Fund Financial Statements of

THE CONTRIBUTORY PENSION PLAN
FOR SALARIED EMPLOYEES
OF McM ASTER UNIVERSITY INCLUDING
McM ASTER DIVINITY COLLEGE

Year ended June 30, 2016
Registration Number 0215400
INDEPENDENT AUDITORS’ REPORT

To the Administrator of The Contributory Pension Plan for Salaried Employees of McMaster University including McMaster Divinity College

We have audited the accompanying financial statements of The Contributory Pension Plan for Salaried Employees of McMaster University including McMaster Divinity College, which comprise the statement of net assets available for benefits as at June 30, 2016, the statement of changes in net assets available for benefits for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information. The fund financial statements have been prepared by management based on the financial reporting provisions of Section 76 of the Regulations to the Pension Benefits Act (Ontario).

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these fund financial statements in accordance with the financial reporting provisions of Section 76 of the Regulations to the Pension Benefits Act (Ontario), and for such internal control as management determines is necessary to enable the preparation of fund 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 fund financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the fund financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the fund financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the fund 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 fund 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 fund 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 fund financial statements present fairly, in all material respects, the net assets available for benefits of The Contributory Pension Plan for Salaried Employees of McMaster University including McMaster Divinity College as at June 30, 2016, and its changes in net assets available for benefits for the year then ended in accordance with the financial reporting provisions of Section 76 of the Regulations to the Pension Benefits Act (Ontario).

Comparative information

The fund financial statements of The Contributory Pension Plan for Salaried Employees of McMaster University including McMaster Divinity College as at June 30, 2015 are unaudited. Accordingly, we do not express an opinion on them.

Basis of accounting and restriction on use

Without modifying our opinion, we draw attention to Note 1 (a) to the fund financial statements, which describes the basis of accounting. The fund financial statements are prepared to assist the Administrator of The Contributory Pension Plan for Salaried Employees of McMaster University including McMaster Divinity College to meet the requirements of the Financial Services Commission of Ontario. As a result, the fund financial statements may not be suitable for another purpose. Our report is intended solely for the Administrator of The Contributory Pension Plan for Salaried Employees of McMaster University including McMaster Divinity College and the Financial Services Commission of Ontario for complying with Section 76 of the Regulations to the Pension Benefits Act (Ontario). The fund financial statements are not intended to be and should not be used by any other parties.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Hamilton, Canada

November 10, 2016
THE CONTRIBUTORY PENSION PLAN FOR
SALARIED EMPLOYEES OF McMaster UNIVERSITY
INCLUDING McMaster DIVINITY COLLEGE

Statement of Net Assets Available For Benefits
(in thousands of dollars)

June 30, 2016, with comparative information for 2015

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015 (unaudited)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employer contributions receivable</td>
<td>$14</td>
<td>$9</td>
</tr>
<tr>
<td>Employee contributions receivable</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>Investment in Master Trust (note 2)</td>
<td>3,126</td>
<td>2,912</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>3,144</td>
<td>2,924</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fees payable and accrued liabilities</td>
<td>12</td>
<td>2</td>
</tr>
<tr>
<td><strong>Net assets available for benefits</strong></td>
<td>$3,132</td>
<td>$2,922</td>
</tr>
</tbody>
</table>

See accompanying notes to fund financial statements.

On behalf of the Administrator:

Roger Cauldrey  
Vice-President (Administration)  
McMaster University

Deidre Henne  
Assistant Vice-President (Administration) & CFO  
McMaster University
THE CONTRIBUTORY PENSION PLAN FOR
SALARIED EMPLOYEES OF McMaster UNIVERSITY
INCLUDING McMaster DIVINITY COLLEGE

Statement of Changes in Net Assets Available for Benefits
(in thousands of dollars)

June 30, 2016, with comparative information for 2015

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>INCREASE IN NET ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net realized gain on sale of investments</td>
<td>96</td>
<td>67</td>
</tr>
<tr>
<td>Net realized gain on sale of units in the Master Trust Fund</td>
<td>2</td>
<td>9</td>
</tr>
<tr>
<td></td>
<td>166</td>
<td>146</td>
</tr>
<tr>
<td>Change in net unrealized gain in investments</td>
<td>-</td>
<td>83</td>
</tr>
<tr>
<td></td>
<td>166</td>
<td>229</td>
</tr>
<tr>
<td>Contributions:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employer current service</td>
<td>94</td>
<td>69</td>
</tr>
<tr>
<td>Employer past service</td>
<td>47</td>
<td>43</td>
</tr>
<tr>
<td>Employee required</td>
<td>36</td>
<td>34</td>
</tr>
<tr>
<td></td>
<td>177</td>
<td>146</td>
</tr>
<tr>
<td></td>
<td>343</td>
<td>375</td>
</tr>
<tr>
<td><strong>DECREASE IN NET ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in net unrealized gain in investments</td>
<td>102</td>
<td>-</td>
</tr>
<tr>
<td>Payments to members:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pension benefits</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Termination benefits</td>
<td>7</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>9</td>
<td>1</td>
</tr>
<tr>
<td>Expenses:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment managers</td>
<td>8</td>
<td>7</td>
</tr>
<tr>
<td>Audit</td>
<td>7</td>
<td>-</td>
</tr>
<tr>
<td>Professional</td>
<td>5</td>
<td>40</td>
</tr>
<tr>
<td>Trustee and custodial</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>22</td>
<td>49</td>
</tr>
<tr>
<td></td>
<td>133</td>
<td>50</td>
</tr>
<tr>
<td>Net increase in net assets available for benefits</td>
<td>210</td>
<td>325</td>
</tr>
<tr>
<td>Net assets available for benefits, beginning of year</td>
<td>2,922</td>
<td>2,597</td>
</tr>
<tr>
<td>Net assets available for benefits, end of year</td>
<td>$3,132</td>
<td>$2,922</td>
</tr>
</tbody>
</table>

See accompanying notes to fund financial statements.
The Contributory Pension Plan for Salaried Employees of McMaster University Including McMaster Divinity College (the "Plan") is a defined benefit registered pension plan in the Province of Ontario under registration number 0215400, the Administrator of which is McMaster University.

McMaster University operates the Master Trust Fund to facilitate the collective management of the investment assets for pension plans of McMaster University and Divinity College. These fund financial statements reflect the consolidation of net assets held by the Plan directly and its share of the net assets of the Master Trust Fund.

The Plan is operated in accordance with the Trust and Custodial Services Agreement dated July 1, 2000, between McMaster University (the "Administrator") and CIBC Mellon Trust Company (the "Trustee").

1. Significant accounting policies:

(a) Basis of presentation:

As permitted under Section 76 of the Regulation to the Pension Benefits Act (Ontario), the Plan has prepared fund financial statements in accordance with Canadian accounting standards for pension plans excluding pension obligations and any resulting surplus or deficit.

In selecting or changing accounting policies that do not relate to its investment portfolio or pension obligations, Canadian accounting standards for pension plans require the Plan to comply (on a consistent basis) with either International Financial Reporting Standards ("IFRS") in Part I of The Canadian Institute of Chartered Professional Accountants' ("CPA") Handbook - Canadian accounting standards for private enterprises in Part II of the CPA Canada Handbook. The Plan has chosen to comply on a consistent basis with IFRS.

These fund financial statements have been prepared to assist the Administrator of The Contributory Pension Plan for Salaried Employees of McMaster University Including McMaster Divinity College in meeting the requirements of the Financial Services Commission of Ontario. As a result, these fund financial statements may not be suitable for another purpose.

These fund financial statements of the Plan do not purport to show the adequacy of the Plan's assets to meet its pension obligation. Such an assessment requires additional information, such as the Plan's actuarial reports and information about McMaster University including McMaster Divinity College financial health.
1. Significant accounting policies (continued):

(b) Basis of measurement:

The fund 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.

(c) Functional and presentation currency:

These fund financial statements are presented in Canadian dollars, which is the Plan's functional currency. The fair values of foreign currency denominated investments are translated into Canadian dollars at year-end rates of exchange. Gains and losses arising from transactions are included in investment income within the statement of changes in net assets available for benefits.

(d) Financial assets and financial liabilities:

(i) Non-derivative financial assets:

Financial assets are recognized initially on the trade date, which is the date that the Plan 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 Plan measures all of its investments at fair value through the statement of changes in net assets available for benefits.

All other non-derivative financial assets including contributions receivable are measured at amortized cost.

The Plan 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 Plan neither transfers nor retains substantially all the risks and rewards of ownership and does not retain control of the financial asset.

On de-recognition 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.
1. Significant accounting policies (continued):

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

(ii) Non-derivative financial liabilities:

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

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

Financial assets and liabilities are offset and the net amount presented in the statement of net assets 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.

The Plan considers its fees payable and accrued liabilities to be a non-derivative financial liability.

(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.

(e) Fair value measurement:

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

As allowed under IFRS 13, if an asset or a liability measured at fair value has a bid and an ask price, the price within the bid-ask spread that is the most representative of fair value in the circumstances shall be used to measure fair value. The Plan uses closing market price as a practical expedient for fair value measurement.
1. **Significant accounting policies (continued):**

   (e) Fair value measurement (continued):

   When available, the Plan measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

   If a market for a financial instrument is not active, then the Plan establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models.

   The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognized in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

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

   Pooled funds are valued at the unit values supplied by the pooled fund administrator, which represent the Plan's proportionate share of underlying net assets at fair value using closing market prices.
1. Significant accounting policies (continued):

(e) Fair value measurement (continued):

Investments are stated at fair value. Fair values of investments including those held within the Master Trust are determined as follows:

(i) 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.

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

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

(iv) 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.

Investment transactions are accounted for on the trade date.

(f) Investment income:

Investment income, which is recorded on the accrual basis, includes interest income, dividends and pooled fund distributions.

(g) Change in net unrealized gain in investments:

The change in net unrealized gain in investments is the change in the difference between the fair value and cost of investments from the beginning to the end of the year.

(h) 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 retranslated into Canadian dollars at the exchange rate at that date.
1. Significant accounting policies (continued):

(i) Net realized gain or loss on sales of investments:

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

The net realized gain or loss on sale of units in the Master Trust Fund represents the difference between the proceeds received and the average cost of the units sold.

(j) Income taxes:

The Plan is a Registered Pension Trust as defined by the Income Tax Act (Canada) and, accordingly, is not subject to income taxes.

(k) Use of estimates:

The preparation of the financial statements requires management to make judgements, 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 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.
2. Investment in Master Trust:

Details of the Master Trust Fund investments are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2016 Cost</th>
<th>2016 Fair value</th>
<th>2015 Cost</th>
<th>2015 Fair value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canadian short-term notes and</td>
<td>$15,462</td>
<td>$15,462</td>
<td>$11,054</td>
<td>$11,054</td>
</tr>
<tr>
<td>treasury bills</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign short-term notes and</td>
<td>1,401</td>
<td>1,385</td>
<td>2,397</td>
<td>2,425</td>
</tr>
<tr>
<td>treasury bills</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Canadian common and preferred</td>
<td>120,394</td>
<td>168,580</td>
<td>113,121</td>
<td>165,372</td>
</tr>
<tr>
<td>equities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign common and preferred</td>
<td>53,854</td>
<td>83,002</td>
<td>106,176</td>
<td>173,764</td>
</tr>
<tr>
<td>equities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Canadian bonds and debentures</td>
<td>130,267</td>
<td>133,514</td>
<td>123,500</td>
<td>125,390</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Canadian fixed income pool</td>
<td>369,633</td>
<td>411,326</td>
<td>352,427</td>
<td>360,864</td>
</tr>
<tr>
<td>funds</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Canadian equity pool fund</td>
<td>148,446</td>
<td>168,771</td>
<td>137,460</td>
<td>152,982</td>
</tr>
<tr>
<td>investments</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign equity pool fund</td>
<td>573,095</td>
<td>729,716</td>
<td>452,377</td>
<td>662,487</td>
</tr>
<tr>
<td>investments</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net foreign exchange contracts</td>
<td>-</td>
<td>4,385</td>
<td>-</td>
<td>(5,884)</td>
</tr>
<tr>
<td>receivable (payable)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1,412,552</td>
<td>1,706,121</td>
<td>1,298,532</td>
<td>1,688,454</td>
</tr>
<tr>
<td>Cash</td>
<td>272</td>
<td>272</td>
<td>94</td>
<td>94</td>
</tr>
<tr>
<td>Receivables</td>
<td>-</td>
<td>-</td>
<td>1,582</td>
<td>1,582</td>
</tr>
<tr>
<td>Accrued investment income</td>
<td>1,692</td>
<td>1,692</td>
<td>1,311</td>
<td>1,314</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>(3,254)</td>
<td>(3,254)</td>
<td>(908)</td>
<td>(908)</td>
</tr>
</tbody>
</table>

$1,411,262 $1,704,831 $1,300,611 $1,670,536

The allocation of the investment in the Master Trust Fund to the respective pension plans is as follows:

<table>
<thead>
<tr>
<th></th>
<th>2016 Units</th>
<th>2016 Fair value</th>
<th>2015 Units</th>
<th>2015 Fair value</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Contributory Pension Plan</td>
<td>6,770,226</td>
<td>$1,701,705</td>
<td>6,749,609</td>
<td>$1,667,624</td>
</tr>
<tr>
<td>for Salaried Employees of</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>McMaster University including</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>McMaster Divinity College 2000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Contributory Pension Plan</td>
<td>12,436</td>
<td>3,126</td>
<td>11,789</td>
<td>2,912</td>
</tr>
<tr>
<td>for Salaried Employees of</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>McMaster University including</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>McMaster Divinity College</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

$1,704,831 $1,670,536

The book value of the investments in the Plan at June 30, 2016 was $2,699 (2015 - $2,383).
3. Statutory disclosures:

The following information is provided in respect of individual investments in the Master Trust Fund with a fair value in excess of 1% of the Master Trust Fund as at June 30, 2016 as required by the Pension Benefits Act (Ontario).

a) Pooled fund investments:

<table>
<thead>
<tr>
<th>Fund name</th>
<th>Fund operator</th>
<th>Nature of investments held</th>
<th>Fair value</th>
</tr>
</thead>
<tbody>
<tr>
<td>BlackRock Russell 1000 Alpha Tilts Fund B</td>
<td>BlackRock</td>
<td>U.S. equities</td>
<td>$ 267,909</td>
</tr>
<tr>
<td>BlackRock Long Bond Index Class A</td>
<td>BlackRock</td>
<td>Canadian bonds and debentures</td>
<td>252,796</td>
</tr>
<tr>
<td>GE Asset Management Canada Fund Canadian Equity</td>
<td>GE Asset Management</td>
<td>Canadian equities</td>
<td>142,365</td>
</tr>
<tr>
<td>Walter Scott &amp; Partners International Fund</td>
<td>Walter Scott</td>
<td>Non-North American equities</td>
<td>141,395</td>
</tr>
<tr>
<td>GMO International Opportunities Equity Allocation Fund</td>
<td>GMO</td>
<td>Non-North American equities</td>
<td>141,039</td>
</tr>
<tr>
<td>T Rowe Price U.S. Large Cap Core Growth Equity</td>
<td>T Rowe Price</td>
<td>U.S. equities</td>
<td>91,182</td>
</tr>
<tr>
<td>BlackRock Universe Bond Index Class A</td>
<td>BlackRock</td>
<td>Canadian bonds and debentures</td>
<td>90,755</td>
</tr>
<tr>
<td>Templeton International Equity Trust</td>
<td>Franklin Templeton</td>
<td>Non-North American equities</td>
<td>86,908</td>
</tr>
<tr>
<td>BlackRock Real Return Bond Index Class A</td>
<td>BlackRock</td>
<td>Canadian bonds and debentures</td>
<td>67,775</td>
</tr>
</tbody>
</table>

b) Canadian bonds and debentures:

<table>
<thead>
<tr>
<th>Issuer</th>
<th>Cost</th>
<th>Fair value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government of Canada</td>
<td>$ 29,057</td>
<td>$ 29,603</td>
</tr>
<tr>
<td>Provincials (Canadian)</td>
<td>44,185</td>
<td>45,653</td>
</tr>
</tbody>
</table>
4. Investment Income:

Details of the investment income earned by the Master Trust Fund are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$1</td>
<td>$</td>
</tr>
<tr>
<td>Short-term notes and treasury bills</td>
<td>210</td>
<td>187</td>
</tr>
<tr>
<td>Canadian common and preferred equities</td>
<td>14,113</td>
<td>12,389</td>
</tr>
<tr>
<td>Foreign common and preferred equities</td>
<td>51,702</td>
<td>15,052</td>
</tr>
<tr>
<td>Bonds and debentures</td>
<td>5,023</td>
<td>3,998</td>
</tr>
<tr>
<td>Pooled fund investments</td>
<td>65,800</td>
<td>65,953</td>
</tr>
<tr>
<td>Foreign exchange losses including derivatives</td>
<td>(26,488)</td>
<td>(21,771)</td>
</tr>
<tr>
<td></td>
<td>$110,361</td>
<td>$75,808</td>
</tr>
</tbody>
</table>

The allocation of the investment income to the respective pension plans is as follows:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Contributory Pension Plan for Salaried Employees of McMaster University including McMaster Divinity College 2000</td>
<td>$104,563</td>
<td>$93,848</td>
</tr>
<tr>
<td>The Contributory Pension Plan for Salaried Employees of McMaster University including McMaster Divinity College</td>
<td>166</td>
<td>146</td>
</tr>
<tr>
<td></td>
<td>104,729</td>
<td>93,994</td>
</tr>
</tbody>
</table>

Timing difference between the realization of investment income in the Master Trust Fund and its allocation to the participating Pension Trust Funds | 5,632  | (18,186) |

|                                                        | $110,361| $75,808|

5. Related party transactions:

McMaster University provides certain administrative services to the Plan which is recorded at the amount agreed to by the parties. The cost for these services for the year ended June 30, 2016 was approximately $1 (2015 - $1), and is included in professional fees in the statement of changes in net assets available for benefits.
THE CONTRIBUTORY PENSION PLAN FOR
SALARIED EMPLOYEES OF McMaster UNIVERSITY
INCLUDING McMaster DIVINITY COLLEGE
Notes to Fund Financial Statements
(in thousands of dollars)
Year ended June 30, 2016

6. Financial instruments:

The investment objectives of the Plan are to efficiently fund the benefits of the participating plan members. As part of the risk management process, the Administrator has established a diversification policy, set rate of return objectives and developed specific investment guidelines.

(a) Fair value:

The fair value of investments is disclosed in note 2. The fair value of the Plan's other financial assets and liabilities, being contributions receivable and fees payable and accrued liabilities, 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 Plan's investment in Master Trust is classified as Level 2. The following table presents the classification of the Plan's investments held within the Master Trust as at June 30, 2016, using the fair value hierarchy:

<table>
<thead>
<tr>
<th>2016</th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canadian short-term notes and treasury bills</td>
<td>$</td>
<td>$ 15,462</td>
<td>$ -</td>
<td>$ 15,462</td>
</tr>
<tr>
<td>Foreign short-term notes and treasury bills</td>
<td>-</td>
<td>1,365</td>
<td>-</td>
<td>1,365</td>
</tr>
<tr>
<td>Canadian common and preferred stocks</td>
<td>168,580</td>
<td>-</td>
<td>-</td>
<td>168,580</td>
</tr>
<tr>
<td>Foreign common and preferred stocks</td>
<td>83,002</td>
<td>-</td>
<td>-</td>
<td>83,002</td>
</tr>
<tr>
<td>Canadian bonds and debentures</td>
<td>-</td>
<td>133,514</td>
<td>-</td>
<td>133,514</td>
</tr>
<tr>
<td>Canadian fixed income pool funds</td>
<td>-</td>
<td>411,326</td>
<td>-</td>
<td>411,326</td>
</tr>
<tr>
<td>Canadian equity pool fund investments</td>
<td>-</td>
<td>158,771</td>
<td>-</td>
<td>158,771</td>
</tr>
<tr>
<td>Foreign equity pool fund investments</td>
<td>-</td>
<td>729,716</td>
<td>-</td>
<td>729,716</td>
</tr>
<tr>
<td>Net foreign exchange contracts receivable</td>
<td>-</td>
<td>4,385</td>
<td>-</td>
<td>4,385</td>
</tr>
<tr>
<td></td>
<td>$ 251,582</td>
<td>$1,454,539</td>
<td>$ -</td>
<td>$ 1,706,121</td>
</tr>
</tbody>
</table>
6. Financial instruments (continued):

(a) Fair value (continued):

<table>
<thead>
<tr>
<th>2015</th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canadian short-term notes and treasury bills</td>
<td>$</td>
<td>$11,054</td>
<td>$</td>
<td>$11,054</td>
</tr>
<tr>
<td>Foreign short-term notes and treasury bills</td>
<td></td>
<td>2,425</td>
<td></td>
<td>2,425</td>
</tr>
<tr>
<td>Canadian common and preferred stocks</td>
<td>165,372</td>
<td></td>
<td>165,372</td>
<td></td>
</tr>
<tr>
<td>Foreign common and preferred stocks</td>
<td>173,764</td>
<td></td>
<td>173,764</td>
<td></td>
</tr>
<tr>
<td>Canadian bonds and debentures</td>
<td>125,390</td>
<td></td>
<td>125,390</td>
<td></td>
</tr>
<tr>
<td>Canadian fixed income pool funds</td>
<td>380,864</td>
<td></td>
<td>380,864</td>
<td></td>
</tr>
<tr>
<td>Canadian equity pool fund investments</td>
<td>152,982</td>
<td></td>
<td>152,982</td>
<td></td>
</tr>
<tr>
<td>Foreign equity pool fund investments</td>
<td>662,487</td>
<td></td>
<td>662,487</td>
<td></td>
</tr>
<tr>
<td>Net foreign exchange contracts receivable</td>
<td>(5,884)</td>
<td></td>
<td>(5,884)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$339,136</td>
<td>$1,329,318</td>
<td>$</td>
<td>$1,668,454</td>
</tr>
</tbody>
</table>

(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 other factors affecting all instruments traded in the market. As all of the Plan's financial instruments are carried at fair value with fair value changes recognized in the statement of changes in net assets available for benefits, all changes in market conditions will directly affect the net increase (decrease) in net assets available for benefits. Market price risk is managed by the Administrator through construction of a diversified portfolio of instruments traded on various markets and across various industries.

As at June 30, 2016, had the unit prices of equity benchmarks increased or decreased by 10% with all other variables remaining unchanged, and assuming there is a perfect positive correlation between the Plan's equity and pooled fund securities with all other variables held constant, the value of the Plan's total equities would have increased or decreased by approximately $207 or 6.6% of total net assets available for benefits (2015 - $201 or 6.9%). The unit price of the Plan's equity and pooled fund securities are affected by changes in market values, foreign exchange rates and interest rates impacting the underlying equity and debt instruments held within the Plan.
6. Financial instruments (continued):

(b) Associated risks (continued):

(ii) Interest rate risk:

Interest rate risk is the risk that the market value of the Plan’s investments will fluctuate due to changes in market interest rates. The Plan is exposed to the risk that the fair value or future cash flows of an investment will fluctuate because of changes in the market interest rates. The Plan mitigates this risk by diversifying the maturity schedule of its fixed income securities.

As at June 30, 2016, had the prevailing interest rates increased or decreased by 1%, with all other variables held constant, the value of the debt securities component of the Plan would have increased or decreased, respectively, by approximately $119 or 3.8% of total net assets available for benefits (2015 - $99 or 3.4%).

(iii) Liquidity risk:

Liquidity risk is the risk that the Plan may be unable to meet pension payment obligations in a timely manner and at a reasonable cost. Management of liquidity seeks to ensure that even under adverse conditions, the Plan has access to immediate cash that is necessary to cover benefits payable, withdrawals and other liabilities. The Statement of Investment Policies & Procedures requires the plan’s investments to be highly liquid, so they can be converted into cash on short notice. The plan’s exposure to liquidity risk is considered negligible.

The accrued expenses of the plan are all due within 90 days or less.

The following table summarizes the contractual maturities of all fixed income securities as at June 30th by the earlier of contractual repricing or maturity dates:

<table>
<thead>
<tr>
<th>Maturity range</th>
<th>2016</th>
<th></th>
<th>2015</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Fair value</td>
<td>Percentage of fixed income</td>
<td>Fair value</td>
<td>Percentage of fixed income</td>
</tr>
<tr>
<td>0 to 5 years</td>
<td>$190</td>
<td>19.0%</td>
<td>$206</td>
<td>23.3%</td>
</tr>
<tr>
<td>5 to 10 years</td>
<td>$127</td>
<td>12.7%</td>
<td>$87</td>
<td>9.8%</td>
</tr>
<tr>
<td>Over 10 years</td>
<td>$684</td>
<td>68.3%</td>
<td>$592</td>
<td>66.9%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1,001</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>$885</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>
6. Financial instruments (continued):
   (b) Associated risks (continued):
      (iv) Foreign currency risk:

Foreign currency risk is the risk that fair value or future cash flows of a financial
instrument will fluctuate because of changes in foreign exchange rates. The Plan invests
in financial instruments denominated in various foreign currencies, other than its
measurement currency. Consequently, the Plan is exposed to risks that the exchange of
the various currencies may change in a manner that has an adverse effect on the value of
the portion of the Plan's assets denominated in currencies other than the Canadian dollar.
As at June 30, 2016 and June 30, 2015, the Plan held currency contracts which mitigated
its exposure to currency risk. The Plan's overall currency positions and exposures are
monitored on a regular basis by the Administrator.

The Plan's currency exposure of its investments as at June 30 is as follows:

<table>
<thead>
<tr>
<th>Currency</th>
<th>2016</th>
<th></th>
<th>2015</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Canadian dollar equivalent</td>
<td>Percentage of total</td>
<td>Canadian dollar equivalent</td>
<td>Percentage of total</td>
</tr>
<tr>
<td>US dollar</td>
<td>$ 835</td>
<td>26.7%</td>
<td>$ 904</td>
<td>31.1%</td>
</tr>
<tr>
<td>Euro</td>
<td>181</td>
<td>5.8%</td>
<td>178</td>
<td>6.1%</td>
</tr>
<tr>
<td>Japanese Yen</td>
<td>138</td>
<td>4.4%</td>
<td>103</td>
<td>3.6%</td>
</tr>
<tr>
<td>Pound Sterling</td>
<td>105</td>
<td>3.4%</td>
<td>101</td>
<td>3.5%</td>
</tr>
<tr>
<td>Hong Kong Dollar</td>
<td>57</td>
<td>1.8%</td>
<td>22</td>
<td>0.8%</td>
</tr>
<tr>
<td>Swiss Franc</td>
<td>54</td>
<td>1.7%</td>
<td>37</td>
<td>1.3%</td>
</tr>
<tr>
<td>Other</td>
<td>98</td>
<td>3.1%</td>
<td>96</td>
<td>3.3%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$ 1,468</td>
<td>46.9%</td>
<td>$ 1,441</td>
<td>49.7%</td>
</tr>
</tbody>
</table>

As at June 30, 2016, if the Canadian dollar strengthened or weakened by 5% in each
respective foreign currency, with all other factors remaining constant, the following table
summarizes the estimated impacts:

<table>
<thead>
<tr>
<th>Currency</th>
<th>2016</th>
<th></th>
<th>2015</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Net exposure</td>
<td>Estimated impact</td>
<td>Net exposure</td>
<td>Estimated impact</td>
</tr>
<tr>
<td>US dollar</td>
<td>$ 835</td>
<td>$ 42</td>
<td>$ 904</td>
<td>$ 45</td>
</tr>
<tr>
<td>Euro</td>
<td>181</td>
<td>9</td>
<td>178</td>
<td>9</td>
</tr>
<tr>
<td>Japanese Yen</td>
<td>138</td>
<td>7</td>
<td>103</td>
<td>5</td>
</tr>
<tr>
<td>Pound Sterling</td>
<td>105</td>
<td>5</td>
<td>101</td>
<td>5</td>
</tr>
<tr>
<td>Hong Kong Dollar</td>
<td>57</td>
<td>3</td>
<td>22</td>
<td>1</td>
</tr>
<tr>
<td>Swiss Franc</td>
<td>54</td>
<td>3</td>
<td>37</td>
<td>2</td>
</tr>
<tr>
<td>Other</td>
<td>98</td>
<td>5</td>
<td>96</td>
<td>5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$ 1,468</td>
<td>$ 74</td>
<td>$ 1,441</td>
<td>$ 72</td>
</tr>
</tbody>
</table>
6. Financial instruments (continued):
   (b) Associated risks (continued):
   (v) 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 Plan. 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 Plan policy does not permit investments in below investment grade securities. The credit risk is minimized by dealing with borrowers considered to be of high quality and by monitoring their credit risk. The Plan records all investments at fair value and therefore the values reflected in the statement of net assets available for benefits represent the maximum credit exposure to the Plan. The following is a summary of the June 30, 2016 weighted average of funds invested, and the respective allocation targets:

<table>
<thead>
<tr>
<th>Policy Asset Mix %</th>
<th>Asset Mix %</th>
<th>Minimum</th>
<th>Benchmark</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canadian equities</td>
<td>19.3</td>
<td>16.0</td>
<td>21.0</td>
<td>26.0</td>
</tr>
<tr>
<td>U.S. equities</td>
<td>26.0</td>
<td>17.0</td>
<td>22.0</td>
<td>27.0</td>
</tr>
<tr>
<td>International equities</td>
<td>22.1</td>
<td>17.0</td>
<td>22.0</td>
<td>27.0</td>
</tr>
<tr>
<td>Total equities</td>
<td>67.4</td>
<td>60.0</td>
<td>65.0</td>
<td>70.0</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>32.0</td>
<td>25.0</td>
<td>35.0</td>
<td>45.0</td>
</tr>
<tr>
<td>Real estate</td>
<td>0.1</td>
<td>0.0</td>
<td>0.0</td>
<td>10.0</td>
</tr>
<tr>
<td>Cash</td>
<td>0.5</td>
<td>0.0</td>
<td>0.0</td>
<td>10.0</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The following are the Plan's investments in interest-bearing financial instruments and the Plan's exposure to credit risk as at June 30, 2016:

<table>
<thead>
<tr>
<th>Credit rating</th>
<th>2016 Fair value</th>
<th>Percentage of portfolio</th>
<th>2015 Fair value</th>
<th>Percentage of portfolio</th>
</tr>
</thead>
<tbody>
<tr>
<td>AAA</td>
<td>$ 377</td>
<td>37.6</td>
<td>$ 360</td>
<td>40.6</td>
</tr>
<tr>
<td>AA</td>
<td>318</td>
<td>31.8</td>
<td>230</td>
<td>26.0</td>
</tr>
<tr>
<td>A</td>
<td>245</td>
<td>24.5</td>
<td>244</td>
<td>27.5</td>
</tr>
<tr>
<td>BBB</td>
<td>61</td>
<td>6.1</td>
<td>51</td>
<td>5.9</td>
</tr>
<tr>
<td>Total</td>
<td>$ 1,001</td>
<td>100.0</td>
<td>$ 885</td>
<td>100.0</td>
</tr>
</tbody>
</table>
6. Financial instruments (continued):
   (c) Interest-bearing investments:

   The following information is provided in respect of interest-bearing investments in the Master Trust Fund.

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Investment</td>
<td>Average</td>
</tr>
<tr>
<td></td>
<td>total</td>
<td>effective</td>
</tr>
<tr>
<td>Short-term notes and treasury bills</td>
<td>$16,827</td>
<td>0.2%</td>
</tr>
<tr>
<td>Canadian bonds and debentures</td>
<td>133,514</td>
<td>1.8%</td>
</tr>
</tbody>
</table>

   The average effective yield is the rate at which the future cash flows of the instrument must be discounted to arrive at the fair value of the instrument.

7. Capital risk management:

   The capital of the plan is represented by the net assets available for benefits. The main objective of the defined benefit Plan is to ensure the security of the promised pension benefits under the Plan. The Plan fulfills its primary objective by adhering to specific investments policies outlined in its Statement of Investment Policies and Procedures (the "SIP & P"), which is reviewed annually by the Pension Committee. The Plan manages net assets available for benefits by engaging knowledgeable investment managers who are charged with the responsibility of investing existing funds and new funds (contributions) in accordance with the approved SIP & P. The SIP & P was last amended effective December 10, 2015 to reflect changes required by the Financial Services Commission of Ontario.

   Although there are no regulatory requirements relating to the level of net assets available for benefits, the funding to be maintained by the defined benefit Plan is determined through triennial actuarial valuations. No contributions remain past due as of June 30, 2016. The pension plan investments fell within the asset mix target ranges for the Plan as at June 30, 2016.

   The Plan is required to file fund financial statements with the Financial Services Commission of Ontario annually.