lending**

Up to October 31, 2008, the Company was involved in securities lending. Certain Funds lent portfolio securities from time to time in order to earn additional revenue. These transactions involved the temporary exchange of securities for collateral with a commitment to deliver the same securities on a future date. The loaned assets of any Fund did not exceed 50% of the market value of the assets of that Fund, with a minimum collateral of 102% maintained on the loaned securities. The market value of the loaned securities was determined on the close of any valuation date. The securities on loan continued to be displayed in the Statements of Investment Portfolios and reported in the Statements of Net Assets. The income earned from securities lending was recorded as "Security Lending" revenue on the Statements of Operations. As of October 31, 2008, the Company ceased its securities lending activities.

**g) Other Assets and Liabilities**

Other financial assets and financial liabilities are recorded at their fair value.

**3. MANAGEMENT FEES AND EXPENSES**

Each Fund is responsible for the payment of fees and expenses relating to its operations. Such fees and expenses include management fees and other recoverable Fund operating expenses paid by the Fund, including interest expenses on overdraft incurred within the Funds. Collectively, all the fees and expenses paid or payable by the Fund, including management fees and other recoverable Fund operating expenses (including goods and services taxes) divided by the Fund's average assets on a trade basis, is known as the Management Expense Ratio (MER).

**(a) Management Fees**

Management fees are calculated and accrued on a daily basis and are reimbursed monthly to the Company at a rate of 1/12th of an annual percentage of the net asset value of the Funds during the month. The management fees vary from Fund to Fund. They do not vary between fee options, except for the Money Market Fund. The management fees of class F vary by policy. Management fees for class F have not been disclosed, as this class is offered to Group Pension clients only, and is not available to individual investors.

**(b) Management Expense Ratio**

The MER of the Funds represents the aggregate management fees and other expenses for the period expressed as an annual percentage of the average daily net assets of each Fund during the period. MER for class F has not been disclosed as this class is offered to Group Pension clients only and is not available to individual investors.

**(c) Waived Expenses**

The MER is calculated as a fixed percentage of the average daily net assets of each Fund. For the current year there are no Funds that have expenses waived or absorbed by Manulife.

**4. FINANCIAL INSTRUMENT RISK**

**Risks**

The Funds may be exposed to a variety of financial risks. Each of the Fund's exposures to financial risks are concentrated in its investment holdings, including derivative instruments. The Statement of Investment Portfolio groups securities by asset type, geographic region and/or market segment. Each of the Fund's risk management practice includes the monitoring of compliance to investment guidelines. The Manager manages the potential effects of these financial risks on the Fund's performance by employing and overseeing professional and experienced portfolio advisors that regularly monitor the Fund's positions, market events and diversify investment portfolios within the constraints of the investment guidelines.

### **Currency Risk**

Currency risk is also called exchange rate risk. It is the risk that the value of a financial instrument, including cash and cash equivalents, that is denominated in a currency other than Canadian dollars will fluctuate due to changes in the foreign exchange rate. If a Fund invests in any financial instruments that are denominated in a currency other than Canadian dollars, the Fund may be exposed to currency risk.

### **Interest Rate Risk**

Interest rate risk arises when a Fund invests in interest-bearing financial instruments such as a bond. The Fund is exposed to the risk that the value of such financial instruments will fluctuate due to changes in the prevailing levels of market interest rates. In general, as interest rates rise, the price of a fixed rate bond will fall, and vice versa.

### **Other Market Risk**

Other market risk is the risk that the value a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer, or all factors affecting all instruments traded in a market or market segment. All securities may present a risk of loss of capital.

### **Credit Risk**

Credit risk is the uncertainty in a counterparty's ability to meet its obligations or commitment, or the risk that the issuer will default. All fixed income securities are subject to credit risk. Credit risk is considered as part of the investment decision making process. The Funds only buy and sell investments through brokers which are considered to be approved counterparties, thus minimizing the risk of default during settlement.

For each Fund that is exposed to credit risk, a Portfolio by Credit Rating Category table is constructed as follows: The table relies on a hierarchy program to select the credit ratings from the preferred agencies depending on availability. Using bonds as an example, the program will first look at Standard and Poor's (S&P) reports to identify a rating. If a rating is present, the program will take the S&P rating and insert it into the appropriate category. If the bond is not rated (NR) by S&P, the program will move on to Moody's Investor Service, then Dominion Bond Rating Service, and lastly Canadian Bond Rating Service. If all 4 agencies provide a NR, this particular bond will be placed under the NR category.

### **Liquidity Risk**

Liquidity risk is the potential that an institution will be unable to meet its obligations as they come due because of an inability to liquidate assets. The Fund's assets comprise mainly of actively traded securities which can be readily sold. Each Fund may, from time to time, invest in securities that are not actively traded, and may be illiquid. If such non-actively traded securities are material in the Fund, they will be separately identified and disclosed in the Fund's Statement of Investment Portfolio.

## **5. MANAGEMENT OF FINANCIAL RISKS**

### **a) Investment Fund Selection and Monitoring Process**

A fund manager search is initiated when a new product is launched, an opportunity for product enhancement arises, or when there is a need to replace an existing manager. Manulife Financial has formalized the fund manager selection process for its investment portfolios. The first step in the process is to screen all potential fund managers, and select only those who meet Manulife Financial's criteria for inclusion in the Company's portfolio of Funds. Screening can and often does extend beyond Canadian firms. The screening criteria includes qualitative as well as quantitative measures of performance. The selection team uses a weighting of 2/3 for qualitative factors and 1/3 for quantitative factors to recommend the best fund manager for the mandate under consideration.

Ongoing monthly and quarterly monitoring throughout the year includes monitoring any organizational or Fund changes announced by fund managers or news items that may affect organizational stability or Fund performance as well as analysis on the Fund's rate of return to verify that it is appropriate compared to the underlying fund or Fund's benchmark.

Included in the ongoing due diligence process, managers are required to verify that the Fund has adhered to the Company's Statement of Investment Policies.

In addition to the monitoring described above, Fund portfolios are reviewed on a semi-annual basis to ensure that the existing platform continues to meet the current and future needs of Manulife's Canadian Division. As a result of this review, product line-ups will typically be refreshed in June and December of each year. The termination of a fund manager relationship is determined on a case-by-case basis and this action will largely depend upon their response to a specific area of concern. The Company's preference is to work with fund managers to address significant issues, minimize disruption to Manulife's clients, and give fund managers a reasonable opportunity to make improvements. Manulife Financial is not compensated for this service in any manner by any of Manulife's fund managers.

**b) Management of the Fund of Funds**

Manulife's fund of funds are not subject to the same process as the asset allocation funds as they are not actively managed. Manulife has delegated the risk management to the underlying fund manager and does not receive a detailed level of risk management information from the underlying fund manager in the ordinary course of business nor would Manulife be able to validate such information. The description in Note 5a) also applies to the management of financial risks for fund of funds. The table in the Financial Instrument Risk of the Underlying Fund section for the funds has been completed by each underlying fund manager. Each underlying fund manager has their own unique fund and corresponding risk management practices. Underlying fund managers' views of applicable risks may vary within like fund classifications.

**6. SECURITIES LENDING TRANSACTIONS**

As of October 31, 2008, the Company's securities lending activities ceased. As such, there are no assets or securities on loan as of December 31, 2008.

**7. SIGNIFICANT OWNERSHIP IN UNDERLYING FUNDS**

At December 31, 2008, the following Fund held a 20% ownership or greater in the underlying fund:

Fund	Underlying Fund	Assets of Underlying Fund (\$000's)	Percentage Ownership in underlying fund
Manulife Equity fund	Manulife Canadian Core Fund	221,500	39.8%

**8. RELATED PARTY TRANSACTIONS**

Certain Funds invest in underlying Manulife Financial mutual funds managed by Elliott & Page Limited. Elliott & Page Limited is a wholly owned subsidiary of the Company. All investment transactions with the corresponding underlying Elliott & Page managed mutual funds are at quoted market values.

Certain Funds invest in underlying Unit Trusts owned and managed by Manulife Financial. These Funds receive distributions (as disclosed in the Statement of Operations) representing net income based on the percentage ownership in the underlying Unit Trusts.

**9. CAPITAL MANAGEMENT**

The Funds have no restrictions or specific capital requirements on the subscription and redemption of units. The Statements of Changes in Net Assets identify changes in capital during the period. The capital of the Funds are managed in accordance with the Fund's investment objectives including managing their liquidity in order to be able to meet redemptions as discussed in note 4 – Liquidity Risk.

**10. INTERNATIONAL FINANCIAL REPORTING STANDARDS**

At December 31, 2008 the Company has developed a changeover plan to meet the timetable published by the CICA for changeover to IFRS which is to take place in 2011. The key elements of the CICA plan include disclosures of the qualitative impact in the 2008, 2009 and 2010 financial statements, disclosures of the quantitative impact, if any, in the 2010 financial statements and the preparation of the 2011 financial statements in accordance with IFRS. Based on analysis to date, with the implementation of CICA Sections 3855, 3862 and 3863, the Company has largely positioned the Funds for IFRS adoption.

The Company expects that the main impact of the changeover to IFRS on the Funds' financial statements will be limited to additional disclosures in the financial statements. However, Funds which are more complex in structure may be impacted by IFRS differently and further analysis will be required. The Company is currently evaluating the impact that the adoption of IFRS will have on the Fund's financial position (NAV).

**11. COMPARATIVE FIGURES**

The comparative financial statements have been reclassified from the statements previously presented to conform to the presentation of the current year financial statements. Class information has been provided for previous years in accordance with the groupings of Class information that were utilized in that year.

## AUDITORS' REPORT

To the Contract holders of Individual Variable Insurance Contracts relating to  
**The Manufacturers Life Insurance Company Segregated Funds.**


We have audited the statements of net assets and statements of investment portfolio as at December 31, 2008 and the statements of operations and changes in net assets for the period then ended for each of the Manufacturers Life Insurance Company Segregated Funds ("the Funds") listed below:

Manulife Short-Term Securities Fund  
Manulife Bond Fund  
Manulife Diversified Investment Fund  
Manulife Equity Fund  
Equity Growth Fund  
Monarch Growth Fund  
Maritime Life FLAC Equity Fund  
Maritime Life Separate Investment Fund  
Maritime Life Champion Growth Fund

These financial statements are the responsibility of the Funds' management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of each of the Funds as at December 31, 2008 and the results of their operations and the changes in their net assets for the period then ended in accordance with Canadian generally accepted accounting principles.



Kitchener, Canada  
March 26, 2009.

Chartered Accountants  
Licensed Public Accountants

## **About Manulife Financial**

Manulife Financial is a leading Canadian-based financial services group serving millions of customers in 19 countries and territories worldwide. Operating as Manulife Financial in Canada and Asia, and primarily through John Hancock in the United States, the Company offers clients a diverse range of financial protection products and wealth management services through its extensive network of employees, agents and distribution partners. Funds under management by Manulife Financial and its subsidiaries were Cdn\$385 billion (US\$364 billion) as at December 31, 2008.

Manulife Financial Corporation trades as 'MFC' on the TSX, NYSE and PSE, and under '0945' on the SEHK. Manulife Financial can be found on the Internet at [www.manulife.com](http://www.manulife.com).

