

Quarterly Financial Report

1st QUARTER

Three months ended
May 31, 2017



**Manitoba
Public Insurance**

Management Discussion and Analysis

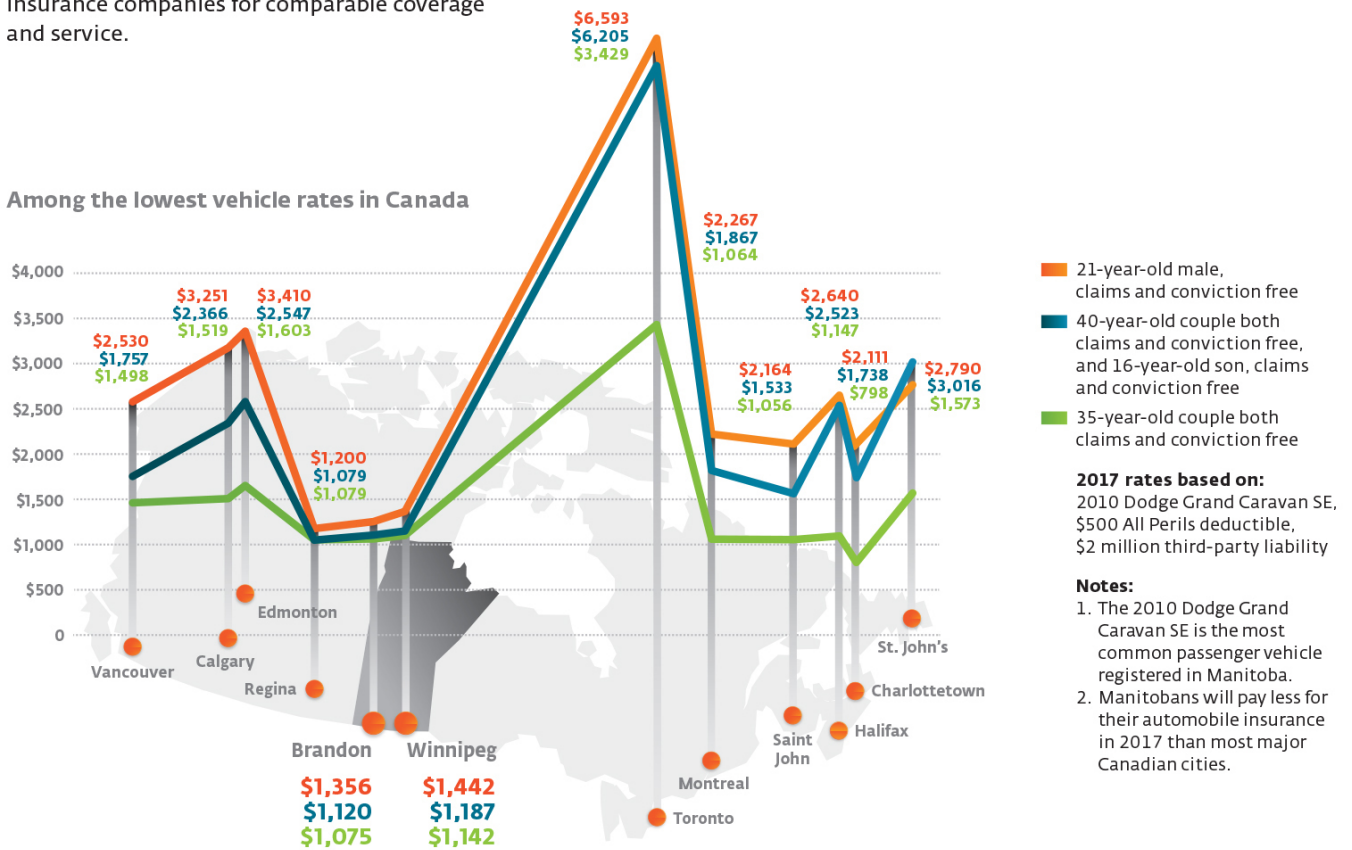
Management’s discussion and analysis provides a review of the financial results and future outlook of Manitoba Public Insurance. It should be read in conjunction with the unaudited condensed interim financial statements and supporting notes for the first quarter ended May 31, 2017 included herein and the annual audited financial statements and supporting notes included in the Corporation’s 2016 Annual Report. Certain information in this report may consist of forward-looking statements. These statements are based on various techniques and assumptions including predictions about future events which may not occur. Actual results could deviate significantly from the forward-looking statements.

Goal 1

Universally available mandatory protection against the cost of automobile accidents. Rates, on average, will be lower than those charged by private insurance companies for comparable coverage and service.

Why? One reason for our creation was to deliver the best insurance value to Manitobans. This is the essence of our continuing success.

Among the lowest vehicle rates in Canada



Goal 2

The Basic plan will return at least 85 per cent of premium revenue to Manitobans in the form of claims benefits.

Why? Over the long-term, returns within this range strike the right balance. We pay back to Manitobans substantially more of their premiums than would private insurers, while keeping a sound financial footing.

Premium returned for each dollar earned



Past results

| | | | | | | | |
|-----------------|-----------------|-----------------|------------------|------------------|------------------|------------------|------------------|
| 99% Q2-15/16 | 98% Q3-15/16 | 93% Q4-15/16 | 101% Q1-16/17 | 110% Q2-16/17 | 105% Q3-16/17 | 110% Q4-16/17 | 112% Q1-17/18 |
|-----------------|-----------------|-----------------|------------------|------------------|------------------|------------------|------------------|

Goal 3

Manitoba Public Insurance will be a leader in automobile insurance and vehicle and driver licensing, providing Manitobans with superior products, coverage and service

Why? By measuring key performance indicators, we can track the public's view of our performance.

Corporate Performance Index



Past results

| | | | | | | | |
|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| 3.5 Q2-15/16 | 3.6 Q3-15/16 | 3.6 Q4-15/16 | 3.5 Q1-16/17 | 3.5 Q2-16/17 | 3.6 Q3-16/17 | 3.6 Q4-16/17 | 3.6 Q1-17/18 |
|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|

Goal 4

Manitoba Public Insurance will provide service that is responsive, fair, courteous and convenient. Manitoba Public Insurance will meet customer service standards that are based on customer expectations.

Why? We value our customers and put their interests first. Also, Manitobans expect more from us than from private insurers, because Manitoba Public Insurance is their company. We believe their higher expectations are justified.

Overall, How Often We Meet/Exceed Standards



Past results

| | | | | | | | |
|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| 97% Q2-15/16 | 98% Q3-15/16 | 97% Q4-15/16 | 98% Q1-16/17 | 97% Q2-16/17 | 98% Q3-16/17 | 98% Q4-16/17 | 98% Q1-16/17 |
|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|

Customer satisfaction in major operational areas

Physical Damage Claims



Past results

| | | | |
|------------------------|------------------------|------------------------|------------------------|
| 87% Q2-15/16 | 89% Q3-15/16 | 88% Q4-15/16 | 87% Q1-16/17 |
| 86% Q2-16/17 | 87% Q3-16/17 | 89% Q4-16/17 | 86% Q1-17/18 |

Bodily Injury Claims



Past results

| | |
|------------------------|------------------------|
| 81% Q3-15/16 | 86% Q1-16/17 |
| 84% Q3-16/17 | 84% Q1-17/18 |

Driver and Vehicle Licensing



Past results

| | | | |
|------------------------|------------------------|------------------------|------------------------|
| 91% Q2-15/16 | 93% Q3-15/16 | 91% Q4-15/16 | 92% Q1-16/17 |
| 93% Q2-16/17 | 93% Q3-16/17 | 93% Q4-16/17 | 94% Q1-17/18 |

Insurance Operations Policyholder Transactions



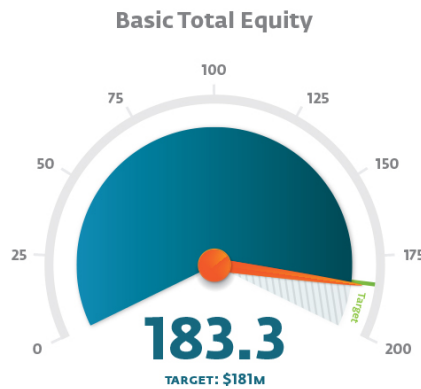
Past results

| | | | |
|------------------------|------------------------|------------------------|------------------------|
| 89% Q2-15/16 | 90% Q3-15/16 | 91% Q4-15/16 | 90% Q1-16/17 |
| 91% Q2-16/17 | 91% Q3-16/17 | 92% Q4-16/17 | 92% Q1-17/18 |

Goal 5

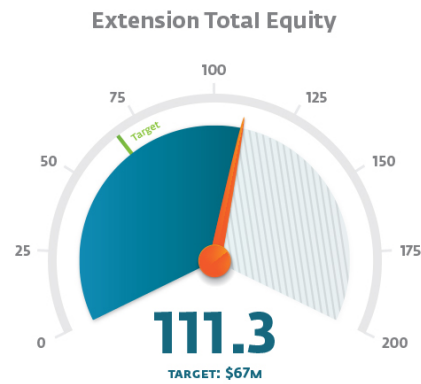
Total equity will be maintained within established target levels.

Why? Our long-term objective is to break even financially and to be financially self-sufficient. Maintaining the total equity within its target range helps us control rates. Manitobans deserve stable, affordable premiums over the long term.



Past results

| | | |
|---------------|------------------------|--------------|
| Actual | 181.0 | 183.3 |
| Target | 181.0 | 181.0 |
| | Year-End-Feb. 28, 2017 | Q1-17/18 |



Past results

| | | |
|---------------|------------------------|--------------|
| Actual | 98.5 | 111.3 |
| Target | 67.0 | 67.0 |
| | Year-End-Feb. 28, 2017 | Q1-17/18 |



Past results

| | | |
|---------------|------------------------|-------------|
| Actual | 77.7 | 84.9 |
| Target | 65.0 | 65.0 |
| | Year-End-Feb. 28, 2017 | Q1-17/18 |

Goal 6

Manitoba Public Insurance will offer an environment and career opportunities that will encourage employees to strive for excellence. Our people will be treated with respect and fairness and their contributions will be recognized.

Why? We value our employees.



Past results



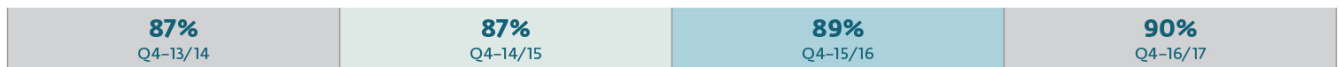
Goal 7

Manitoba Public Insurance will lead driver and vehicle safety initiatives that reduce risk and protect Manitobans, their streets and their neighbourhoods. Manitobans will recognize the Corporation is living its mission.

Why? Pursuing traffic safety and loss-prevention programs reflects our long standing commitment to the well-being of Manitobans and to affordable auto insurance. Manitobans have told us they support these efforts.



Past results



Results of Operations

Manitoba Public Insurance reported net income of \$38.9 million for the three months ended May 31, 2017 compared to restated net income of \$7.5 million for the same period last year. This includes net income of \$15.4 million (2016 – restated net loss of \$2.7 million) from the Basic insurance line of business. Corporate net income increased from the previous year by \$31.4 million due to:

- i) an increase in earned revenues of \$17.0 million, offset by an increase in total expenses of \$0.1 million;
- ii) an increase in claims cost of \$33.7 million;
- iii) an increase in investment income of \$48.2 million mainly due to the increase of unrealized gains on Fair Value Through Profit or Loss bonds of \$31.6 million and increase gains on the sale of equities and other investments of \$10.9 million.

Current Year and Last Year

Total earned revenues for the three months ended May increased from the previous year by \$17.0 million. This increase is primarily attributed to motor vehicle earned revenues which increased by \$13.6 million or 5.6%. The increase in earned revenues is primarily due to the growth in the number of vehicles on the road in Manitoba, and the value of these vehicles and movement of drivers down the Drivers Safety Rating scale resulted in higher premiums.

Claims costs for the three months ended May 31, 2017 increased by \$33.7 million or 12.9% compared to last year due primarily to an increase of \$34.5 million or 43.5% in bodily injury claims incurred, offset by a decrease of \$5.5 million or 3.8% in physical damage claims incurred. The \$34.5 million increase in bodily injury claims was impacted by an increase of \$41.5 million due to the interest rate adjustment on unpaid claims. Claims expense increased by \$5.2 million or 16.1% from the previous year, offset by a decrease in road safety and loss prevention expenses of \$0.5 million or 15.5%.

Total expenses increased by \$0.1 million compared to last year due primarily to an increase of \$0.3 million or 1.6% in commission expenses and an increase of \$0.4 million or 5.5% in premium taxes, offset by a decrease of \$0.6 million or 2.1% in operating expenses.

Retained Earnings

Net income of \$38.9 million for the first three months ending May 31, 2017 increased retained earnings from \$261.5 million to \$300.4 million (restated May 31, 2016 – \$354.2 million). Retained earnings are comprised of \$114.6 million for Basic insurance (restated May 31, 2016 - \$192.8 million) and \$185.8 million for non-Basic lines (restated May 31, 2016 - \$161.4 million).

Total Equity

Total equity of \$379.5 million (restated May 31, 2016 – \$442.2 million) are comprised of \$300.4 million retained earnings and \$79.1 million accumulated other comprehensive income (May 31, 2016 - \$88.0 million).

The Corporation's Chief Actuary concluded that a minimum total equity level of \$181.0 million would be required for Basic to achieve satisfactory future financial condition. At the end of the first quarter, Basic insurance reported total equity of \$183.3 million (restated May 31, 2016 – \$268.0 million). Extension's current capital target level for total equity is \$67.0 million based on the 2016 MCT report. At the end of the first quarter, Extension insurance reported total equity of \$111.3 million (restated May 31, 2016 - \$99.1 million). Special Risk Extension's current capital target level for total equity is \$65.0 million based on the 2016 MCT report. At the end of the first quarter, Special Risk Extension insurance reported total equity of \$84.9 million (restated May 31, 2016 - \$75.1 million).

Outlook

The Corporation remains committed to achieving its seven Corporate goals. Actual results will be monitored, and corrective actions taken when necessary, to ensure that expected outcomes are realized.

As approved by the Public Utilities Board (PUB), effective March 1, 2017, there was a 3.7 per cent overall rate increase to average Basic insurance rates for the 2017/18 insurance year. For the 2018/19 insurance year, Manitoba Public Insurance is requesting a 2.7 percent overall rate increase in its general rate application. This rate increase is driven primarily by the comprehensive claims forecast, which was increased significantly as a result of unprecedented growth in comprehensive claims over the past two fiscal years.

Overall:

- 637,440 vehicles (excluding trailers and off-road vehicles) will receive increases in their Basic premium next year, while 216,643 vehicles will receive decreases. 10,590 vehicles will receive no change.
- The average vehicle premium for Private Passenger Vehicle Class will be \$1,086 if the 2018 rate application is approved
- Motorcycle rates (including moped and motor scooters) will increase 2.7 per cent
- If approved, rate changes will take effect March 1, 2018

Manitoba Public Insurance is committed to keeping rates stable over the long term. Manitoba Public Insurance continues to have one of the lowest rates of year-over-year premium increases of all Canadian provinces. Manitoba Public Insurance continued to exceed its mandate for the Basic plan of returning at least 85 cents of every dollar collected in Basic premiums to Manitobans in the form of claims benefits. For 2016/17, the return was \$1.10 on every dollar.

Condensed Interim Financial Statements

Condensed Interim Statement of Financial Position

| (Unaudited - in thousands of Canadian dollars) | <i>Notes</i> | May 31, 2017 | February 28, 2017 |
|------------------------------------------------|--------------|------------------|-------------------|
| Assets | | | |
| Cash and cash equivalents | 5 | 69,535 | 73,434 |
| Investments | 5 | 2,596,425 | 2,545,130 |
| Investment property | 5 | 41,398 | 41,686 |
| Due from other insurance companies | | 8 | 29 |
| Accounts receivable | | 459,216 | 455,239 |
| Prepaid expenses | | 1,480 | 2,483 |
| Deferred policy acquisition costs | | 25,421 | 24,155 |
| Reinsurers' share of unearned premiums | | 11,457 | 117 |
| Reinsurers' share of unpaid claims | | 2,135 | 1,971 |
| Property and equipment | | 116,166 | 116,059 |
| Deferred development costs | | 89,050 | 89,496 |
| | | 3,412,291 | 3,349,799 |
| Liabilities | | | |
| Due to other insurance companies | | 7,752 | 173 |
| Accounts payable and accrued liabilities | | 65,213 | 73,051 |
| Financing lease obligation | | 4,166 | 4,189 |
| Unearned premiums | | 596,698 | 586,626 |
| Provision for employee current benefits | | 23,288 | 22,750 |
| Provision for employee future benefits | | 408,118 | 405,058 |
| Provision for unpaid claims | 4 | 1,927,532 | 1,900,783 |
| | | 3,032,767 | 2,992,630 |
| Equity | | | |
| Retained Earnings | | 300,398 | 261,532 |
| Accumulated Other Comprehensive Income | | 79,126 | 95,637 |
| Total Equity | | 379,524 | 357,169 |
| | | 3,412,291 | 3,349,799 |

The accompanying notes are an integral part of these financial statements.

Condensed Interim Statement of Operations

| (Unaudited - in thousands of Canadian dollars) | <i>Notes</i> | Three Months Ended | |
|---------------------------------------------------------------|--------------|--------------------|--------------------------|
| | | May 31, 2017 | May 31, 2016 Restated |
| Earned Revenues | | | |
| Gross premiums written | | 332,517 | 312,817 |
| Premiums ceded to reinsurers | | (15,179) | (15,452) |
| Net premiums written | | 317,338 | 297,365 |
| (Increase) decrease in gross unearned premiums | | (38,428) | (34,037) |
| Increase (decrease) in reinsurers' share of unearned premiums | | 11,340 | 11,545 |
| Net premiums earned | | 290,250 | 274,873 |
| Service fees & other revenue | | 9,061 | 7,717 |
| The Drivers and Vehicles Act operations recovery | | 7,491 | 7,225 |
| Total Earned Revenues | | 306,802 | 289,815 |
| Claims Costs | | | |
| Direct claims incurred – gross | | 254,312 | 224,730 |
| Claims (recovered) incurred ceded to reinsurers | | (173) | 407 |
| Net claims incurred | | 254,139 | 225,137 |
| Claims Expense | | 37,246 | 32,084 |
| Loss prevention/Road safety | | 2,582 | 3,056 |
| Total Claims Costs | | 293,967 | 260,277 |
| Expenses | | | |
| Operating | | 30,392 | 31,051 |
| Commissions | | 19,608 | 19,298 |
| Premium taxes | | 8,823 | 8,363 |
| Regulatory/Appeal | | 931 | 962 |
| Total Expenses | | 59,754 | 59,674 |
| Underwriting income (loss) | | (46,919) | (30,136) |
| Investment income (loss) | 6 | 85,785 | 37,626 |
| Net income from operations | | 38,866 | 7,490 |

Condensed Interim Statement of Comprehensive Income (Loss)

| (Unaudited - in thousands of Canadian dollars) | Three Months Ended | |
|--------------------------------------------------------------------------------------|--------------------|--------------------------|
| | May 31, 2017 | May 31, 2016 Restated |
| Net income from operations | 38,866 | 7,490 |
| Other Comprehensive Income (Loss) | | |
| Items that will be reclassified to income | | |
| Unrealized gains (losses) on Available for Sale assets | (2,985) | 47,435 |
| Reclassification of net realized (gains) losses related to Available for Sale assets | (13,526) | (2,643) |
| Total Available for Sale assets | (16,511) | 44,792 |
| Other Comprehensive Income (Loss) for the period | (16,511) | 44,792 |
| Total Comprehensive Income (Loss) | 22,355 | 52,282 |

The accompanying notes are an integral part of these financial statements.

Condensed Interim Statement of Changes in Equity

| (Unaudited - in thousands of Canadian dollars) | Retained Earnings | Accumulated Other Comprehensive Income | Equity |
|------------------------------------------------------|----------------------|-------------------------------------------------|----------------|
| Balance as at March 1, 2016 | 346,736 | 43,227 | 389,963 |
| Net income from operations for the period (restated) | 7,490 | - | 7,490 |
| Other comprehensive income for the period | - | 44,792 | 44,792 |
| Balance as at May 31, 2016 (restated) | 354,226 | 88,019 | 442,245 |
| Balance as at March 1, 2017 | 261,532 | 95,637 | 357,169 |
| Net income from operations for the period | 38,866 | - | 38,866 |
| Other comprehensive income for the period | - | (16,511) | (16,511) |
| Balance as at May 31, 2017 | 300,398 | 79,126 | 379,524 |

The accompanying notes are an integral part of these financial statements.

Condensed Interim Statement of Cash Flows

| (Unaudited - in thousands of Canadian dollars) | <i>Notes</i> | Three months ended | |
|----------------------------------------------------------------------|--------------|--------------------|--------------------------|
| | | May 31, 2017 | May 31, 2016 Restated |
| Cash Flows from (to) Operating Activities: | | 38,866 | |
| Net income (loss) from operations | | | 7,490 |
| Non-cash items: | | | |
| Depreciation of property and equipment | | 1,258 | 1,307 |
| Amortization of deferred development costs | | 5,195 | 4,947 |
| Amortization of bond discount and premium | | 966 | 865 |
| (Gain) loss on sale of investments | | (17,467) | (4,675) |
| Unrealized (gain) loss on Fair Value Through Profit or Loss bonds | | (44,441) | (12,835) |
| Unrealized (gain) loss on investment in real estate | | (6,064) | (3,779) |
| Unrealized (gain) loss on investment in infrastructure | | (1,001) | 520 |
| | | (22,688) | (6,160) |
| Net change in non-cash balances: | | | |
| Due from other insurance companies | | 21 | 21 |
| Accounts receivable and prepaid expenses | | (2,974) | (5,639) |
| Deferred policy acquisition costs | | (1,266) | 113 |
| Reinsurers' share of unearned premiums and unpaid claims | | (11,504) | (7,856) |
| Due to other insurance companies | | 7,579 | (58,124) |
| Accounts payable and accrued liabilities | | (7,838) | 54,558 |
| Unearned premiums | | 10,072 | 6,869 |
| Provision for employee current benefits | | 538 | 1,029 |
| Provision for employee future benefits | | 3,060 | 4,078 |
| Provision for unpaid claims | | 26,749 | 12,593 |
| | | 24,437 | 7,642 |
| | | 1,749 | 1,482 |
| Cash Flows from (to) Investing Activities: | | | |
| Purchase of investments | | (170,243) | (202,376) |
| Proceeds from sale of investments | | 170,732 | 221,234 |
| Acquisition of property and equipment net of proceeds from disposals | | (1,365) | (170) |
| Financing lease obligation | | (23) | 4,080 |
| Deferred development costs incurred | | (4,749) | (9,249) |
| | | (5,648) | 13,519 |
| Increase (decrease) in Cash and Cash Equivalents | | (3,899) | 15,001 |
| Cash and short-term investments beginning of period | | 73,434 | 37,322 |
| Cash and Cash Equivalents end of period | <i>5</i> | 69,535 | 52,323 |

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

1) Status of the Corporation

The Manitoba Public Insurance Corporation (the “Corporation”) was incorporated as a Crown Corporation under The Automobile Insurance Act in 1970. In 1974, The Automobile Insurance Act was revised and became The Manitoba Public Insurance Corporation Act (Chapter A180 of the continuing consolidation of the Statutes of Manitoba). In 1988, the Act was re-enacted in both official languages as Chapter P215 of the Statutes of Manitoba. The address of the Corporation’s registered office is 234 Donald Street, Winnipeg, Manitoba.

Under the provisions of its Act and regulations, the Corporation operates an automobile insurance division and a discontinued general insurance division. The lines of business for the automobile insurance division provide for basic universal compulsory automobile insurance, extension and special risk coverages. For financial accounting purposes, the lines of business for the automobile insurance division and the discontinued general insurance division are regarded as separate operations and their revenues and expenses are allocated on a basis described in the summary of significant accounting policies. For financial reporting purposes, due to the immateriality of the financial results of the discontinued general insurance operations, the operations are reported as part of the Special Risk Extension line of business. The basic universal compulsory automobile insurance line of business rates are approved by the Public Utilities Board of Manitoba.

Under The Drivers and Vehicles Act (DVA), the Corporation is responsible for DVA operations pertaining to driver safety, vehicle registration and driver licensing, including all related financial, administrative and data processing services.

2) Basis of Reporting

Statement of Compliance

The financial statements of the Corporation are in such form as prescribed by Section 43(1) of The Manitoba Public Insurance Corporation Act and are presented in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Basis of Presentation

The Corporation presents its Statement of Financial Position broadly in order of liquidity.

These statements are presented in thousands of Canadian dollars which is the Corporation’s functional and presentational currency except as otherwise specified.

Seasonality

The automobile insurance business, which reflects the primary business of the Corporation, is seasonal in nature. While net premiums earned are generally stable from quarter to quarter, underwriting income is typically highest in the first and second quarter of each year and lowest in the fourth quarter of each year. This is driven mainly by weather conditions which may vary significantly between quarters.

Basis of Measurement

The Corporation prepares its financial statements as a going concern, using the historical cost basis, except for financial instruments and insurance contract liabilities and reinsurers' share of unpaid claims. Measurement of the financial instruments is detailed in Note 3 of the 2016 Annual Report. Insurance contract liabilities and reinsurers' share of unpaid claims are measured on a discounted basis in accordance with accepted actuarial practice (which in the absence of an active market provides a reasonable proxy for fair value).

Estimates and Judgments

The preparation of financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from these estimates.

3) Summary of Significant Accounting Policies

Refer to the 2016 Annual Audited Financial Statements for a summary outlining those accounting policies followed by the Corporation that have a significant effect on the condensed interim financial statements.

4) Provision for Unpaid Claims

The provision for unpaid claims, including adjustment expenses, represents an estimate for the full amount of all costs and the projected final settlement of claims incurred.

The provision for unpaid claims, including adjustment expenses, is subject to variability. This variability is related to future events that arise from the date the loss was reported to the ultimate settlement of the claims. Accordingly, short-tail claims such as physical damage claims tend to be more reasonably predictable than long-tail claims such as Personal Injury Protection Plan (PIPP) and public liability claims. Factors such as the receipt of additional claims information during the claims settlement process, changes in severity and frequencies of claims from historical trends, and effects of inflationary trends contribute to this variability.

The determination of the provision for unpaid claims, including adjustment expenses, relies on judgment, analysis of historical claim trends, investment rates of return and expectation on the future development of claims. The process of establishing this provision necessarily involves risks which could cause the actual results to deviate, perhaps substantially, from the best determinable estimate.

5) Cash and Investments

Cash consists of cash net of cheques issued in excess of amounts on deposit.

Cash equivalent investments have a total principal amount of \$74.1 million (2016 – \$53.9 million) comprised of provincial short-term deposits with effective interest rates of 0.50% (2016 - 0.54% to 0.55%), with interest receivable at varying dates.

The Corporation has an unsecured operating line of credit with its principal banker in the amount of \$5.0 million (2016 - \$5.0 million). There were no drawdowns against this line of credit at May 31, 2017 (2016 – nil).

Cash and Investments

(in thousands of Canadian dollars)

| | Financial Instruments | | | Non-Financial Instruments | Total Fair Value |
|---------------------------|----------------------------------|--------------------------------|-------------------------------------------------|---------------------------|------------------|
| | Classified as Available for Sale | Classified as Held to Maturity | Classified as Fair Value Through Profit or Loss | | |
| As at May 31, 2017 | | | | | |
| Cash and cash equivalents | 69,535 | - | - | - | 69,535 |
| Bonds | | | | | |
| Federal | - | - | 92,853 | - | 92,853 |
| Manitoba: | | | | | |
| Provincial | - | - | 142,761 | - | 142,761 |
| Municipal | - | 16,684 | 33,729 | - | 50,413 |
| Schools | - | 620,580 | - | - | 620,580 |
| Other provinces: | | | | | |
| Provincial | - | - | 776,881 | - | 776,881 |
| Municipal | - | - | 67,373 | - | 67,373 |
| Corporations | - | - | 67,968 | - | 67,968 |
| | - | 637,264 | 1,181,565 | - | 1,818,829 |
| Other investments | 1,493 | - | - | - | 1,493 |
| Infrastructure | - | - | 96,011 | - | 96,011 |
| Equity investments | 440,046 | - | - | - | 440,046 |
| Pooled Real Estate Fund | - | - | 240,046 | - | 240,046 |
| Investments | 441,539 | 637,264 | 1,517,622 | - | 2,596,425 |
| Investment property | - | - | - | 41,398 | 41,398 |
| | 511,074 | 637,264 | 1,517,622 | 41,398 | 2,707,358 |

| (in thousands of Canadian dollars) | Financial Instruments | | | Non-Financial Instruments | Total Fair Value |
|------------------------------------|----------------------------------|--------------------------------|-------------------------------------------------|---------------------------|------------------|
| | Classified as Available for Sale | Classified as Held to Maturity | Classified as Fair Value Through Profit or Loss | | |
| As at May 31, 2016 | | | | | |
| Cash and cash equivalents | 52,323 | - | - | - | 52,323 |
| Bonds | | | | | |
| Federal | - | - | 186,591 | - | 186,591 |
| Manitoba: | | | | | |
| Provincial | - | - | 188,602 | - | 188,602 |
| Municipal | - | 8,855 | 27,202 | - | 36,057 |
| Hospitals | - | - | - | - | - |
| Schools | - | 604,054 | - | - | 604,054 |
| Other provinces: | | | | | |
| Provincial | - | - | 511,038 | - | 511,038 |
| Municipal | - | - | 87,286 | - | 87,286 |
| Corporations | - | - | 57,623 | - | 57,623 |
| | - | 612,909 | 1,058,342 | - | 1,671,251 |
| Other investments | 1,792 | - | - | - | 1,792 |
| Infrastructure | - | - | 82,706 | - | 82,706 |
| Equity investments | 520,015 | - | - | - | 520,015 |
| Pooled Real Estate Fund | - | - | 225,987 | - | 225,987 |
| Investments | 521,807 | 612,909 | 1,367,035 | - | 2,501,751 |
| Investment property | - | - | - | 41,916 | 41,916 |
| | 574,130 | 612,909 | 1,367,035 | 41,916 | 2,595,990 |

Gross unrealized gains and gross unrealized losses included in accumulated other comprehensive income on available for sale equity and other investments are comprised as follows:

As at May 31, 2017

| (in thousands of Canadian dollars) | Book Value | Unrealized Gains/(Losses) | Fair Value |
|----------------------------------------|------------|---------------------------|------------|
| Equity Investments | | | |
| With unrealized gains | 294,357 | 122,426 | 416,783 |
| With unrealized (losses) | 25,783 | (2,520) | 23,263 |
| Subtotal – Equity Investments | 320,140 | 119,906 | 440,046 |
| Other Investments | | | |
| With unrealized gains | 28 | 1,126 | 1,154 |
| With unrealized (losses) | 371 | (32) | 339 |
| Subtotal – Other Investments | 399 | 1,094 | 1,493 |
| Total AFS Equity and Other Investments | 320,539 | 121,000 | 441,539 |

As at May 31, 2016

| (in thousands of Canadian dollars) | Book Value | Unrealized Gains/(Losses) | Fair Value |
|----------------------------------------|------------|------------------------------|------------|
| Equity Investments | | | |
| With unrealized gains | 353,331 | 121,908 | 475,239 |
| With unrealized (losses) | 48,673 | (3,897) | 44,776 |
| Subtotal – Equity Investments | 402,004 | 118,011 | 520,015 |
| Other Investments | | | |
| With unrealized gains | 399 | 1,393 | 1,792 |
| With unrealized (losses) | - | - | - |
| Subtotal – Other Investments | 399 | 1,393 | 1,792 |
| Total AFS Equity and Other Investments | 402,403 | 119,404 | 521,807 |

AFS financial assets where the investment's underlying cost is greater than the fair value, the loss has not been recognized in net income either because:

- there is not objective evidence of impairment, or
- the loss is not considered to be significant or prolonged.

Fair Value Measurement

Financial assets that are measured at fair value are classified by their level within the fair value hierarchy. The fair value hierarchy consists of three levels that are defined on the basis of the type of inputs used to measure fair value. The classification cannot be higher than the lowest level of input that is significant to the measurement:

Level 1 – Fair value is determined based on unadjusted quoted prices of identical assets in active markets. Inputs include prices from exchanges where equity and debt securities are actively traded.

Level 2 – Level 2 valuations utilize inputs other than quoted market prices included in Level 1 that are observable, directly or indirectly, for the asset. These inputs include quoted prices for similar assets in active markets and observable inputs other than quoted prices, such as interest rates and yield curves. The fair values for some Level 2 securities were obtained from a pricing service. Pricing service inputs may include benchmark yields, reported trades, broker/dealer quotes and bid/ask spreads.

Level 3 – Fair value measurements using significant inputs that are not based on observable market data are Level 3. This mainly consists of derivatives and private equity investments. In these cases prices may be determined by internal pricing models utilizing all available financial information, including direct comparison and industry sector data. For some investments, valuations are obtained annually. For periods between valuations, management assesses the validity of the valuation for current reporting purposes.

The following table presents financial instruments measured at fair value in the Statement of Financial Position, classified by level within the fair value hierarchy.

| As at May 31, 2017 | | | |
|--------------------------------------------|----------------|------------------|----------------|
| (in thousands of Canadian dollars) | Level 1 | Level 2 | Level 3 |
| FVTPL financial assets | | | |
| Bonds | 61,500 | 1,104,954 | 15,111 |
| Infrastructure | - | - | 96,011 |
| Pooled real estate | - | 240,046 | - |
| Total FVTPL financial assets | 61,500 | 1,345,000 | 111,122 |
| AFS financial assets | | | |
| Cash and cash equivalents | 69,535 | - | - |
| Other investments | - | - | 1,493 |
| Equity investments | 440,046 | - | - |
| Total AFS financial assets | 509,581 | - | 1,493 |
| Total assets measured at fair value | 571,081 | 1,345,000 | 112,615 |

| As at May 31, 2016 | | | |
|--------------------------------------------|----------------|------------------|----------------|
| (in thousands of Canadian dollars) | Level 1 | Level 2 | Level 3 |
| FVTPL financial assets | | | |
| Bonds | 152,735 | 890,845 | 14,762 |
| Infrastructure | - | - | 82,706 |
| Pooled real estate | - | 221,339 | 4,648 |
| Total FVTPL financial assets | 152,735 | 1,112,184 | 102,116 |
| AFS financial assets | | | |
| Cash and short term investments | 52,323 | - | - |
| Other investments | - | - | 1,792 |
| Equity investments | 520,015 | - | - |
| Total AFS financial assets | 572,338 | - | 1,792 |
| Total assets measured at fair value | 725,073 | 1,112,184 | 103,908 |

| Fair value measurement of instruments included in Level 3 (in thousands of Canadian dollars) | FVTPL | | AFS | |
|-------------------------------------------------------------------------------------------------|----------------|----------------|--------------|--------------|
| | 2017 | 2016 | 2017 | 2016 |
| Balance at March 1 | 110,121 | 102,637 | 1,493 | 2,115 |
| Total gains/(losses) | | | | |
| Included in net income | 1,001 | (521) | - | 238 |
| Included in other comprehensive income | - | - | - | (169) |
| Purchases | - | - | - | - |
| Sales | - | - | - | (392) |
| Balance at May 31 | 111,122 | 102,116 | 1,493 | 1,792 |

The fair value of HTM bonds, which include schools and certain municipalities, is based on their carrying value, which approximates fair value.

6) Investment Income

| (in thousands of Canadian dollars) | May 31, 2017 | May 31, 2016 |
|-------------------------------------------------------|---------------|---------------|
| Interest income | 12,981 | 12,562 |
| Gain (loss) on sale of FVTPL bonds | 3,942 | 2,032 |
| Unrealized gain(loss) on FVTPL bonds | 44,441 | 12,835 |
| Unrealized gain (loss) on pooled real estate | 6,065 | 3,779 |
| Dividends on infrastructure investments | 523 | 550 |
| Unrealized gain (loss) on infrastructure investments | 1,001 | (520) |
| Dividend income | 3,446 | 3,797 |
| Gain (loss) on sale of equities and other investments | 13,526 | 2,643 |
| Gain (loss) on foreign exchange | (9) | (41) |
| Income from investment property | 774 | 693 |
| Investment management fees | (905) | (704) |
| Total Investment income (loss) | 85,785 | 37,626 |

7) Employee Future Benefits Expense

The total benefits costs included in expenses are as follows:

| (in thousands of Canadian dollars) | May 31, 2017 | May 31, 2016 |
|------------------------------------|--------------|--------------|
| Pension benefits | 6,938 | 6,481 |
| Other post-employment benefits | 467 | 453 |
| Total | 7,405 | 6,934 |

8) Depreciation and Amortization

The total depreciation and amortization included in expenses are as follows:

| (in thousands of Canadian dollars) | May 31, 2017 | May 31, 2016 |
|---------------------------------------|--------------|--------------|
| Amortization – Deferred Development | 5,195 | 4,947 |
| Depreciation – Property and equipment | 1,258 | 1,312 |
| Total | 6,453 | 6,259 |

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