Fund Financial Statements of

THE LONDON TRANSIT COMMISSION EMPLOYEES' PENSION PLAN

And Independent Auditors' Report thereon

Year ended December 31, 2021

INDEPENDENT AUDITORS' REPORT

To the Administrator

Opinion

We have audited the fund financial statements of The London Transit Commission Employees' Pension Plan (the Plan), which comprise:

- the statement of net assets available for benefits as at December 31, 2021
- the statement of changes in net assets available for benefits for the year then ended,
- and notes to the financial statements, including a summary of significant accounting policies.

(Hereinafter referred to as the “financial statements”)

In our opinion, the accompanying financial statements present fairly, in all material respects, the net assets available for the Plan as at end of December 31, 2021, and its 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 for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the “***Auditors’ Responsibilities for the Audit of the Financial Statements***” section of our auditors’ report.

We are independent of the Plan in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Emphasis of Matter – Financial Reporting Framework

We draw attention to Note 2(a) in the financial statements, which describes the applicable financial reporting framework.

The financial statements are prepared to assist the Administrator of the Plan to meet the requirements of Section 76 of Regulation 909 of the Pension Benefits Act (Ontario).

As a result, the financial statements may not be suitable for another purpose.

Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Plan's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Plan or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Plan's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Plan's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Plan's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Plan to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Chartered Professional Accountants, Licensed Public Accountants

London, Canada

April 26, 2022

THE LONDON TRANSIT COMMISSION EMPLOYEES' PENSION PLAN

Statement of Net Assets

December 31, 2021, with comparative information for 2020

	2021	2020
Assets		
Investment in pooled fund (note 4)	$ 6,793,297	$ 6,622,034
Liabilities		
Accrued liabilities	155,432	207,006
Net assets available for benefits	$ 6,637,865	$ 6,415,028

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, 2021, with comparative information for 2020

	2021	2020
Increase in net assets:		
Net realized gain on sales of investments	$ 435,054	$ 471,352
Change in net unrealized gain on investments	394,127	15,012
	829,181	486,364
Decrease in net assets:		
Pension annuities purchased	534,451	779,050
Administrative expenses (note 5)	71,893	62,971
Death benefits	-	44,241
	606,344	886,262
Increase in net assets	222,837	(399,898)
Net assets available for benefits, beginning of year	6,415,028	6,814,926
Net assets available for benefits, end of year	$ 6,637,865	$ 6,415,028

See accompanying notes to fund financial statements.

1. Description of plan:

The fund financial statements present the activity of the fund 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 of 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 fund 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 the Regulation to the Pension Benefits Act (Ontario), the Plan may prepare financial statements in accordance with Canadian accounting standards for pension plans or in accordance with Canadian accounting standards for pension plans excluding pension obligations and any resulting surplus or deficit. The Plan has prepared these financial statements in accordance with Canadian accounting standards for pension plans excluding pension obligations and any resulting surplus or deficit.

2. Basis of preparation (continued):

(a) Basis of presentation (continued):

As permitted by the Financial Services Regulatory Authority of Ontario ("FSRA"), the Plan may prepare plan financial statements in accordance with Canadian accounting standards for pension plans as outlined in CPA Canada Handbook, Section 4600, Pension Plan ("Section 4600") or prepare fund financial statements in accordance with Section 4600, excluding pension obligations and any resulting surplus or deficit

The Plan has prepared fund financial statements in accordance with Section 4600, 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

These fund financial statements are prepared in accordance with the financial reporting provisions of Section 76 of Regulation 909 of the Pension Benefits Act (Ontario).

These fund financial statements have been prepared to assist the Administrator of The London Transit Commission Employees' Pension Plan to meet its obligations to FSRA under Section 76 of Regulation 909 of the Pension Benefits Act (Ontario).

As a result, these fund financial statements may not be suitable for another purpose.

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.

(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 judgements

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 available for benefits 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 are measured at amortized cost.

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

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

(c) Investment income:

Investment income is recorded on an accrual basis and includes interest income, dividends and other income.

(d) Fair value measurement:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date

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 required by Section 4600. 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 December 1, 2019, to adopt a minimum investment mix allocation laid out by the Pensions Benefits Act (Ontario). 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 fund financial statements with the Financial Services Commission of Ontario.

THE LONDON TRANSIT COMMISSION EMPLOYEES' PENSION PLAN

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 market value of the Plan, as required by the Ontario Pension Benefits Act.

Pooled fund investments:

Fund name	Fund operator	Nature of investments held	Market 2021	Market 2020
Standard Life Diversified Fund	Standard Life Assurance Co.	Diversified	$ 6,793,297	$ 6,622,034

Fund name	Fund operator	Nature of investments held	Cost 2021	Cost 2020
Standard Life Diversified Fund	Standard Life Assurance Co.	Diversified	$ 2,141,902	$ 2,364,766

There were no contributions to the Plan past due at December 31, 2021 (2020 - nil).

5. Administrative expenses:

	2021	2020
Investment management fees	$ 37,299	$ 36,340
Actuarial consulting fees	13,972	9,094
Administration	9,104	7,907
Audit fees	11,518	9,630
	$ 71,893	$ 62,971

6. Actuarial valuations:

Actuarial valuations are prepared and filed as required by the FSRA, 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 triennial actuarial valuation, performed by Manulife, the Company's actuary, so filed at January 1, 2019 indicated that, on a solvency basis using the accrued benefit method, the Plan had an actuarial surplus estimated at $3,424,300 and, accordingly, no employer contributions are required.

7. Financial instruments:

(a) Fair values:

The fair values of investments are described in note 3(d) and disclosed in note 4. The fair values of other financial assets and liabilities, being accrued liabilities, 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 the pooled fund is categorized as Level 2. There were no transfers of investments between classifications during the year.

(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.

The COVID-19 pandemic and the measures taken to contain the virus continue to impact the market as a whole. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect on the pension fund is not known at this time.

7. Financial instruments (continued):

(b) Associated risks (continued):

(i) Market price risk (continued):

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 available for benefits.

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, 2021, had the value of the equity portfolio held within the pooled fund increased or decreased by 10% with all other variables remaining unchanged, net assets of the Plan would have increased or decreased respectively, by approximately $418,127 (2020 -$417,056).

(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 and enters 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, 2021, 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 $120,309 (2020 - $122,540).

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 plan 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 securitie held within the pooled fund.

At December 31, 2021, 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 $160,400 (2020 - $134,100).