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**BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION**  
**REALPOOL INVESTMENT FUND**

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**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

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**British Columbia Investment Management Corporation  
Realpool Investment Fund**

**MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING**

British Columbia Investment Management Corporation [bcIMC] manages the Realpool Investment Fund [Fund] on behalf of governing fiduciaries such as pension fund trustees and other public sector clients.:

The 2012 financial statements of the Fund have been prepared by management of bcIMC and approved by the Chief Investment Officer/Chief Executive Officer. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies used in the preparation of these statements are disclosed in note 2 to the financial statements. The statements include certain amounts that are based on management's judgment and best estimates.

bcIMC's Board has established an Audit Committee. The Committee's mandate includes making recommendations on the appointment of the external auditor for the Realpool Investment Fund, reviewing the external audit plan; reviewing bcIMC's CSAE 3416 Report on Controls for the Investment System of British Columbia Investment Management Corporation, and receiving the annual audited financial statements of the Realpool Investment Fund. The Committee reviews the recommendations of the internal and external auditors with respect to internal controls and the responses of management to those recommendations, and also meets with management and the internal and external auditors to review annual audit plans.

bcIMC maintains systems of internal control and supporting processes to provide reasonable assurance that assets are safeguarded; that transactions are appropriately authorized and recorded; and that there are no material misstatements in the financial statements. bcIMC's internal control framework includes: a strong corporate governance structure; a code of conduct that includes conflict of interest guidelines; an organization structure that provides for appropriate segregation of duties and accountability for performance; an enterprise-wide risk management framework that identifies, monitors and reports on key risks; and Board-approved pooled investment portfolio policies and client-approved investment mandates. bcIMC's system of internal control is supported by internal and external auditors who review and evaluate internal controls and report directly to the Audit Committee.

The Fund's external auditors, Ernst & Young LLP ["Ernst & Young"], have full and unrestricted access to the Audit Committee and bcIMC management. Ernst & Young discusses with management and the Committee the results of their audit of the Fund's financial statements and related findings with respect to such audit. The Fund is audited by Ernst & Young in accordance with Canadian generally accepted auditing standards. Ernst & Young has performed such tests and other procedures as they considered necessary to express an opinion on the Fund's financial statements.

[s] Doug Pearce

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Doug Pearce  
Chief Executive Officer  
Chief Investment Officer

[s] David Woodward

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David Woodward  
Vice President, Finance & Operations

# INDEPENDENT AUDITORS' REPORT

To the Unitholders of  
**Realpool Investment Fund**

We have audited the accompanying financial statements of **Realpool Investment Fund**, which comprise the statement of net assets and investments as at December 31, 2012, and the statement of operations and changes in net assets, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## **Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## **Auditors' responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Realpool Investment Fund** as at December 31, 2012 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Vancouver, Canada,  
March 27, 2013.

*Ernst & Young LLP*

Chartered Accountants

**REALPOOL INVESTMENT FUND**

**Statement of Net Assets  
as at December 31**

[in 000s except number of units outstanding]

	2012	2011
<b>Assets</b>		
Investments, at fair value	\$ 13,267,589	\$ 11,833,265
Cash	31,128	20,430
Receivable from issue of units	180,000	175,000
Accrued investment income	37	57
	<u>13,478,754</u>	<u>12,028,752</u>
<b>Liabilities</b>		
Accounts payable	959	657
bcIMC funds management fees payable [note 8]	505	411
	<u>1,464</u>	<u>1,068</u>
Commitments and contingencies [note 9 and 10]		
<b>Net assets representing unitholders' equity</b>	<u>\$ 13,477,290</u>	<u>\$ 12,027,684</u>
Number of units outstanding [note 11]	1,890.845	1,967.233
<b>Net asset value per unit</b>	<u>\$ 7,128</u>	<u>\$ 6,114</u>

**Statement of Operations and Changes in Net Assets  
for the year ended December 31**

[in 000s]

	2012	2011
Investment income	\$ 90,539	\$ 72,721
Expenses		
bcIMC funds management fees [note 8]	5,473	4,641
Custodial fees	4	4
Administrative and professional fees	1,840	9,653
	<u>7,317</u>	<u>14,298</u>
<b>Net investment income</b>	83,222	58,423
Realized and unrealized gains		
Net realized gain	747,754	263,299
Change in unrealized gain	1,103,630	1,241,608
	<u>1,851,384</u>	<u>1,504,907</u>
<b>Net income from operations</b>	1,934,606	1,563,330
Capital Transactions:		
Proceeds from units issued	380,000	275,000
Amounts paid for units redeemed	(865,000)	(416,602)
	<u>(485,000)</u>	<u>(141,602)</u>
Increase in net assets	1,449,606	1,421,728
Net assets, beginning of year	<u>12,027,684</u>	<u>10,605,956</u>
<b>Net Assets, end of year</b>	<u>\$ 13,477,290</u>	<u>\$ 12,027,684</u>

[s] Doug Pearce

Doug Pearce  
Chief Executive Officer  
Chief Investment Officer

See accompanying Notes to the Financial Statements.

**REALPOOL INVESTMENT FUND**

**Statement of Cash Flows**  
**for the year ended December 31**  
[in 000s]

	2012	2011
<b>Cash flow provided by [used for]:</b>		
<b>Cash flows from operating activities</b>		
Net income from operations	\$ 1,934,606	\$ 1,563,330
Items not affecting cash:		
Net realized gain	(747,754)	(263,299)
Change in unrealized gain	(1,103,630)	(1,241,608)
	<u>83,222</u>	<u>58,423</u>
Changes in non-cash operating accounts:		
Accrued investment income	20	7
Accounts payable	302	(121)
bcIMC funds management fees payable	94	81
	<u>83,638</u>	<u>58,390</u>
<b>Cash flows from investing activities</b>		
Proceeds from sale of investments	3,088,877	1,513,712
Amounts paid for purchase of investments	(2,671,817)	(2,175,511)
	<u>417,060</u>	<u>(661,799)</u>
<b>Cash flows from financing activities</b>		
Proceeds from units issued	375,000	986,000
Amounts paid for units redeemed	(865,000)	(432,602)
	<u>(490,000)</u>	<u>553,398</u>
<b>Net increase (decrease) in cash</b>	10,698	(50,011)
<b>Cash, beginning of year</b>	<u>20,430</u>	<u>70,441</u>
<b>Cash, end of year</b>	<u>\$ 31,128</u>	<u>\$ 20,430</u>

**Statement of Investments**  
**as at December 31**  
[in 000s]

	2012		2011	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
<b>Real Estate Investments <sup>1</sup>:</b>	\$ 12,314,531	\$ 5,812,070	\$ 10,990,300	\$ 5,606,931
<b>Fixed Income Investments <sup>2</sup>:</b>	887,481	987,746	\$ 794,870	\$ 879,633
<b>Money Market Investments:</b>				
Units in bcIMC Pooled				
Investment Portfolio				
Fund ST1	31,736	31,736	37,396	37,396
Fund ST2	<u>33,841</u>	<u>33,853</u>	<u>10,699</u>	<u>10,752</u>
	65,577	65,589	48,095	48,148
<b>Total Investments</b>	<u>\$ 13,267,589</u>	<u>\$ 6,865,405</u>	<u>\$ 11,833,265</u>	<u>\$ 6,534,712</u>

<sup>1</sup> Real estate investments are held through private corporations and limited partnerships [note 6]

<sup>2</sup> See note 5 for further details on fixed income investments

See accompanying Notes to the Financial Statements.

BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION  
REALPOOL INVESTMENT FUND  
NOTES TO THE FINANCIAL STATEMENTS  
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## 1. THE PORTFOLIO

British Columbia Investment Management Corporation [“bcIMC”] was established under the Public Sector Pension Plans Act as a trust company authorized to carry on trust business and investment management services. These financial statements have been prepared by bcIMC and are the responsibility of bcIMC management.

Under the Public Sector Pension Plans Act and the Pooled Investment Portfolios Regulation, B.C. Reg. 447/99, bcIMC may establish and operate pooled investment portfolios “.... in which money from trust funds, special funds or other funds, other public money and the money of government bodies and designated institutions may be combined in common for the purpose of investment by means of investment units of participation in a pooled investment portfolio.” In addition, pooled investment portfolios [the “Funds”] previously established under the Financial Administration Act and the Pooled Investment Portfolios Regulation, B.C. Reg. 84/86, were continued under the Pooled Investment Portfolios Regulation, B.C. Reg. 447/99, to be held in trust by bcIMC and invested by the Chief Investment Officer of bcIMC.

The Realpool Investment Fund [the “Fund”] was established on July 3, 1991 and invests in diversified Canadian income-producing properties including institutional-grade Canadian office, industrial, residential, retail, hospitality and mixed-use properties.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### Basis of presentation

The financial statements have been prepared in accordance with Part V – Pre-changeover accounting standards of the CICA Handbook [“Canadian GAAP”]. Specifically, Accounting Guideline 18 – Investment Companies [“AcG-18”] requires an investment company to measure all of its investments at fair value without consolidation.

### Valuation

Investments and investment-related receivables and liabilities are stated at fair value. Fair value is an estimate of the amount of consideration that would be agreed upon in an arm’s length transaction between knowledgeable, willing parties under no compulsion to act.

Fair value is determined as follows:

[i] Real estate investments held through equities of private business enterprises are valued using various methodologies including discounted cash flows, income multiples and net assets available to shareholders.

[ii] Fixed income investments in the wholly owned subsidiaries are valued at the lesser of face value or the net assets available to note holders.

[iii] Money market securities values are derived from external market quotations provided by recognized data suppliers in the securities industry.

### Income recognition

Investment transactions are accounted for on a trade date basis. Dividend income is recognized on the ex-dividend date and interest income on the accrual basis whether from related parties or external sources. Commissions, stock exchange fees and other identifiable transaction costs that are directly attributable to the acquisition or disposal of an investment are expensed as incurred. Pursuit costs incurred in acquisition of investments by the Fund are charged to net income of the Fund in the period incurred.

Realized gains and losses on the sale of investments are calculated as the difference between the sales proceeds and cost. Unrealized gains and losses are calculated as the year-over-year change in the difference between the fair value and the cost of investments. The cost used for the calculation of realized gains and losses and change in unrealized gains and losses is based on the average cost for equities, and amortized cost for money market securities and fixed income securities.

### Issue and redemption of units

Participation in the Fund is expressed in units. The initial value of a unit of the Fund was \$1 million. For each subsequent unit issuance and redemption, the unit value is determined by dividing the fair value of the net assets of the portfolio by the total number of units outstanding. Where one Fund invests in another Fund, the unit issuances and redemptions are transacted on the same basis as client transactions. All unit transactions are recorded on a trade date basis.

### Income taxes

The Fund represents assets held by bcIMC, as trustee and as bcIMC is an agent of the crown, the Fund, which is a trust, is not subject to tax on income and gains realized from such assets. All income and net capital gains realized by the Fund are distributed or made payable by regulation to unitholders of the Fund prior to the end of each calendar year. Subsidiary companies held by the Fund include a combination of companies that are exempt from Canadian income tax under paragraph 149(1)(o.2) of the Income Tax Act (Canada) and taxable companies.

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**Use of estimates**

Financial statements prepared in accordance with Canadian generally accepted accounting principles require management to make certain estimates and assumptions that can affect the reported balances. In determining the fair value of some of its investments, management relies on external appraisers' or external asset managers' estimates and assumptions regarding industry performance and prospects, as well as general business and economic conditions that prevail or are expected to prevail. By nature, these asset valuations are subjective and do not necessarily result in precise determinations. Financial results as determined by actual events could differ from those estimates and assumptions, and the difference could be material.

**3. ADOPTION OF ACCOUNTING STANDARDS IN CURRENT FISCAL YEAR**

There were no accounting standard changes required to be adopted in the current year.

**4. FUTURE ACCOUNTING CHANGES**

On February 13, 2008, the Accounting Standards Board ("AcSB") confirmed that publicly accountable enterprises would be required to adopt International Financial Reporting Standards ("IFRS"), as published by the International Accounting Standards Board ("IASB"), on January 1, 2011. However, the AcSB deferred the mandatory IFRS changeover date for Canadian investment funds to January 1, 2014.

Consequently, the Fund will be required to publish their first annual audited financial statements in accordance with IFRS for the year ending December 31, 2014, with comparatives for the year ending December 31, 2013, and prepare an opening IFRS statement of net assets at January 1, 2013. bcIMC will finalize its assessment of the impact of IFRS during 2013.

Apart from some additional disclosure, IFRS is not expected to significantly change the overall presentation of the financial statements or opening balances. Some standards which are of particular relevance are outlined below.

IAS 32 *Financial Instruments: Presentation* contains criteria which may require unitholders' equity to be classified as a liability within the Funds' Statement of Net Assets with distributions to unitholders reflected as financing costs in the Funds' Statement of Operations, unless certain conditions are met. bcIMC is currently assessing the Funds' unitholder structure to confirm the appropriate classification in accordance with IFRS.

In May 2011, the IASB issued IFRS 13 *Fair Value Measurement*. IFRS 13 specifies prospective application for annual periods beginning on or after January 1, 2013. Earlier adoption is permitted. If a Fund applies IFRS 13 for an earlier period, disclosure of this fact is required. IFRS 13 defines fair value, sets out a single IFRS framework for measuring fair value and requires disclosure about fair value measurements. It applies when other IFRSs require or permit fair value measurement. bcIMC is currently assessing the impact of applying IFRS 13.

In October 31, 2012, the IASB published *Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)*, which provides an exemption from consolidation of subsidiaries under IFRS 10 *Consolidated Financial Statements* for entities which meet the definition of an 'investment entity'. A qualifying investment entity is required to account for investments in controlled entities – as well as investments in associates and joint ventures – at fair value through profit or loss; the only exception would be subsidiaries that are considered an extension of the investment entity's investing activities. The consolidation exception is mandatory – not optional. bcIMC is currently assessing this standard to determine the impact, if any, it will have on the funds' financial statements.

**5. FIXED INCOME INVESTMENTS**

The fixed income investments are all securities issued between the Fund's wholly owned subsidiary entities and the Fund. These comprise three types of securities. The note terms are:

Description	Interest	Maturity	2012	
			Fair Value [000s]	Cost [000s]
Variable interest rate notes	2% - 12% interest based on prior years EBITDA of the issuer	September 30, 2017 to August 13, 2023	\$ 276,347	\$ 376,612
Fixed rate notes	10% - 12%	December 31, 2015 to December 31, 2025	603,634	603,634
Floating rate note	Bank of Nova Scotia Prime Rate + 2%	N/A (on demand)	7,500	7,500
			<u>\$ 887,481</u>	<u>\$ 987,746</u>
Description	Interest	Maturity	2011	
			Fair Value [000s]	Cost [000s]
Variable interest rate notes	2% - 12% interest based on prior years EBITDA of the issuer	September 30, 2017 to August 13, 2023	\$ 304,349	\$ 389,112
Fixed rate notes	0% - 12%	December 31, 2012 to December 31, 2025	490,521	490,521
			<u>\$ 794,870</u>	<u>\$ 879,633</u>

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**6. FINANCIAL RISK MANAGEMENT**

The investment objective of the Fund is to provide clients with exposure to a portfolio of Canadian real estate and real estate-related investments. The Fund's holdings are highly diversified by property type, geographic location, investment size, and investment risk. The Fund primarily concentrates on high quality income producing Canadian office, industrial, residential, retail, hospitality and mixed-use properties located in geographic regions that have strong and growing economies. The Fund's investment strategy is to be well diversified and to hold quality properties that will perform well across multiple economic cycles. Real estate investments are only made when there is a reasonable expectation that return objectives can be achieved over a ten year horizon.

The Fund invests in the following assets:

- eligible real estate investments for pension plans under the Pensions Benefits Standards Act (B.C.);
- real estate-related investments, including trust units, partnership interests, shares and debt;
- units in the Managers' pooled funds provided such holding are permissible investments for the Fund;
- government debt securities with a maximum term to maturity of one year; and
- bcIMC Canadian Money Market Funds ST1 and ST2.

The following restrictions apply to the Fund's use of debt financing:

- it may only be used in a prudent manner for real estate and real estate-related investment;
- it may not be created if, as a result, the debt to market value ratio of the overall real estate portfolio would exceed 25 percent, except in the case of assumption or renewal of existing debt; and
- Another 5 percent is allowed for the assumption or renewal of existing debt.

The Fund holds most of its investments through wholly owned non-consolidated corporations or limited partnerships. The risk disclosure outlined below describes the financial risk related to the Fund and the wholly owned corporations and limited partnerships and underlying investments.

**Credit risk**

Credit risk arises from the possibility that tenants, hotel guests and third party hotel owners may experience financial difficulty and be unable to meet their obligations to Realpool entities. The Fund's credit risk is limited to the recorded amount of these obligations. To mitigate these risks, the Fund has a diverse set of tenants in a variety of industries, and the Fund performs ongoing credit evaluations of its customers and establishes allowances for potential losses.

**Liquidity risk**

Liquidity risk is the risk that the Fund will be unable to generate sufficient cash in a timely manner or at a reasonable price to meet commitments as they come due. The Fund is exposed to the liquidity risk associated with the requirement to redeem units. Units of the Fund may only be acquired by eligible clients or client groups in accordance with the Fund's purchasing limits that may be established by the Chief Investment Officer ["CIO"]. In order to protect the interest of all clients, the CIO may also establish redemption limits for the Fund. The purchase and redemption limits may vary depending on market circumstances, client demand, and the liquidity of the underlying investments.

**Interest rate risk**

Interest rate risk is the risk that the market value or cash flows of interest-bearing investments will fluctuate due to changes in market interest rates. The variable interest rate notes and fixed rate notes of the Fund [note 5] are receivable from the underlying corporations and limited partnerships, so the Fund is not subject to interest rate risk on these financial instruments.

The mortgages of the underlying non-consolidated corporations and limited partnerships bear interest rates up to 7.75% [2011 - 9.00%] with a weighted average rate of 4.83% [2011 - 5.27%]. They are due at various dates to 2046.

Principal payments on the mortgages are due as follows:

		in 000s
2013	\$	279,478
2014		393,212
2015		59,287
2016		179,827
2017		187,108
2018 and thereafter		71,832
	\$	1,170,744

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The notes payable of the underlying non-consolidated corporations and limited partnerships are unsecured and have the following terms and interest rates:

Issue	Maturity date	Interest rate	2012	2011
			[000s]	[000s]
Series 4	February 10, 2015	4.65%	\$ 149,894	\$ 149,894
Series 5	September 19, 2012	5.25%	-	249,952
Series 6	January 5, 2018	5.65%	199,623	199,560
Series 7	January 29, 2015	3.38%	200,000	200,000
Series 8	March 7, 2019	2.96%	500,000	-
Series 9	June 19, 2017	2.65%	249,953	-
Series 10	June 29, 2022	3.51%	249,937	-
			\$ 1,549,407	\$ 799,406

As at December 31, 2012, if the interest rates increased or decreased by 1% with other variables held constant, the fair value of the mortgages and notes payable would decrease by \$101,469,000 and increase by \$107,637,000, respectively.

**Other valuation risk**

As at December 31, real estate investment properties held by the Fund are diversified across the following property sectors:

Real estate properties [in 000s]	2012		2011	
	Total	% of Total	Total	% of Total
Retail	\$ 1,388,900	8.7	\$ 1,335,210	9.7
Office	7,501,660	47.6	6,188,509	45.1
Industrial	1,633,210	10.4	1,565,095	11.4
Residential	2,416,640	15.3	2,134,035	15.5
Hospitality	812,350	5.2	809,420	6.0
Land lease communities	1,069,602	6.8	870,562	6.3
Property held for/under development	950,131	6.0	827,722	6.0
<b>Total real estate properties</b>	<b>\$ 15,772,493</b>	<b>100.0</b>	<b>\$ 13,730,553</b>	<b>100.0</b>

As at December 31, real estate investment properties held by the Fund are diversified across the following geographic regions in Canada:

Real estate properties [in 000s]	2012		2011	
	Total	% of Total	Total	% of Total
British Columbia	\$ 2,786,360	17.7	\$ 2,388,847	17.4
Alberta	5,739,350	36.4	4,788,704	34.9
Saskatchewan	145,000	0.9	165,600	1.2
Manitoba	229,617	1.5	201,299	1.5
Ontario	5,901,076	37.4	5,295,707	38.6
Quebec	728,279	4.6	692,091	5.0
Prince Edward Island	7,600	-	5,800	-
New Brunswick	38,303	0.2	30,200	0.2
Nova Scotia	181,598	1.2	160,130	1.2
Newfoundland	15,310	0.1	2,175	-
<b>Total real estate properties</b>	<b>\$ 15,772,493</b>	<b>100.0</b>	<b>\$ 13,730,553</b>	<b>100.0</b>

Other net investment assets and liabilities other than real estate properties as disclosed above were in a net liability position of \$2,504,903,456 [2011 - net liability \$1,897,288,000], resulting in net investment fair values of \$13,267,589,001 as at December 31, 2012 [2011 - \$11,833,265,000] on the statement of net assets.

**7. FAIR VALUE MEASUREMENTS**

CICA 3862, Financial Instruments – Disclosures establishes a three-tier hierarchy as a framework for disclosing fair value based on inputs to value the Fund’s investments.

The hierarchy contains three levels of fair value inputs as follows:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices that are observable for the asset or liability [i.e. quoted prices of similar securities, Bank of Canada rates, commercial credit spreads].
- Level 3 - Inputs for the asset or liability that are not based on observable market data [i.e. budgeted or forecast revenue or net income, weighted average cost of capital].

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The following is a summary as of December 31 of the Fund's investments carried at fair value:

Type of security [in 000s]	2012			
	Quoted prices in active markets	Significant observable inputs	Significant unobservable inputs	Total
	[Level 1]	[Level 2]	[Level 3]	
Money Market Investments	\$ -	\$ 65,577	\$ -	\$ 65,577
Real Estate Investments	-	-	12,314,531	12,314,531
Fixed Income Investments	-	-	887,481	887,481
Total Investments	\$ -	\$ 65,577	\$ 13,202,012	\$ 13,267,589

During the period ended December 31, 2012, the reconciliation of investments measured at fair value using significant unobservable inputs [Level 3] is as follows:

Reconciliation of Level 3 balances [in 000s]	Real estate investments	Fixed income investments	Total
Opening balance, January 1, 2012	\$ 10,990,300	\$ 794,870	\$ 11,785,170
Net purchases and sales	(542,622)	108,114	(434,508)
Realized gains	747,761	-	747,761
Change in unrealized appreciation [depreciation]	1,119,092	(15,503)	1,103,589
Closing balance, December 31, 2012	\$ 12,314,531	\$ 887,481	\$ 13,202,012

The following is a summary as of December 31 of the Fund's investments carried at fair value:

Type of security [in 000s]	2011			
	Quoted prices in active markets	Significant observable inputs	Significant unobservable inputs	Total
	[Level 1]	[Level 2]	[Level 3]	
Money Market Investments	\$ -	\$ 48,095	\$ -	\$ 48,095
Real Estate Investments	-	-	10,990,300	10,990,300
Fixed Income Investments	-	-	794,870	794,870
Total Investments	\$ -	\$ 48,095	\$ 11,785,170	\$ 11,833,265

During the period ended December 31, 2011, the reconciliation of investments measured at fair value using significant unobservable inputs [Level 3] is as follows:

Reconciliation of Level 3 balances [in 000s]	Real estate investments	Fixed income investments	Total
Opening balance, January 1, 2011	\$ 9,257,118	\$ 393,592	\$ 9,650,710
Net purchases and sales	213,937	415,727	629,664
Realized gains	263,160	-	263,160
Change in unrealized appreciation [depreciation]	1,256,085	(14,449)	1,241,636
Closing balance, December 31, 2011	\$ 10,990,300	\$ 794,870	\$ 11,785,170

## 8. BCIMC FUNDS MANAGEMENT FEES

Funds management costs initially borne by bcIMC are recovered from the Fund by bcIMC charging management fees, which are calculated on a cost recovery basis.

## 9. COMMITMENTS

The Fund, its wholly owned corporations and limited partnerships have property purchase and development commitments of \$788.0 million [2011 - \$550.6 million], unfunded commitments to certain investment funds of \$4.4 million [2011 - \$4.4 million], commercial purchasing card lines of credit of \$4.0 million [2011 - \$3.2 million], and have issued letters of credit totalling \$43.4 million [2011 - \$32.8 million].

## 10. CONTINGENCIES

Certain investments of the Fund may, in the normal course of business activities, be involved in disputes with third parties. bcIMC management assesses the likelihood of loss relating to any disputes and has determined that such disputes would not have a material impact on the net asset value of the Fund.

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FOR THE YEAR ENDED DECEMBER 31, 2012

**11. UNITS OUTSTANDING**

Units issued and outstanding represent the capital of the Fund. bcIMC manages the capital of the Funds in accordance with the Fund's investment objectives, including managing liquidity in order to meet redemptions as discussed in note 6. The statement of changes in net assets identifies changes in the Fund's capital during the year. Unit transactions are settled on a three day delay. At December 31, 2012, the receivable from issue of units was \$180,000,000 [2011 - \$175,000,000] and the payable for redemption of units was nil [2011 - nil]. These amounts were received/paid in January of the subsequent year. The following is a summary of the changes in units outstanding during the year:

	2012	2011
	[in number of units]	[in number of units]
Outstanding, beginning of year	1,967.233	1,992.845
Issued	54.011	45.871
Redeemed	(130.399)	(71.483)
Outstanding, end of year	<u>1,890.845</u>	<u>1,967.233</u>

**12. COMPARATIVE FIGURES**

Certain of the comparative figures have been reclassified to conform to the financial statement presentation adopted for the current year.