

CIC ASSET MANAGEMENT INC.

CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2018

Independent Auditors' Report

To the Members of the Legislative Assembly of Saskatchewan

We have audited the accompanying consolidated financial statements of **CIC Asset Management Inc.**, which comprise the consolidated statement of financial position as at March 31, 2018, and the consolidated statements of comprehensive loss, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of CIC Asset Management Inc. as at March 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants
May 24, 2018
Regina, Saskatchewan

CIC Asset Management Inc.
 Consolidated Statement of Financial Position
 As at March 31
 (thousands of dollars)

	Note	2018	2017
ASSETS			
Current			
Cash and cash equivalents	6	\$ 5,710	\$ 3,794
Investments	8	-	53,935
Interest receivable		329	469
Accounts receivable		257	257
Restricted cash and cash equivalents	7	<u>373</u>	<u>387</u>
		6,669	58,842
Investments	8	53,329	3,795
Restricted cash and cash equivalents	7	<u>4,663</u>	<u>4,668</u>
		<u>\$ 64,661</u>	<u>\$ 67,305</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Trade and other payables		\$ 67	\$ 86
Provisions	9	<u>52,689</u>	<u>52,712</u>
		<u>52,756</u>	<u>52,798</u>
Shareholders' Equity			
Share capital	10	-	-
Contributed surplus		85	85
Retained earnings		<u>11,820</u>	<u>14,422</u>
		<u>11,905</u>	<u>14,507</u>
		<u>\$ 64,661</u>	<u>\$ 67,305</u>
Commitments and contingencies	11		
(See accompanying notes)			

On behalf of the Board:

Lindsay Ogilvie

Director



Director

CIC Asset Management Inc.
Consolidated Statement of Comprehensive Loss
For the Year Ended March 31
(thousands of dollars)

	Note	2018	2017
REVENUES			
Interest and other		\$ 1,369	\$ 1,514
Gain on sale of investments		<u>21</u>	<u>234</u>
		<u>1,390</u>	<u>1,748</u>
EXPENSES			
Operating		<u>164</u>	<u>167</u>
EARNINGS BEFORE THE FOLLOWING			
		1,226	1,581
Provision for environmental remediation liabilities	9	(33)	(5,090)
Net change in value of investments		(3,795)	442
Recovery of loan losses		<u>-</u>	<u>78</u>
NET LOSS ATTRIBUTABLE TO CROWN INVESTMENTS CORPORATION OF SASKATCHEWAN (CIC)			
		<u>(2,602)</u>	<u>(2,989)</u>
OTHER COMPREHENSIVE INCOME (LOSS)			
		<u>-</u>	<u>-</u>
TOTAL COMPREHENSIVE LOSS ATTRIBUTABLE TO CIC			
		<u>\$ (2,602)</u>	<u>\$ (2,989)</u>

(See accompanying notes)

CIC Asset Management Inc.
Consolidated Statement of Changes in Equity
For the Year Ended March 31
(thousands of dollars)

	<u>Attributable to CIC</u>			
	Share Capital	Contributed Surplus	Retained Earnings (Note 10)	Total Equity
Balance at April 1, 2016	\$ -	\$ 85	\$ 37,411	\$ 37,496
Net loss	-	-	(2,989)	(2,989)
Dividends to CIC	-	-	(20,000)	(20,000)
	<u>-</u>	<u>-</u>	<u>(20,000)</u>	<u>(20,000)</u>
Balance at March 31, 2017	<u>\$ -</u>	<u>\$ 85</u>	<u>\$ 14,422</u>	<u>\$ 14,507</u>
Balance at April 1, 2017	\$ -	\$ 85	\$ 14,422	\$ 14,507
Net loss	-	-	(2,602)	(2,602)
Dividends to CIC	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance at March 31, 2018	<u>\$ -</u>	<u>\$ 85</u>	<u>\$ 11,820</u>	<u>\$ 11,905</u>

(See accompanying notes)

CIC Asset Management Inc.
Consolidated Statement of Cash Flows
For the Year Ended March 31
(thousands of dollars)

	Note	2018	2017
OPERATING ACTIVITIES			
Net loss		\$ (2,602)	\$ (2,989)
Adjustments to reconcile net loss to cash from operating activities	12	3,927	4,493
Net change in non-cash working capital balances related to operations	13	<u>121</u>	<u>(209)</u>
Net cash from operating activities		<u>1,446</u>	<u>1,295</u>
INVESTING ACTIVITIES			
Proceeds from sale and collection of investments		-	78
Maturity of investments		54,000	2,500
Purchase of investments		(53,493)	-
Decrease in restricted cash		<u>19</u>	<u>81</u>
Net cash from investing activities		<u>526</u>	<u>2,659</u>
FINANCING ACTIVITIES			
Reduction in provision	9	(56)	(149)
Dividends paid to CIC		<u>-</u>	<u>(20,000)</u>
Net cash used in financing activities		<u>(56)</u>	<u>(20,149)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS DURING YEAR		1,916	(16,195)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		<u>3,794</u>	<u>19,989</u>
CASH AND CASH EQUIVALENTS, END OF YEAR		<u>\$ 5,710</u>	<u>\$ 3,794</u>

(See accompanying notes)

1. General information

CIC Asset Management Inc. ("AMI" or "the Corporation") is a corporation domiciled in Canada. The address of AMI's registered office and principal place of business is 400 - 2400 College Avenue, Regina, SK, S4P 1C8. AMI has a mandate to prudently manage and divest of its portfolio of investments. The consolidated financial statements of AMI comprise AMI and its subsidiaries with principal activities as described in Note 4(a).

2. Basis of preparation

a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements were authorized for issue by the Board of Directors on May 24, 2018.

b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for certain non-current assets and financial instruments, which are measured at fair value, as explained in the significant accounting policies set out in Note 4.

c) Functional and presentation currency

The consolidated financial statements are presented in Canadian dollars, which is AMI's functional currency.

d) Use of estimates

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

Significant items subject to estimates and assumptions include the carrying amounts of investments, the fair value of financial instruments, provisions for environmental remediation liabilities, and disclosure of contingent liabilities. These significant areas are further described in Notes 8, 9, 11 and 15.

e) Use of judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements that affect the application of accounting policies. Significant items subject to judgement are included in the accounting policies listed in Note 4.

3. Application of revised accounting standards

The following amendments to standards, effective for annual periods beginning on or after January 1, 2017, have been applied in preparing these consolidated financial statements:

IAS 7, Statement of Cash Flows

Effective April 1, 2017, the Corporation has adopted the disclosure requirements in *Disclosure Initiative* (amendments to IAS 7) in accordance with the provisions of the standard. The standard does not have a material impact on the consolidated financial statements.

IFRS 9, Financial Instruments

Effective April 1, 2017, the Corporation has early adopted IFRS 9, *Financial Instruments*. The Corporation has elected to adopt the standard retrospectively with impacts recorded in retained earnings as of April 1, 2017. The Corporation had no impacts to opening retained earnings as a result of the adoption of IFRS 9. Financial assets previously classified as loans and receivables under IAS 39 are now classified as amortized cost under IFRS 9. The standard also replaces the 'incurred loss' model in IAS 39 with an expected credit loss (ECL) model. The new impairment model applies to financial assets measured at amortized cost and debt instruments at fair value through other comprehensive income, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than under IAS 39. There are no other material impacts to the consolidated financial statements.

4. Significant accounting policies

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements. The accounting policies have been consistently applied by AMI's subsidiaries.

a) Basis of consolidation

Subsidiaries

Subsidiaries are entities (including special purpose entities) over which the Corporation has the power, directly or indirectly, to govern the financial and operating policies so as to obtain benefit from its activities. This is generally indicated by the Corporation holding more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Corporation controls another entity. The financial results of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Identifiable assets acquired, liabilities, and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of any minority interest. The excess of the cost of acquisition over the fair value of the Corporation's share of the identifiable net assets acquired is recorded as goodwill.

These consolidated financial statements include the accounts of CIC Asset Management Inc. and its subsidiaries:

Wholly-owned subsidiaries domiciled in Canada	Principal Activity
101069101 Saskatchewan Ltd.	Inactive
CIC FTLP Holdings Inc.	Investment Holding Corporation
CIC FTMI Holdings Inc.	Investment Holding Corporation
CIC Pulp Ltd.	Inactive
Investment Saskatchewan Swine Inc. (Dissolved December 14, 2016)	Inactive

Special purpose entities

AMI has established certain special purpose entities (SPEs) for investment purposes. An SPE is consolidated if, based on an evaluation of the substance of its relationship with AMI and the SPE's risks and rewards, AMI concludes that it controls the SPE. SPEs controlled by AMI were established under terms that impose strict limitations on the decision-making powers of the SPE's management and that result in AMI receiving the majority of the benefits related to the SPE's operations and net assets, being exposed to risks incident to the SPE's activities, and retaining the majority of the residual or ownership risks related to the SPE or its assets.

AMI has determined that Meadow Lake Pulp Limited Partnership (MLPLP) falls under the classification of an SPE and has been consolidated in these consolidated financial statements.

4. Significant accounting policies (continued)

b) Cash and cash equivalents

Cash and cash equivalents include investments that have a maturity date of ninety days or less. Cash and cash equivalents are measured at fair value through profit and loss, and changes therein are recognized through net loss.

c) Financial instruments

AMI classifies its financial instruments into one of the following categories: fair value through profit or loss; amortized cost; and other liabilities at amortized cost.

Financial assets and liabilities are not offset with the net amount reported on the consolidated statement of financial position unless there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

All financial instruments are measured at fair value on initial recognition. Transaction costs are included in the initial carrying amount of financial instruments except for financial instruments at fair value through profit or loss in which case the transaction costs are expensed as incurred. Measurement in subsequent periods depends on the classification of the financial instrument.

Financial assets at fair value through profit or loss

The Corporation classifies cash and cash equivalents, restricted cash and cash equivalents, and certain investments at fair value through profit or loss. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized through net loss, as disclosed in Note 15.

Financial assets at amortized cost

The Corporation classifies interest receivable, accounts receivable and certain investments as amortized cost. Amortized cost financial instruments are subsequently measured at amortized cost using the effective interest method, less any provision for impairment losses.

Other liabilities at amortized cost

The Corporation classifies trade and other payables as other liabilities. Other liabilities are non-derivative financial liabilities that are not designated as fair value through profit or loss. Subsequent to initial recognition, these non-derivative financial liabilities are accounted for at amortized cost using the effective interest method.

d) Impairments

Financial assets

The Corporation recognizes loss allowances for Expected Credit Losses (ECLs) on financial assets measured at amortized cost. The Corporation measures loss allowances for interest and accounts receivables at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased, the Corporation performs a quantitative and qualitative analysis based on the Corporation's historical experience and forward-looking information. The Corporation assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due. The Corporation considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Corporation in full, without recourse by the Corporation to actions such as realizing security, or the financial asset is 90 days or more past due.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets and recognized in net loss. The gross carrying amount of a financial asset is written off to the extent that there is no realistic prospect of recovery.

4. Significant accounting policies (continued)

e) Provisions

A provision is recognized if, as a result of a past event, AMI has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation, the timing or amount of which is uncertain. Provisions are determined at the best estimate to settle them at the consolidated financial statement date.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Environmental remediation

A provision for environmental remediation is accrued when the occurrence of an environmental expenditure, related to present or past activities of AMI, is considered probable and the costs of remedial activities can be reasonably estimated. These estimates include costs for investigations and remediation at identified sites. These provisions are based on management's best estimate considering current environmental laws and regulations and are recorded at fair value. AMI reviews its estimates of future environmental expenditures on an ongoing basis.

f) Revenue recognition

Revenues are recognized, in the period the services are provided, when there is clear proof that an arrangement exists, amounts are determinable and the ability to collect is reasonably assured.

Interest earned on investments is recognized on an accrual basis except where uncertainty exists as to ultimate collection. In cases where collectability of interest is not reasonably assured, interest is recorded when it is received and accrued interest receivable is offset by deferred interest.

g) Foreign currency transactions

The assets and liabilities of foreign operations are translated into Canadian dollars at the exchange rate on the reporting date. The revenue and expenses of foreign operations are translated into Canadian dollars using exchange rates on the dates of the transactions. Translation adjustments arising from changes in the exchange rate are reflected in other comprehensive income. When a foreign operation is disposed of, the related accumulated translation adjustment is transferred to net loss as part of the gain or loss on disposal.

h) Finance income and expenses

Finance income - as an investment company, the Corporation has chosen to record gains on sale of investments and changes in fair value of financial assets at fair value through profit or loss through net loss. Interest income is also recognized in net loss using the effective interest method.

Finance expenses - changes in the fair value of financial assets at fair value through profit or loss are recorded through net loss.

On the consolidated statement of cash flows, interest received is classified as an operating activity, and dividends paid are classified as a financing activity.

i) New accounting standards and interpretations not yet adopted

Certain new standards, interpretations and amendments to existing standards were issued by the International Accounting Standards Board (IASB) or International Financial Reporting Interpretations Committee that are not yet effective for the year ended March 31, 2018. The Corporation is in the process of assessing the impact of the adoption of the following standards on the consolidated financial statements:

- IFRS 15, *Revenue from contracts with customers*
- IFRS 16, *Leases*

5. Status of CIC Asset Management Inc.

The Corporation was incorporated under *The Business Corporations Act (Saskatchewan)* on November 14, 1979 as a wholly-owned subsidiary of CIC, a provincial Crown corporation. The Corporation is an agent of Her Majesty in Right of the Province of Saskatchewan and is not subject to federal and provincial income taxes. Certain of the Corporation's investments are subject to federal and provincial income taxes.

6. Cash and cash equivalents

(thousands of dollars)

The major components of cash and cash equivalents are as follows:

	2018	2017
Cash on deposit	\$ 5,673	\$ 3,794
Investments	<u>37</u>	<u>-</u>
	<u>\$ 5,710</u>	<u>\$ 3,794</u>

The weighted average interest rate for investments included in cash and cash equivalents at March 31, 2018 was 1.6 per cent (2017 – Nil).

7. Restricted cash and cash equivalents

(thousands of dollars)

AMI holds the following cash and cash equivalents restricted for use:

	2018		2017	
	Current	Non-Current	Current	Non-Current
Meadow Lake Pulp Limited Partnership	<u>\$ 373</u>	<u>\$ 4,663</u>	<u>\$ 387</u>	<u>\$ 4,668</u>

The current portion of restricted cash is held by the receiver of Meadow Lake Pulp Limited Partnership and is subject to an order of the Court of Queen's Bench of Saskatchewan. The non-current portion of restricted cash has been paid to the Corporation, and placed in trust for the future remediation and monitoring costs associated with the Meadow Lake Pulp Limited Partnership site, subject to the order of the Court of Queen's Bench of Saskatchewan. During the year, \$0.02 million (2017 - \$0.05 million) was incurred for monitoring costs, as provided for under the court order.

8. Investments

(thousands of dollars)

	2018	2017
Investments - amortized cost (a)	<u>\$ 53,329</u>	<u>\$ 53,935</u>
Investments - at fair value through profit or loss (b)	<u>-</u>	<u>3,795</u>
Total investments	<u>\$ 53,329</u>	<u>\$ 3,795</u>

- a) The Corporation holds bonds with various Canadian Chartered Banks and provinces with rates varying between 1.88 per cent and 4.5 per cent. The bonds have maturity dates between December 1, 2020 and April 26, 2021 (2017 - September 21, 2017 and March 12, 2018).
- b) The Corporation, through its wholly owned subsidiary CIC FTLP Holdings Inc., owns 2,569,775 preferred shares in Chromatin Inc. Chromatin's fair value at March 31, 2018 is Nil (2017 - \$3.8 million).

9. Provisions

(thousands of dollars)

	Environmental Remediation
Balance at April 1, 2016	\$ 47,771
Increase in provisions	5,090
Reduction of provisions	-
Settlement of provisions	<u>(149)</u>
Balance at March 31, 2017	<u>\$ 52,712</u>
	Environmental Remediation
Balance at April 1, 2017	\$ 52,712
Increase in provisions	33
Reduction of provisions	-
Settlement of provisions	<u>(56)</u>
Balance at March 31, 2018	<u>\$ 52,689</u>

a) Environmental remediation

The following are included in the provision for environmental remediation liabilities:

- i) The Corporation is committed to undertake necessary environmental clean-up activities on certain properties. The Corporation has accrued \$30.6 million (2017 - \$30.6 million) to carry out clean-up activities and associated costs related to an indemnity provided by Prince Albert Pulp Company Ltd. (PAPCO) and Her Majesty in Right of the Province of Saskatchewan for environmental liabilities predating 1986 related to the Prince Albert pulp mill site. The Corporation is a successor corporation to PAPCO and therefore has recorded the estimated cost of its assumed obligations related to the PAPCO site. The timing to complete this remediation is indeterminable at this time.
- ii) The Corporation has accrued \$21.9 million (2017 - \$21.9 million) to carry out the clean-up activities related to an indemnity provided by PAPCO and Her Majesty in Right of the Province of Saskatchewan for environmental liabilities predating 1986 relating to the ERCO Worldwide chemical plant. The timing to complete the remaining remediation is indeterminable at this time.
- iii) The Corporation has recorded \$0.2 million (2017 - \$0.2 million) for estimated groundwater monitoring and health risk assessment costs related to an obligation of Meadow Lake Pulp Limited Partnership as a result of the sale of its assets. These funds are held in trust according to court order, and are to be applied against continued site monitoring expenses until the Ministry of Environment decides when residual amounts may be utilized to conduct a human health and ecological risk assessment according to the landfill closure plan prepared for the site by environmental consultants. The Corporation is expecting to have a decision on this in the next twelve months. During the year, \$0.02 million (2017 - \$0.05 million) was incurred for monitoring costs.

10. Share capital and capital disclosures

(thousands of dollars)

As a wholly-owned subsidiary of CIC, the Corporation's share capital currently consists of funds invested by CIC in the amount of Nil (2017 – Nil). The capital structure is determined in conjunction with the shareholder based on the approved business plan.

The Corporation's objectives when managing capital are to ensure adequate capital to support the operations of the Corporation, and to ensure adequate returns to the shareholder.

The Corporation has adequate cash and investments on hand to meet its obligations.

	2018	2017
Authorized:		
Unlimited common shares with no par value		
Issued and outstanding:		
(March 31, 2018 – 1 common share)	<u>\$ -</u>	<u>\$ -</u>
(March 31, 2017 – 1 common share)		
Cost at end of year	<u>\$ -</u>	<u>\$ -</u>

11. Commitments and contingencies

The following significant commitments and contingencies exist at March 31, 2018:

- a) In the normal course of business, the Corporation became involved in claims and litigation. While the final outcome with respect to claims and litigation pending at March 31, 2018 cannot be predicted with certainty, it is the opinion of management that resolution of these matters will not have a material adverse effect on the Corporation's financial position or results of operations. The Corporation will therefore account for these matters in the period of resolution.
- b) Included in long term restricted cash is \$4.5 million which has been placed in trust under order of the Court of Queen's Bench of Saskatchewan, related to potential environmental remediation of a landfill site previously operated by Meadow Lake Pulp Limited Partnership. The \$4.5 million is the estimate of the costs which may be required to remediate the site, as determined by third party experts. The Corporation's obligation to incur these costs is contingent on the findings from ongoing groundwater monitoring at the location, which is expected to continue for the next twelve months; at which time the Corporation will either incur the remediation costs, continue groundwater monitoring, or the funds will be released from trust if results from groundwater monitoring indicate further remediation is not required. Due to uncertainty regarding the future findings of groundwater monitoring, the \$4.5 million held in trust has not been included as a liability in these consolidated financial statements.

12. Adjustments to reconcile net loss to cash from operating activities

(thousands of dollars)

	Note	2018	2017
Provision for environmental remediation liabilities	9	\$ 33	\$ 5,090
(Gain) loss on sale of investments		(21)	(234)
Recovery of loan losses		-	(78)
Net change in value of investments	8(b)	3,795	(442)
Other non-cash items		<u>120</u>	<u>157</u>
		<u>\$ 3,927</u>	<u>\$ 4,493</u>

13. Net change in non-cash working capital balances related to operations
(thousands of dollars)

	2018	2017
Decrease in interest receivable	\$ 140	\$ 5
Increase in accounts receivable	-	(240)
(Decrease) increase in trade and other payables	<u>(19)</u>	<u>26</u>
	<u>\$ 121</u>	<u>\$ (209)</u>

14. Related party transactions

Included in these consolidated financial statements are transactions with various Saskatchewan Crown corporations, ministries, agencies, boards and commissions related to AMI by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as related parties). AMI has elected to take a partial exemption under IAS 24 - *Related Party Disclosures* which allows government related entities to limit the extent of disclosures about related party transactions with government or other government related entities.

These transactions are in the normal course of operations and are recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

CIC provides management services to the Corporation without charge. The Corporation estimates \$0.2 million (2017 - \$0.2 million) of CIC's senior management time is expended on the Corporation.

15. Financial instruments and financial risk management
(thousands of dollars)

Financial instruments

Fair values are approximate amounts at which financial instruments could be exchanged between willing parties based on current markets for instruments with similar characteristics, such as risk, principal and remaining maturities. Fair values are estimates using present value and other valuation techniques which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates that reflect varying degrees of risk. Therefore, due to the use of judgement and future-oriented information, aggregate fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

The classification of the Corporation's financial instruments is as follows:

Financial Instruments	Classification (i)	2018		2017	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
<u>Financial Assets</u>					
Cash and cash equivalents	FVTPL	\$ 5,710	\$ 5,710	\$ 3,794	\$ 3,794
Interest receivable	AC	329	329	469	469
Accounts receivable	AC	257	257	257	257
Restricted cash and cash equivalents	FVTPL	5,036	5,036	5,055	5,055
Investments - fair value	FVTPL	-	-	3,795	3,795
Investments - amortized cost	AC	53,329	53,329	53,935	53,935
<u>Financial Liabilities</u>					
Trade and other payables	OL	67	67	86	86

i) Classification details are:

FVTPL - fair value through profit or loss
AC - amortized cost
OL - other liabilities at amortized cost

15. Financial instruments and financial risk management (continued)

(thousands of dollars)

a) Fair value hierarchy

Fair value measurements are categorized into levels within a fair value hierarchy based on the nature of inputs used in the valuation.

Level 1 - Quoted prices are readily available from an active market.

Level 2 - Inputs, other than quoted prices included in level 1 that are observable either directly or indirectly.

Level 3 - Inputs are not based on observable market data.

AMI's financial instruments are categorized within this hierarchy as follows:

	2018			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 5,710	\$ -	\$ -	\$ 5,710
Restricted cash and cash equivalents	5,036	-	-	5,036
Investments - amortized cost	-	53,329	-	53,329
Investments - fair value	-	-	-	-
	2017			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 3,794	\$ -	\$ -	\$ 3,794
Restricted cash and cash equivalents	5,055	-	-	5,055
Investments - amortized cost	-	53,935	-	53,395
Investments - fair value	-	-	3,795	3,795

Changes in Level 3 investments carried at fair value are as follows:

	2018	2017
Balance, beginning of year	\$ 3,795	\$ 3,353
Investments received	-	-
Net change in value of investment recognized in net loss	<u>(3,795)</u>	<u>442</u>
Balance, end of year	<u>\$ -</u>	<u>\$ 3,795</u>

The Corporation, through its wholly owned subsidiary CIC FLTP Holdings Inc., owns 2,569,775 preferred shares in Chromatin Inc. Chromatin Inc. preferred shares are classified as level 3 due to the nature of inputs used in the valuation.

i) Financial instruments categorized as level 3

In estimating fair value for equity investments designated as fair value through profit or loss (FVTPL), the Corporation places priority on observable market information for the particular security when such information is available, namely the security's closing price on the listing exchange. The fair values of unlisted securities are established according to the requirements of IFRS 9, *Financial Instruments*. In applying IFRS 9, the Corporation considers the guidance provided by the International Private Equity and Venture Capital (IPEV) guidelines, as well as the Canadian Institute of Chartered Business Valuators (CICBV), within the constraints of IFRS 9.

Where evidence of a recent, arm's length transaction has occurred in the shares of an unlisted equity position held by the Corporation, the Corporation considers such a transaction to generally provide a good indication of fair value. Where a recent, arm's length transaction has not occurred, or secondary indicators exist which would question the applicability of a recent transaction, the Corporation considers alternative valuation methodologies permitted under IFRS 9. These methods are primarily focused on the projected earnings or cash flows of the business, discounted to present value by applying a discount rate which appropriately reflects industry and company specific risk factors.

15. Financial instruments and financial risk management (continued)

(thousands of dollars)

a) Fair value hierarchy (continued)

i) Financial instruments categorized as level 3 (continued)

Determining fair value for the Corporation's equity investments, which are not publicly traded and recorded at fair value through profit or loss, requires application of professional judgement and use of estimates. Significant estimates utilized by the Corporation include the timing and amount of future cash flows, anticipated economic outlook for the investee's industry, impact of pending or potential regulation or legislation, forecast consumer tastes, emergence of substitute products, anticipated fluctuations in commodities prices, and macroeconomic demand.

Significant aspects of professional judgement include selecting an appropriate valuation approach, determining a range of appropriate risk adjusted rates of return for a series of cash flows, and assessing the risk inherent in cash flows, the probabilities of micro and macroeconomic variables occurring, and probabilities of potentially significant company, industry, or economic factors occurring or failing to occur as the case may be.

In circumstances where fair value cannot be estimated reliably, the investment is reported at the carrying value at the previous reporting date unless there is evidence that the investment has since been impaired. All recorded values of investments are reviewed at each reporting date for any indication of impairment and adjusted accordingly.

ii) Other financial assets and liabilities

Other financial assets and liabilities including interest receivable, accounts receivable and trade and other payables have not been classified in the fair value hierarchy given that carrying value approximates fair value due to immediate or short-term maturity.

Financial risk management

b) Market risk

AMI is exposed to market risk (interest rates), credit risk and liquidity risks. AMI mitigates the risk through Board-approved policies, limits on use and amount of exposure, internal monitoring, and compliance reporting to management and the Board.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimizing return. The Corporation manages the following market risk:

Interest rate risk

AMI is exposed to changes in interest rates in its cash and cash equivalents, certain investments and restricted cash and cash equivalents. Based on year end balances, it is estimated that a 100 basis point increase or decrease in interest rates would decrease or increase annual profit or loss by \$0.5 million at March 31, 2018 (2017 - \$0.3 million).

15. Financial instruments and financial risk management (continued)

(thousands of dollars)

Financial risk management (continued)

c) Credit risk

Credit risk is the risk that one party to a transaction will fail to discharge an obligation and cause the other party to incur a financial loss. Concentration of credit risk relates to groups of customers or counterparties that have similar economic or industry characteristics that cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. AMI maintains credit policies and limits in respect to certain investments.

The carrying amount of financial assets represents the maximum credit exposure as follows:

	2018	2017
Cash and cash equivalents	\$ 5,710	\$ 3,794
Interest receivable	329	469
Accounts receivable	257	257
Restricted cash and cash equivalents	5,036	5,055
Investments - fair value through profit or loss	-	3,795
Investments - amortized cost	<u>53,329</u>	<u>53,935</u>
	<u>\$ 64,661</u>	<u>\$ 67,305</u>

d) Liquidity risk

Liquidity risk is the risk that AMI is unable to meet its financial commitments as they become due. AMI is a subsidiary of CIC and as such has access to capital markets through the General Revenue Fund. AMI, through its diversified holdings and capital allocation, can allocate resources to ensure that all financial commitments made are met.

Where necessary AMI can borrow funds from CIC, adjust dividend rates, or be provided with equity injections to solve any liquidity issues.

AMI's only contractual obligations are trade and other payables. All trade and other payables are due in the next fiscal year.

16. Comparative information

Certain of the March 31, 2017 information has been reclassified to conform to the current year's presentation.