

Financial Statements of

**THE EDMONTON PIPE INDUSTRY
HEALTH AND WELFARE FUND**

Year ended December 31, 2016



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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of The Edmonton Pipe Industry Health and Welfare Fund

We have audited the accompanying financial statements of The Edmonton Pipe Industry Health and Welfare Fund, which comprise the statement of financial position as at December 31, 2016, and 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans, 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 our 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, we 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 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 The Edmonton Pipe Industry Health and Welfare Fund as at December 31, 2016, and the changes in its net assets available for benefits for the year then ended in accordance with Canadian accounting standards for pension plans.

KPMG LLP

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a long, horizontal, slightly curved line that extends to the right.

Chartered Professional Accountants

May 24, 2017
Edmonton, Canada

THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

Financial Statements

Year ended December 31, 2016

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THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

Statement of Financial Position

December 31, 2016, with comparative information for 2015

	2016	2015
ASSETS		
Cash	\$ 8,024,984	\$ 11,335,588
Investments (note 4)	120,163,376	114,790,309
Contributions receivable - employer	2,197,783	2,063,342
Accrued investment income	5,825	7,924
Prepaid expenses and deposits	2,423,491	1,099,177
Due from The Edmonton Pipe Industry Pension Trust Fund (note 5)	8,154	46,211
	<u>132,823,613</u>	<u>129,342,551</u>
LIABILITIES		
Accounts payable and accrued liabilities	3,075,916	2,628,889
Amounts due to other health and welfare funds (note 6)	152,391	359,244
Reserve for unpaid claims	1,470,106	2,057,423
Reserve for advance contributions	37,238	46,107
	<u>4,735,651</u>	<u>5,091,663</u>
Net assets available for benefits (note 7)	<u>\$ 128,087,962</u>	<u>\$ 124,250,888</u>

See accompanying notes to financial statements.

THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2016, with comparative information for 2015

	2016	2015
Increase in net assets:		
Investment and other income (note 8)	\$ 5,509,545	\$ 4,062,291
Employer contributions	30,815,224	29,202,855
Members' and pensioners' cash contributions	1,284,592	1,188,393
Members' optional insurance contributions	52,137	49,837
Reciprocal transfers from other health and welfare funds (note 6)	630,442	573,048
Transfers from the Alberta Refrigeration Industry Health and Welfare Trust Fund	1,515,915	-
Decrease in reserve for unpaid claims	587,318	443,972
	<u>40,395,173</u>	<u>35,520,396</u>
Decrease in net assets:		
Health, dental, vision and short-term disability claims	25,740,450	21,978,821
Long-term disability premiums	2,117,671	1,988,161
Life insurance premiums	3,516,859	2,883,958
Accidental death and dismemberment premiums	429,063	398,201
Claims administration fees	1,126,227	971,882
Employee assistance program	365,903	344,712
Out-of-country insurance claims	378,561	320,271
Members' optional life insurance premiums	50,233	50,605
Reciprocal transfers to other health and welfare funds (note 6)	1,637,971	2,568,366
Investment manager and custodian fees	287,135	280,319
Administrative expenses (note 9)	908,026	873,257
	<u>36,558,099</u>	<u>32,658,553</u>
Increase in net assets available for benefits	3,837,074	2,861,843
Net assets available for benefits, beginning of year	124,250,888	121,389,045
Net assets available for benefits, end of year	<u>\$ 128,087,962</u>	<u>\$ 124,250,888</u>

See accompanying notes to financial statements.

THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

Notes to Financial Statements (continued)

Year ended December 31, 2016

1. Nature of the Fund:

The United Association of Journeymen and Apprentices of the Plumbing and Pipe Fitting Industry of the United States and Canada, Local 488 (the "Union") and the Construction Labour Relations - an Alberta Association Mechanical (Provincial) Trade Division Pursuant to Registration Certificate No. 27 (the "Party Employers") entered into an agreement and declaration of trust dated May 7, 1965 (the "Health and Welfare Trust Agreement") which has been amended and restated as of August 13, 2007. The Health and Welfare Trust Agreement provides for the establishment, maintenance, investment and administration of a fund known as The Edmonton Pipe Industry Health and Welfare Fund (the "Health and Welfare Fund"), created pursuant to The Edmonton Pipe Industry Health and Welfare Plan (the "Health and Welfare Plan") which includes all restatements and amendments to May 1, 2015. The Health and Welfare Plan itself was established pursuant to a collective agreement between the Union and the Party Employers dated May 7, 1965 (the "Collective Agreement") and renewed for the period until April 30, 2019. The Health and Welfare Fund is a registered trust with Canada Revenue Agency under registration number T11-3126-56.

Members are not required to contribute to the Health and Welfare Fund. Employers contribute to the Health and Welfare Fund at the rate specified in a collective agreement. Benefits provided under the Health and Welfare Plan are paid from the Health and Welfare Fund.

Up to and including the year ended December 31, 2015, the Union sponsored two separate health and welfare plans: The Edmonton Pipe Industry Health and Welfare Plan and the Alberta Refrigeration Industry Benefit Plan. Effective May 1, 2016, the two plans sponsored by the Union amalgamated and all members of both plans now obtain their benefits through The Edmonton Pipe Industry Health and Welfare Fund. The Edmonton Pipe Industry Health & Welfare Fund invoices, on a monthly basis, the Alberta Refrigeration Industry Benefit Plan for the costs of claims for the former Alberta Refrigeration Benefit Plan members until the Alberta Refrigeration Industry Benefit Plan's net assets are fully expended. After those net assets have been fully exhausted The Edmonton Pipe Industry Health & Welfare Fund will assume liability for all costs and expenses related to the former Alberta Refrigeration Benefit Plan members.

For more complete information, reference should be made to the Health and Welfare Trust Agreement, and the Health and Welfare Plan documents.

The benefits provided by the Health and Welfare Plan are funded using a variety of methods as set out below:

- (a) health, dental, vision and short-term disability benefits are funded solely by the assets of the Health and Welfare Fund;
- (b) long-term disability, accidental death and dismemberment, and optional life insurance benefits are provided Great West Life under a contract of insurance which uses a pooled funding method;

THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

Notes to Financial Statements (continued)

Year ended December 31, 2016

1. Nature of the Fund (continued):

- (c) member and dependent life insurance benefits are provided under contract with Great West Life. This contract has a hold-harmless provision which may require that the Health and Welfare Fund pay any shortfall of premiums which are insufficient to pay claims;
- (d) administration of out-of-country insurance is arranged under contract with Global Excel; and
- (e) the employee assistance program is administered by the Construction Employees Family Assistance Program.
- (f) The Board of Trustees reserves the right to amend or terminate any of the benefits under the Health and Welfare Plan.

2. Basis of preparation:

- (a) Basis of presentation:

These financial statements have been prepared by management in accordance with Canadian accounting standards for pension plans, which are also applicable to entities such as the Health and Welfare Fund that provide benefits other than pensions, and present information about the aggregate financial position of the Health and Welfare Fund and the net assets available to meet benefit payments.

In selecting or changing accounting policies that do not relate to its investment portfolio, Canadian accounting standards for pension plans require the Health and Welfare Fund to comply (on a consistent basis) with either International Financial Reporting Standards ("IFRS") in Part I of the CPA Canada Handbook - Accounting or Canadian Accounting Standards for Private Enterprises in Part II of the CPA Canada Handbook - Accounting. The Health and Welfare Fund has chosen to comply on a consistent basis with IFRS.

These financial statements are prepared to assist Health and Welfare Plan members and others in reviewing the financial activities of the Health and Welfare Fund for the fiscal period but they do not portray the financial position of the Health and Welfare Plan, its funding requirements nor the benefit security of individual Health and Welfare Plan members.

These financial statements have been prepared in accordance with the significant accounting policies set out below.

- (b) Basis of measurement:

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

THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

Notes to Financial Statements (continued)

Year ended December 31, 2016

2. Basis of preparation (continued):

(c) Functional and presentation currency:

These financial statements are presented in Canadian dollars, which is the Health and Welfare Fund's functional currency.

(d) Use of estimates and judgments:

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the statement of net assets available for benefits and the reported amounts of changes in net assets available for benefits during the year. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected.

3. Significant accounting policies:

(a) Foreign currency:

Transactions in foreign currencies are translated into Canadian dollars at the exchange rate at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into Canadian dollars at the exchange rate at that date.

Foreign currency differences arising on translation are recognized in the statement of changes in net assets available for benefits as changes in net unrealized gains on investments.

(b) Income recognition:

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

(c) Financial assets and financial liabilities:

(i) Financial assets:

Financial assets are recognized initially on the trade date, which is the date that the Health and Welfare Fund becomes a party to the contractual provisions of the instrument. Upon initial recognition, attributable transaction costs are recognized in the statement of changes in net assets available for benefits as incurred.

THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

Notes to Financial Statements (continued)

Year ended December 31, 2016

3. Significant accounting policies (continued):

(c) Financial assets and financial liabilities (continued):

(i) Financial assets (continued):

The Health and Welfare Fund measures all of its investments at fair value through the statement of changes in net assets available for benefits.

All other non-derivative financial assets including contributions receivable – employer and due from The Edmonton Pipe Industry Pension Trust Fund are measured at amortized cost.

The Health and Welfare Fund derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Health and Welfare Fund neither transfers nor retains substantially all the risks and rewards of ownership and does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset, and consideration received is recognized in the statement of changes in net assets available for benefits as a net realized gain on sale of investments.

(ii) Financial liabilities:

All financial liabilities are recognized initially on the trade date at which the Health and Welfare Fund becomes a party to the contractual provisions of the instrument.

The Health and Welfare Fund derecognizes a financial liability when its contractual obligations are discharged, cancelled or expires.

The Health and Welfare Fund considers its accounts payable and accrued liabilities and amounts due to other health and welfare funds to be financial liabilities.

(iii) Derivative financial instruments:

Derivative financial instruments are recognized initially at fair value and attributable transaction costs are recognized in the statement of changes in net assets available for benefits as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and all changes are recognized immediately in the statement of changes in net assets available for benefits.

THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

Notes to Financial Statements (continued)

Year ended December 31, 2016

3. Significant accounting policies (continued):

(c) Financial assets and financial liabilities (continued):

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when the Health and Welfare Fund has a legal right to offset the amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

(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 Health and Welfare Fund has adopted the guidance in IFRS 13, Fair Value Measurement ("IFRS 13"), in Part I of the CPA Canada Handbook. 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 Health and Welfare Fund uses closing market price as a practical expedient for fair value measurement.

When available, the Health and Welfare Fund 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 Health and Welfare Fund 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.

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 changes in net assets available for benefits 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.

THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

Notes to Financial Statements (continued)

Year ended December 31, 2016

3. Significant accounting policies (continued):

(d) Fair value measurement (continued):

All changes in fair value, other than interest and dividend income and expense, are recognized in the statement of changes in net assets available for benefits as part of the change in net unrealized gains.

Fair values of investments are determined as follows:

Cash is recorded at cost, which together with accrued investment income approximates fair value.

Bonds and equities are valued at year-end quoted closing prices where available. Where quoted prices are not available, estimated fair values are calculated using comparable securities.

Short-term notes, treasury bills and term deposits maturing within a year are stated at cost, which together with accrued investment income approximates fair value given the short term nature of these investments.

Guaranteed investment certificates, term deposits maturing after a year, mortgages and real estate debentures are valued at the present value of estimated future cash flows discounted at interest rates in effect on the last business day of the year for investments of a similar type, quantity and maturity.

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

Investments in derivative financial instruments, including futures, forwards and option contracts, are valued at year-end quoted market prices where available. Where quoted prices are not available, values are determined using pricing models, which take into account current market and contractual prices of the underlying instruments, as well as time value and yield curve or volatility factors underlying the positions. Unrealized gains and losses on derivative financial instruments, net of premiums paid or received on options contracts, are included in derivative contracts investments.

(e) Net realized gain on sale of investments:

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

THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

Notes to Financial Statements (continued)

Year ended December 31, 2016

3. Significant accounting policies (continued):

(f) Common expenses:

Certain expenses are shared equally between the Health and Welfare Fund and The Edmonton Pipe Industry Pension Trust Fund (the "Pension Trust Fund"), an organization operating out of the same premises and under the same Board of Trustees and management.

(g) Income taxes:

The Health and Welfare Fund is a trust recognized administratively by the Canada Revenue Agency. Investment income earned by the Health and Welfare Fund, net of eligible deductions, is subject to income tax.

4. Investments:

	2016	2015
Phillips, Hager & North - Short Term Bond & Mortgage Fund	\$ 70,233,121	\$ 69,053,981
TD Asset Management - Canadian Equity and Global Equity Pooled Fund	49,930,255	-
Letko Brosseau & Associates - Balanced Fund	-	45,736,328
	\$ 120,163,376	\$ 114,790,309

5. Due from The Edmonton Pipe Industry Pension Trust Fund:

The amount due from the Pension Trust Fund is non-interest bearing, unsecured and has no set terms of repayment.

6. Reciprocal agreements with other health and welfare funds:

The Health and Welfare Fund has entered into reciprocal agreements with other health and welfare funds. These agreements provide that contributions received on account of employees working in a jurisdiction other than their local union are remitted on a monthly basis to the local union of which they are a member.

THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

Notes to Financial Statements (continued)

Year ended December 31, 2016

7. Net assets available for benefits:

	2016	2015
Reserve for future plan benefits	\$ 54,162,958	\$ 47,438,059
Reserve for adverse claims fluctuations	3,861,068	3,283,438
Unallocated	70,063,936	73,529,391
	\$ 128,087,962	\$ 124,250,888

The reserve for future plan benefits is a provision established by the Trustees to support the payment of benefits to members and their beneficiaries. The reserve for future plan benefits is comprised of two components calculated as follows:

- (a) For active members, an estimated provision based on (i) the average actual cost of benefits for such members for the 12 months ended December 31, 2016 multiplied by (ii) the estimated number of months of coverage determined by dividing the accumulated hour bank for all active members by 130 hours; and
- (b) For retired, disabled and widows of deceased members, an estimated provision based on (i) the average actual cost of benefits for such group of persons for the 12 months ended December 31, 2016 multiplied by (ii) 60 months.

The reserve for adverse claims fluctuations was established by the Trustees to consider the risk that future claims in the aggregate will be higher than the amount supported by current funding rates. The reserve for adverse claims fluctuations has been established at approximately 15% of benefit claims paid in the most recent fiscal year.

8. Investment income:

	2016	2015
Interest and other income	\$ 81,171	\$ 110,547
Phillips, Hager & North Short Term Bond & Mortgage Fund - interest and realized capital gains	1,718,949	1,919,099
TD Asset Management - Canadian Equity and Global Equity Pooled Fund - dividends and net realized gains	2,376,510	-
Letko Brosseau & Associates Balanced Fund - interest, dividends and net realized gains (losses)	(2,116,231)	1,085,798
Change in net unrealized gains on investments	3,449,146	946,847
	\$ 5,509,545	\$ 4,062,291

THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

Notes to Financial Statements (continued)

Year ended December 31, 2016

9. Administrative expenses:

	2016	2015
Direct expenses:		
Administration fees	\$ 452,897	\$ 443,376
Consulting fees	104,027	91,026
Independent trustees fees	39,900	39,900
Audit	34,391	39,644
Insurance	30,819	7,620
Non-deductible GST and HST	19,294	26,373
Office expenses	18,173	6,171
Bank charges	17,772	23,632
Computer maintenance	12,968	15,205
Legal	8,807	8,949
	<u>739,048</u>	<u>701,896</u>
Common expenses shared equally with the Pension Trust Fund (note 3(f)):		
Rent	127,932	127,932
Office expenses	90,038	83,038
Annual report to members	70,190	70,478
Postage	31,252	39,744
Travel, conferences and meeting expenses	14,710	16,666
Other shared expenses	3,834	4,864
	<u>337,956</u>	<u>342,722</u>
Less Pension Trust Fund share	<u>(168,978)</u>	<u>(171,361)</u>
	<u>168,978</u>	<u>171,361</u>
	<u>\$ 908,026</u>	<u>\$ 873,257</u>

THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

Notes to Financial Statements (continued)

Year ended December 31, 2016

10. Capital risk management:

The capital of the Health and Welfare Fund is represented by the net assets available for benefits. The main objective of the Health and Welfare Fund is to sustain a certain level of net assets in order to meet the health and welfare obligations of the Health and Welfare Plan, which are not presented or discussed in these financial statements.

The Health and Welfare Fund fulfils its primary objective by adhering to specific investment policies outlined in its Statement of Investment Policies and Procedures (the "SIPP"), which is reviewed annually by the Health and Welfare Fund Trustees. The SIPP was established on May 27, 2015 and was last amended on November 30, 2016.

The SIPP permits three broad categories of assets. The Health and Welfare Fund's investment was allocated within the allowed asset categories range, as of the date of The Health and Welfare Fund's financial statements. The following table presents the asset allocation for each asset category and total investments, along with appropriate benchmarks:

Asset category	Benchmark	Target (%)	2016	2015
Fixed income	FTSE TMX Canada Short Term Bond Index	50.0	58.4	60.2
Canadian equity	S&P TSX Composite	25.0	20.7	39.8
Global equity	MSCI World Index	25.0	20.9	0.0
Total investments	Composite index	100.0	100.0	100.0

The Health and Welfare Fund's investments are within the asset allocation target ranges at December 31, 2016.

The Health and Welfare Fund's investment positions expose it to a variety of financial risks which are discussed in note 11. The Health and Welfare Fund manages net assets by engaging knowledgeable investment managers who are charged with the responsibility of investing existing funds and new funds (current year's employer contributions) in accordance with the approved SIPP. The allocation of assets among various asset categories is monitored by The Health and Welfare Fund Trustees on a monthly basis. A comprehensive review is conducted quarterly, which includes measurement of returns, comparison of returns to appropriate benchmarks, ranking of returns and risk analysis.

Increases in net assets are a direct result of investment income generated by investments held by the Health and Welfare Fund and contributions into the Health and Welfare Fund by the employers. The main use of net assets is for benefit payments to eligible Health and Welfare Plan members.

THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

Notes to Financial Statements (continued)

Year ended December 31, 2016

11. Financial instruments:

(a) Fair values:

Determination of fair values of investments are as described in note 3(d). The fair values of other financial assets and liabilities, being cash, contributions receivable - employers, accrued investment income, due from The Edmonton Pipe Industry Pension Trust Fund, accounts payable and accrued liabilities and amounts due to other health and welfare funds approximate their carrying values due to the short-term nature of these financial 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.

- Level 1 - unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 - inputs for assets and liabilities that are not based on observable market data.

The following table illustrates the classification of the Health and Welfare Fund's financial instruments using the fair value hierarchy as at December 31:

December 31, 2016	Level 1	Level 2	Level 3	Total
Phillips, Hager & North - Short Term Bond & Mortgage Fund	\$ -	\$ 70,233,121	\$ -	\$ 70,233,121
TD Asset Management - Canadian Equity and Global Equity Pooled Fund	-	49,930,255	-	49,930,255
	\$ -	\$ 120,163,376	\$ -	\$ 120,163,376

THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

Notes to Financial Statements (continued)

Year ended December 31, 2016

11. Financial instruments (continued):

(a) Fair values (continued):

December 31, 2015	Level 1	Level 2	Level 3	Total
Phillips, Hager & North - Short Term Bond & Mortgage Fund	\$ -	\$ 69,053,981	\$ -	\$ 69,053,981
Letko Brosseau & Associates - Balanced Fund	-	45,736,328	-	45,736,328
	\$ -	\$ 114,790,309	\$ -	\$ 114,790,309

There were no significant transfers between Level 1, Level 2 and Level 3 during the year ended December 31, 2016.

(b) Associated risks:

(i) Market price risk:

Market price risk is the risk that the value of an instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market. As all of the Health and Welfare Fund'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 result in an increase (decrease) in net assets. Market price risk is managed by the Health and Welfare Fund through construction of a diversified portfolio of instruments traded on various markets and across various industries.

(ii) Liquidity risk:

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Health and Welfare Fund maintains cash on hand for liquidity purposes and to pay accounts payable and accrued liabilities. At December 31, 2016, the Health and Welfare Fund had cash on hand in the amount of \$8,024,984 (2015 - \$11,335,588).

THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

Notes to Financial Statements (continued)

Year ended December 31, 2016

11. Financial instruments (continued):

(b) Associated risks (continued):

(iii) Foreign currency risk:

Foreign currency risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Health and Welfare Fund holds financial instruments denominated in currencies other than the Canadian dollar. Consequently, the Health and Welfare Fund is exposed to risk that the exchange rates of the various currencies may change in a manner that has an adverse effect on the value of the portion of the Health and Welfare Fund's assets or liabilities denominated in currencies other than the Canadian dollar. Such risk is mitigated by the diversification of the balanced fund's investments across many jurisdictions including Canada.

(iv) Credit risk:

Credit risk is the risk that an issuer or counterparty will be unable or unwilling to meet a commitment that it has entered into with the Health and Welfare Fund. Credit risk is generally higher when a non-exchange traded financial instrument is involved because the counterparty for non-exchange traded financial instruments is not backed by an exchange clearing house.

The Health and Welfare Fund's fixed income investments are primarily in Canadian-issued instruments and are diversified among federal, provincial, corporate and other issuers. In order to minimize the exposure to credit risk, a comprehensive investment policy has been developed. The SIPP restriction prohibits directly or indirectly investing more than 5% of assets in any one entity. Furthermore, the SIPP limits the purchase of fixed income securities to those having a credit rating of BBB or higher by the Dominion Bond Rating Service. There were no significant concentrations of credit risk in the portfolio in 2016.

(v) Interest rate risk:

Interest rate risk is the risk that the market value of the Health and Welfare Fund's investments will fluctuate due to changes in market interest rates. To properly manage the Health and Welfare Fund's interest rate risk, appropriate guidelines on the weighting and duration for the bonds and other fixed income investments are set and monitored.

12. Comparative information:

Certain comparative information has been reclassified to conform with the financial statement presentation adopted in the current year.