For the
Members of
The Edmonton
Pipe Industry

Pension Trust Fund
and
Health and Welfare Fund

2018
ANNUAL REPORT

DIRECTORY

The Edmonton Pipe Industry Pension Trust Fund
and
The Edmonton Pipe Industry Health and Welfare Fund

16214 – 118 Avenue, Edmonton, Alberta T5V 1M6

Phone (780) 452-1331 Fax (780) 487-4063

Website: www.epibenefitplans.com Pension Plan Registration Number 0546028

Board of Trustees

Administration Services Provider

McAteer – Employee Benefit Plan Services Limited
Executive Administrator – Rick McAteer

Auditor

KPMG LLP, Chartered Accountants, Edmonton, Alberta

Legal Counsel

Bryan & Company, Edmonton, Alberta

Pension Trust Fund Investment Managers

Brookfield Asset Management Inc., Toronto, Ontario
Marathon Asset Management, LP, New York, New York, USA
Phillips, Hager & North Investment Management Ltd., Vancouver, British Columbia
Letko Brosseau & Associates Inc., Montreal, Quebec
IFM Investors, New York, New York, USA
CBRE Group, Los Angeles, California, USA
Third Eye Capital, Toronto, Ontario
Northleaf Capital Partners, Toronto, Ontario
JP Morgan Investment Management Inc., New York, New York, USA
Manulife Financial Asset Management, Toronto, Ontario
Clairvest Group Inc., Toronto, Ontario
Connor, Clark & Lunn Investment Management Ltd., Vancouver, British Columbia
QV Investors Inc., Calgary, Alberta
Neuberger Berman, New York, New York, USA
Trez Capital Asset Management, Toronto, Ontario
DRC Capital, London, England
GE Asset Management – Toronto, Ontario
Orbis Investment Management – Bermuda
Infracapital – Edinburgh, Scotland
MB Global Partners – New York, New York, USA
Cyprium Investment Partners – Cleveland, USA
Basso Capital Management – Connecticut, USA
Macquarie Infrastructure Partners – New York, New York, USA
White Oak Global Advisors – New York, New York, USA
Wellington Financial, Toronto, Ontario
Morgan Stanley Investment Management, New York, New York USA

Pension Trust Fund Custodian

CIBC Mellon Trust Company, Calgary, Alberta

Pension Plan Actuary

Mercer (Canada) Limited, Calgary, Alberta

Pension Trust Fund Investment Counsel

Ellement Consulting Group, Vancouver, British Columbia

Health and Welfare Plan Insurer

Great-West Life, Winnipeg, Manitoba

Health and Welfare Fund Investment Managers

Phillips, Hager & North Investment Management Ltd., Vancouver, British Columbia
TD Asset Management, Toronto, Ontario

Health and Welfare Plan Employee Assistance Program Provider

Construction Employees Family Assistance Plan (CEFAP), Calgary, Alberta

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Report of the Board of Trustees

We are pleased to present the Annual Report of the Pension Trust Fund and the Health and Welfare Fund for the fiscal year ended December 31, 2018.

Board of Trustees

There were no changes to the Board of Trustees in 2018. In May, 2019 the independent trustees were re-appointed to the Board with Mr. Brennan for a further one-year term and Messrs. Clanachan and Peterson for a further two-year term with Mr. Clanachan continuing to serve as Chairman.

The Board of Trustees met 5 times during the year ended December 31, 2018. In addition, the Board of Trustees has an Audit Committee which met twice in 2018.

Your Board of Trustees believes in the value of good governance practices and procedures. We have dedicated, well educated Trustees that are passionate about ensuring that Members continue to receive valuable benefits that are sustainable over the long term.

Pension Trust Fund

As at December 31, 2018 the Pension Fund had net assets available for benefits of $1.946 billion, an accumulated surplus of $513.1 million and a going concern funded ratio of 136%. At the end of Fiscal 2017 the Fund had net assets available for benefits of $1.918 billion with an accumulated surplus of $463.1 million and a funded ratio of 132%.

For the year ended December 31, 2018 the Fund earned a rate of return of 2.9% (10.5% for Fiscal 2017) net of all fees.

For more information about the Pension Plan's funding status at the end of Fiscal 2018, reference should be made to the Actuarial Valuation section of this Report. It is important to note that the investment earnings assumption in our actuarial valuation at December 31, 2018 is 5.42%.

The Pension Fund is currently in good financial condition. The equity markets incurred significant losses in the final quarter of 2018 and this is reflected in the reduced overall rate of return for the year. Those losses have been recovered during 2019 but there is no guarantee that current market conditions will continue. Almost 47% of the Plan's assets are now invested in Alternative Asset classes and this has had a very positive impact on our overall returns. As we look forward, we must take into account the prospect of reduced hours and the resulting decline in employer contributions, the increasing number of pensioners as well as potentially very volatile investment environment. In addition, at the time of writing this Annual Report there is no ratified Collective Agreement which compounds the Trustees inability to forecast expected contributions to both Funds.

We will continue to examine the Plan's funding levels and will make the appropriate adjustments when we are confident they are affordable and sustainable over the long term.

The Plan's Members had contributions remitted on 6.8 million hours for the year ended December 31, 2018. Our expectation for hours worked was 7 million hours. The Pension Plan's target expectation for hours worked in the 2019 fiscal year is decreased to 5 million hours. Our ongoing monitoring of the economic environment, particularly the price of oil and gas and the level of capital investment in energy related projects, is critical to the funding formula for the Pension Plan.

Report of the Board of Trustees (Cont'd)

Pension Trust Fund (Cont'd)

Our funding policies require that the Plan be conservative in its estimates about the future. Therefore, the Trustees use caution when examining the Plan's economic assumptions. We believe that taking this approach helps to reduce the risk for all Plan Members. Pension benefits are always target benefits – they can change if funding cannot meet legislated standards. Conservatism in our economic assumptions should provide some margin to protect the Plan in times of economic uncertainty. We have to balance conservatism in funding against the benefits the Plan can provide. The Trustees believe that their processes have helped Members to have confidence in the benefits provided by the Plan.

Diversification of the Fund's assets is critical to the success of the Plan and Fund. The Trustees review the Pension Fund's investment manager structure and asset mix. Our review is conducted using the due diligence information available and the guidance of the Plan's professional advisors. The Plan's asset mix is set with an understanding of the Plan's liabilities. Our asset mix also takes into consideration the risk and return profiles of major asset classes.

The Trustees regularly review, and amend when deemed necessary, the Funding and Benefits Policy and the Statement of Investment Policies and Procedures (SIPP). The SIPP is reviewed regularly with the last review and update taking place in December of 2018.

All of the Fund's investments are managed by professional investment managers. The investment managers are measured on an ongoing basis and compared to their peers by an independent party. The Trustees regularly meet with the investment managers.

The Plan's Funding and Benefits Policy will continue to guide the actions of the Trustees as we evaluate the benefits provided by the Pension Plan.

A copy of the Funding and Benefits Policy and other Plan documents can be viewed on the Plan's website. In addition, Plan Members are entitled to examine or obtain various Plan documents as itemized in Sections 43 and 46 of the Alberta Pension Regulations.

Health and Welfare Fund

The Health and Welfare Fund's financial position deteriorated in 2018 with net assets declining by $11.7 million. A reduction in investment income in 2018, resulting from market weakness in the fourth quarter, contributed to the decline in net assets but reduced contributions and increased costs also had a significant impact. As at December 31, 2018, net assets available for benefits were $118.9 million compared to $130.6 million at December 31, 2017. The Trustees are very concerned about this decline and are currently studying various options to ensure the ongoing sustainability of the level of benefits amid the prospect of reduced hours worked by the Members in conjunction with the increasing cost of claims.

During the year ended December 31, 2018, the Plan paid $29.6 million for Members' health, dental, vision care, short term disability benefits, out of country medical and employee assistance program. In addition, the Plan paid $6.2 million of premiums for life insurance, optional life insurance, accidental death and long term disability benefits.

Report of the Board of Trustees (Cont'd)

Members were notified in May, 2018 of the changes to the eligibility and payment requirements for the retiree benefit program which will come into effect July 1, 2019. The Trustees believe these changes provide an equitable use of the Fund's resources as it relates to providing subsidies to the retired membership.

All of the services delivered by the Benefit Office, including preparation of retirement documents, are provided by our knowledgeable staff that is trained and skilled in the delivery of your benefits. The Trustees recognize and thank our staff for their dedication, care and professionalism in serving our Members.

In an effort to reduce overall costs, the Trustees decided that distribution of Annual Reports will be done electronically except where legislation requires that certain members receive it via mail. To that end, Annual Reports will be posted in the Newsroom section of the Plan's website www.epibenefitplans.com. Those who wish to receive a paper copy of the Annual Report may visit the Administration Office to pick one up or call and one will be mailed to your home address.

Submitted on behalf of the Trustees,

Gordon Clanachan, FCA, ICD.D
Chairman, Board of Trustees
June, 2019

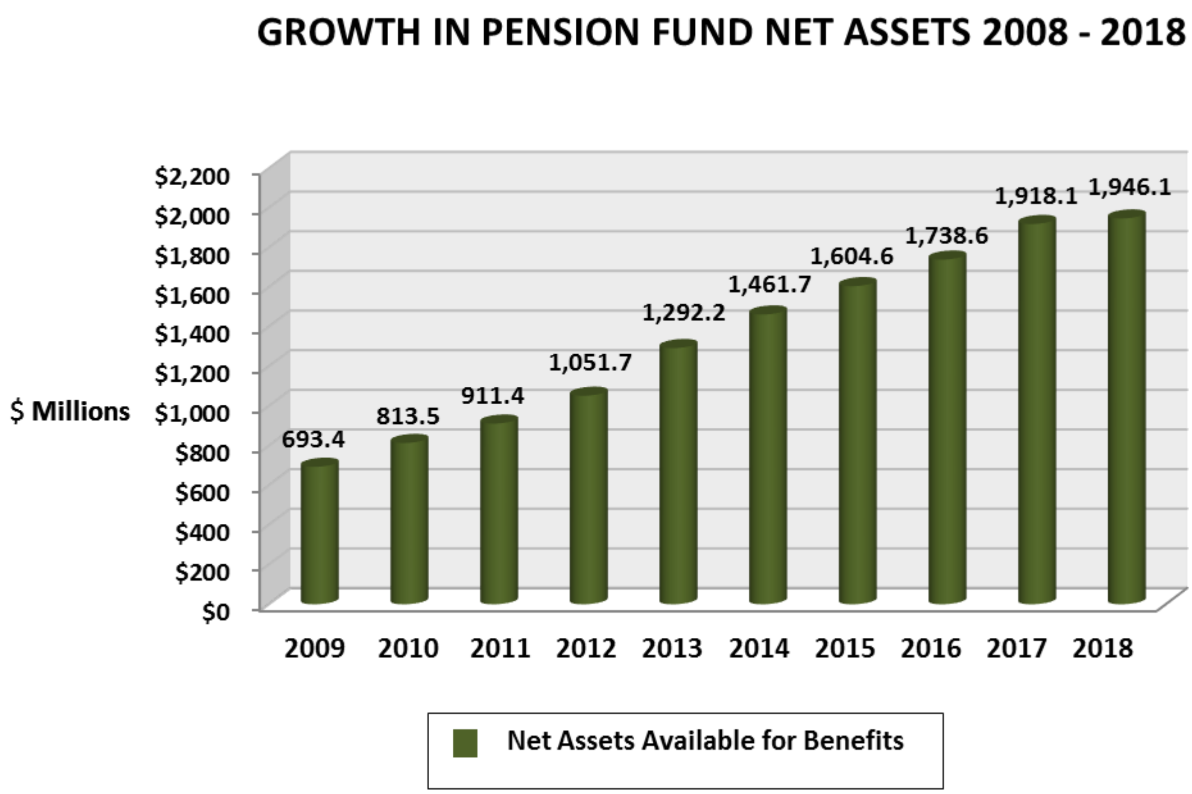
PENSION FUND HIGHLIGHTS AND COMMENTARY

Pension Fund Assets

At December 31, 2018, the Pension Fund had $1.946 billion in net assets available for benefits. This is an increase of $27.9 million compared to the net assets available for benefits at December 31, 2017. Employer contributions in 2018 were $46.2 million, a decrease of $26.4 million compared to 2017.

The Pension Fund received net contributions in respect of 6.8 million hours worked during 2018. During 2017 the Fund received contributions in respect of 10.4 million hours.

The chart below illustrates the growth in the Pension Fund's net assets.

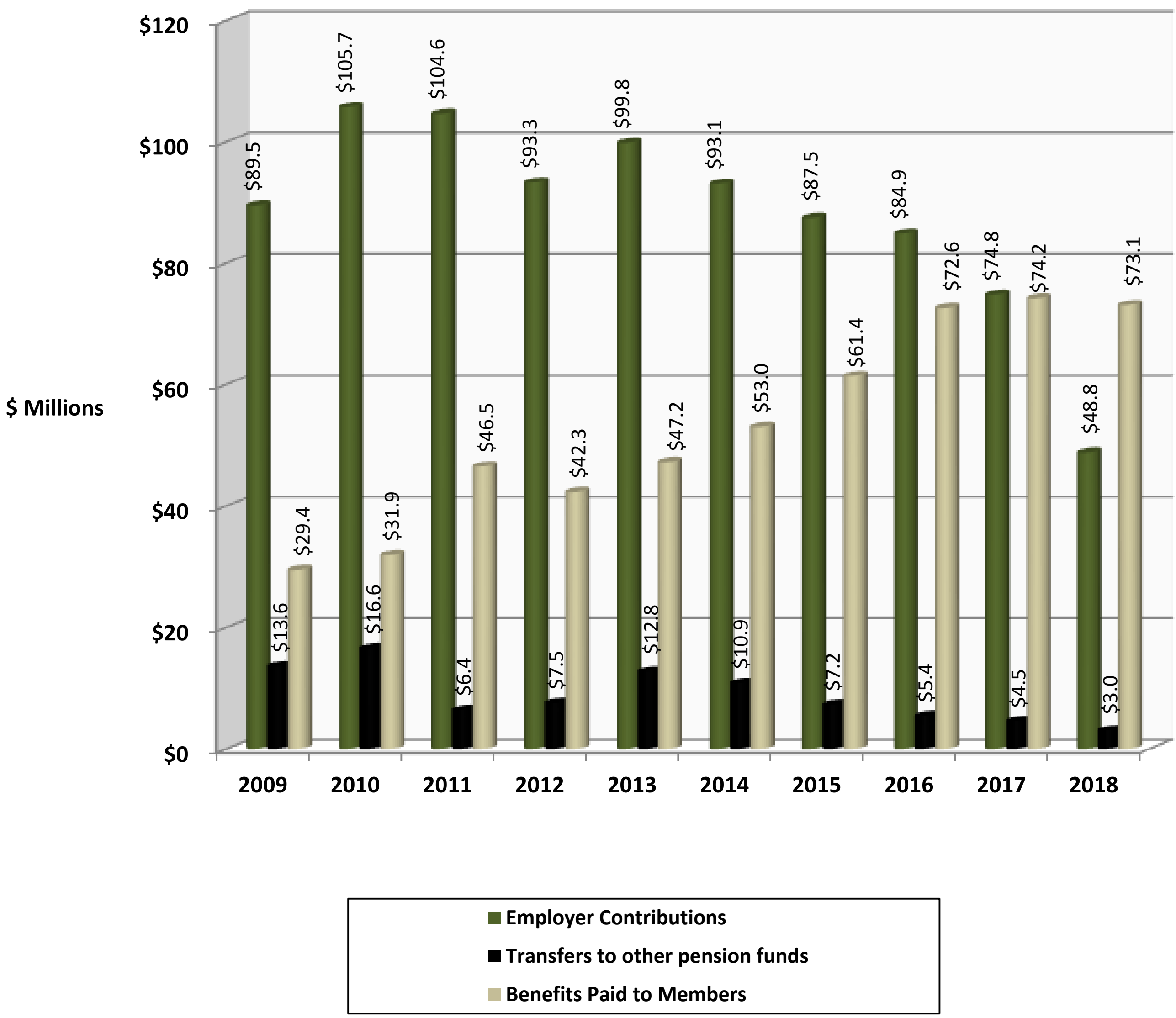


Pension Fund Contributions

During 2018, contributing employers (including Reciprocal Transfers in) paid $48.8 million into the Pension Fund on behalf of Members, compared to $74.8 million in 2017.

From the $48.8 million received, the Pension Fund transferred $3.0 million to other pension funds on behalf of individuals who were subject to reciprocal agreements.

For the year ended December 31, 2018, the Pension Fund paid $73.1 million ($74.2 million in 2017) in pension, death and termination benefit payments.

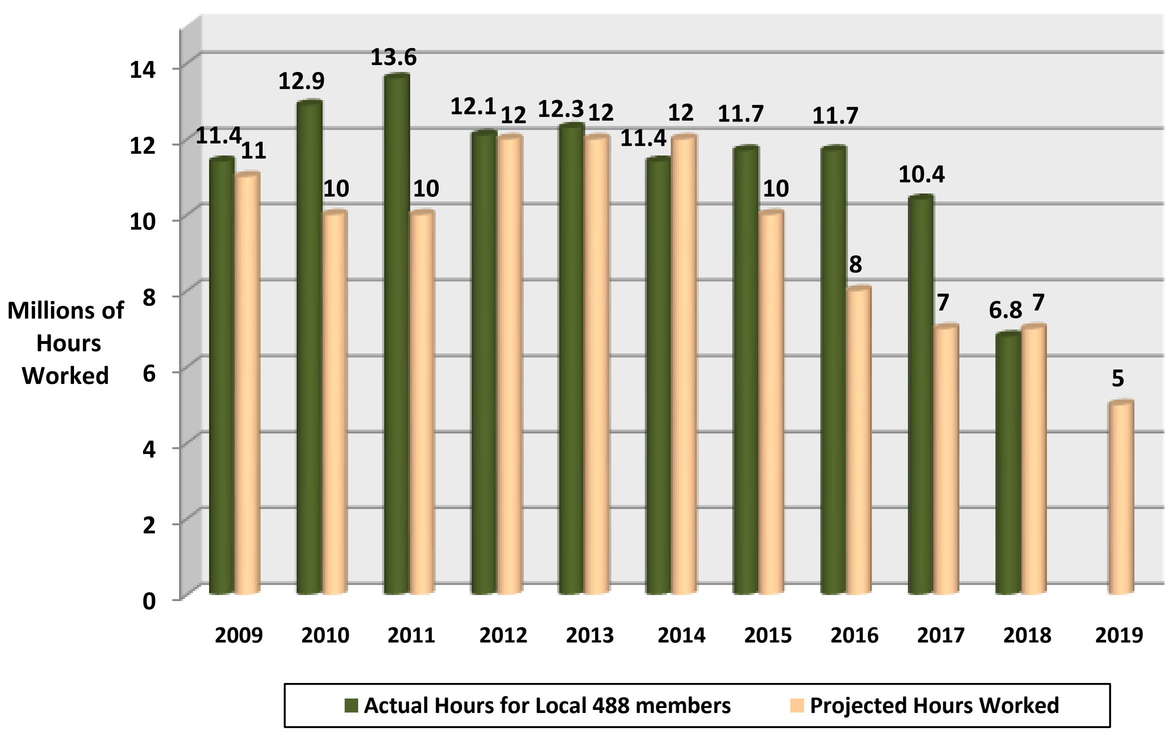


Employer Contributions and Hours Reported to the Pension Fund

During the year ended December 31, 2018, the Pension Fund received employer contributions based on 7.23 million hours worked in the Local 488 jurisdiction. The Pension Fund transferred contributions based on 445,524 hours to other pension funds on behalf of union members who were not members of Local 488. In addition, Retired Members earned 329,000 hours.

For Fiscal 2019, the Pension Plan will use an assumption that 5 million hours will be worked by Local 488 Members. The Trustees gather information about the work outlook for Local 488 Members from sources including Local 488. The Trustees' assumption for hours worked, used for actuarial valuation purposes, is also discussed with the Pension Plan's actuary.

PROJECTED AND ACTUAL HOURS WORKED BY MEMBERS 2010 – 2019



Pension Fund Investment Rate of Return

Asset class and the Pension Fund's returns for the year ended December 31, 2018 were:

Asset Class	Market Return for the Year Ended December 31, 2018	Pension Fund Return for the Year Ended December 31, 2018
Canadian Equities	-10.7%	-8.9%
Canadian Long Term Bonds	0.4%	0.3%
Global Equities	-2.6%	-0.5%
Canadian Treasury Bills	1.6%	1.4%
Alternative Fixed Income (Private Debt)	**	10.9%
Infrastructure	**	13.7%
Private Equities	**	21.0%
Real Estate	**	17.6%

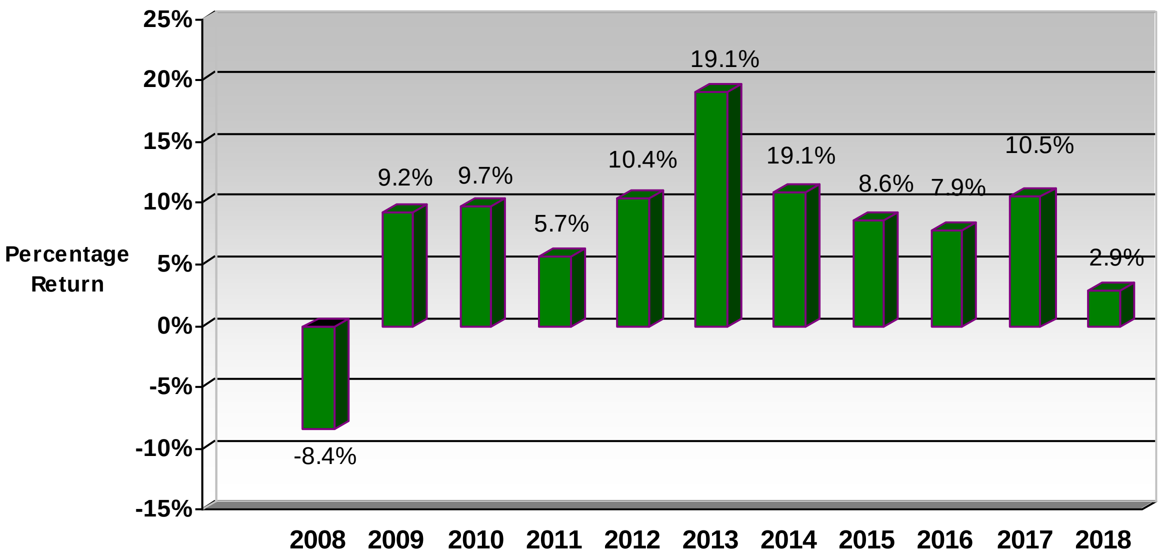
**** Market Returns for these Asset Classes not publicly available**

For the year ended December 31, 2018, the Pension Fund earned an overall rate of return of 2.9%. In Fiscal 2017, the Fund had a rate of return of 10.5%. The Pension Plan's actuarial target investment return for the 2018 actuarial valuation was 5.42%. The chart on the following page shows the annual rates of return of the Pension Fund from 2008 to 2018 inclusive.

The Fund's target investment return assumption of 5.42% was set by the Trustees based on input from the Fund's advisors and after taking into consideration the continued volatility in the global investment markets. This assumption will be reviewed again when the Fiscal 2019 valuation is prepared.

Pension Fund Investment Rate of Return (Cont'd)

ANNUAL RATE OF RETURN 2008 – 2018



Pension Fund Investments

For the year ended December 30, 2018 the Fund's investments returned 2.9% after fees. The average pension fund measured by our independent performance measurement service returned -2.5% before fees for the year ended December 31, 2018.

Every investment decision made by the Trustees is carried out after careful consideration of the purpose of the Fund. This is set out in the Mission Statement:

> ***"To contribute to the well being of the Plan Members and Beneficiaries by providing reasonable retirement pensions and related benefits based on the financial resources available from The Edmonton Pipe Industry Pension Trust Fund."***

The Trustees' principal objective is to protect the pension promises which have been made. This governance standard reduces the benefit and contribution risk the Plan's Members may otherwise face.

Pension Fund Investments (Cont'd)

In making their investment decisions, the Trustees employ an important analytical tool called "Value at Risk". Value at Risk (VAR) is used to determine how the Fund's current investment managers and asset classes are expected to perform in the future and how each will offset the risk of the other and add to the value of the Fund. The same VAR tool is used to evaluate prospective investment managers. The tools the Trustees use to measure and manage the Fund help the Trustees anticipate how the Fund's investments will grow in the future and how the Fund's investments can be shaped to protect the target benefits of the Plan.

As part of their ongoing management of the Fund, the Trustees complete an annual review of the asset mix of the Fund. The table below outlines how the Pension Fund's assets will be allocated among different classes of investments.

Asset Class	Guidelines set by Statement of Investment Policies and Procedures			Actual Allocation as of December 31, 2018 (based on market values)
	Minimum	Normal	Maximum	
Cash and Cash Equivalents	0%	0%	4%	0.2%
Canadian Fixed Income (Bonds)	15%	19%	30%	17.7%
Publicly Traded Equities (Canadian)	10%	15%	25%	15.7%
Publicly Traded Equities (Foreign)	10%	19%	30%	20.2%
Private Equities	5%	12%	15%	8.7%
Real Estate	5%	10%	12.5%	11.0%
Infrastructure	5%	10%	15%	13.7%
Alternative Fixed Income	5%	15%	20%	12.8%

The Pension Fund's investment strategy is designed to provide income to pay current pensions and asset growth to support future payments while managing overall investment risk. Providing income is particularly challenging today given current and recent low interest rates. Accordingly, the Trustees continue on the path of diversification among asset classes with a further focus on investments in alternative asset classes.

Pension Fund Investments (Cont'd)

The alternative asset classes include Private Equity, Real Estate, Infrastructure and Alternative Fixed Income, with the latter three being a significant source of income. The trade-off for investing in the alternative asset classes is liquidity since many of the investments cannot be readily sold on the open market until they mature. Having a portion of the pension portfolio in illiquid assets is not a concern since a pension plan has a very long time horizon and the majority of assets are still invested in public market instruments.

Alternative investments are made through legal entities called Limited Partnerships (LP) managed by a General Partner who is a specialist in the particular area in which investments will be made. The Pension Fund participates as a Limited Partner which has the benefit of limiting exposure to the capital invested.

Real Estate and Infrastructure are real assets with a long life horizon. Real Estate holdings include office towers, shopping complexes and industrial buildings located in prime urban areas, while infrastructure are assets essential to the operations of the economy such as ports, roads, bridges, pipelines, energy generation complexes and waste disposal facilities. In all cases, the assets generate regular income from rents and user tariffs which is paid to the investors and will rise with inflation. The value of the assets themselves will also typically rise with inflation.

Private Equity is direct ownership of a company rather than though publicly traded shares. The expectation is that these investments will earn a higher return than publicly traded equities to compensate for the fact that they can't be easily sold in the short term. Alternative Fixed Income includes private Mortgages and Debt instruments. These will typically be backed by a specific asset and are senior secured so that the Plan gets its money back first should there be problems. The attraction of these types of investments is that they provide two to three times the level of income that could be earned from publicly traded corporate and government bonds. They are also less sensitive to interest rate changes and will perform better when interest rates begin to rise.

By investing in a variety of different asset classes, the Pension Fund is able to diversify its assets across a broader range of return expectations and investment risk. This is expected to produce a more stable risk and return profile which more closely matches the investment needs of a Pension Plan. It also allows the Plan to improve the income characteristics of the investment which can then be relied upon to fund pension payments.

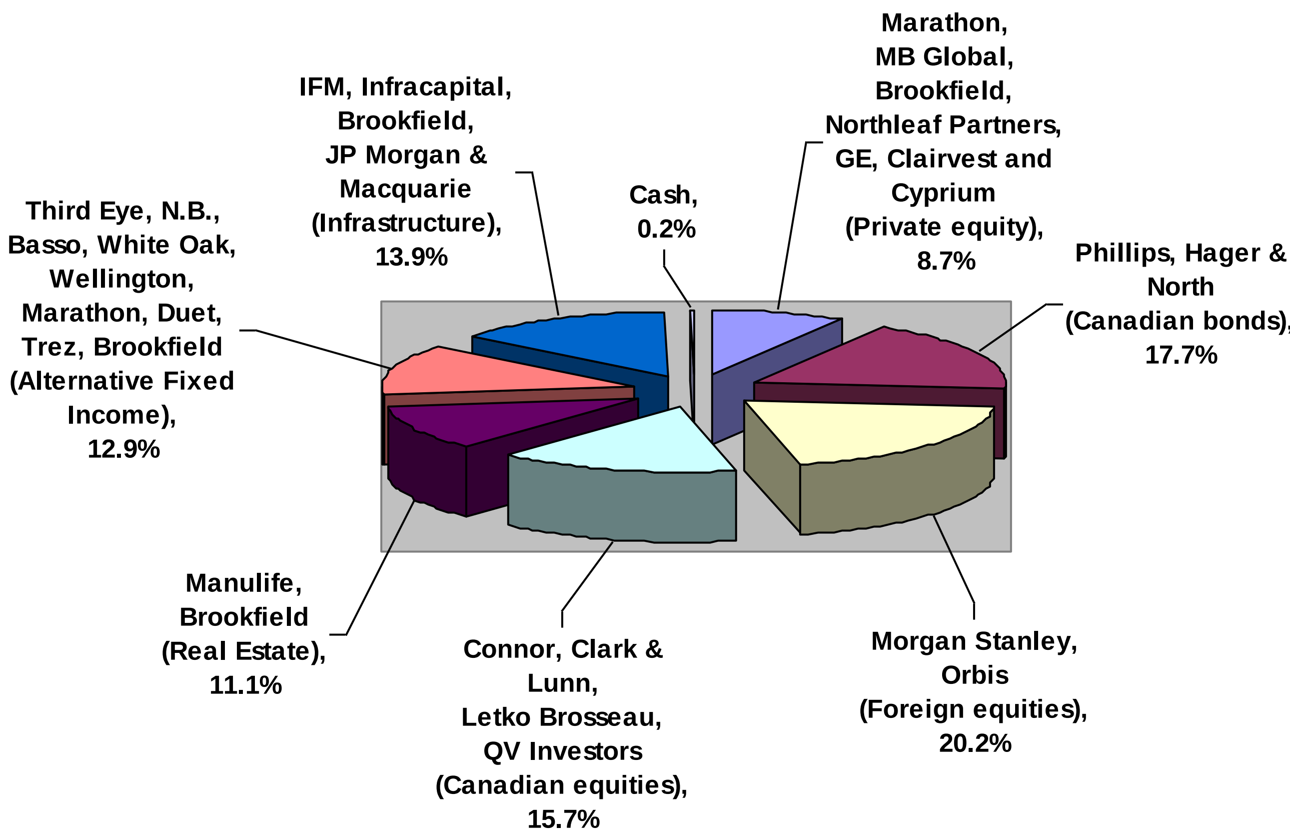
The Trustees have policies in place to monitor the overall asset mix of the Fund and to guide the investment of contributions from employers and investment income.

An important element of Fund governance is that the Trustees set standards for the performance of the investment managers and measure the actual performance against the standards. The Trustees retain an independent investment consultant to assist them in this monitoring responsibility. On a quarterly basis, the Trustees receive reports which give very detailed information about the investment activities of each investment manager along with the return they achieved in the quarter.

Pension Fund Investments (Cont'd)

The Trustees compare this information to their standards and review whether the standards have been achieved. If standards are not achieved, the Trustees consider whether the performance deficiency is temporary. The Trustees are prepared to take action in the event they believe an investment manager's performance will not meet the standard.

The Pension Funds assets are divided amongst 26 independent investment managers. In addition, the Fund's Custodian, CIBC Mellon, manages the Fund's short term cash assets. The Trustees have a policy for the allocation of employer contributions which gives guidance about where new monies received by the Fund will be invested. These guidelines also protect the Fund from too much market risk. The allocation of Fund assets to the independent investment managers, as at December 31, 2018, is illustrated as follows:



PENSION PLAN BENEFITS – FUNDING AND BENEFIT POLICY

The Plan has a Funding and Benefit Policy. This Policy sets guidelines for the Trustees about what considerations to take when thinking about the Plan's benefits and how to react if the Plan becomes under financial stress or when it has surplus. The Funding and Benefits Policy also helps Members to understand what to expect from the Plan.

The Trustees act in the best interest of Plan Members, by ensuring that the benefits provided by the Plan are sustainable. One of the products of an actuarial valuation is the demonstration of benefit security.

When the Trustees conduct their review about whether the Plan's benefits can be improved, the Trustees are guided by the following criteria:

a) the proposed benefit improvements cannot cause the going concern funded ratio or the solvency ratio of the Plan to fall below 90%; and

b) the contribution rate will be between 120% and 125% of the funding costs of the Plan.

If benefit improvements are to be considered, the Trustees have agreed upon the following additional parameters:

a) if the pension contribution rate is above 125% of the funding costs of the Plan, the Trustees will endeavor to increase the future benefit accrual rate.

b) The Trustees will endeavor to increase benefits to retired union members, and their spouses as well as disability pensions accrued if sufficient funding surplus exists.

c) approval from Alberta Treasury Board & Finance must be received if the Pension Plan is under a solvency funding moratorium.

Based on the results of the December 31, 2018 funding valuation, the current negotiated employer contribution rate is projected to be sufficient to meet the current service requirements over the next three Plan years. The current negotiated employer contribution rate also contains a margin of $1.098 in case of poor results in the investment markets and changes in Plan demographics, resulting in a current employer contribution rate that is 120% of the funding costs of the Plan.

The Plan's Funding and Benefits Policy is posted on the Plans' website www.epibenefitplans.com

ACTUARIAL VALUATION

Membership Data	2011	2012	2013	2014	2015	2016	2017	**2018**
Number of active members	8450	8491	8441	8108	8267	8461	7606	**7345**
Average age of active members (in years)	40.2	40.2	40.6	40.6	40.6	40.7	41.1	**41.8**
Average hours worked	1995	1783	1740	1715	1575	1555	1549	**1110**
Number of pensioners (including disabled)	2451	2590	2748	2892	3060	3234	3431	**3610**
Average age of pensioners (in years)	69.3	69.4	69.5	69.8	70.0	70.1	70.3	**70.6**

The Pension Plan's actuarial valuation is a sophisticated mathematical tool prepared by a certified actuary. The actuary uses accepted actuarial standards, guided by the Canadian Institute of Actuaries, to estimate the future rate of growth of the Pension Plan's liabilities. This result is compared to the actual market value of the assets of the Pension Fund. The actuary also takes into consideration the negotiated contribution rate established in the collective agreements and the estimated number of hours to be worked by the Plan's Members.

As part of satisfying their responsibility for monitoring the Pension Plan, the Trustees have an actuarial valuation of the Plan carried out each year. Current pension legislation requires that this measurement be carried out at least every three years. The Trustees consider that the knowledge acquired from an actuarial valuation is vital to their understanding of the funded status of the Plan. If the Plan's assumptions for investment return, hours worked or life expectancy are not met by the actual results of the Plan, the Trustees can take early corrective action, if necessary. The results of the actuarial valuation are taken into consideration when the Trustees review whether benefit improvements can be made.

Each year the Trustees review and approve the assumptions to be included in the actuary's preparation of the actuarial valuation. The Trustees are confident that the Plan's assumptions are realistic forecasts about the Plan's future. The assumptions include a reasonable margin in case there is a poor result in investment markets, contributions to the Fund or Plan demographics.

ACTUARIAL VALUATION (Cont'd)

There are many assumptions included in the preparation of an actuarial valuation. The two most important assumptions are:

- *The rate of return that the Pension Fund's investments will earn.* This assumption predicts the future growth of the Pension Fund's assets.

  For the 2018 actuarial valuation, the target rate of return on Fund investments was 5.42%. This is determined based on target asset allocation of the Pension Fund and guidance from Alberta Treasury Board and Finance.

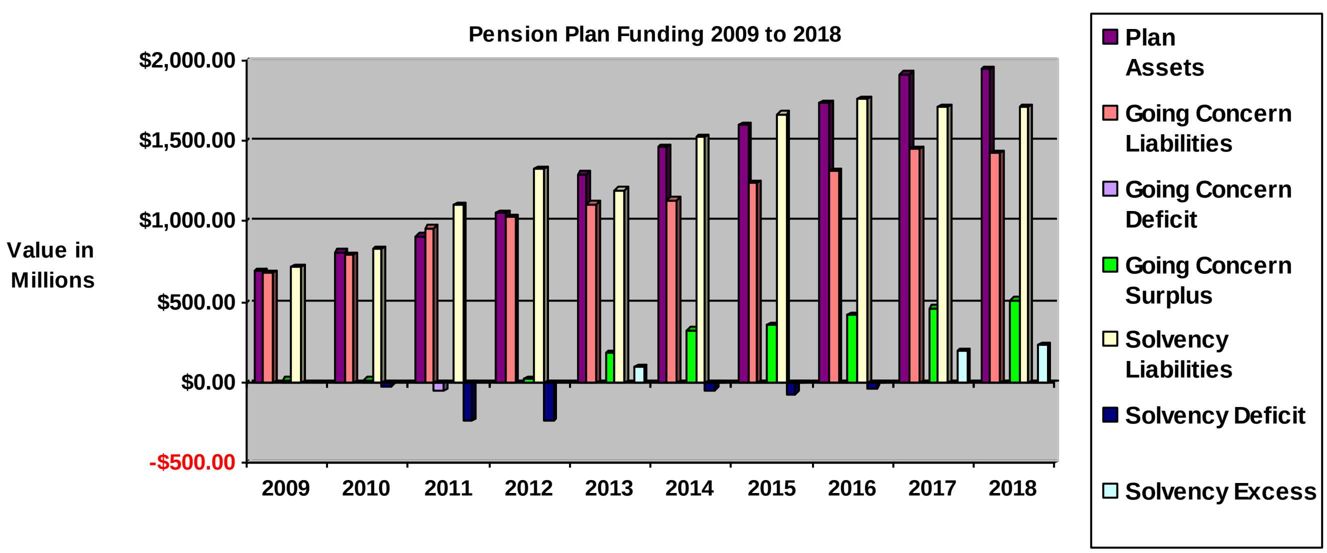
- *The number of hours each member will work in the future.* This assumption predicts the amount of contributions the Pension Fund will receive each year. The contribution rate is set out in the collective agreement and is a defined amount to be paid per hour worked.

  The more hours worked by Local 488 members, the higher the total amount of contributions that are paid to the Pension Fund. Contributions are invested and are used to pay the Plan's benefits. For the 12 months ended December 31, 2018, Local 488 members worked a total of 6.7 million hours, compared to the forecast of 7 million hours. For Fiscal 2019 the Plan's assumption is that Local 488 members will work 5 million hours. The assumption regarding hours worked is closely monitored at each Trustees' meeting.

For the fiscal year ended December 31, 2018, the actuary will provide an Actuarial Cost Certificate to confirm that the current employer contribution rate is sufficient to meet the Pension Plan's current service cost requirements.

The actuarial valuation will be filed with the Pension Plan regulators.

The Pension Plan's funding status from 2009 to 2018 is shown in the illustration:



ACTUARIAL VALUATION (Cont'd)

The Plan's solvency funding ratio improved to 114% at December 31, 2018. The Plan had a solvency excess of $232.7 million at the end of Fiscal 2018. At December 31, 2017, the Plan had a solvency excess of $200.2 million.

As noted in the 2017 Annual Report the Pension Plan applied for and received permission from the Alberta Pension Regulator to pay Termination Benefits based upon the going concern basis used in the Actuarial Valuation. The impact of this change is that those who are no longer members of the Pension Plan will have their Termination Benefit paid using an interest rate assumption of 5.42% as opposed to a market based rate which varies monthly (3.2% for 10 years and 3.4% thereafter as at December 31, 2018) This change continues to improve the solvency funded ratio year over year.

It is important to note that lower interest rate assumptions cause the value of a Termination Benefit to increase thus causing the Pension Plan to pay a benefit that is not in line with the funding of the Plan. The Trustees believe that this change in methodology greatly improves the equality between members who receive a Termination Benefit and those who receive a pension from the Plan.

Effective January 1, 2007 the Plan was amended to allow a defined contribution benefit accrual for retired Members who return to work in participating employment. In 2015 the Trustees amended the accrual rate to be the hourly contribution less 5% (currently $6.279 per hour worked). At December 31, 2018 the value of the defined contribution benefit for retired Members is $26.12 million.

Roles and Responsibilities

A number of parties are responsible for ensuring that the Pension Trust Fund and the Health and Welfare Fund are maintained in a financially sound way that will provide pension and health benefits for members over the long term. They include:

Board of Trustees

The Board of Trustees has overall responsibility for the Pension Trust Fund and the Health and Welfare Fund, including supervision of the administration services provider, the investment managers and other delegates in the governance process. The Board is also responsible for the approval of the annual audited financial statements. The Board is made up of:

- four trustees elected by Local Union 488 members,
- three independent trustees selected by a nominating committee comprised of a representative of Local
- Union 488 and Construction Labour Relations – Alberta (CLRa). Included in this group is the independent chairman.

The Board's Audit Committee meets with the administration services provider and the external auditors to review the financial statements and examine other auditing and accounting matters. The Audit Committee examines the quality of the financial statement disclosure, the accounting principles applied and any significant judgments affecting the financial statements. The audited financial statements in this Report have been approved by the Audit Committee and the Board of Trustees. The Board's Investment Committee meets with investment managers and the investment consultant and makes recommendations to the Trustees in respect of the management of the Fund's investments.

Administration services provider

The administration services provider is appointed by the Board of Trustees and manages the Pension Trust Fund and the Health and Welfare Fund, and is responsible for providing quality service to the members. The administration services provider develops and maintains high-quality systems for internal accounting and administrative control. These systems are designed to provide reasonable assurance that transactions are properly authorized, reliable financial records are maintained, financial information is timely, accurate and reliable, and assets are appropriately accounted for and adequately safeguarded. The administration services provider is also responsible for preparing financial statements in accordance with Canadian generally accepted accounting principles.

Actuary

The actuary is appointed by the Board of Trustees and carries out an annual valuation of the Pension Plan's actuarial liabilities in accordance with accepted actuarial principles. This process involves analyzing the benefits to be provided under the Pension Plan, including any increases to benefits. The actuary also provides advice to the Board of Trustees on funding and benefit policies, asset and liability structure, and other matters.

External auditors

The external auditors are appointed by the Board of Trustees. Their responsibility, the scope of their examination and their opinion is set out in the Auditors' Report. The external auditors have full and unrestricted access to staff of the administration services provider, the Audit Committee and the Board of Trustees to discuss any findings related to the integrity of the financial reporting and the adequacy of internal control systems on which they rely for the purposes of their audit. The external auditors rely on the work of the actuary for the actuarial liabilities disclosed in the notes to the financial statements.

Custodian

The custodian holds the Pension Fund's assets and executes trades under the direction of the Pension Fund's investment managers. The custodian is appointed by the Board of Trustees.

Investment managers

The investment managers each direct a portfolio of assets on behalf of the Pension Trust Fund or the Health and Welfare Fund. Investment guidelines are set by the Board of Trustees and communicated through a Statement of Investment Policies and Procedures. The investment managers are appointed by the Board of Trustees.

Investment consultant

The investment consultant is appointed by the Board of Trustees. The consultant is responsible for providing advice in respect of an appropriate asset mix, which is designed to protect the benefits promised to members of the Pension Plan. The investment consultant is also engaged to review the performance of the investment managers and to make recommendations about the selection, and retention, of investment managers.

KPMG LLP
2200, 10175 - 101 Street
Edmonton AB T5J 0H3 Canada
Telephone (780) 429-7300
Fax (780) 429-7379
www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of The Edmonton Pipe Industry Pension Trust Fund

Opinion

We have audited the financial statements of The Edmonton Pipe Industry Pension Trust Fund (the Entity), which comprise:

- the statement of financial position as at December 31, 2018
- the statement of changes in net assets available for benefits for the year then ended
- the statement of changes in pension obligation 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 financial position of the Entity as at December 31, 2018, its changes in net assets available for benefits and its changes in pension obligation for the year then ended in accordance with Canadian accounting standards for pension plans.

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 Entity 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.

Other Information

Management is responsible for the other information. Other information comprises the information, other than the financial statements and the auditors’ report thereon, included in a document likely to be entitled the “2018 - Annual Report”.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

The information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled the "2018 - Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

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 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.

In preparing the financial statements, management is responsible for assessing the Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity'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 Entity'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 Entity'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 Entity 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.

KPMG LLP

Chartered Professional Accountants

May 15, 2019
Edmonton, Canada

Financial Statements of

THE EDMONTON PIPE INDUSTRY PENSION TRUST FUND

Year ended December 31, 2018

THE EDMONTON PIPE INDUSTRY PENSION TRUST FUND

Statement of Financial Position

December 31, 2018, with comparative information for 2017

	2018	2017
ASSETS		
Cash and cash equivalents	$ 33,637,482	$ 42,019,508
Investments (note 4)	1,911,779,874	1,874,609,970
Contributions receivable	2,025,732	3,337,202
Accounts receivable	107,646	82,906
Prepaid expenses and deposits	37,682	27,186
	1,947,588,416	1,920,076,772
LIABILITIES		
Accounts payable and accrued liabilities	1,385,837	1,358,280
Amounts due to other pension funds (note 5)	123,023	488,376
Due to The Edmonton Pipe Industry Health and Welfare Fund (note 6)	3,855	68,460
	1,512,715	1,915,116
Net assets available for benefits	1,946,075,701	1,918,161,656
Pension obligations (note 7)	1,432,965,000	1,455,030,000
Accumulated surplus	$ 513,110,701	$ 463,131,656

See accompanying notes to financial statements.

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THE EDMONTON PIPE INDUSTRY PENSION TRUST FUND

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2018, with comparative information for 2017

	2018	2017
Increase in net assets:		
Investment and other income, net (note 8)	$ 69,447,264	$ 198,650,575
Employer contributions (note 9)	46,262,990	72,661,022
Pension credits and reciprocal transfers in	2,541,256	2,150,160
	118,251,510	273,461,757
Decrease in net assets:		
Benefit payments:		
Retirement	54,968,809	51,704,833
Transfers and lump sum payments	16,409,302	21,522,520
Death benefits	1,728,564	1,007,126
Pension credits and reciprocal transfers out	3,018,553	4,539,210
Investment manager and custodian fees	12,918,473	13,813,202
Administrative expenses (note 10)	1,293,764	1,345,813
	90,337,465	93,932,704
Increase in net assets available for benefits	27,914,045	179,529,053
Net assets available for benefits, beginning of year	1,918,161,656	1,738,632,603
Net assets available for benefits, end of year	$ 1,946,075,701	$ 1,918,161,656

See accompanying notes to financial statements.

THE EDMONTON PIPE INDUSTRY PENSION TRUST FUND

Statement of Changes in Pension Obligations

Year ended December 31, 2018, with comparative information for 2017

	2018	2017
Pension obligations, beginning of year	$ 1,455,030,000	$ 1,311,481,000
Benefit improvement, effective January 1st	-	15,673,000
	1,455,030,000	1,327,154,000
Benefits accumulated	36,947,000	52,171,000
Pension credits and reciprocal transfers in	2,541,000	2,096,000
Reciprocal transfers out	(75,000)	-
Benefits paid	(73,107,000)	(74,234,000)
Interest	74,066,000	72,840,000
Impact of assumption changes - end of year	(58,080,000)	69,889,000
Net experience (gains) losses - end of year	(4,357,000)	5,114,000
Pension obligations, end of year	$ 1,432,965,000	$ 1,455,030,000

See accompanying notes to financial statements.

1. Nature of The Edmonton Pipe Industry Pension Trust 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 October 1, 1968 (the "Pension Trust Agreement") which has been amended and restated as of August 13, 2007. The Pension Trust Agreement provides for the establishment, maintenance, investment and administration of a trust fund known as The Edmonton Pipe Industry Pension Trust Fund (the "Pension Fund") created pursuant to The Edmonton Pipe Industry Pension Plan (the "Plan") which includes all restatements and amendments to January 1, 2017. The Plan itself was established pursuant to a collective agreement between the Union and the Party Employers dated May 1, 1965 (the "Collective Agreement") and renewed for the period until April 30, 2019. The Plan is a registered pension plan with the Canada Revenue Agency.

The following is a brief summary of the main provisions of the Plan in effect at December 31, 2018. It is not intended as a complete description of the Plan. For more complete information, reference should be made to the Plan documents.

(a) Eligibility for membership:

The Plan covers employees of the Party Employers that are bound by the Collective Agreement to contribute to the Pension Fund and other parties as determined by the Plan.

(b) Pension benefit:

Effective January 1, 2017, for each full 100 covered hours, a member earns a monthly pension benefit of $6.79 for service on or after January 1, 2017.

(c) Contributions:

Members do not contribute to the Pension Fund. Employers contribute to the Pension Fund at the rates specified in the Collective Agreement.

(d) Retirement dates:

(i) Normal retirement date:

The normal retirement date is the first day of the month coincident with or next following the member's 65th birthday.

1. Nature of The Edmonton Pipe Industry Pension Trust Fund (continued):

(d) Retirement dates (continued):

(ii) Early retirement date:

If a member has a vested pension, the member may choose to retire as early as age 55.

(iii) Postponed retirement:

Pension commencement may be postponed, and pension credits may continue to accrue up to the end of November of the year during which the member attains age 71.

(e) Retirement benefits:

(i) Normal retirement:

If a member retires on their normal retirement date, the member will be entitled to the pension that was accrued prior to retirement.

(ii) Early retirement pension:

If a member retires early, they will be entitled to a pension that is calculated the same way as for a normal retirement. If the member does not qualify for the special early retirement pension:

1. Their earned pension is actuarially reduced from age 65; or

2. For a qualified member retiring after age 60, their earned pension is reduced by 3 percent for each year that their actual retirement age precedes the normal retirement age.

A qualified member retiring after attaining age 58, but prior to their normal retirement age, is entitled to a special early retirement pension if the sum of their age and years of credited service equal at least 80 points for ages 58 and 59, and 75 points after age 60, provided they have at least 15 years of credited service. The special early retirement pension is an unreduced pension commencing on their early retirement date.

(iii) Postponed retirement pension:

A member may elect to postpone retirement. In that case, benefits continue to accrue.

Upon the member's actual retirement date, they will be entitled to their accrued benefit without any actuarial adjustment or increase.

THE EDMONTON PIPE INDUSTRY PENSION TRUST FUND

Notes to Financial Statements (continued)

Year ended December 31, 2018

1. Nature of The Edmonton Pipe Industry Pension Trust Fund (continued):

(f) Survivor benefits:

(i) Death prior to receipt of a pension:

If a member not in receipt of a pension dies after accruing a vested pension, their surviving spouse shall receive an immediate lifetime pension. The amount of monthly pension payable to them is the lesser of the amount of the monthly pension earned by the member prior to their death or 66-2/3% of their earned pension plus the amount they would have earned had they worked to age 65, subject to the minimum standards under the Employment Pension Plans Act. In lieu of a monthly pension, the surviving spouse may elect to receive a commuted value equal to the deceased members termination benefit calculated as if the member had terminated at their date of death.

No death benefit is payable in respect of any accrued pension which was not vested in the member at the time of their death. Benefits earned prior to October 1, 1999 vest after the member completes five years of vesting service. Benefits earned after September 30, 1999 vest after the member completes two years of vesting service. Benefits earned on or after September 1, 2014 are immediately vested.

If a member dies without a spouse the member's beneficiary or estate shall receive the commuted value of any vested pension earned.

(ii) Death while in receipt of a pension:

For a member in receipt of a pension who does not have a spouse at the time of their death, all payments would cease upon the death of the member. Effective with retirements on or after March 1, 2014 the normal form of pension for a member without a spouse at retirement is Life, guaranteed 10 years.

For a member who retired prior to January 1, 1992 who has a spouse at the time of their death, 75% of their monthly pension will be payable to their spouse after their death. For a member who retired on or after January 1, 1992 who has a spouse at the time of their death, the normal form of pension provides that 66-2/3% of their monthly pension will be payable to their spouse after their death.

Notwithstanding the foregoing, for a member who retired prior to the introduction of the long-term disability plan who dies prior to age 65 while in receipt of a disability pension, the spouse shall receive a survivor pension equal to the lesser of 66-2/3% of the monthly pension the member was receiving at the time of their death and the amount of pension accrued by the member to the date of their death.

1. Nature of The Edmonton Pipe Industry Pension Trust Fund (continued):

(f) Survivor benefits (continued):

(ii) Death while in receipt of a pension (continued):

For any member who elected an optional form of pension at the time of their retirement, any applicable survivor benefits will be payable in accordance with the terms of the optional form of pension chosen.

(g) Termination benefits:

A member terminating membership in the Plan after seven years of vesting service is entitled to receive a deferred pension from the Plan. A member terminating membership in the Plan after five years of vesting service is entitled to a deferred pension from the Plan in respect of their credited service after October 1, 1986. A member terminating their membership in the Plan after two years of vesting service is entitled to a deferred pension from the Plan in respect of their credited service after October 1, 1999 and before September 1, 2014. Effective September 1, 2014, a member terminating membership in the Plan is entitled to a deferred pension from the Plan.

The normal, special and early retirement provisions applicable to a qualified member with deferred pension entitlements correspond to the provisions applicable to a qualified member as noted under the Retirement benefits section above. For other members entitled to deferred pensions, the pension is payable commencing at age 65. However, a member may elect to receive an actuarially reduced early retirement pension as early as age 55.

If a member is entitled to a deferred pension, and is under the age of 55, they may also transfer the commuted value of that pension into another retirement vehicle in accordance with the applicable federal and provincial legislation.

(h) Disability:

A member who is in receipt of benefits from the long-term disability plan sponsored by The Edmonton Pipe Industry Health and Welfare Fund ("Health and Welfare Fund") shall be credited with deemed hours of covered employment at the average rate earned by all active members during the previous plan year.

All other members with a vested pension who become totally and permanently disabled are entitled to receive an immediate monthly pension equal to the vested pension earned prior to their becoming disabled.

1. Nature of The Edmonton Pipe Industry Pension Trust Fund (continued):

(i) Post retirement benefits for retired members:

An amendment to the Plan was approved by the Trustees on September 7, 2007, effective January 1, 2007, to permit contributions for retired members under age 71 returning to work with a contributing employer to accrue for the benefit of the retired member. The contributions received by the Pension Fund, for work periods after the retired members' initial retirement date, are held with the general assets of the Pension Fund and are immediately vested. For work periods after the retired member's initial retirement date and prior to October 1, 2009, the entire employer contribution accrues for the benefit of the retired member. For work periods after the retired member's initial retirement date and between September 30, 2009 and December 31, 2014, a portion of the employer contribution, based on the Plan's current service cost rate, accrues for the benefit of the retired member. For work periods after the retired member's initial retirement date and after January 1, 2015, the entire employer contribution less a 5% administrative fee accrues for the benefit of the retired member. Upon subsequent retirement, a benefit will be transferred to a Locked-In Retirement Account ("LIRA") on behalf of the retired member.

The Board of Trustees have engaged McAteer – Employment Benefit Plan Services Limited as administration services provider for the Pension Fund.

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 and present information about the aggregate financial position of the Pension Fund and the net assets available to meet future benefit payments.

In selecting or changing accounting policies that do not relate to its investment portfolio or pension obligations, Canadian accounting standards for pension plans require the Pension 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 Pension Fund has chosen to comply on a consistent basis with IFRS.

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

2. Basis of preparation:

(b) Basis of measurement:

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

(c) Functional and presentation currency:

These financial statements are presented in Canadian dollars, which is the Pension 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 financial position 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:

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

(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 (losses) on investments.

(b) Income recognition:

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

3. Significant accounting policies (continued):

(c) Financial assets and financial liabilities:

(i) Financial assets:

Financial assets are recognized initially on the trade date, which is the date that the Pension 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 Pension 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 Pension 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 Pension Fund becomes a party to the contractual provisions of the instrument.

The Pension Fund derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

(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.

Financial assets and liabilities are offset and the net amount presented in the statement of net assets available for benefits when, and only when, the Plan 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.

3. Significant accounting policies (continued):

(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 Pension 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 Pension Fund uses closing market price as a practical expedient for fair value measurement.

When available, the Pension 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 Pension Fund establishes fair value using valuation techniques that 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.

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 changes in net unrealized gains (losses) on investments.

Fair values of investments are determined as follows:

Cash and cash equivalents are stated at cost, which together with accrued investment income approximates fair value given the short term nature of these instruments.

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.

3. Significant accounting policies (continued):

(d) Fair value measurement (continued):

Canadian and non-Canadian equities and fixed income securities are valued on the basis of quoted closing prices where available. Where quoted prices are not available, estimated values are calculated using comparable securities.

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

Alternative fixed income, infrastructure, private equities and real estate investments are held through ownership in limited partnership arrangements or other similar investment vehicles. Fair value is determined based on relevant information reported by the General Partner using accepted industry valuation methods using valuations as of December 31 being the most recently available market information. These methods include considerations such as earnings multiples of comparable publicly-traded companies, discounted cash flows and third party transactions, or other events which would suggest a change in value of the investment.

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.

(f) Common expenses:

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

(g) Income taxes:

The Plan is a registered pension plan, as defined by the Income Tax Act (Canada), and, accordingly, is not subject to income taxes.

4. Investments:

		2018		2017
By investment manager:				
Direct investments:				
Letko, Brosseau & Associates Inc.	$	78,866,710	$	86,064,970
		78,866,710		86,064,970
Pooled funds:				
Phillips, Hager & North Investment Management Ltd.		339,107,771		349,279,920
Orbis Institutional Global Equity		183,738,446		202,904,907
Morgan Stanley Investment Management		202,836,248		180,740,671
QV Investors Inc.		119,878,939		144,762,568
Connor, Clark & Lunn Investment Management Ltd.		105,282,950		143,953,974
		950,844,354		1,021,642,040
Alternative fixed income:				
Trez Capital Finance LP		33,189,302		46,930,833
White Oak Global Advisors		54,079,016		42,967,686
Basso Capital Management		4,157,252		40,800,417
Wellington Financial LP		540,165		23,919,442
Trez Capital Yield Trust		44,031,340		21,087,914
Duet European Real Estate Debt Fund		28,573,202		20,137,802
Brookfield Asset Management Inc.		21,860,482		15,740,719
Marathon Asset Management		7,750,689		-
Neuberger Berman Investment Advisors LLC		8,536,072		-
Third Eye Capital		43,035,044		-
		245,752,564		211,584,813
Infrastructure:				
Brookfield Asset Management Inc.		94,232,972		71,992,938
Macquarie Infrastructure Partners Inc.		73,277,497		56,538,180
JP Morgan Infrastructure Investments Fund		50,820,725		48,378,004
Infracapital		12,164,473		8,356,156
IFM Global Infrastructure Fund		35,588,144		-
		266,083,811		185,265,278

THE EDMONTON PIPE INDUSTRY PENSION TRUST FUND

Notes to Financial Statements (continued)

Year ended December 31, 2018

4. Investments (continued):

	2018	2017
By investment manager (continued):		
Private equities:		
Brookfield Asset Management Inc.*	70,768,398	74,640,936
Marathon Asset Management*	29,996,129	41,714,063
Clairvest Equity Partners	23,051,182	21,429,685
Cyprium Capital Partners	16,062,519	16,071,122
Northleaf Capital Partners	12,008,933	10,989,231
MB Global Partners	14,385,445	10,849,170
Standard Life International Private Equity	-	6,268,249
GE Asset Management Fund	425,231	1,826,751
	166,697,837	183,789,207
Real estate:		
Brookfield Asset Management Inc.	119,568,265	119,013,848
Manulife Financial	49,734,805	46,166,533
CBRE Global Investors	42,204,573	-
Bentall Kennedy Prime Canadian Property Fund	-	21,083,281
	211,507,643	186,263,662
Derivative contracts:		
CIBC Capital Markets	(7,973,045)	-
	(7,973,045)	-
	$ 1,911,779,874	$ 1,874,609,970

*The Pension Fund has committed to transfer its remaining investment in Marathon Asset Management to Brookfield Asset Management Inc. subsequent to December 31, 2018.

4. Investments (continued):

		2018	%		2017	%
By asset class:						
Cash and cash equivalents	$	3,279,635	0.2	$	2,189,857	0.1
Canadian equities and funds		300,748,052	15.7		372,591,655	19.9
Non-Canadian equity funds		386,575,606	20.2		383,645,578	20.5
Fixed income and pooled funds		339,107,771	17.7		349,279,920	18.6
Alternative fixed income		245,752,564	12.9		211,584,813	11.3
Infrastructure		266,083,811	13.9		185,265,278	9.9
Private equities		166,697,837	8.7		183,789,207	9.8
Real estate		211,507,643	11.1		186,263,662	9.9
Derivative contracts		(7,973,045)	(0.4)		-	-
	$	1,911,779,874	100.0	$	1,874,609,970	100.0

Derivative contracts represent derivative financial instruments, the value of which is derived from the value of underlying assets, interest rates or exchange rates. The Pension Fund utilizes such contracts for managing exposure to foreign currency volatility. Derivative contracts, transacted either on a regulated exchange market or in the over-the-counter market directly between two counterparties include:

	Notional amount		Fair value	
	2018	2017	2018	2017
Foreign exchange contracts:				
US dollar	$ 296,120,681	$ -	$ (5,503,058)	$ -
British pound	56,311,078	-	(1,427,250)	-
Euro	58,021,996	-	(1,042,737)	-
	$ 410,453,755	$ -	$ (7,973,045)	$ -

The foreign exchange contracts mature over the next three months.

Notional amounts are the contract amounts used to calculate the cash flows to be exchanged. They are a common measure of volume of outstanding transactions but do not represent credit or market risk exposure.

5. Reciprocal agreements with other pension funds:

The Pension Fund has entered into reciprocal agreements with other pension funds. These agreements provide that contributions received on account of employees working outside of their local union jurisdiction are remitted on a monthly basis to the pension fund of which they are a member.

6. Due to The Edmonton Pipe Industry Health and Welfare Fund:

The amount due to the Health and Welfare Fund is non-interest bearing, unsecured and has no set terms of repayment.

7. Pension obligations:

These financial statements do not purport to indicate whether the assets of the Pension Fund, together with investment earnings thereon, plus future contributions, will be sufficient to finance all benefits to be provided under the Pension Plan.

An actuarial valuation of the pension obligations of the Pension Plan was carried out by Mercer (Canada) Limited ("Mercer") and their determination of the funded position of the Pension Plan as at December 31, 2018. The actuarial valuation was conducted on a going-concern basis whereby the relationship between assets and the value of accumulated benefits is determined using the unit credit actuarial cost method assuming the Pension Plan is maintained indefinitely.

The assumptions used in determining the pension obligations were developed as the best estimate of expected future market conditions and other future events. After consultation with Mercer, the Board of Trustees adopted these best estimates. The major assumptions used in the valuations, with comparison to the actual results, are as follows:

	2018		2017	
	Valuation assumption	Actual	Valuation assumption	Actual
Discount rate / investment return	5.42%	2.90%	5.15%	10.57%
Hours worked	5,000,000	6,784,291	7,000,000	10,440,483

7. Pension obligations (continued):

Investment return represents investment income net of investment manager and custodian fees.

The mortality table assumption used for the 2018 and 2017 valuations is 120% of the 2014 Private Sector Canadian Pensioners Mortality (CPM) table fully generational using scale CPM-B.

The Pension Fund’s funded position on a going concern basis is as follows:

	2018	2017
Net assets available for benefits	$ 1,946,075,701	$ 1,918,161,656
Actuarial liability - present value of accrued benefits for:		
Active members	623,435,000	657,859,000
Pensioners and survivors	649,655,000	626,856,000
Disabled pensioners	45,941,000	50,138,000
Deferred pensioners	87,815,000	91,066,000
Post-retirement benefits for active retired members	26,119,000	29,111,000
	1,432,965,000	1,455,030,000
Funding excess as determined on a going concern basis	$ 513,110,701	$ 463,131,656
Funded ratio	136%	132%

8. Investment and other income, net:

		2018		2017
By investment type:				
Direct investments:				
Interest	$	53,992	$	46,988
Dividends		2,378,205		1,989,283
Pooled funds		22,135,368		21,575,019
Alternative fixed income, infrastructure, real estate and private equities		43,483,345		14,277,153
Realized gains on sale of investments		65,539,324		76,539,272
Realized foreign currency (losses) gains		(11,329,024)		1,167,684
Change in net unrealized (losses) gains on investments		(101,460,756)		122,216,849
Change in net unrealized foreign currency gains (losses)		47,963,580		(39,411,902)
		68,764,034		198,400,346
Other income		683,230		250,229
	$	69,447,264	$	198,650,575

9. Employer contributions:

Commencing November 4, 2012, contributions are made by employers at a negotiated rate of $6.61 per hour. The *Alberta Employment Pension Plans Act* prescribes the minimum contributions that must be made to the Pension Fund. The minimum required contribution rates sufficient to meet the funding needs of the Pension Fund are as follows:

		2018		2017
Current service cost	$	5.626	$	5.147
Provision for adverse deviation		0.773		0.710
Total minimum required contribution rate		6.399		5.857
Average negotiated contribution rate		6.610		6.610
Net margin	$	0.211	$	0.753

THE EDMONTON PIPE INDUSTRY PENSION TRUST FUND

Notes to Financial Statements (continued)

Year ended December 31, 2018

10. Administrative expenses:

		2018		2017
Direct expenses:				
Administration services provider fees	$	479,088	$	495,115
Actuarial and consulting fees		180,240		195,015
Investment consulting fees		167,320		152,509
Independent trustees fees		77,000		77,000
Audit		72,499		72,400
Legal		70,341		74,712
Non-deductible GST and HST		52,422		53,388
Insurance		26,625		30,531
Registration		25,172		48,077
Other expenses		3,752		981
		1,154,459		1,199,728
Common expenses shared equally with the Health and Welfare Fund (note 3(f)):				
Rent		121,840		121,840
Office expenses		83,046		91,276
Postage		23,322		29,041
Annual report to members		21,878		24,198
Non-deductible GST and HST		12,372		13,635
Travel, conferences and meeting expenses		9,680		6,702
Other shared expenses		6,112		5,478
		278,610		292,170
Less Health and Welfare Fund share		(139,305)		(146,085)
		139,305		146,085
	$	1,293,764	$	1,345,813

The Pension Fund defines its key management personnel as members of the Board of Trustees and its administration services provider who are responsible for planning, controlling and directing the activities of the Pension Fund.

11. Capital risk management:

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

The Pension 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 Pension Fund Trustees. The SIPP established on February 11, 2000 was last amended on December 11, 2018.

The Pension Fund's investment was allocated within allowed asset categories in the SIPP, as of the date of the Pension Fund's financial statements. The following tables presents the asset allocation for each asset category and total investments, along with appropriate benchmarks:

	Benchmark	Target Range (%)	Actual (%) 2018	Actual (%) 2017
Cash and cash equivalents	91 Day Treasury Bill	0.0 - 4.0	0.1	0.1
Canadian equities	S&P TSX Composite BMO Small Cap Unweighted Blended Index	10.0 - 25.0	18.7	19.9
Non-Canadian equities	MSCI World Index	10.0 - 30.0	19.2	20.5
Fixed income securities	FTSE TMX Canada Long Term Bond Index	15.0 - 30.0	17.5	18.6
Alternative fixed income	FTSE TMX Canada Universe Term Bond Index	5.0 - 20.0	11.1	11.3
Infrastructure	Canadian CPI + 6%	5.0 - 15.0	13.3	9.9
Private equities	MSCI World Index	5.0 - 15.0	10.0	9.8
Real estate	Canadian CPI + 5%	5.0 - 12.5	10.1	9.9
Total investments		100.0	100.0	100.0

The Pension Fund's investments are within the asset allocation target ranges as at December 31, 2018.

11. Capital risk management (continued):

The Pension Fund's investment positions expose it to a variety of financial risks which are discussed in note 12. The Pension 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 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 Pension Fund and contributions into the Pension Fund by the employers. The main use of net assets is for benefit payments to eligible Plan members.

12. Financial instruments:

(a) Fair values:

The fair values of investments are as described in note 3(d). The fair values of other financial assets and liabilities, being cash and cash equivalents, contributions receivable, accounts receivable, accounts payable and accrued liabilities, amounts due to other pension funds and due to The Edmonton Pipe Industry Health and Welfare Fund, 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.

12. Financial instruments (continued):

(a) Fair values (continued):

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

2018	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 3,279,635	$ -	$ -	$ 3,279,635
Canadian equities	75,586,163	225,161,889	-	300,748,052
Non-Canadian equities	913	386,574,693	-	386,575,606
Fixed income securities	-	339,107,771	-	339,107,771
Alternative fixed income	-	-	245,752,564	245,752,564
Infrastructure	-	-	266,083,811	266,083,811
Private equities	-	-	166,697,837	166,697,837
Real estate	-	-	211,507,643	211,507,643
Derivative contracts	-	(7,973,045)	-	(7,973,045)
	$ 78,866,711	$ 942,871,308	$ 890,041,855	$ 1,911,779,874

2017	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 2,189,857	$ -	$ -	$ 2,189,857
Canadian equities	83,875,113	288,716,542	-	372,591,655
Non-Canadian equities	-	383,645,578	-	383,645,578
Fixed income securities	-	349,279,920	-	349,279,920
Alternative fixed income	-	-	211,584,813	211,584,813
Infrastructure	-	-	185,265,278	185,265,278
Private equities	-	-	183,789,207	183,789,207
Real estate	-	-	186,263,662	186,263,662
Derivative contracts	-	-	-	-
	$ 86,064,970	$1,021,642,040	$ 766,902,960	$ 1,874,609,970

12. Financial instruments (continued):

(a) Fair values (continued):

The following table reconciles the Pension Fund's Level 3 fair value measurements for the years ended December 31:

2018	Alternative fixed income	Infrastructure	Private Equities	Real estate	Total
Balance, beginning of year	$ 211,584,813	$ 185,265,278	$ 183,789,207	$ 186,263,662	$ 766,902,960
Change in cash balance held with investment managers	(950,010)	(19,725)	(929)	-	(970,664)
Gain (loss) included in income	2,744,096	13,152,970	(19,377,150)	2,144,776	(1,335,308)
Foreign currency gain (loss) included in income	3,021,052	15,554,925	11,428,470	13,216,256	43,220,703
Purchases and transfers	129,462,791	61,193,745	58,738,044	64,954,503	314,349,083
Disposals, distributions and transfers	(79,218,748)	(5,608,406)	(28,281,863)	(37,685,968)	(150,794,985)
Net investment activity within investment manager	(20,891,430)	(3,454,976)	(39,597,942)	(17,385,586)	(81,329,934)
Balance, end of year	$ 245,752,564	$ 266,083,811	$ 166,697,837	$ 211,507,643	$ 890,041,855

12. Financial instruments (continued):

(a) Fair values (continued):

2017	Alternative fixed income	Infrastructure	Private Equities	Real estate	Total
Balance, beginning of year	$ 213,269,000	$ 149,291,568	$ 154,067,222	$ 159,599,130	$ 676,226,920
Change in cash balance held with investment managers	(275,733)	(291,926)	683,985	-	116,326
Gain (loss) included in income	889,504	23,372,299	50,110,632	10,232,274	84,604,709
Foreign currency gain (loss) included in income	(6,845,493)	(9,941,374)	(9,230,307)	(8,510,153)	(34,527,327)
Purchases and transfers	27,684,701	34,516,948	12,776,472	33,850,785	108,828,906
Disposals, distributions and transfers	(37,533,654)	(14,107,765)	(24,558,368)	(22,946,727)	(99,146,514)
Net investment activity within investment manager	14,396,488	2,425,528	(60,429)	14,038,353	30,799,940
Balance, end of year	$ 211,584,813	$ 185,265,278	$ 183,789,207	$ 186,263,662	$ 766,902,960

(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 Pension 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 Pension Fund through construction of a diversified portfolio of instruments traded on various markets and across various industries.

12. Financial instruments (continued):

(b) Associated risks:

(i) Market price risk (continued):

The Pension Fund’s investments in equities are also sensitive to market fluctuations. An immediate hypothetical decline of 10% in Canadian and non-Canadian equity values will impact the Pension Fund’s equity investments by an approximate loss of $68,732,366 (2017 - $ 75,623,723).

(iii) Liquidity risk:

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

Approximately 53.8% (2017 - 59.1%) of the Pension Fund’s investments are in securities traded in public markets. These include Canadian and non-Canadian equity, which is approximately 35.9% (2017 - 40.4%) of the Pension Fund’s total investments, cash and fixed income securities (classified as either Level 1 or 2 in the fair value hierarchy). Although market events could lead to some investments becoming illiquid, the diversity of the Pension Fund portfolios should ensure that liquidity is available for benefit payments. The Pension Fund also maintains cash on hand for liquidity purposes to pay accounts payable and accrued liabilities and to make additional investments. At December 31, 2018, the Pension Fund had cash and cash equivalents in its operating and investing bank accounts in the amount of $33,637,482 (2017 - $42,019,508) and held with its investment managers in the amount of $2,868,210 (2017 - $2,189,857).

(iv) 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 Pension Fund holds financial instruments denominated in currencies other than the Canadian dollar. Consequently, the Pension 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 Pension Fund's assets or liabilities denominated in currencies other than the Canadian dollar.

12. Financial instruments (continued):

(b) Associated risks (continued):

(iii) Foreign currency risk (continued):

Fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 41.4% (2017 - 42.1%), or $791,802,905 (2017 - $789,190,179) of the Pension Fund's financial instruments are denominated in currencies other than the Canadian dollar.

The following table summarizes the Pension Fund's exposure to foreign currency investments if the value of the Canadian dollar increased by 10% against all currencies, and all other variables are held constant, as at December 31:

	2018 Fair Value	Sensitivity	2017 Fair Value	Sensitivity
Currency:				
US dollar	$ 751,065,230	$ (75,106,523)	$ 754,427,972	$ (75,442,797)
British pound	40,737,675	(4,073,768)	28,493,958	(2,849,396)
Euro	-	-	6,268,249	(626,825)
Total	$ 791,802,905	$ (79,180,291)	$ 789,190,179	$ (78,919,018)

The Pension Fund partially hedges its foreign currency exposure for investments denominated in a currency other than Canadian dollars through the use of certain derivatives including foreign exchange forward and swap transactions.

(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 Pension 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.

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12. Financial instruments (continued):

(b) Associated risks (continued):

(iii) Credit risk (continued):

The Pension 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 25% 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 either 2018 or 2017. The maximum credit risk exposure as at December 31, 2018 is $576,887,290 (2017 - $564,284,841), comprised of contributions receivable and accounts receivable of $2,133,378 (2017 - $3,420,108) and fixed income securities and alternative fixed income of $576,887,290 (2017 - $560,864,733).

(iv) Interest rate risk:

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

13. Comparative information:

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

THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

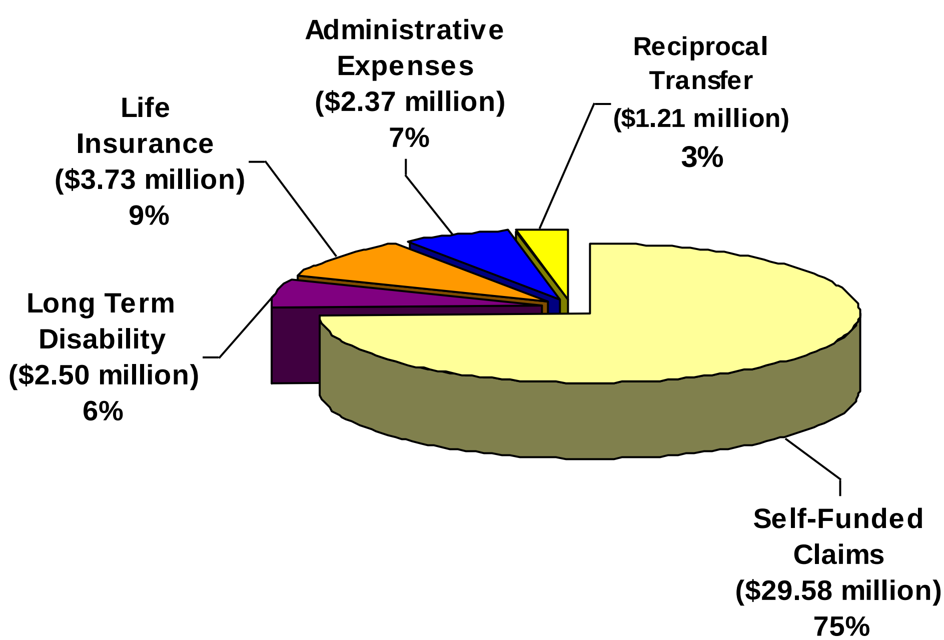
HEALTH AND WELFARE FUND HIGHLIGHTS AND COMMENTARY

The Trustees of the Health and Welfare Fund have the objective of providing a plan of benefits to covered Members to help offset normal health care expenses. In addition, the Plan is designed to provide valuable benefits to help the Members and their families when there are major events such as death and disability. The Health and Welfare Plan provides life insurance, disability and health care benefits to active and disabled Members. The Plan provides life insurance, health and dental care benefits to retired Members. The Plan also provides health and dental benefits to the widows of active and retired Members. We believe the Plan contributes to the overall good health and well being of Plan Members and their families.

During the year ended December 31, 2018, on average, the Plan provided benefits to 6,970 active Members; 1,240 retired Members; 186 disabled Members and 440 widows of Members. The Plan also provided 132 Members with benefits under the self-payment program.

The Trustees have the sustainable long term funding of the Plan as an important objective. The Plan is financed under several funding arrangements including insurance policies underwritten by Great West Life for the life, accidental death & dismemberment and long term disability benefits. The Plan's medical, dental, vision care and short term disability benefits are funded solely by the assets of the Health and Welfare Fund – there is no insurance contract guaranteeing the payment of these benefits. The Fund bears all of the risk of claims arising under these benefits. If there is not enough funding available to pay benefits, the Trustees would amend the Plan to bring funding in line with the cost of benefits.

During Fiscal 2018 total Fund expenses were $39.39 million of which $29.58 million was to pay the claims for eligible health, dental, short term disability, vision care, out of country and employee assistance benefits (self-funded claims) for Members and their families. This chart below illustrates the Fund expenses in Fiscal 2018:



THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

HEALTH AND WELFARE FUND HIGHLIGHTS AND COMMENTARY (Cont'd)

In order to offer sustainable benefits to Plan Members, the Trustees must continually monitor the financial experience of the Plan. This ongoing examination of funding and benefit usage will help to ensure that the Plan has the necessary resources needed to meet the potential liabilities of the Plan. The liabilities of the Plan will fluctuate because of changes in our demographics and the Trustees must ensure that the Plan is responsive to the changing health care needs of the Members. The average age of our membership is increasing. Retired Member benefits are very highly subsidized by the Fund and, as the Plan covers more Retired Members, we must be careful to hold enough in reserve to support the coverage allowed under the Plan. Inflation and utilization in health care are also important trends monitored by the Trustees.

After a careful review of the Plan's coverage and contributions, the Trustees announced Plan changes as follows:

1. Effective with dental services incurred on/after January 1, 2019, eligible expenses were reimbursed on the basis of the 2018 Alberta Dental Association fee guide.

2. Effective January 1, 2018 the Plan limited annual expenses for medical marijuana to $1,500 for specific health conditions. The Trustees will monitor the cost of claims for this benefit to determine funding levels going forward.

3. Effective with retirements on or after July 1, 2019 the Plan is introducing new eligibility and payment requirements for both the Early Retirees (under age 65) and Retiree (age 65 and over) benefit packages. All Members have received notification of these upcoming changes in the mail as well as the article published in the Pipeline Newsletter.

In addition to providing excellent health care benefits, the Trustees have set a standard for clear, accurate and timely communication with Members. A very good resource for information about the Plan is the Plan's Web Site, ***www.epibenefitplans.com***. Changes to the Plan are always communicated to Members in newsletters.

THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

HEALTH AND WELFARE FUND HIGHLIGHTS AND COMMENTARY (Cont'd)

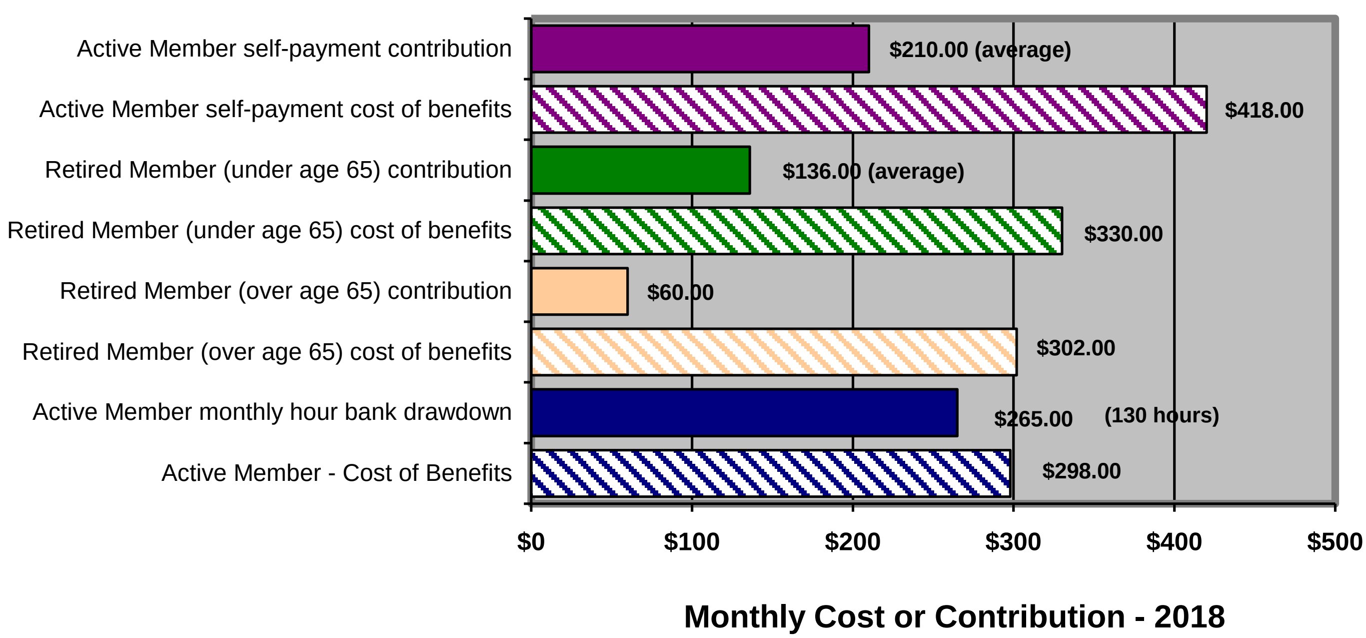
Funding of Welfare Plan Benefits

At December 31, 2018 the Fund had sufficient assets on hand to provide benefits to active Members for the entire amount deposited to their hour banks. The Fund also retained sufficient monies to provide retiree benefits for a period of 60 months.

Retiree benefits are an important feature of the Plan. Benefits provided to Retirees are highly subsidized by the Plan. The Trustees have made the decision to provide these benefits as long as the funding for them is available and there are no legislative barriers to providing them. The Trustees may change the type of benefit provided, or the amount retired Members pay to the Plan for benefits, in order to secure the appropriate level of funding. As noted on the previous page, members should carefully review the new eligibility and costs associated with the Retiree benefits program which will come into effect with retirements on or after July 1, 2019.

After the Fund had set aside sufficient money to cover its defined liabilities, the Fund held unallocated net assets available for benefits of $58.4 million.

The following graph shows the relationship between the average monthly self-payment contribution, or hour bank drawdown, and the average monthly cost of benefits paid by the Plan for the year ended December 31, 2018.



HEALTH AND WELFARE FUND HIGHLIGHTS AND COMMENTARY (Cont'd)

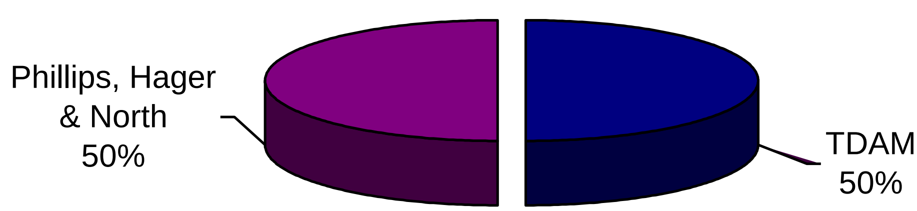
The chart below shows how the average monthly cost of benefits has changed comparing 2017 to 2018:

Classification	Fiscal 2018 Average Monthly Cost of Benefits	Fiscal 2017 Average Monthly Cost of Benefits	Change in Cost of Benefits 2017 to 2018
Active Members using self-payment	$418.00	$420.00	-0.5%
Retired Members under age 65	$330.00	$300.00	+10.0%
Retired Members over age 65	$302.00	$278.00	+8.6%
Active Members	$298.00	$298.00	+0.0%

WELFARE FUND INVESTMENTS

The Fund's investments are governed by an investment policy approved by the Trustees. Investment income is important to the Fund because, as shown above, some of the Plan's benefits are highly subsidized. Investment income helps to support the subsidies. Without investment income, earned under a conservative investment mandate, the active Members' hour bank drawdown would be higher. The Fund's investment policy ensures that there are sufficient liquid assets on hand to pay benefits and premiums. The investment policy also allows some assets to be invested in longer-term securities.

The Fund earned investment income of $1.24 million in Fiscal 2018 ($6.26 million in Fiscal 2017). At December 31, 2018, the assets managed by TD Asset Management (TDAM) had a market value of $57.34 million. This investment is comprised of Canadian and Global equities held in pooled funds. The Fund also has an investment of $57.01 million managed by Phillips, Hager & North. This investment is in short term bonds and mortgages which address the Fund's need for security of capital and liquidity. A snapshot of where the Fund's assets are invested at December 31, 2018 is as shown in the graph below:



KPMG LLP
2200, 10175 - 101 Street
Edmonton AB T5J 0H3 Canada
Telephone (780) 429-7300
Fax (780) 429-7379
www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the financial statements of The Edmonton Pipe Industry Health and Welfare Fund (the Entity), which comprise:

- the statement of financial position as at December 31, 2018
- 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 financial position of the Entity as at December 31, 2018 and its changes in net assets available for benefits for the year then ended in accordance with Canadian accounting standards for pension plans.

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 Entity 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.

Other Information

Management is responsible for the other information. Other information comprises the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled the "2018 - Annual Report".

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

The information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled the "2018 - Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

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 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.

In preparing the financial statements, management is responsible for assessing the Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity'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 Entity'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 Entity'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 Entity 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.

KPMG LLP

Chartered Professional Accountants

May 15, 2019
Edmonton, Canada

Financial Statements of

THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

Year ended December 31, 2018

THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

Statement of Financial Position

December 31, 2018, with comparative information for 2017

		2018		2017
ASSETS				
Cash and cash equivalents	$	4,424,012	$	4,543,778
Investments (note 4)		114,357,299		126,292,840
Contributions receivable		1,962,155		2,126,038
Accrued investment income		5,210		7,245
Prepaid expenses and deposits		2,421,976		2,422,025
Due from The Edmonton Pipe Industry Pension Trust Fund (note 5)		3,855		68,460
		123,174,507		135,460,386
LIABILITIES				
Accounts payable and accrued liabilities		2,678,576		2,897,783
Amounts due to other health and welfare funds (note 6)		73,518		352,227
Reserve for unpaid claims		1,510,082		1,568,298
Reserve for advance contributions		35,295		36,252
		4,297,471		4,854,560
Net assets available for benefits (note 7)	$	118,877,036	$	130,605,826

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, 2018, with comparative information for 2017

	2018	2017
Increase in net assets:		
Investment and other income, net (note 8)	$ 1,238,109	$ 6,260,216
Employer contributions	20,871,511	30,883,849
Members' and pensioners' cash contributions	1,547,279	1,393,514
Members' optional insurance contributions	45,721	48,013
Reciprocal transfers from other health and welfare funds (note 6)	1,543,816	763,673
Transfers from the Alberta Refrigeration Industry Health and Welfare Trust Fund	2,355,982	2,435,646
Decrease in reserve for unpaid claims	58,216	-
	27,660,634	41,784,911
Decrease in net assets:		
Health, dental, vision and short-term disability claims	28,765,726	27,859,647
Long-term disability premiums	2,504,340	2,290,000
Life insurance premiums	3,272,489	3,369,563
Accidental death and dismemberment premiums	408,386	434,936
Claims administration fees	1,284,486	1,221,401
Employee assistance program	336,317	343,960
Out-of-country insurance claims	474,758	380,380
Members' optional life insurance premiums	46,866	49,024
Reciprocal transfers to other health and welfare funds (note 6)	1,206,177	2,124,118
Investment manager and custodian fees	310,086	299,406
Administrative expenses (note 9)	779,793	796,420
Increase in reserve for unpaid claims	-	98,192
	39,389,424	39,267,047
(Decrease) increase in net assets available for benefits	(11,728,790)	2,517,864
Net assets available for benefits, beginning of year	130,605,826	128,087,962
Net assets available for benefits, end of year	$ 118,877,036	$ 130,605,826

See accompanying notes to financial statements.

THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

Notes to Financial Statements

Year ended December 31, 2018

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1. Nature of The Edmonton Pipe Industry Health and Welfare 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 January 1, 2017. 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 the Canada Revenue Agency.

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 and 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 and Welfare Fund will assume liability for all costs and expenses related to the former Alberta Refrigeration Benefit Plan members.

The following is a brief summary of the main benefits of the Health and Welfare Plan in effect at December 31, 2018. For more complete information, reference should be made to the Health and Welfare Trust Agreement, and the Health and Welfare Plan documents.

(a) health, dental, short-term disability and out-of-country 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;

1. Nature of The Edmonton Pipe Industry Health and Welfare 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 the out-of-country benefit is arranged through a contract with Global Excel; and

(e) the employee assistance program is administered by the Construction Employees Family Assistance Program.

The Board of Trustees reserves the right to amend or terminate any of the benefits under the Health and Welfare Plan.

The Board of Trustees have engaged McAteer – Employment Benefit Plan Services Limited as administration services provider for the Health and Welfare Fund.

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.

(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.

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:

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

(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 (losses) on investments.

(b) Income recognition:

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

3. Significant accounting policies (continued):

(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 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 (loss) 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 expired.

(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.

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.

3. Significant accounting policies (continued):

(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.

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 (losses) on investments.

Fair values of investments are determined as follows:

Cash and cash equivalents are stated at cost, which together with accrued investment income approximates fair value given the short term nature of these investments.

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.

3. Significant accounting policies (continued):

(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.

(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"), which operate 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 taxes.

4. Investments:

		2018		2017
Phillips, Hager & North - Short Term Bond & Mortgage Fund	$	57,015,629	$	60,339,142
TD Asset Management - Canadian Equity and Global Equity Pooled Fund		57,341,670		65,953,698
	$	114,357,299	$	126,292,840

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, 2018

7. Net assets available for benefits:

		2018		2017
Reserve for future plan benefits	$	56,105,378	$	59,412,750
Reserve for adverse claims fluctuations		4,314,858		4,178,947
Unallocated		58,456,800		67,014,129
	$	118,877,036	$	130,605,826

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, 2018 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, 2018 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 and other income, net:

		2018		2017
Interest and other income	$	109,077	$	66,257
Phillips, Hager & North Short Term Bond & Mortgage Fund - interest and realized capital gains		864,416		963,431
TD Asset Management - Canadian Equity and Global Equity Pooled Fund - dividends and net realized gains		3,836,712		6,190,020
Change in net unrealized losses on investments		(3,572,096)		(959,492)
	$	1,238,109	$	6,260,216

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9. Administrative expenses:

		2018		2017
Direct expenses:				
Administration services provider fees	$	449,621	$	440,794
Non-deductible GST and HST		40,564		44,118
Independent trustees fees		38,000		38,000
Audit		34,504		34,020
Insurance		26,625		30,531
Consulting fees		21,000		20,381
Bank charges		17,334		18,579
Computer maintenance		6,900		6,460
Office expenses		5,236		4,488
Legal		704		12,964
		640,488		650,335
Common expenses shared equally with the Pension Trust Fund (note 3(f)):				
Rent		121,840		121,840
Office expenses		83,046		91,276
Annual report to members		23,322		29,041
Postage		21,878		24,198
Non-deductible GST and HST		12,732		13,635
Travel, conferences and meeting expenses		9,680		6,702
Other shared expenses		6,112		5,478
		278,610		292,170
Less Pension Trust Fund share		(139,305)		(146,085)
		139,305		146,085
	$	779,793	$	796,420

The Health and Welfare Fund defines its key management personnel as members of the Board of Trustees and its administration services provider who are responsible for planning, controlling and directing the activities of the Health and Welfare Fund.

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 December 11, 2018.

The SIPP permits four 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 tables presents the asset allocation for each asset category and total investments, along with appropriate benchmarks, based on the SIPP in effect at the end of December 31, 2018 and December 31, 2017.

	Benchmark	Target Range (%)	Actual (%) 2018	Actual (%) 2017
Short Term Bonds	FTSE TMX Canada Short Term Bond Index	20.0 - 50.0	28.1	38.0
Mortgages	FTSE TMX Canada Short Term Bond Index	20.0 – 50.0	21.7	9.8
Canadian Equity	S&P TSX Composite	0.0 – 50.0	25.0	25.7
Global Equity	MSCI World Index	0.0 – 50.0	25.2	26.5
Total investments		100.0	100.0	100.0

The Health and Welfare Fund's investments are not within the asset allocation target ranges at December 31, 2018, however the SIPP allows for deviations from the Target Ranges during periods of asset mix transition.

10. Capital risk management (continued):

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.

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 and cash equivalents, contributions receivable, 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 EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

Notes to Financial Statements (continued)

Year ended December 31, 2018

11. Financial instruments (continued):

(a) Fair values (continued):

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, 2018	Level 1	Level 2	Level 3	Total
Phillips, Hager & North - Short Term Bond & Mortgage Fund	$ -	$ 57,015,629	$ -	$ 57,015,629
TD Asset Management – Canadian Equity and Global Equity Pooled Fund	-	57,341,670	-	57,341,670
	$ -	$ 114,357,299	$ -	$ 114,357,299

December 31, 2017	Level 1	Level 2	Level 3	Total
Phillips, Hager & North - Short Term Bond & Mortgage Fund	$ -	$ 60,339,142	$ -	$ 60,339,142
TD Asset Management – Canadian Equity and Global Equity Pooled Fund	-	65,953,698	-	65,953,698
	$ -	$ 126,292,840	$ -	$ 126,292,840

There were no transfers between Level 1, Level 2 and Level 3 during the year ended December 31, 2018.

11. Financial instruments (continued):

(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, 2018, the Health and Welfare Fund had cash and cash equivalents on hand in the amount of $4,424,012 (2017 - $4,543,778).

(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.

11. Financial instruments (continued):

(b) Associated risks (continued):

(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 10% 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 2018.

(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.