Fund Financial Statements of

THE LONDON TRANSIT COMMISSION EMPLOYEES' PENSION PLAN

Year ended December 31, 2017

KPMG LLP
140 Fullarton Street Suite 1400
London ON N6A 5P2
Canada
Tel 519 672-4800
Fax 519 672-5684

INDEPENDENT AUDITORS' REPORT

To the Administrator

We have audited the accompanying fund financial statements of The London Transit Commission Employees' Pension Plan, which comprise the statement of net assets available for benefits as at December 31, 2017, the statement of changes in net assets available for benefits for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information. The fund financial statements have been prepared by management based on the financial reporting provisions of Section 76 of Regulation 909 of the Pension Benefits Act (Ontario).

Management's Responsibility for the Fund Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the fund financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the fund financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the fund 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 fund financial statements.

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

Opinion

In our opinion, the fund financial statements present fairly, in all material respects, the net assets available for benefits of the fund of The London Transit Commission Employees' Pension Plan as at December 31, 2017 and the changes in net assets available for benefits for the year then ended in accordance with the financial reporting provisions of Section 76 of Regulation 909 of the Pension Benefits Act (Ontario).

Basis of Accounting and Restriction on Distribution and Use

Without modifying our opinion, we draw your attention to note 2(a) to the fund financial statements, which describes the basis of presentation. The fund financial statements are prepared to assist the Administrator of The London Transit Commission Employees' Pension Plan to meet the requirements of the Pension Regulator. As a result, the fund financial statements may not be suitable for another purpose. Our report is intended solely for the Administrator of The London Transit Commission Employees' Pension Plan and the Financial Services Commission of Ontario and should not be distributed to or used by parties other than the Administrator or Financial Services Commission of Ontario.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

London, Canada

May 23, 2018

THE LONDON TRANSIT COMMISSION EMPLOYEES' PENSION PLAN

Statement of Net Assets Available for Benefits

December 31, 2017, with comparative information for 2016

	2017	2016
Assets		
Investment in pooled fund (note 4)	$ 7,081,713	$ 7,467,923
Liabilities		
Accrued liabilities	60,218	18,400
Benefits payable	-	256,985
	60,218	275,385
Net assets available for benefits	$ 7,021,495	$ 7,192,538

See accompanying notes to fund financial statements.

THE LONDON TRANSIT COMMISSION EMPLOYEES' PENSION PLAN

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2017, with comparative information for 2016

	2017	2016
Increase in net assets:		
Investment income	$ 26,481	$ 190,264
Net realized gain on sales of investments	535,036	173,771
Change in net unrealized gain on investments	18,671	170,097
	580,188	534,132
Decrease in net assets:		
Pension annuities purchased	623,929	520,385
Administrative expenses (note 5)	91,854	66,404
Death benefits	35,448	-
	751,231	586,789
Decrease in net assets	(171,043)	(52,657)
Net assets available for benefits, beginning of year	7,192,538	7,245,195
Net assets available for benefits, end of year	$ 7,021,495	$ 7,192,538

See accompanying notes to fund financial statements.

1. Description of plan:

The fund financial statements present the activity of The London Transit Commission Employees' Pension Plan (the "Plan"). The following description of the Plan is a summary only. For more complete information reference should be made to the Pension Plan agreement registered as a defined benefit plan under the Pension Benefits Act (Ontario), registration number 269753.

The Plan, as amended February 1, 1989, provides defined benefits in respect of services rendered on or after January 1, 1987, up to and including January 31, 1989. Pension benefits accrued to December 31, 1986 are covered under a fully insured group annuity policy and the liability and related assets are not reflected in these financial statements. The benefits to be provided include the liability relating to the provisions of a 60% surviving spouse option.

Post January 31, 1989, pension benefits for active members are provided by the Ontario Municipal Employee Retirement System. The liability and related assets are not reflected in these fund financial statements.

For disabled employees, the Plan in effect prior to February 1, 1989, remains in force. The respective assets relating to services provided on or after January 1, 1987, for these members, are reflected in these fund financial statements. Pre January 1, 1987, pension benefits are provided under a fully insured group annuity policy and the liability and related assets are not reflected in these fund financial statements. The benefits to be provided include the liability relating to the provision of the surviving spouse option.

2. Basis of preparation:

(a) Basis of presentation:

As permitted under Section 76 of Regulation 909 of the Pension Benefits Act (Ontario), the Plan has prepared these fund financial statements in accordance with Canadian accounting standards for pension plans excluding pension obligations and any resulting surplus or deficit.

In selecting or changing accounting policies that do not relate to its investment portfolio or pension obligations, the Plan complies on a consistent basis with Canadian accounting standards for private enterprises ("ASPE") in Part II of the CPA Canada Handbook - Accounting.

2. Basis of preparation (continued):

(a) Basis of presentation (continued):

These fund financial statements of the Plan do not purport to show the adequacy of the Plan's assets to meet its pension obligation. Such an assessment requires additional information, such as the Plan's actuarial reports and information about the sponsor's financial health.

These fund financial statements have been prepared to assist the Administrator of The London Transit Commission Employees' Pension Plan meet the requirements of the Financial Services Commission of Ontario. As a result, these fund financial statements may not be suitable for another purpose.

(b) Basis of measurement:

The fund financial statements have been prepared on the historical cost basis, except for investments which are measured at fair value through the statement of changes in net assets available for benefits.

(c) Use of estimates and judgments:

The preparation of fund financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of financial assets and financial liabilities at the date of the financial statements and the reported amounts of changes in net assets during the year. Actual results could differ from these estimates.

3. Significant accounting policies:

(a) Financial assets and financial liabilities:

Investment transactions are recognized initially on the trade date, which is the date that the Plan becomes a party to the contractual provisions of the instrument.

Investments are stated at fair value. In determining fair values, adjustments have not been made for transaction costs, as they are not considered to be significant. The change in the difference between the fair value and cost of investments at the beginning and end of each year is reflected in the statement of changes in net assets available for benefits as change in net unrealized gain (loss) on investments.

Accrued liabilities and benefits payable are measured at amortized cost.

3. Significant accounting policies (continued):

(b) Net realized gain or loss on sale of investments:

The net realized gain or loss on sales on investments is the difference between proceeds received and the average cost of investments sold.

(c) Investment income:

Investment income, which is recorded on an accrual basis, includes pooled fund distributions.

(d) Fair value measurement:

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

In determining fair value, the Plan has adopted the guidance in IFRS 13, Fair Value Measurement ("IFRS 13"), in Part I of the CPA Canada Handbook- Accounting. As allowed under IFRS 13, if an asset or a liability measured at fair value has a bid and an ask price, the price within the bid-ask spread that is the most representative of fair value in the circumstances shall be used to measure fair value. The Plan uses closing market price as a practical expedient for fair value measurement.

When available, the Plan measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, then the Plan establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models.

3. Significant accounting policies (continued):

(d) Fair value measurement (continued):

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognized in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Fair values of investments are determined as follows:

Pooled funds are valued at the unit values supplied by the pooled fund administrator, which represent the Plan's proportionate share of underlying net assets at fair values determined using closing market prices.

(e) Income taxes:

The Plan is a Registered Pension Trust as defined under the Income Tax Act (Canada) and is not subject to income taxes.

(f) Capital disclosure:

The main objective of the Plan is to sustain a certain level of net assets in order to meet the pension obligations of the London Transit Commission (the "Commission"), which are not presented or discussed in these specified-purpose financial statements. The Plan fulfils its primary objective by adhering to specific investment policies outlined in its Statement of Investment Polices and Procedures (the "SIPP"). The SIPP was last amended January 1, 2016, to update for various administrative changes. The Plan manages net assets by engaging knowledgeable investment managers who are charged with the responsibility of investing existing funds and any new funds in accordance with the approved SIPP.

Although there are no regulatory requirements relating to the level of net assets, the funding to be maintained by the Plan is determined through tri-annual actuarial valuations. The Plan is required to file financial statements with the Financial Services Commission of Ontario.

4. Investment in pooled fund:

The following summary of investments includes information in respect of individual investments with a cost or fair value in excess of 1% of the cost or fair value of the Plan, as required by the Ontario Pension Benefits Act.

Pooled fund investment:

Fund name	Fund operator	Nature of investments held	Fair value 2017	Fair value 2016
Manulife Asset Management Diversified Fund	Manulife Asset Management Ltd.	Balanced	$ 7,081,713	$ 7,467,923

Fund name	Fund operator	Nature of investments held	Cost 2017	Cost 2016
Manulife Asset Management Diversified Fund	Manulife Asset Management Ltd.	Balanced	$ 2,999,269	$ 3,404,150

5. Administrative expenses:

	2017	2016
Investment management fees	$ 38,761	$ 39,012
Administration	14,628	9,764
Audit fees	10,187	9,204
Actuarial consulting fees	28,278	8,424
	$ 91,854	$ 66,404

6. Actuarial valuations:

Actuarial valuations are prepared and filed as required by the Financial Services Commission of Ontario, and the provisions of the Income Tax Act (Canada) and regulations thereto, to estimate the surplus or deficit for the Plan and to determine required contributions. The last triannual actuarial valuation, performed by Manulife, the Company's actuary, so filed at January 1, 2016 indicated that, on a solvency basis using the accrued benefit method, the Plan had an actuarial surplus estimated at $3,175,900 and, accordingly, no employer contributions are required.

7. Financial instruments:

(a) Fair values:

The fair values of investments are described in note 4. The fair values of other financial assets and liabilities, being accrued liabilities and benefits payable, approximate their carrying values due to the short-term nature of these instruments.

Fair value measurements recognized in the statement of net assets available for benefits are categorized using a fair value hierarchy that reflects the significance of inputs used in determining the fair values:

(i) Level 1 - unadjusted quoted prices in active markets for identical assets or liabilities;

(ii) Level 2 - inputs other than quoted prices included in Level 1 that are observable for the assets and liability, either directly or indirectly; and

(iii) Level 3 - inputs for assets and liabilities that are not based on observable market data.

The Plan's investment in pooled fund is categorized as Level 2. There were no transfers of investments between classifications during the year.

7. Financial instruments (continued):

(b) Associated risks:

(i) Market price risk:

Market price risk is the risk that value of an instrument will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issue or all other factors affecting all instruments traded in the market.

As all of the Plan's financial instruments are carried at fair value with fair value changes recognized in the statement of changes in net assets available for benefits, all changes in market conditions will directly affect the change in net assets.

Market price risk is managed by the Administrator through the Fund operator's construction of a diversified portfolio of instruments traded on various markets and across various industries.

As at December 31, 2017, had the value of the equity portfolio increased or decreased by 10% with all other variables remaining unchanged, net assets of the Plan would have increased or decreased respectively, by approximately $459,300 (2016 - $458,000).

(ii) Foreign currency risk:

Foreign currency risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency rates. The Plan invests in financial instruments which enter into transactions denominated in U.S. dollars. Consequently, the Plan is exposed to risks that the exchange rate of the foreign currency may change in a manner that has an adverse affect on the value of the portion of the Plan's assets or liabilities denominated in currencies other than Canadian dollars.

The Plan's overall currency positions and exposures are monitored on a regular basis by the Fund operator who reports quarterly to the Administrator.

As at December 31, 2017, if the Canadian dollar had strengthened or weakened by 5% in relation to foreign currencies held by the Plan, with all other variables held constant, net assets of the Plan would have decreased or increased respectively, by approximately $115,800 (2016 - $63,500).

7. Financial instruments (continued):

(b) Associated risks (continued):

(iii) Liquidity risk:

Liquidity risk is the risk that the Plan will not be able to meet its obligations as they fall due. The Plan is principally responsible for funding of the benefit payments as they are due. The Plan maintains an investment policy, as approved by the Administrator, which contains asset mix guidelines which help to ensure the Plan is able to liquidate investments to meet its pension benefit or other obligations.

(iv) Interest rate risk:

Interest rate risk refers to the adverse consequences of interest rate changes on the Plan's net assets and changes in net assets available for benefits. The value of the Plan's assets is affected by changes in interest rates and equity markets. Interest rate changes directly impact the value of fixed income securities held within the pooled fund.

At December 31, 2017, had the prevailing interest rates increased or decreased by 1% with all other variables held constant, net assets of the Plan would have decreased or increased respectively, by approximately $140,200 (2016 - $195,000).