MANAGEMENT DISCUSSION AND ANALYSIS OF 2018 CONSOLIDATED FINANCIAL STATEMENTS AND OPERATING RESULTS

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The Management Discussion and Analysis (MD&A) provides management's perspective on key issues that affect the current and future performance of WorkSafeNB. The MD&A, prepared as at May 21, 2019, should be read in conjunction with the audited consolidated financial statements and supporting notes for the year ended December 31, 2018.

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements about certain matters that are, by their nature, subject to many risks and uncertainties that may cause actual results to differ materially from these statements. Forward-looking statements include, but are not limited to, WorkSafeNB's objectives, strategies, targeted and expected financial results, and the outlook for its business and for the New Brunswick and global economies. Risks and uncertainties include, but are not limited to, changing market, industry and general economic factors or conditions; changes in legislation affecting WorkSafeNB policies and practices; changes in accounting standards; the ability to retain and recruit qualified staff; and other risks, known or unknown. The reader is cautioned not to place undue reliance on these forward-looking statements.

The *2018 Annual Report, 2019-2021 Strategic Plan,* and *2019 Assessment Rates* material are available at worksafenb.ca.

FINANCIAL HIGHLIGHTS

WorkSafeNB recorded a deficit of $271.5 million in 2018. This compares with a deficit of $134.3 million in 2017. The deficit is the result of higher than expected claims costs and lower than expected investment returns. Costs reflect the latest trends, valuation assumption and method changes, and benefit entitlements from continuing implementation of policy changes following 2015 legislative changes. Cost increases in 2018 were largely the result of increasing claim duration and further long-term growth in the number of hearing loss claims. Actual investment returns were -1.32% versus budgeted returns of 6.08%, further increasing the impact of rising claims costs on WorkSafeNB's overall funded position. This resulted in an underfunded position of -$271.5 million, or 88.0%.

CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements include the accounts of WorkSafeNB and WorkSafeNB Investments Limited (WSNBIL). WSNBIL is a subsidiary over which WorkSafeNB exercises control, and is defined as having the power to direct the relevant activities of an entity, having exposure or rights to variable returns of the entity, and having the ability to affect the returns through the power it holds. WSNBIL holds infrastructure and real estate assets in trust for WorkSafeNB, the Workers Compensation Board of Prince Edward Island (WCB of PEI) and the *Firefighters' Compensation (FC) Act* Disability Fund, pursuant to agreements for the combined administration of their respective investments.

MANAGEMENT DISCUSSION AND ANALYSIS OF 2018 CONSOLIDATED FINANCIAL STATEMENTS AND OPERATING RESULTS CONTINUED

Although WorkSafeNB does not have legal rights to the proportionate shares that the WCB of PEI and the *FC Act* Disability Fund hold in WSNBIL, International Financial Reporting Standard 10 (IFRS 10) requires WorkSafeNB to present consolidated financial statements as they have control over WSNBIL as defined in IFRS 10. As a result, WSNBIL has been fully consolidated in these financial statements.

The proportionate ownership of the net assets of WSNBIL as at December 31, 2018 was: WorkSafeNB - 84.05%, WCB of PEI - 14.55%, *FC Act* Disability Fund - 1.40%. All transactions and balances between WorkSafeNB and WSNBIL are eliminated on consolidation.

Non-controlling interests, presented as part of equity, represent the portion of WSNBIL's net assets that are held by the WCB of PEI and the *FC Act* Disability Fund.

CONSOLIDATED BALANCE SHEET

The key components of WorkSafeNB's consolidated balance sheet are its investments, benefits liabilities and funded position.

FINANCIAL HIGHLIGHTS CONSOLIDATED BALANCE SHEET ($000s)	2018	2017
Portfolio investments	1,294,663	1,356,440
Benefits liabilities	1,927,161	1,654,725
WorkSafeNB funded position	(234,070)	37,465
WorkSafeNB funded ratio	88.0%	102.2%

Investments

WorkSafeNB's investment portfolio must be customized to reflect its purpose, time horizon, liquidity requirements, legal constraints and its stakeholders' risk tolerance. The primary investment risk is that the investment fund's assets, together with the future income thereon, will be insufficient to pay the liabilities. WorkSafeNB relies on periodic asset liability studies performed by independent actuarial consultants to ensure that the investment strategy is suitable in light of the related liabilities.

Most of the investment portfolio is held to meet payment obligations that extend for many years into the future. As a consequence, WorkSafeNB takes a long-term approach to finding an acceptable risk/return trade-off via the investment strategy. WorkSafeNB's investment policies and practices are designed to maximize the probability of meeting its performance objectives over the long-term at an acceptable risk level; from year-to-year, short-term fluctuations in financial markets could cause the investment portfolio to significantly over- or under-perform its long-term performance objectives.

We believe that the most important factor in determining investment risk and return is the asset mix. In 2017, the board completed an asset liability study, which was designed to help determine an appropriate asset mix given their risk tolerance, the nature of the liabilities and WorkSafeNB's financial position. As a result of the study, we slightly amended the target policy asset mix to: 15% Canadian bonds, 2% Canadian real return bonds, 15% Canadian equities, 14% U.S. equities, 14% international (EAFE) equities, 4% emerging markets equities, 15% real estate, 8% infrastructure, 10% in a global opportunistic strategy and 3% cash.

MANAGEMENT DISCUSSION AND ANALYSIS OF 2018 CONSOLIDATED FINANCIAL STATEMENTS AND OPERATING RESULTS CONTINUED

This asset mix selected is designed to reduce the volatility in WorkSafeNB's annually reported operating income, funded ratio and assessment rates. WorkSafeNB plans to conduct another asset liability study in 2019.

The table below shows the fair value of WorkSafeNB investments by investment type as of December 31.

INVESTMENTS ($000s)	2018	2017
Forward foreign exchange contracts	(15,531)	6,063
Fixed income	202,213	205,055
Equities	588,601	639,815
Real return bonds	42,733	54,353
Real estate	225,475	222,440
Infrastructure	110,145	92,968
Global Opportunistic	141,027	135,746
TOTAL INVESTMENTS	1,294,663	1,356,440

WorkSafeNB's investment strategy is documented in the Statement of Investment Philosophy and Beliefs Policy and the Investment Goals and Objectives Policy. The Statement of Investment Philosophy and Beliefs Policy documents the governance structure for investments, the board's commitment to a disciplined approach to investing, our view on diversification as a method to reduce risk, the importance of the asset allocation decision, along with our view on ethics and investment education. The Investment Goals and Objectives Policy identifies the policy asset mix and the performance objectives, and defines eligible investments and limits on risk concentrations. All of WorkSafeNB's investments are managed by independent external investment managers. The compliance of these portfolio managers with policy is monitored regularly. To minimize the volatility of returns, WorkSafeNB's portfolio is diversified among asset classes, industry sectors, geographic locations and individual securities. WorkSafeNB further diversifies by selecting investment managers with varying investment mandates and styles.

Benefits Liabilities

At the end of each fiscal year, WorkSafeNB determines its benefits liabilities for all accidents that have occurred to that date. These liabilities represent the actuarial present value of all future benefits and related administration costs. As at December 31, 2018, claim benefit liabilities were broken down as follows:

BENEFITS LIABILITIES ($000s)	2018	2017
Short-term disability and rehabilitation	232,638	178,108
Long-term disability	857,101	781,077
Survivor benefits	82,537	83,887
Health care	754,885	611,653
TOTAL BENEFITS LIABILITY	1,927,161	1,654,725

Funded Position

WorkSafeNB's funding policy specifies a funding goal (ratio of assets to liabilities) of 110%. This permitted excess of assets over liabilities reduces the impact of year-to-year fluctuations, therefore, providing assessment rate stabilization and enhanced security that awarded benefits will be met. The assessment revenue raised in any year from assessed employers may include or be reduced by an amount designed to allow WorkSafeNB to attain its funding goal.

In its *Report of the Task Force on WorkSafeNB* of July 2018, the Task Force recommended increasing the target funding level from 110% to 120%. WorkSafeNB's funding policy will be changed to reflect this recommendation in the near term. WorkSafeNB's funded ratio at December 31, 2018 is 88.0% (2017 – 102.2%).

MANAGEMENT DISCUSSION AND ANALYSIS OF 2018 CONSOLIDATED FINANCIAL STATEMENTS AND OPERATING RESULTS CONTINUED

Under the *Workers' Compensation Act,* a minimum funding level of 100% is required, with any shortfall to be recovered within a reasonable and prudent period not greater than 15 years.

CONSOLIDATED STATEMENT OF OPERATIONS

FINANCIAL HIGHLIGHTS CONSOLIDATED STATEMENT OF OPERATIONS ($000s)	2018	2017
Premium income	302,919	257,741
Investment income	(17,638)	132,368
Claims costs incurred	496,437	466,036
Administration costs	52,450	52,454
Excess of (expenses) over income attributable to WorkSafeNB	(271,535)	(134,339)
Market rate of return of portfolio	(1.32%)	10.29%

REVENUES

WorkSafeNB's revenue is derived from two sources: assessment income and investment income. In 2018, revenues totaled $285.3 million, a 26.9% decrease from 2017 revenues of $390.1 million.

Assessment Income

Assessment income consists of premiums from assessed employers and revenue from self-insured employers. Assessed employers pay premiums based on their assessment rate and assessable payroll. The assessment rate is applied to each $100 of assessable payroll to arrive at the total premium. Revenue from self-insured employers reflects recoveries of claim payments made on behalf of these employers, an allocation of administration costs to manage the claims, and the change in the actuarial valuation of self-insured employers' benefit liabilities.

Overall, assessment income increased 17.5% from $257.7 million in 2017 to $302.9 million in 2018. Revenue from assessed employers increased 27.7% primarily due to an increase in the provisional average assessment rate from $1.48 in 2017 to $1.70 in 2018. Assessable payrolls were slightly higher than budgeted by 3.9%. Revenue from self-insured employers increased 14.3% as a result of increased claim costs. Employer payrolls increased from $9.18 billion to $9.69 billion because of increased activity in the construction sector, provincial economic growth, and annual increase to the maximum insurable earnings. In 2018, the maximum insurable earnings increased from $62,700 to $63,600.

ASSESSMENT INCOME ($000s)	2018	2017
Assessed employers	162,897	135,188
Self-insured employers	140,022	122,553
Total assessment income	302,919	257,741
Assessable payroll	$9.69 billion	$9.18 billion

Investment Income

Investment income decreased from $132.4 million in 2017 to a loss of $17.6 million in 2018. The decrease is attributable to unrealized losses on WorkSafeNB's investments due to negative returns in most capital markets in 2018.

Investment income is an important revenue stream for WorkSafeNB. It is relied on to supplement assessments to cover total expenses for the year. Built into the valuation of the benefits liabilities and into the assessment rate-setting model is the long-term assumption that WorkSafeNB's investments will generate an annual real rate of return of 3.75%. In 2018, the real rate of return on the portfolio was -3.31%. For the 25-year period ended December 31, 2018, the annualized real rate of return on the portfolio was 5.20%.

INVESTMENT INCOME ($000s)	2018	2017
Interest and dividends	33,967	29,624
Net realized gains on investments	37,195	72,445
Change in net unrealized gains on investments	(82,427)	36,706
Portfolio management expenses	(6,373)	(6,407)
TOTAL INVESTMENT INCOME	(17,638)	132,368

EXPENSES

WorkSafeNB's expenses consist of claims costs, administration costs, and legislative obligations. In 2018, expenses increased by 5.7% from $522.4 million to $552.3 million.

EXPENSES ($000s)	2018	2017
Claims costs	496,437	466,036
Administration costs	52,450	52,454
Legislative obligations	3,461	3,865
TOTAL EXPENSES	552,348	522,355

Claims Costs

Claims costs represent costs incurred in the current year for current and prior year injuries. These costs include benefit payments made and changes in the actuarial valuation of the benefits liability. In 2018, these costs totaled $496.4 million; a 6.5%increase from the $466.0 million incurred in 2017. This increase is primarily attributable to rising claim duration and growth in the volume of hearing loss claims.

Fundamental to the actuarial valuation are the discount rates used to value the liabilities. The assumed discount rate for 2018 remained unchanged at 6.08%.

CLAIMS COSTS ($000s)	2018	2017
Short-term disability and rehabilitation	125,019	106,461
Long-term disability	141,802	172,926
Survivor benefits	7,455	7,349
Health care	222,161	179,300
TOTAL CLAIMS COSTS	496,437	466,036

Administration Costs

In 2018 WorkSafeNB's administration costs were on par with the previous year.

Legislative Obligations

WorkSafeNB is required by legislation to reimburse the provincial government for operating costs of the workers' and employers' advocates, which were $1.2 million in 2018 (2017 – $1.5 million) and $1.6 million in 2018 (2017 - $1.7 million) for WCAT.

In 2018, WorkSafeNB provided $688 thousand (2017 - $698 thousand) of financial assistance to three safety associations as per the

MANAGEMENT DISCUSSION AND ANALYSIS OF 2018 CONSOLIDATED FINANCIAL STATEMENTS AND OPERATING RESULTS CONTINUED

Workers' Compensation (WC) Act – the New Brunswick Construction Safety Association, the New Brunswick Continuing Care Safety Association, and the New Brunswick Forest Safety Association. The money paid is levied against all employers in the industries represented by the safety associations and is included as part of assessment income.

KEY FINANCIAL DRIVERS

Employment, Accident Frequency and Claim Duration

Work-related injuries arise from employment. Changes in New Brunswick's employment base and trends in injury frequency and claim duration are the primary drivers of WorkSafeNB's operations and the key determinants of the assessment rates that employers pay, as well as the claims costs paid directly by self-insured employers.

WorkSafeNB currently faces claims with longer durations and increased benefit levels due to unintended consequences of previous legislative changes. Some of the forces that can mitigate increases in injury frequency are:

- Good safety practices by both workers and employers.
- WorkSafeNB's focus on high-risk industries.
- Safety leadership.

Some of the forces that can positively influence claim duration are:

- A focus on early intervention, stay at work, and safe return to work.
- Promptly filing claims reports.
- Early assessment of functional abilities with a comprehensive rehabilitation plan.
- Graduated/modified employer-sponsored return to work plan in place.

Claim duration/severity is particularly important, as a relatively small number of claims account for a very sizable portion of benefit costs.

Inflation Rate

The inflation rate, or Canadian consumer price index (CPI), is a key driver because WorkSafeNB's future short-term disability, long-term disability, survivor and other benefits and allowances are indexed annually based on the CPI.

Over the past 10 years, the rate used for the indexation of lost-time benefits has ranged from a low of 0.73% to a high of 2.52%, with the average rate being 1.59%.

Investment Returns

WorkSafeNB collects assessments to cover the entire present and future expected costs of injuries incurred in a given year. The assessments collected are invested to produce an expected long-term average real return of 3.75%. This real return is the expected return in excess of inflation, as measured by the increase in the CPI. This return expectation is based on achieving investment returns similar to the historical long-term average returns for the asset classes in which the portfolio is invested, with the exception of fixed income investments, which are expected to deliver lower returns than their recent historical average.

In 2018, markets experienced volatility, with global equities entering a rough patch in the later part of the year. The improved economic conditions in 2018 had allowed some central banks to continue to move towards a more normalized monetary policy, with the U.S. Federal Reserve raising rates on four occasions, the Bank of Canada on three occasions and the Bank of England on one occasion. In the fourth quarter equity markets turned negative as a result of concerns of slowing global growth, inflation fears, rising interest rates and continuing global trade and political concerns. In Canadian dollar terms, U.S equities and bonds were able to maintain positive results for the year, whereas Canadian, International and emerging markets equities ended the year in negative territory.

MANAGEMENT DISCUSSION AND ANALYSIS OF 2018 CONSOLIDATED FINANCIAL STATEMENTS AND OPERATING RESULTS CONTINUED

Most of the equity asset classes in WorkSafeNB's portfolio were poor performers in 2018. The strongest returns were delivered by U.S equities (S&P 500 index) which gained 4.23% in Canadian dollar terms. International equities (MSCI EAFE index) and emerging markets (MSCI EM index) returned -6.03% and -6.51%, respectively, both in Canadian dollar terms. Canadian equities (S&P TSX) trailed with a return of -8.89% for the year.

Canadian bonds, as represented by the FTSE TMX Universe Bond Index, gained 1.41% for the year. Long bonds, represented by the FTSE TMX Long Overall Bond Index, gained 0.31%, and real return bonds, represented by the FTSE TMX Real Return Bond Index, lost 0.05%. Canadian real estate had a reasonable year overall, with the REALpac/IPD Canada All Property Index returning 7.84%.

WorkSafeNB's total investment portfolio earned a return of -1.32% in 2018. Inflation for the same period has averaged 2.0%, resulting in a real return of -3.3% for the period. This underperformed the expected real return objective by 7.1%. WorkSafeNB's investment return for the 25 years ended December 31, 2018 has averaged 7.0%. Inflation for the same period has averaged 1.8%, resulting in an average real return of 5.2% for the period. This exceeds the expected real return objective by 1.4%.

While the expected average real return is 3.75% over long periods, the actual real rate of return can vary significantly over shorter periods due to short-term volatility in the financial markets where WorkSafeNB's portfolio is invested. The long-term fiscal strategy and investment policies document WorkSafeNB's strategy for maintaining investment and funding discipline in volatile markets. Based on the market value of the investment portfolio at December 31, 2018, each one percent of annual investment return over or under the expected return of CPI plus 3.75% translates to an excess or shortfall of approximately $13.6 million.

RISKS

Trends and events within New Brunswick and across Canada are intricately linked to the achievement of our vision, with environmental, economic and societal factors posing risks as well as opportunities for WorkSafeNB. To maximize opportunities and manage risks, the board of directors annually reviews its strategic direction and the risks facing the organization, and decides whether to reaffirm or adjust treatment of its risk portfolio and its strategies.

WorkSafeNB plays an important role in the New Brunswick economy. Our 2019-2021 strategic plan is based on core pillars that together, form the foundation of our work moving forward to ensure the sustainability of the workers' compensation system for years to come. The plan demonstrates how we will provide public value by driving a safety-first culture, achieving effective recovery, protecting system sustainability, and building a workplace that is committed to superior service. There are many opportunities for growth and innovation within each of these focus areas and we are ready for them. The change will benefit all New Brunswickers. We are committed to undertaking this transformation of WorkSafeNB and to being responsive and nimble when external factors require us to adjust our course.

LOOKING AHEAD

Business Outlook

In 2019, WorkSafeNB will continue to advance its safety leadership initiative, which is a multi-year strategy to foster a safety culture in New Brunswick. Improving the client experience will also remain top priority for WorkSafeNB. WorkSafeNB is currently in the early stages of transforming the way we operate through performance excellence management.

MANAGEMENT DISCUSSION AND ANALYSIS OF 2018 CONSOLIDATED FINANCIAL STATEMENTS AND OPERATING RESULTS CONTINUED

Legislation requires WorkSafeNB to collect enough assessment revenue in the current year to pay for all current and future costs for accidents that occur in that year.

Financial Management

Capital markets always carry an amount of risk and it is critical for WorkSafeNB to maintain a disciplined planning and decision-making process to protect the Accident Fund's integrity and stability. WorkSafeNB is a long-term investor. This allows for patience and the ability to stay committed to proven investment principles and beliefs.

Summary

To accomplish the ambitious transformation of WorkSafeNB underway, we know we must work closer than ever with our stakeholders and actively seek out new partnerships, while finding creative and innovative ways to better perform our work. As we move forward, we will focus on improving our return to work outcomes by working with employers, the medical community and workers. We will also be ensuring our processes and legislation support this key focus and incentivize reporting of injuries in a timely manner, efficient claim registration, and return to work as an important element of recovery.

We will also be expanding our health and safety efforts by clarifying health and safety obligation for health and safety inspectors and working with the fishing industry to improve health and safety for employees on fishing vessels.

We encourage you to participate in our consultations and stay connected throughout this journey as we work to build healthier and safer workplaces.

WorkSafeNB will continue to be a steadfast champion for our workers and our employers, working with partners to continuously look for ways to minimize the impact of workplace illness and injury while contributing to the prosperity of our province.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

WorkSafeNB's consolidated financial statements were prepared by management, which is responsible for the integrity and fairness of the data presented, including significant accounting judgments, estimates and actuarial assumptions. This responsibility includes selecting and applying appropriate accounting principles and actuarial assumptions consistent with International Financial Reporting Standards.

In discharging its responsibility for the integrity and fairness of the consolidated financial statements, management maintains the internal controls necessary to provide reasonable assurance that relevant and reliable financial information is produced, and that assets are properly safeguarded. The Internal Audit Department conducts reviews to ensure that WorkSafeNB's internal controls and procedures are adequate, consistent, and applied uniformly.

The board of directors is responsible for evaluating management in the performance of financial reporting responsibilities, and has approved the consolidated financial statements included in this annual report. The board of directors is assisted by the Audit Committee, which reviews and recommends approval of the consolidated financial statements and meets periodically with management, the independent actuaries, the independent auditors and the internal auditor, concerning internal controls and all other matters relating to financial reporting.

Morneau Shepell, WorkSafeNB's independent consulting actuary, has completed an actuarial valuation of the benefits liabilities included in WorkSafeNB's consolidated financial statements and reported thereon in accordance with accepted actuarial principles.

Grant Thornton, WorkSafeNB's independent auditors, has performed an audit of WorkSafeNB's consolidated financial statements in accordance with International Financial Reporting Standards. The Independent Auditors' Report outlines the scope of this independent audit and includes the opinion expressed on the consolidated financial statements.

Doug Jones

Doug Jones
President and Chief Executive Officer
WorkSafeNB

Scott Allaby

Scott Allaby, CPA, CGA
Acting Chief Financial Officer
WorkSafeNB

ACTUARIAL STATEMENT OF OPINION

I have completed the actuarial valuation of the benefit liabilities of WorkSafe New Brunswick ("WorkSafeNB") as at December 31, 2018 (the "valuation date"). Details of the data, actuarial assumptions, valuation methods and results are included in the actuarial valuation report as at the valuation date, of which this statement of opinion forms part.

1. The data on which the valuation is based were provided by WorkSafeNB. We applied such checks of reasonableness of the data as we considered appropriate. The data on which the valuation is based are sufficient and reliable for the purpose of the valuation.

2. The economic assumptions are consistent with WorkSafeNB's long term fiscal strategy and investment policies. The discount rates used are disclosed in note 3 to the financial statements. The actuarial assumptions adopted in computing the liabilities are adequate and appropriate for the purpose of the valuation.

3. The methods used are appropriate for the purpose of the valuation and are in accordance with accepted actuarial practice for Workers' Compensation organizations in Canada.

4. The estimate of the actuarial liabilities as at the valuation date is $1,561,298,000 for assessed employers and $365,863,000 for self-insured employers for a total of $1,927,161,000. This includes provisions for benefits and future administrative expenses expected to be paid after the valuation date for claims that occurred on or before the valuation date. It also includes a provision for potential long latency occupational disease claims associated with exposure that occurred on or before the valuation date.

5. The liability as at the valuation date for pension contributions and accumulated interest already set aside by WorkSafeNB up to the valuation date for purposes of providing pension benefits at age 65 to injured workers and dependent spouses of deceased workers is included in the above figures and was obtained from WorkSafeNB's Chief Financial Office staff.

6. The amount of the actuarial liabilities makes appropriate provision for all personal injury compensation obligations, and the financial statements fairly present the results of the valuation.

7. This report has been prepared, and my opinions given, in accordance with accepted actuarial practice in Canada.

8. The valuation is based on the provisions of the Workers' Compensation Act of New Brunswick and on WorkSafeNB's policies and practices in effect on the valuation date. Only benefits covered by the Workers' Compensation Act are included in this valuation.

Conrad Ferguson, F.C.I.A.
MORNEAU SHEPELL
MAY 2019

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors

WorkSafeNB

Opinion
We have audited the consolidated financial statements of Workplace Health, Safety and Compensation Commission of New Brunswick (operating as WorkSafeNB), which comprise the consolidated balance sheet as at December 31, 2018, and the consolidated statement of operations, consolidated statement of changes in fund balances and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion
We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of WorkSafeNB in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS"), 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.

In preparing the consolidated financial statements, management is responsible for assessing WorkSafeNB's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate WorkSafeNB or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing WorkSafeNB's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of WorkSafeNB's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on WorkSafeNB's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause WorkSafeNB to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Saint John, Canada
May 13, 2019

Grant Thornton LLP

Grant Thornton LLP
Chartered Professional Accountants

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31, 2018

	2018 (000s)	2017 (000s)
ASSETS		
Cash and cash equivalents (Note 5)	**$ 65,916**	$ 72,634
Receivables and other (Note 6)	**14,769**	11,129
Recoverable benefits liabilities (Note 2)	**354,040**	282,760
Investments (Notes 7 and 8)	**1,294,663**	1,356,440
Capital assets (Note 9)	**10,076**	11,046
	$ 1,739,464	$ 1,734,009
LIABILITIES AND FUNDED POSITION		
Payables and accruals (Note 10)	**$ 16,168**	$ 16,372
Benefits liabilities (Notes 3, 4 and 11)		
Assessed employers	**1,561,298**	1,360,828
Self-insured employers	**365,863**	293,897
Total benefits liabilities	**1,927,161**	1,654,725
Total liabilities	**1,943,329**	1,671,097
WorkSafeNB funded position	**(234,070)**	37,465
Non-controlling interests (Note 2)	**30,205**	25,447
	(203,865)	62,912
	$ 1,739,464	$ 1,734,009

On behalf of the board of directors:

James E. A. Stanley
Audit Committee,
Board of Directors

Tina Soucy
Audit Committee,
Board of Directors

Haley Flaro
Chairperson, Audit Committee
Acting Chairperson,
Board of Directors

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2018

	2018 (000s)	2017 (000s)
INCOME		
Assessments (Note 12)	**$ 162,897**	$ 135,188
Investments (Note 7)	**(17,638)**	132,368
Self-insured employers (Note 13)	**140,022**	122,553
	285,281	390,109
EXPENSES		
Claims costs incurred (Note 11)		
Assessed employers		
Benefit payments	**165,990**	160,056
Changes in actuarial valuation of benefit liabilities	**200,470**	191,423
	366,460	351,479
Self-insured employers		
Benefit payments	**58,010**	52,084
Changes in actuarial valuation of benefit liabilities	**71,967**	62,473
	129,977	114,557
Total claims costs incurred	**496,437**	466,036
Administration (Note 14)	**52,450**	52,454
Legislative obligations (Note 15)	**3,461**	3,865
	55,911	56,319
Total expenses	**552,348**	522,355
Excess of (expenses) over income for the year	**$ (267,067)**	$ (132,246)
Excess of (expenses) over income for the year attributable to:		
WorkSafeNB	**(271,535)**	(134,339)
Non-controlling interests (Note 2)	**4,468**	2,093
	$ (267,067)	$ (132,246)

The accompanying notes form an integral part of the consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CHANGES IN FUNDED POSITION

FOR THE YEAR ENDED DECEMBER 31, 2018

	WorkSafeNB (000s)	Non-controlling interests (000s)	2018 Total (000s)	2017 Total (000s)
Funded position, beginning of year	$ 37,465	$ 25,447	$ 62,912	$ 191,205
Capital contributions by non-controlling interests	-	515	515	6,395
Distributions to non-controlling interests	-	(225)	(225)	(2,442)
Excess of (expenses) over income for the year	(271,535)	4,468	(267,067)	(132,246)
Funded position, end of year	$ (234,070)	$ 30,205	$ (203,865)	$ 62,912

The accompanying notes form an integral part of the consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2018

	2018 (000s)	2017 (000s)
Cash flow from operating activities		
Cash received from:		
Assessed employers	$ 160,342	$ 129,821
Self-insured employers	66,776	63,224
Interest and dividends	35,479	29,535
	262,597	222,580
Cash paid to:		
Injured workers or third parties on their behalf (Note 11)	224,001	212,140
Suppliers and employees, for administration and other services	59,549	61,799
	283,550	273,939
Net cash used in operating activities	(20,953)	(51,359)
Cash flow from investing activities		
Cash received from:		
Sale of investments	204,248	315,693
Contributions by non-controlling interests	515	6,262
	204,763	321,955
Cash paid for:		
Purchase of investments	188,415	336,674
Purchase of capital assets	1,888	3,520
Distributions to non-controlling interests	225	2,458
	190,528	342,652
Net cash provided by (used in) investing activities	14,235	(20,697)
Decrease in cash during the year	(6,718)	(72,056)
Cash and cash equivalents, beginning of year	72,634	144,690
Cash and cash equivalents, end of year	$ 65,916	$ 72,634

The accompanying notes form an integral part of the consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018

1. AUTHORITY AND NATURE OF OPERATIONS

The Workplace Health, Safety and Compensation Commission (operating as WorkSafeNB) was established by the New Brunswick Legislature effective January 1, 1995, under the *Workplace Health, Safety and Compensation Commission Act (WHSCC Act)*. WorkSafeNB, having its head office at 1 Portland Street, Saint John, New Brunswick, is responsible for administering the *Workplace Health, Safety and Compensation Commission and Workers' Compensation Appeals Tribunal Act (WHSCC & WCAT Act),* the *Workers' Compensation Act (WC Act),* and the *Occupational Health and Safety Act (OHS Act);* and, in accordance with the provisions of these acts, for promoting accident prevention; administering benefits payments to injured workers and surviving spouses; and levying and collecting employer assessments sufficient to fund the current and future costs of existing claims.

WorkSafeNB is also responsible for administering the *Firefighters' Compensation Act (FC Act)* and, in accordance with the provisions of the Act, for administering the payment of benefits to firefighters or former firefighters and dependants, and levying and collecting assessments from municipalities, rural communities and local service districts. The results of operations under the *FC Act* are not included in WorkSafeNB's consolidated financial statements, as WorkSafeNB does not control the *FC Act* Disability Fund. A separate set of financial statements is prepared for the *FC Act*.

WorkSafeNB's consolidated financial statements will be authorized for issue subject to a resolution of the board of directors on May 21, 2019.

2. SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES

The accounting policies set out below have been applied in preparing the consolidated financial statements for the year ended December 31, 2018 and the comparative information for the year ended December 31, 2017.

Accounting policies are selected and applied to ensure that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

(a) Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) in effect at December 31, 2018 and are presented in thousands (000s) of Canadian dollars, unless otherwise stated.

WorkSafeNB's consolidated financial statements have been prepared on a historical cost basis except for investments, which are measured at fair value and benefits liabilities, which are discounted to present value based on the assumptions detailed in Note 3.

The accompanying notes form an integral part of the consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES (CONTINUED)

(b) Basis of consolidation

The consolidated financial statements include the accounts of WorkSafeNB and WorkSafeNB Investments Limited (WSNBIL). WSNBIL is a subsidiary over which WorkSafeNB exercises control, which is defined as having the power to direct the relevant activities of an entity, having exposure or rights to variable returns of the entity, and having the ability to affect the returns through the power it holds. WSNBIL holds infrastructure and real estate assets in trust for WorkSafeNB, the Workers Compensation Board of Prince Edward Island (WCB of PEI) and the *FC Act* Disability Fund. The proportionate ownership of the net assets as at December 31, 2018 was: WorkSafeNB – 84.05%, WCB of PEI – 14.55%, *FC Act* Disability Fund – 1.40%. All transactions and balances between WorkSafeNB and WSNBIL are eliminated on consolidation.

Non-controlling interests, presented as part of equity, represent the portion of WSNBIL's net assets that are held by the WCB of PEI and the *FC Act* Disability Fund.

(c) Current and future accounting policy adjustments

The International Accounting Standards Board (the IASB) is continually working toward improving and developing new accounting standards. The IASB has issued a number of exposure drafts of new standards that are expected to come into effect over the next several years. WorkSafeNB continually monitors the IASB work plans and publications to assess any potential impact on the organization. Notable accounting standard developments that may impact WorkSafeNB in the future are as follows:

IFRS 9 – *Financial Instruments* – The standard introduces new requirements to classify and measure financial assets, as well as a new expected credit loss model to recognize and measure impairment on all financial instruments. WorkSafeNB has invoked the temporary exemption option for the implementation of IFRS and will implement the standard in conjunction with IFRS 17 – *Insurance Contracts*. WorkSafeNB qualifies for the temporary exemption due to operations that consist primarily of insurance activities and the insurance liabilities are in excess of 90% of WorkSafeNB's total liabilities.

IFRS 15 – *Revenue from Contracts with Customers* – Effective January 1, 2018, WorkSafeNB adopted IFRS 15 – *Revenue from Contracts with Customers* which was issued in May 2014, and replaces *IAS 11 – Construction Contracts*, *IAS 18 – Revenue* and several interpretations. Amendments to IFRS 15 were issued in April 2016. IFRS 15 clarifies revenue recognition principles, provides a robust framework for recognizing revenue and cash flows arising from contracts with customers and enhances qualitative and quantitative disclosure requirements. IFRS 15 does not apply to insurance contracts, financial instruments and lease contracts. WorkSafeNB adopted IFRS 15 using the modified retrospective method with no restatement of comparative information.

WorkSafeNB service arrangements are generally satisfied over time, with revenue measured and collected from customers within a short term, as services are rendered.

Adoption of IFRS 15 did not have a significant impact or result in transitional adjustments on WorkSafeNB's Consolidated Financial Statements.

2. SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES (CONTINUED)

IFRS 16 – *Leases* – The standard requires that all leases, with the exception of low dollar value and short-term leases be recognized as assets and liabilities on the balance sheet. Under the standard, a lessee is required to recognize a right-of-use asset, which represents its right to use the underlying asset and a lease liability representing its obligation to make lease payments. WorkSafeNB's lease contracts for office space will be reported in accordance with IFRS 16 effective January 1, 2019.

IFRS 17 – *Insurance Contracts* – This standard represents a major change to the accounting for insurance contracts and will significantly impact WorkSafeNB's financial reporting. WorkSafeNB is considering the impact of this standard, which is effective for reporting periods on or after January 1, 2022.

(d) Use of accounting estimates and measurement uncertainty
The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying WorkSafeNB's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, have been disclosed in Notes 2 and 3. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could be higher or lower than these estimates.

(e) Critical accounting judgments
Management incorporates critical judgments in developing and applying accounting policies for recognition and measurement. These judgments have a direct effect on the initial and subsequent recognition and measurement of transactions and balances in the consolidated financial statements. Management has based its judgments and assumptions on information available at the time of preparing the consolidated financial statements.

A significant judgment relates to management's assessment, based on their interpretation of the *WC Act* and related agreements, that WorkSafeNB has insurance risk related to the benefit liability for self-insured employers. As a result, WorkSafeNB has recognized the benefit liability related to these self-insured employers in the consolidated financial statements.

(f) Cash and cash equivalents
Cash and cash equivalents are recorded at fair value and consist of cash and fixed income instruments with maturities of less than one year.

(g) Assessment income
Assessment income is calculated on actual or estimated payrolls as reported by the employer, or on arbitrary assessments as determined by WorkSafeNB. Separate assessment rates are established for each industry classification. An allowance for doubtful accounts is provided for assessments receivable based on management's best estimate.

A portion of assessment income for the year is not billed or received until after year-end. The receivable is determined based on amounts billed and received subsequent to year-end. Any difference between unbilled assessments and the actual assessments received is credited or charged to income in the following year.

2. SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES (CONTINUED)

(h) Investments

All portfolio investments, except forward foreign exchange contracts, are designated by WorkSafeNB as financial assets at fair value through profit or loss on initial recognition, and are recorded at fair value. Forward foreign exchange contracts are classified as held-for-trading and are recorded at fair value. Interest and dividend income and realized gains and losses on all portfolio investments are included in investment income. Interest and dividend income is recognized in the period earned and realized gains and losses are recognized in the period in which they arise. Unrealized gains and losses are included in investment income and recognized in the period in which they arise. All purchases and sales of securities classified as portfolio investments are recognized using trade-date accounting.

All portfolio investments, except forward foreign exchange contracts, are designated by WorkSafeNB as financial assets at fair value through profit or loss on initial recognition because the portfolio is managed and its performance is evaluated on a fair value basis, in accordance with the policies and directives that document WorkSafeNB's investment strategy and risk controls. The portfolio investments are held to provide for the benefits liabilities. The most relevant measure to assess whether the investments are sufficient to pay for the liabilities is fair value. As the portfolio investments are a key part of WorkSafeNB's ongoing insurance operations, the interest and dividend income and the realized and unrealized gains and losses on the portfolio investments are recognized in income from operations.

Fair values of investments are determined as follows:

- Publicly traded equity securities are valued at their year-end quoted market prices as reported on recognized public securities exchanges.
- Fixed-term investments are valued at their year-end closing market prices or the average of the latest bid/ask prices, based on available public quotations from recognized dealers in such securities.
- Commercial paper, short-term notes and treasury bills and term deposits maturing within a year are valued at either their year-end closing or bid price, based on available quotations from recognized dealers in such securities, or at cost plus accrued interest, which approximates fair value.
- Pooled fund units are valued at their year-end net asset value, as determined by the fund manager or administrator. For pooled funds holding equity and fixed-income assets, these values represent WorkSafeNB's proportionate share of underlying net assets at fair values determined using either quoted market prices or year-end closing market prices or the average of the latest bid/ask prices, based on available public quotations from recognized dealers in such securities. For pooled funds holding derivatives, cleared derivatives are valued at the closing price quoted by the relevant clearing house, and over-the-counter derivatives are valued using an industry standard model. Exchange-traded options are valued at the last sale price or the closing bid price for long positions and the closing ask price for short positions. For real estate pooled funds classified as level 1 in the fair value hierarchy, these values represent WorkSafeNB's proportionate share of the underlying net assets at fair values determined using independent appraisals, net of any liabilities against the fund assets. For infrastructure pooled funds and real estate pooled funds classified as level 3 in the fair value hierarchy, these values represent WorkSafeNB's proportionate share of the underlying net assets at fair values estimated using one or more methodologies, including discounted cash flows, multiples of earnings measures, and recent comparable transactions. In the first year of ownership, cost is considered to be an appropriate estimate of fair value.

2. SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES (CONTINUED)

- Forward foreign exchange contracts are valued at their net unrealized gain or loss, based on quoted market exchange rates at the balance sheet date.

(i) Fair value of other financial assets and liabilities
The carrying value of receivables and payables approximates their fair value because of the short-term nature of these instruments.

(j) Foreign currencies
Assets denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the balance sheet date. Income from these assets is translated at the rate in effect at the time the income is received. Realized exchange gains or losses are included in investment income and recognized in the period earned. Unrealized exchange gains or losses resulting from the translation of foreign currency denominated asset balances are recorded in investment income in the period in which they arise.

(k) Benefits liabilities
Benefits liabilities represent the actuarial present value of all future benefits payments expected to be made for claims that occurred in the current fiscal year or in any prior year. The benefits liabilities include provision for all benefits provided by current legislation, policies and administrative practices of existing claims. Benefits liabilities also include the estimated liability for latent occupational disease and a provision for future administration costs of existing claims. Due to the nature of the estimated liability for latent occupational disease and the extent of related historical claims information available, this liability is more uncertain by its nature than other benefits liabilities. As information is accumulated and analyzed, adjustments may be necessary to improve precision. The benefit liability calculations are completed by WorkSafeNB's internal actuarial staff, in accordance with accepted actuarial practice established by the Canadian Institute of Actuaries.

It is WorkSafeNB's practice to have an independent consulting actuary complete a valuation of the benefits liabilities of WorkSafeNB every year. Actual future costs could be higher or lower than those amounts presented in the consolidated financial statements.

A variety of estimation techniques are used to perform the valuation. They are generally based on statistical analyses of historical experience that assume that the development pattern of the current claims will be consistent with past experience.

To the extent possible, and when deemed more appropriate, seriatim valuation by award is used. More general techniques are used to estimate outstanding awards. Allowance is made, however, for changes or uncertainties that may create distortions in the underlying statistics or that might cause the cost of claims to increase or reduce when compared with the cost of previously settled claims including, but not limited to:

- Changes in WorkSafeNB processes that might accelerate or slow down the development and/or recording of claims.
- Changes in WorkSafeNB policies that might affect benefits.
- Changes in the legal environment.
- Medical and technological developments.

2. SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES (CONTINUED)

Multiple techniques are adopted to estimate the required level of provisions. This helps to better align the trends inherent in the data being projected to the benefit type being valued. The most appropriate estimation technique is selected taking into account the characteristics of the benefit type and the extent of the development of each accident year. Details of specific assumptions used in deriving the outstanding claims liability at year-end are detailed in Note 3.

(l) Recoverable benefits liabilities and self-insured employers

These consolidated financial statements include the effects of transactions carried out for self-insured employers (predominately federal and certain provincial government institutions) who bear the direct cost of their incurred claims and an appropriate share of administration costs.

The benefits liabilities recorded in these consolidated financial statements include obligations to injured workers of self-insured employers, excluding those injured workers and dependants receiving benefits under the federal *Government Employees Compensation Act* or the *Silicosis Compensation Act*. These obligations represent the actuarial present value of all expected future benefits payments on behalf of self-insured employers, for claims that occurred in the current fiscal year, or in any prior year. As these liabilities will be borne by the self-insured employers when paid, an offsetting recovery equal to the benefits liabilities is reported on the balance sheet as recoverable benefits liabilities. Self-insured employers who are Crown corporations are required to provide WorkSafeNB with an irrevocable letter of credit or a guarantee from the Province of New Brunswick as security.

(m) Operating leases

WorkSafeNB has continuing obligations under operating lease agreements for certain office space. Operating lease payments are charged as an expense in the statement of operations on a straight-line basis over the lease term.

(n) Capital assets

Capital assets are reported at cost and are depreciated on a straight-line basis over their estimated useful lives. The rates used are as follows:

Buildings	25 years
Furniture and equipment	5 years
Leasehold improvements	Remaining term of relevant lease
Computer software and hardware	3 years
Motor vehicles	3 years, 35% residual value

The assets' residual values are reviewed each balance sheet date and adjusted, if appropriate. Gains and losses on disposal are determined by comparing the proceeds with the carrying amount, and are included in investment income.

As at December 31, 2018, items of property, plant and equipment were assessed for specific indicators of potential impairment. Such indicators include technological obsolescence and physical deterioration or loss. Management determined that there was no material impairment of individual operating assets.

2. SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES (CONTINUED)

(o) Post-employment benefits

Payables and accruals include an amount for post-employment benefits based on a January 1, 2019 actuarial valuation conducted by WorkSafeNB's independent consulting actuary. Post-employment benefits include retirement allowances and early retirement programs.

(p) WorkSafeNB's Rehabilitation Centre

Included in health care payments is $6.8 million (2017 – $8.6 million) for services provided by WorkSafeNB's Rehabilitation Centre.

(q) Impairment review

Entity Level

IAS 36 (Impairment of Assets) requires an entity to test assets for impairment if indicators of impairment exist. The impairment review must be conducted for an individual asset, an asset group, or the cash-generating unit level, which is the smallest identifiable group of assets that generates cash inflows independent of cash inflows from other assets or groups of assets.

Based on an analysis of cash flows, WorkSafeNB has established that the appropriate cash-generating unit for impairment review is the entity. As WorkSafeNB has statutory power under the *WC Act* to increase assessments and/or impose levies to ensure full funding into the foreseeable future, impairment at the entity level is remote. WorkSafeNB conducts an annual review to ensure that no events or change in circumstances have occurred that would provide evidence of impairment.

As at December 31, 2018, management concluded that there were no known significant changes in the legislative, economic or business environment that would have a material impact on WorkSafeNB's ability to generate future economic benefits from its operating assets.

(r) Funding policy

WorkSafeNB's funding policy specifies a funding goal (ratio of assets to liabilities) of 110%. For 2018, WorkSafeNB's funding policy has reduced the funding goal to 100%. The assessment revenue raised in any year from assessed employers may include or be reduced by an amount designed to allow WorkSafeNB to attain its funding goal. WorkSafeNB's funded ratio at December 31, 2018 is 88.0% (2017 – 102.2%). Under the *WC Act,* a minimum funding level of 100% is required, with any shortfall to be recovered within a reasonable and prudent period not greater than 15 years.

3. ACTUARIAL ASSUMPTIONS AND METHODS

Significant estimates and judgments are made on outstanding benefits liabilities disclosed in the consolidated financial statements and the discount rates used to calculate the present value of future benefit payments. These estimates and judgments are continually evaluated and are based on historical experience, as well as enhancements to actuarial modeling techniques. The following explicit assumptions have been made in determining the outstanding benefits liabilities:

	2018			2017		
	CPI-indexed awards	**Medical payments (duration 16 yrs and over)**	**Other payments (duration 16 yrs and over)**	CPI-indexed awards	Medical payments (duration 16 yrs and over)	Other payments (duration 16 yrs and over)
Gross rate of return	**6.08%**	**6.08%**	**6.08%**	6.08%	6.08%	6.08%
Inflation						
- Year 1	**1.88%**	**5.25%**	**3.25%**	1.46%	5.25%	3.25%
- subsequent years	**2.25%**	**5.25%**	**3.25%**	2.25%	5.25%	3.25%
Net rate of return						
- Year 1	**4.13%**	**0.79%**	**2.75%**	4.55%	0.79%	2.75%
- subsequent years	**3.75%**	**0.79%**	**2.75%**	3.75%	0.79%	2.75%
Future administration	**6.50%**	**6.50%**	**6.50%**	6.50%	6.50%	6.50%
Occupational disease	**6.00%**	**6.00%**	**6.00%**	6.00%	6.00%	6.00%

A description of the processes used to determine these assumptions is provided below:

General statement
Assumptions are formulated to be consistent with the funding and investment policies adopted by the board. Benefits liabilities are valued based on the primary assumption that the system will be in operation for the long term. Hence, the focus is on long-term trends as opposed to short-term fluctuations around those trends.

Gross rate of return
The gross rate of return reflects the best estimate of the long-term average rate of return that can be expected using the benchmark asset allocation adopted by the board in its statement of investment goals and objectives. An estimate of a real rate of return, based on the analysis of multiple possible scenarios, is then compounded with the long-term average future inflation estimate to obtain the gross rate of return.

CPI-indexed awards inflation rate
The indexation rate in year one for short-term disability, long-term disability, pensions and survivor awards is known when the valuation is made. This calculation of the indexation rate is specified under the WC Act and the calculation for the following calendar year is made before year-end. For the first 15 years of the projection for short-term disability and seven years of the

3. ACTUARIAL ASSUMPTIONS AND METHODS (CONTINUED)

projection for long-term disability awards, the inflation rate is assumed to be the same as is implied in the development factors derived from past payment history. For subsequent durations, the inflation rate was determined from an analysis of past experience over periods of 20 and 30 years. This analysis is done annually to ensure the inflation assumption remains current. The latest analysis produced an annual inflation rate of 2.25%.

Medical payments inflation rate
For the first 15 years of the projection, the inflation rate is assumed to be the same as is implied in the development factors derived from past payment history. For duration 16 years and over, the inflation rate was determined from a study of past payment experience. The study is periodically updated to ensure the inflation assumption remains current. An analysis, conducted in 2015, resulted in an annual inflation rate that was 3.0% above the long-term inflation assumption used for CPI.

Other payments inflation rate
For the first 15 years of the projection, the inflation rate is assumed to be the same as is implied in the development factors derived from past payment history. For duration 16 and over, the inflation rate was determined from a study of past payment experience. The study is periodically updated to ensure the inflation assumption remains current. An analysis, conducted in 2015, resulted in an annual inflation rate that was 1.0% above the long-term inflation assumption used for CPI.

CPI-indexed awards net rate of return
A net rate of return is not calculated for the first 15 years following injury for short-term disability and the first seven years following injury for long-term disability awards, as there is no explicit inflation assumption. The net rate of return for other CPI-indexed benefit types and other durations is the net result from removing the inflation component of the gross rate of return from the gross rate of return on a compounded basis.

Medical payments net rate of return
A net rate of return is not calculated for the first 15 years following injury, as there is no explicit inflation assumption. The net rate of return is the net result from removing the inflation component of the gross rate of return from the gross rate of return on a compounded basis.

Other payments net rate of return
A net rate of return is not calculated for the first 15 years following injury, as there is no explicit inflation assumption. The net rate of return is the net result from removing the inflation component of the gross rate of return from the gross rate of return on a compounded basis.

Future administration
When a claim occurs, it triggers an obligation to provide claims management, maintenance and support in terms of paying the various providers of health care services and compensating workers for lost wages for as long as the claim is open. The future administration expense liability is intended to provide a reasonable allowance for this obligation.

3. ACTUARIAL ASSUMPTIONS AND METHODS (CONTINUED)

A detailed review of future administration expenses is conducted periodically. In this review, an estimate is made of the portion of operating expenses that can be attributed to claims maintenance, including a proportionate share of overhead expenses. The latest review, conducted in 2008, concluded that a 6.5% allocation was reasonable. Therefore, a liability for future administration expenses of 6.5% of the total benefits liability is included in the liability estimate.

Occupational disease

Occupational diseases differ from occupational injuries in that there can be a considerable time lag between the exposure, the manifestation of the disease and the identification of the ensuing disability as a workers' compensation claim. Furthermore, while the circumstances of an injury usually make it clear whether it is work-related or not, the link between an occupational disease and the workplace may be difficult to establish.

A detailed review of long-latency occupational disease incidence and costs is conducted periodically. The review provides a range of potential incidence and cost, based on past experience. The study includes allowance for changes in industry make-up since the experience has developed and improvements have been made in the prevention of diseases known to be work-related. The latest review, conducted in 2015, concluded that a 6.0% allocation was reasonable. This provision is deemed to include an allowance for administration expenses on these claims. Therefore, a liability for occupational disease of 6.0% of the total benefits liability is included in the liability estimate.

Sensitivity analysis

i) Summary

Sensitivity analyses are conducted to quantify the exposure to risk of changes in the key underlying variables. The valuations included in the reported results are calculated using certain assumptions about these variables as disclosed above. The movement in any key variable will impact WorkSafeNB's financial performance and funding ratio.

Impact of movement in variable:

Gross rate of return

The outstanding claims liability is calculated by reference to expected future payments. These payments are discounted to adjust for the time value of money. An increase or decrease in the assumed discount rate will have an opposing impact on claims costs.

Long-term general inflation rate

The CPI-indexed awards inflation rate, medical payments inflation rate, and other payments inflation rate are all directly affected by movements in the long-term general inflation rate. Consequently, the benefits indexed to these rates are also affected. An increase or decrease in the long-term general inflation rate would have a corresponding impact on claims costs.

Medical inflation rate

Medical expenses more than 15 years after the injury account for a major part of expected benefit payments at long durations. An increase or decrease in medical payment inflation relative to the assumption underlying the liability estimates would have a corresponding impact on claims costs.

3. ACTUARIAL ASSUMPTIONS AND METHODS (CONTINUED)

The table below presents the sensitivity of the benefits liabilities to an immediate 1% increase or decrease in the assumed rates.

ii) Impact of changes in key variables:

	2018 (000s)		2017 (000s)	
+/-% change in assumed rates	**+1.00%**	**-1.00%**	+1.00%	-1.00%
Gross rate of return	**$ (128,175)**	**$ 153,702**	$ (110,325)	$ 131,937
Long-term general inflation rate	**129,204**	**(106,640)**	111,938	(92,800)
Medical inflation rate	**70,392**	**(54,908)**	61,038	(47,573)

4. CLAIMS – RISK MANAGEMENT POLICIES AND PROCEDURES

WorkSafeNB's financial condition and operation is affected by a number of key risks, including claims, operational and financial risks. WorkSafeNB has established policies and procedures to manage these risks as set out below.

(a) Claims risk

WorkSafeNB has an objective to manage claims risk, thus reducing the volatility of assessment premiums and performance from operations. In addition to the inherent uncertainty of claims risk, which can lead to significant variability in the loss experience, performance from operations are significantly affected by market factors external to WorkSafeNB.

WorkSafeNB has developed, implemented and maintained a sound and prudent claims risk management strategy that encompasses all aspects of WorkSafeNB's operations.

The strategy sets out WorkSafeNB's policies and procedures, processes and controls in relation to the management of likely financial and non-financial claims risks.

Key aspects of the processes in place to mitigate claims risks include:

- Established processes for managing claims in accordance with the *WHSCC & WCAT Act* and the *WC Act*.
- A disciplined strategic planning and risk assessment process.
- A tracking system that requires the costing of any benefit changes from changes in policy, legislation and appeals decisions.
- Targeted programs for high-risk industries.
- The use of sophisticated management information systems that provide reliable and up-to-date data on the claims risks to which the business is exposed at any time.
- The use of detailed internal monitoring tools that link actuarial valuation projections with the management information systems to monitor claims patterns.
- Annual review of the benefits liability by an independent external actuary.

4. CLAIMS – RISK MANAGEMENT POLICIES AND PROCEDURES (CONTINUED)

(b) Terms and conditions of the workers' compensation system

The terms and conditions of the workers' compensation system administered by WorkSafeNB are established under the *WHSCC & WCAT Act*. Coverage is for annual periods ending December 31 each year. The system's terms and conditions are similar for all assessed employers.

(c) Operational risk

Operational risk relates to the risk of loss arising from systems failure, human error or from other circumstances not related to claims or financial risks. These risks are managed through a framework that includes a system of delegated authorities, effective segregation of duties, access controls and review processes.

(d) Financial risk

WorkSafeNB is exposed to the following financial risks:

- Funding risk
- Market risk
- Foreign currency risk
- Credit risk
- Inflation risk
- Interest rate risk
- Liquidity risk

WorkSafeNB's exposure to these risks arises primarily in relation to its investment portfolio. Note 8 presents information about WorkSafeNB's exposure to each of the above risks, including objectives, policies and processes for measuring and managing the risk.

5. CASH AND CASH EQUIVALENTS

Included in cash and cash equivalents is $1.1 million (2017 - $3.8 million) restricted for investment in occupational health and safety initiatives.

6. RECEIVABLES

		2018 (000s)		2017 (000s)
Assessments billed	**$**	**1,919**	$	1,096
Unbilled assessments		**6,275**		5,850
Self-insured employers – receivable		**5,423**		4,077
Self-insured employers – deposits		**(1,534)**		(1,534)
Other		**2,686**		1,640
	$	**14,769**	$	11,129

7. INVESTMENTS

The table below presents the fair value of WorkSafeNB's investments.

	2018 (000s) **Fair Value**	2017 (000s) Fair Value
i) Portfolio investments		
Forward foreign exchange contracts	**$ (15,531)**	$ 6,063
Fixed income		
Conventional bonds	**202,213**	205,055
Equities		
Canadian	**187,022**	210,130
U.S.	**168,953**	177,082
Non-North American	**232,626**	252,603
Total equities	**588,601**	639,815
Inflation-sensitive		
Real return bonds	**42,733**	54,353
Real estate	**225,475**	222,440
Infrastructure	**110,145**	92,968
Total inflation-sensitive	**378,353**	369,761
Absolute return		
Global opportunistic[1]	**141,027**	135,746
	$ 1,294,663	$ 1,356,440

[1] The Global opportunistic allocation is invested in a pooled fund that has the ability to invest in a wide variety of asset classes and strategies depending on the manager's assessment of the attractiveness of the opportunity. As of December 31, 2018, the fund had the following allocations: U.S. equities 0% (2017 – 3.0%); Non-North American equities 36.7% (2017 – 37.1%); Fixed income 23.1% (2017 – 21.1%); Absolute return strategies 32.2% (2017 – 20.2%); Cash 8.1% (2017 – 18.6%).

7. INVESTMENTS (CONTINUED)

ii) Fair value hierarchy

WorkSafeNB's investments have been classified into a three-level fair value hierarchy in accordance with IFRS 7 (Financial Instruments: Disclosures). The levels of the fair value hierarchy are defined as follows:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 1 inputs are the most persuasive evidence of fair value and are used whenever possible.
- Level 2 inputs are market-based inputs that are directly or indirectly observable but not considered Level 1 quoted prices. Level 2 inputs consist of: (i) quoted prices for similar assets or liabilities in active markets; (ii) quoted prices for identical assets or liabilities in non-active markets (markets which have few transactions and prices are not current or price quotations vary substantially); (iii) inputs other than quoted prices that are observable (interest rates, yield curves, volatilities, credit risks, and default rates); and (iv) inputs derived from, or corroborated by, observable market data.
- Level 3 inputs are unobservable inputs. These inputs reflect assumptions about market pricing using the best internal and external information available. The valuation approaches applied are the most suitable and appropriate for the type of investments.

In certain situations, inputs used to measure the fair value of asset positions fall into different levels of the fair value hierarchy. In these situations, the level in which the fair value falls is based upon the lowest level input that is significant to the determination of the fair value. As of December 31, 2018, the fair values of assets and liabilities measured on a recurring basis by level of input were as follows:

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7. INVESTMENTS (CONTINUED)

	2018 (000s)			
Portfolio investments	**Level 1**	**Level 2**	**Level 3**	**Fair Value**
Forward foreign exchange contracts	$ -	$ (15,531)	$ -	**$ (15,531)**
Fixed income				
Conventional bonds	202,213	-	-	**202,213**
Equities				
Canadian	187,022	-	-	**187,022**
U.S.	168,953	-	-	**168,953**
Non-North American	232,626	-	-	**232,626**
Total equities	588,601	-	-	**588,601**
Inflation-sensitive				
Real return bonds	42,733	-	-	**42,733**
Real estate	146,875	-	78,600	**225,475**
Infrastructure	-	-	110,145	**110,145**
Total inflation-sensitive	189,608	-	188,745	**378,353**
Absolute return				
Global opportunistic	141,027	-	-	**141,027**
	$ 1,121,449	$ (15,531)	$ 188,745	**$ 1,294,663**

7. INVESTMENTS (CONTINUED)

	2017 (000s)			
Portfolio investments	Level 1	Level 2	Level 3	Fair Value
Forward foreign exchange contracts	$ -	$ 6,063	$ -	$ 6,063
Fixed income				
Conventional Bonds	205,055	-	-	205,055
Equities				
Canadian	210,130	-	-	210,130
U.S.	177,082	-	-	177,082
Non-North American	252,603	-	-	252,603
Total equities	639,815	-	-	639,815
Inflation-sensitive				
Real return bonds	54,353	-	-	54,353
Real estate	161,301	-	61,139	222,440
Infrastructure	-	-	92,968	92,968
Total inflation-sensitive	215,654	-	154,107	369,761
Absolute return				
Global opportunistic	135,746	-	-	135,746
	$ 1,196,270	$ 6,063	$ 154,107	$ 1,356,440

7. INVESTMENTS (CONTINUED)

iii) Summary of changes in level 3 fair value measurements:

	2018 (000s)	2017 (000s)
Balance, beginning of year	**$ 154,107**	$ 109,607
Purchases of level 3 investments	**2,998**	38,472
Sale of level 3 investments	**(1,352)**	(14,800)
Partnership distributions of operating income	**3,237**	330
Expenses	**-**	(62)
Realized gains	**6,460**	2,668
Change in unrealized gains recognized in investment income	**23,295**	17,892
Balance, end of year	**$ 188,745**	$ 154,107

There are four investments classified as level 3:

(1) A limited partnership interest in a fund investing in global infrastructure assets with a market value of $59.0 million (2017 - $53.0 million). This is a closed-end fund with no active market for its units and no published net asset value as of December 31, 2018, and is therefore classified as a level 3 investment in the fair value hierarchy. This fund has a 12-year life that began on October 30, 2013. The general partner has the option to extend the fund's life by two years.

(2) A limited partnership interest in a fund investing in global infrastructure assets with a market value of $51.2 million (2017 - $40.0 million). This is an open-ended fund that allows quarterly redemptions at net asset value, but with some restrictions. It is classified as a level 3 investment in the fair value hierarchy.

(3) A limited partnership interest in a fund investing in European real estate with a market value of $80.8 million (2017 - $61.1 million). This is a closed-end fund with no active market for its units and no published net asset value as of December 31, 2018, and is therefore classified as a level 3 investment in the fair value hierarchy. This fund has a nine-year life that began on August 22, 2014.

(4) A limited partnership interest in a fund investing in European real estate with a market value of $(-2.2) million (2017 - $0). This is a closed-end fund with no active market for its units and no published net asset value as of December 31, 2018, and is therefore classified as a level 3 investment in the fair value hierarchy. This fund has a 10-year life that commenced on March 29, 2018.

7. INVESTMENTS (CONTINUED)

iv) Investment income

	2018 (000s)	2017 (000s)
Interest and dividends	**$ 33,967**	$ 29,624
Realized investment gains (losses) on forward foreign exchange contracts	**(5,630)**	12,322
Realized investment gains on other portfolio investments	**42,825**	60,123
Change in unrealized investment gains on forward foreign exchange contracts	**(21,455)**	2,349
Change in unrealized investment gains on other portfolio investments	**(60,972)**	34,357
	(11,265)	138,775
Less: portfolio management expenses	**(6,373)**	(6,407)
	$ (17,638)	$ 132,368

The market rate of return on the investment portfolio for the year ended December 31, 2018 was -1.32% (10.29% in 2017).

v) Pooled funds

Certain of WorkSafeNB's portfolio investments are held through pooled funds. The fair value of the investments held through pooled funds is as follows:

	2018 (000s)	2017 (000s)
Conventional bonds	**$ 202,213**	$ 205,055
Real return bonds	**42,733**	54,353
Non-North American equities	**52,450**	59,327
Real estate	**222,475**	222,440
Infrastructure	**110,145**	92,968
Global opportunistic	**141,027**	135,746

7. INVESTMENTS (CONTINUED)

vi) Investment agreement

WorkSafeNB has entered into an investment agreement for the combined administration and pooling of its investments and those of the Workers Compensation Board of Prince Edward Island and the *FC Act* Disability Fund. These consolidated financial statements report WorkSafeNB's proportional share of the investments held in the fund, except for the investment in WorkSafeNB Investments Limited, which is consolidated (see Note 2). WorkSafeNB's proportional share of the pooled fund was 84.05% at December 31, 2018 (2017 – 83.55%). In 2018, WorkSafeNB received a fee of $4,908 (2017 – $20,884) for the administration of the Workers Compensation Board of Prince Edward Island's share of the fund, and a fee of $16,821 (2017 – $21,335) for the administration of the *FC Act* Disability Fund's share of the fund.

vii) Commitments

Through its investment in WorkSafeNB Investments Limited, WorkSafeNB has entered into limited partnership agreements with externally managed infrastructure and real estate pooled funds that commit to contribute investments in these funds, which may be drawn down over the next year. Unfunded commitments as of December 31, 2018 are $84.8 million (2017 – $101.8 million).

8. FINANCIAL RISK MANAGEMENT

WorkSafeNB has established policies to manage its investments. All of WorkSafeNB's investments are managed by independent external investment managers. The compliance of these managers with the investment policies is monitored regularly.

WorkSafeNB manages investment risk by diversifying its portfolio among asset classes, industry sectors, geographic locations and individual securities. Further diversification is achieved by selecting investment managers with varying investment philosophies and styles. From time to time, WorkSafeNB retains independent consultants to advise on the appropriateness and effectiveness of its investment policies and practices. This includes periodic asset liability studies to ensure that the investment strategy is suitable in light of the related liabilities and WorkSafeNB's risk tolerance. The last such study was completed in 2017.

The following sections describe WorkSafeNB's financial risk exposures and related mitigation strategies.

i) Funding risk

WorkSafeNB's funding policy specifies a funding goal (ratio of assets to liabilities) of 110%. This permitted excess of assets over liabilities reduces the impact of year-to-year fluctuations, therefore providing assessment rate stabilization and enhanced security that awarded benefits will be met. The funding goal for 2018 was reduced from 110% to 100%.

ii) Market risk

WorkSafeNB invests in publicly traded equities listed on domestic and foreign exchanges, bonds traded over-the-counter through broker-dealers, Canadian and foreign commercial real estate and global infrastructure assets held via pooled funds. These securities are affected by fluctuations in market prices. Such fluctuations are subject to economic factors and other fluctuations in domestic and global capital markets, as well as risks specific to issuers, which may affect the market value of individual securities. Policy guidelines have been established to ensure that WorkSafeNB's investments are diversified by issuer, industry and geographic location.

8. FINANCIAL RISK MANAGEMENT (CONTINUED)

The table below presents the estimated effect of a reasonably possible[1] adverse change in the key risk variable – the market benchmark – for each of the equity mandates in WorkSafeNB's investment portfolio.

	2018 (000s)		2017 (000s)	
	1 std dev	**2 std dev**	1 std dev	2 std dev
Canadian Equities				
% change in market benchmark[2]	**(10.7%)**	**(21.4%)**	(13.1%)	(26.2%)
Canadian portfolio – impact on surplus/deficit	**$ (21,947)**	**$ (44,266)**	$ (30,702)	$ (61,687)
U.S. Equities				
% change in market benchmark[3]	**(10.7%)**	**(21.5%)**	(11.6%)	(23.2%)
U.S. portfolio – impact on surplus/deficit	**$ (19,194)**	**$ (38,422)**	$ (21,727)	$ (43,308)
International (EAFE) Equities				
% change in market benchmark[4]	**(12.1%)**	**(24.2%)**	(13.7%)	(27.4%)
International portfolio – impact on surplus/deficit	**$ (21,960)**	**$ (43,644)**	$ (24,449)	$ (48,550)
Emerging Markets Equities				
% change in market benchmark[5]	**(13.9%)**	**(27.7%)**	(16.6%)	(33.2%)
Emerging markets portfolio – impact on surplus/deficit	**$ (12,361)**	**$ (24,730)**	$ (15,814)	$ (31,646)

[1] Reasonably possible changes are estimated using the historical (10-year) variability of each of the market benchmarks about their respective means. The standard deviation measures the normal variance in a probability distribution. One standard deviation covers 68% of all probable outcomes and two standard deviations covers 95%.

[2] S&P TSX (Standard & Poor's Toronto Stock Exchange) Capped Composite Index

[3] S&P (Standard & Poor's) 500 Index

[4] MSCI (Morgan Stanley Capital International) EAFE (Europe, Australasia and Far East) Total Return Index

[5] MSCI EM (Emerging Markets) Total Return Index

8. FINANCIAL RISK MANAGEMENT (CONTINUED)

iii) Foreign currency risk

WorkSafeNB has certain investments denominated in foreign currencies. Currency risk is the risk that the value of these investments will fluctuate due to changes in foreign exchange rates. WorkSafeNB's most significant currency exposure is to the U.S. dollar, the euro, the Japanese yen and the British pound. At December 31, 2018, WorkSafeNB had U.S. dollar exposure of $304.3 million (2017 – $313.5 million), euro exposure of $124.4 million (2017 – $109.7 million), Japanese yen exposure of $53.4 million (2017 – $63.7 million) and British pound exposure of $52.2 million (2017 – $52.3 million).

For its U.S. and non-North American assets, WorkSafeNB has adopted a policy to dynamically hedge a portion of its developed market foreign currency exposure using forward foreign exchange contracts. The amount hedged varies, depending on the relative attractiveness of the foreign currency. Forward foreign exchange contracts are agreements to exchange an amount of one currency for another at a future date and at a set price, agreed upon at the contract's inception.

The fair value of these financial instruments will change in response to changes in the foreign exchange rates of the currencies involved in the contracts. The notional amounts in forward foreign exchange contracts are the contractual amounts on which payments are made. These notional amounts have been converted into Canadian dollars at the contractual exchange rates in effect at the inception of the contracts. Outstanding contracts from 2018 mature in the first 39 days of 2019.

At December 31, 2018, the notional value of outstanding forward foreign exchange contracts was $370.2 million (2017 – $354.1 million). The fair value of these contracts was a liability of $15.5 million (2017 – $6.1 million). Unrealized loss on forward foreign exchange contracts were included in investment income.

The table below presents how the surplus/deficit would be affected by a reasonably possible annual change in the Canadian/US dollar, Canadian/euro, Canadian/Japanese yen and Canadian/British pound exchange rates. The impact on the surplus/deficit is shown net of the currency hedges in place at year-end:

	2018 (000s)	2017 (000s)
15% appreciation in the Canadian dollar	**Impact on surplus/deficit**	Impact on surplus/deficit
CAD/USD	**$ (5,521)**	$ (6,744)
CAD/EURO	**(5,455)**	(6,637)
CAD/YEN	**(6,300)**	(7,592)
CAD/POUND	**(6,145)**	(5,466)

8. FINANCIAL RISK MANAGEMENT (CONTINUED)

iv) Credit risk
Credit risk on fixed-term or money market investments or forward foreign exchange contracts arises from the possibility that the counter party to an instrument fails to meet its obligation to WorkSafeNB. The maximum exposure to credit risk is determined by the fair value of these financial instruments. Policy guidelines have been established to ensure WorkSafeNB holds fixed-term investments with a credit rating of BBB or higher. WorkSafeNB may only invest in money market instruments that are provincially or federally guaranteed, or are guaranteed by one of the five largest Canadian chartered banks. Counter parties to forward foreign exchange contracts must have a credit rating of at least AA-.

The table below summarizes the fixed term investments by credit rating.

	2018		2017	
	Fair Value (000s)	**% of Total Fixed-Term Investments**	Fair Value (000s)	% of Total Fixed-Term Investments
Credit Rating*				
AAA	**$ 115,520**	**47.16**	$ 126,952	49.03
AA	**82,268**	**33.59**	76,298	29.47
A	**47,159**	**19.25**	55,675	21.50
BBB	**-**	**-**	-	-
Total	**$ 244,947**	**100.00**	$ 258,925	100.00

* Credit ratings are obtained from Standard & Poor's, Moody's or DBRS ratings

v) Inflation risk
Inflation risk is the risk that a general increase in price level may result in loss of future purchasing power for current monetary assets.

To mitigate the effect of inflation on WorkSafeNB's future liabilities, the portfolio holds inflation-sensitive investments, such as real-return bonds, real estate and infrastructure. Canadian real-return bonds are indexed to the annual change in the Canadian consumer price index. The table included in the interest rate section below presents the remaining terms to maturity of the conventional and real-return bond portfolios.

vi) Interest rate risk
Future changes in the prevailing level of interest rates will affect the fair value of the fixed-term investments.

8. FINANCIAL RISK MANAGEMENT (CONTINUED)

The table below presents the remaining term to maturity of WorkSafeNB's portion of the outstanding fixed-term investments, all of which are held in pooled funds.

	Remaining Term To Maturity (000s)				
	Within 1 Year	Over 1 Year to 5 Years	Over 5 Years	**Total 2018**	Total 2017
Canadian real return bonds (fair value)	$ (97)	$ -	$ 42,830	**$ 42,733**	$ 54,353
Canadian conventional bonds (fair value)	(65)	59,683	142,595	**202,213**	205,055
	$ (162)	$ 59,683	$ 185,425	**$ 244,946**	$ 259,408

The average effective real yield of the real return bonds is 0.79% (2017 – 0.56%) per annum based on market value. The average effective yield of the conventional bonds is 2.72% (2017 – 2.53%) per annum based on market value.

As of December 31, 2018, had the prevailing interest rate changed by 1%, assuming a parallel shift in the yield curve, with all other variables held constant, the value of the Canadian conventional bonds would have increased or decreased by $17.0 million (2017 – $17.5 million), approximately 8.41% (2017 – 8.54%) of their fair value.

As of December 31, 2018, had the prevailing real interest rate changed by 1%, assuming a parallel shift in the yield curve, with all other variables held constant, the value of the Canadian real return bonds would have increased or decreased by $6.2 million (2017 – $8.2 million), approximately 14.57% (2017 – 15.04%) of their fair value.

The sensitivity to interest rate changes was estimated using the weighted average duration of the bond portfolios.

vii) Liquidity risk
Liquidity risk is the risk that WorkSafeNB will have difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash.

Through a proactive cash management process that entails continuous forecasting of expected cash flows, WorkSafeNB mitigates liquidity risk by minimizing the need for forced liquidations of portfolio assets. WorkSafeNB investment policy maintains a 3% allocation to cash to help ensure adequate liquidity. To cover unanticipated cash requirements when market conditions are unfavourable, WorkSafeNB has negotiated a standby line of credit of up to $10 million, which has not been drawn down as at December 31, 2018.

9. CAPITAL ASSETS

	Land and buildings (000s)	Computer software and hardware (000s)	Furniture and equipment including leasehold improvements (000s)	Motor vehicles (000s)	**2018 Total (000s)**	2017 Total (000s)
Cost						
Balance at January 1	$ 8,508	$ 17,315	$ 7,236	$ 523	**$ 33,582**	$ 31,505
Additions	466	1,275	111	36	**1,888**	3,554
Disposals	-	(143)	-	-	**(143)**	(1,477)
Balance at December 31	$ 8,974	$ 18,447	$ 7,347	$ 559	**$ 35,327**	$ 33,582
Accumulated Depreciation						
Balance at January 1	$ (2,390)	$ (14,143)	$ (5,807)	$ (196)	**$ (22,536)**	$ (21,129)
Depreciation	(359)	(1,935)	(484)	(80)	**(2,858)**	(2,844)
Disposals	-	143	-	-	**143**	1,437
Balance at December 31	$ (2,749)	$ (15,935)	$ (6,291)	$ (276)	**$ (25,251)**	$ (22,536)
Carrying amounts						
At January 1	$ 6,118	$ 3,172	$ 1,429	$ 327	**$ 11,046**	$ 10,376
At December 31	$ 6,225	$ 2,512	$ 1,056	$ 283	**$ 10,076**	$ 11,046

10. PAYABLES AND ACCRUALS

	2018 (000s)	2017 (000s)
Accounts payable and accruals	**$ 13,254**	$ 13,686
Post-employment benefits	**2,914**	2,686
	$ 16,168	$ 16,372

11. BENEFITS LIABILITIES

i) Continuity schedule

	2018 (000s)					2017 (000s)
	Short-term disability & rehabilitation	Long-term benefits	Survivor benefits	Health care	**Total**	Total
Balance, beginning of year	$ 178,108	$ 781,077	$ 83,887	$ 611,653	**$ 1,654,725**	$ 1,400,829
Add claims costs incurred:						
Current year injuries	87,078	83,225	4,799	74,850	**249,952**	190,118
Prior years' injuries	37,941	58,577	2,656	147,311	**246,485**	275,918
	125,019	141,802	7,455	222,161	**496,437**	466,036
Less claims payments made:						
Current year injuries	19,984	2,363	331	20,001	**42,679**	35,880
Prior years' injuries	50,505	63,415	8,474	58,928	**181,322**	176,260
	70,489	65,778	8,805	78,929	**224,001**	212,140
Balance, end of year	$ 232,638	$ 857,101	$ 82,537	$ 754,885	**$ 1,927,161**	$ 1,654,725

ii) Current year injuries

	2018 (000s)			2017 (000s)		
	Claims payments	Present value of expected future costs	**Claims costs incurred**	Claims payments	Present value of expected future costs	Claims costs incurred
Short-term disability & rehabilitation	$ 19,984	$ 67,094	**$ 87,078**	$ 17,396	$ 47,633	$ 65,029
Long-term disability	2,363	80,862	**83,225**	1,670	62,297	63,967
Survivor benefits	331	4,468	**4,799**	221	1,485	1,706
Health care	20,001	54,849	**74,850**	16,593	42,823	59,416
	$ 42,679	$ 207,273	**$ 249,952**	$ 35,880	$ 154,238	$ 190,118

11. BENEFITS LIABILITIES (CONTINUED)

iii) Reconciliation of movement in benefits liabilities

	2018 (000s)	2017 (000s)
Balance, beginning of year	**$ 1,654,725**	$ 1,400,829
Add (deduct) changes in liabilities		
Interest on liability	**88,794**	87,722
Payments and other transactions	**(184,548)**	(140,839)
	(95,754)	(53,117)
Balance, before adjustments	**1,558,971**	1,347,712
Claims experience (gains) losses		
Actual costs more (less) than expected	**62,387**	50,841
Actual payments more (less) than expected	**2,304**	18,090
Difference between actual and expected inflation	**(866)**	(1,879)
Other experience (gains) losses	**(429)**	(2,516)
	63,396	64,536
Unusual items		
Change in valuation assumptions	**-**	4,627
Change in valuation methods	**-**	4,080
Change in occupational disease provision	**97,521**	79,531
	97,521	88,238
Provision for future costs of new injuries	**207,273**	154,239
Balance, end of year	**$ 1,927,161**	$ 1,654,725

11. BENEFITS LIABILITIES (CONTINUED)

iv) Prior years' injuries

Significant changes in prior years' claims costs arising from the estimate of the benefits liabilities included the following:

	Increase (decrease) in benefits liabilities and claims costs incurred	
	2018 (000s)	2017 (000s)
Reduction in assumed indexing rate for CPI-indexed benefits	**$ (866)**	$ (1,879)
(Favourable) Unfavourable experience on health care costs	**18,047**	(12,574)
(Favourable) Unfavourable experience on survivor costs	**(766)**	786
(Favourable) Unfavourable experience on short-term disability costs	**27,847**	33,019
(Favourable) Unfavourable experience on long-term disability costs	**10,800**	41,631
(Favourable) Unfavourable experience on other costs	**8,334**	3,552
Changes due to unusual items	**97,521**	88,238

11. BENEFITS LIABILITIES (CONTINUED)

v) Claims development table

The following table presents the development of outstanding claims relative to the ultimate expected claims for the 10 most recent accident years. The table illustrates how the estimate of ultimate claims costs for each accident year has changed with more experience over succeeding year-ends, and compares the current estimate of cumulative claims cost to the actual cumulative payments over the development period. Due to the long duration of many benefit types, significant amounts will be paid beyond the valuation date. The lower section of the table reconciles the total outstanding claims amounts to the discounted amount reported in the balance sheet.

Accident year	2009 (000s)	2010 (000s)	2011 (000s)	2012 (000s)	2013 (000s)	2014 (000s)	2015 (000s)	2016 (000s)	2017 (000s)	2018 (000s)	**Total (000s)**
Estimate of ultimate claims cost:											
At end of accident year	$200,462	$203,428	$184,192	$168,843	$202,327	$226,047	$202,133	$313,881	$337,736	$459,368	
One year later	188,926	176,741	159,701	201,446	213,020	208,992	273,412	362,837	392,592		
Two years later	172,132	154,210	187,458	213,282	193,988	265,006	293,092	383,657			
Three years later	158,550	184,840	194,027	194,748	227,315	275,066	305,398				
Four years later	187,436	192,609	175,487	216,876	227,537	287,977					
Five years later	194,955	174,130	189,059	217,257	234,704						
Six years later	177,861	207,382	189,782	227,261							
Seven years later	186,992	196,975	195,409								
Eight years later	187,236	209,473									
Nine years later	190,388										
Current estimate of cumulative claims cost	190,388	209,473	195,409	227,261	234,704	287,977	305,398	383,657	392,592	459,368	**2,886,227**
Cumulative payments	(90,355)	(85,254)	(83,085)	(92,271)	(85,769)	(96,598)	(93,237)	(102,460)	(78,023)	(43,987)	**(851,039)**
Outstanding claims, Undiscounted	100,033	124,219	112,324	134,990	148,935	191,379	212,161	281,197	314,569	415,381	**2,035,188**
2008 and prior years											**1,225,074**
Total outstanding Claims, undiscounted											**3,260,262**
Discount											**(1,746,717)**
Annuity – accrual											**94,585**
Occupational diseases											**245,288**
Other contingent liabilities*											**73,743**
Total outstanding claims											**$1,927,161**

* Consists primarily of liabilities for future annuity awards.

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12. ASSESSMENTS

	2018 (000s)	2017 (000s)
Assessment income	**$ 162,656**	$ 135,117
Interest and penalties	**742**	465
Uncollectibles	**(501)**	(394)
	$ 162,897	$ 135,188

13. SELF-INSURED EMPLOYERS

	2018 (000s)	2017 (000s)
Income from self-insured employers	**$ 140,022**	$ 122,553
Claims costs incurred:		
Benefit payments	**58,010**	52,084
Changes in actuarial valuation of benefit liabilities	**71,967**	62,473
	129,977	114,557
Administration	**10,045**	7,996
	$ 140,022	$ 122,553

14. ADMINISTRATION

	2018 (000s)	2017 (000s)
Salaries and employee benefits	**$ 39,317**	$ 38,209
Depreciation	**2,825**	2,816
Professional fees	**3,288**	3,588
Office and communications	**2,127**	2,035
Building operations	**3,584**	3,782
Travel and vehicle operations	**994**	1,214
Education and training	**411**	622
OHS investment	**84**	599
Other	**1,258**	1,166
	53,888	54,031
Allocated to health-care claims costs	**(1,438)**	(1,577)
	$ 52,450	$ 52,454

A portion of WorkSafeNB's administration costs represents charges incurred by WorkSafeNB for its rehabilitation centre. This portion, which relates to claims, has been allocated to health care.

15. LEGISLATIVE OBLIGATIONS

Although WorkSafeNB does not have input into the budgeting process for the workers' and employers' advocates, it is required by legislation to reimburse the provincial government for their operating costs.

In addition, WorkSafeNB provided financial assistance to certain New Brunswick safety associations in accordance with the *WC Act*. The money paid was levied against all employers in the industries represented by the safety associations and is included as part of assessment income.

15. LEGISLATIVE OBLIGATIONS (CONTINUED)

		2018 (000s)		2017 (000s)
Workers' advocates	$	**888**	$	1,116
Employers' advocates		**294**		372
		1,182		1,488
New Brunswick Construction Safety Association		**300**		300
New Brunswick Forest Safety Association		**190**		190
Other		**197**		207
		687		697
Workers' Compensation Appeals Tribunal		**1,592**		1,680
	$	**3,461**	$	3,865

16. COMMITMENTS

Future minimum payments under operating lease arrangements:

		2018 (000s)		2017 (000s)
Due within one year	**$**	**683**	$	732
Due later than one year and less than five years		**882**		1,565
	$	**1,565**	$	2,297

Investment commitments

Commitments related to investments are described in Note 7 vii.

17. RELATED PARTY TRANSACTIONS

Government entities

These consolidated financial statements include the results of normal operating transactions with various provincial government controlled departments, agencies and Crown corporations, with which WorkSafeNB may be considered related. Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

Key management compensation

Key management personnel of WorkSafeNB are deemed related parties. They include members of the board of directors and the executive committee. Total compensation for key management is detailed in the following table:

17. RELATED PARTY TRANSACTIONS (CONTINUED)

Executive Committee		**2018 (000s)**		2017 (000s)
Salaries and other short-term employee benefits*	**$**	**1,237**	$	932
Post-employment benefits		**135**		116
	$	**1,372**	$	1,048

Board of Directors		**2018 (000s)**		2017 (000s)
Salary and per diems	**$**	**173**	$	287

*In 2018 the Executive Committee included three director positions that were not part of the executive committee in 2017.

18. EMPLOYEE PENSION PLAN

WorkSafeNB and its employees participate in a multi-employer shared-risk pension plan, administered by the Province of New Brunswick under the *Public Service Superannuation Act*. The plan provides pensions to employees of the provincial government and certain Crown corporations and agencies based on:

- For service to December 31, 2013 – length of service and highest successive five-year average salary;
- For service from January 1, 2014 – length of service and career average salary.

Since sufficient information is not readily available to account for WorkSafeNB's participation in the plan using defined benefit pension plan accounting, these consolidated financial statements have been prepared using accounting rules for defined contribution pension plans.

The current year expense for this pension plan is $4.10 million (2017 – $4.03 million).

19. CONTINGENT LIABILITIES

At any given time, WorkSafeNB is party to various claims and lawsuits related to the normal course of business. In the opinion of management, the outcome of such claims and lawsuits and the resulting effects on operations and financial position are not determinable.

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20.EVENTS AFTER THE REPORTING DATE

On May 8, 2019, the provincial government introduced Bill 27 *An Act Respecting Addressing Recommendations in the Report of the Task Force on WorkSafeNB*. The Bill includes legislative amendments to the Worker's Compensation Act clarifying wage loss benefit entitlements for injured workers who also receive Canada Pension Plan Disability (CPPD) benefits. When a worker begins receiving CPPD benefits, wage loss compensation benefits paid by WorkSafeNB shall be reduced by a proportion of the CPPD amount as determined by the Commission. Furthermore, the worker's pension entitlement shall be based on the wage loss benefits received after the reduction relating to the CPPD benefit. Upon receiving royal assent, these amendments will reduce the total benefit liabilities by an estimated $31.4 million ($24.9 million for assessed employers and $6.6 million for self-insured employers), including $1.7 million for current year injuries ($1.2 million for assessed employers and $0.5 million for self-insured employers).

21. COMPARATIVE FIGURES

Certain of the 2017 figures that are presented for comparative purposes have been reclassified to conform to the presentation adopted in the current year.

FIVE-YEAR HISTORICAL CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31

	2018 (000s)	2017 (000s)	2016 (000s)	2015 (000s)	2014 (000s)
ASSETS					
Cash and cash equivalents	**$ 65,916**	$ 72,634	$ 144,690	$ 49,491	$ 64,950
Receivables and other	**14,769**	11,129	11,319	11,044	10,005
Recoverable benefits liabilities	**354,040**	282,760	221,773	160,085	138,246
Investments	**1,294,663**	1,356,440	1,225,384	1,303,416	1,301,676
Capital assets	**10,076**	11,046	10,376	9,517	9,023
	$ 1,739,464	$ 1,734,009	$ 1,613,542	$ 1,533,553	$ 1,523,900
LIABILITIES AND FUNDED POSITION					
Payables and accruals	**$ 16,168**	$ 16,372	$ 21,508	$ 20,464	$ 20,843
Benefits liabilities					
Assessed employers	**1,561,298**	1,360,828	1,169,405	1,042,477	938,399
Self-insured employers	**365,863**	293,897	231,424	170,627	148,707
Total benefits liabilities	**1,927,161**	1,654,725	1,400,829	1,213,104	1,087,106
Total liabilities	**1,943,329**	1,671,097	1,422,337	1,233,568	1,107,949
WorkSafeNB funded position	**(234,070)**	37,465	171,804	286,605	412,946
Non-controlling interests	**30,205**	25,447	19,401	13,380	3,005
	(203,865)	62,912	191,205	299,985	415,951
	$ 1,739,464	$ 1,734,009	$ 1,613,542	$ 1,533,553	$ 1,523,900

Certain of the above figures have been reclassified to conform with the presentation adopted in 2018.

FIVE-YEAR HISTORICAL CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

CONSOLIDATED STATEMENT OF OPERATIONS

AS AT DECEMBER 31, 2018

	2018 (000s)	2017 (000s)	2016 (000s)	2015 (000s)	2014 (000s)
INCOME					
Assessments	$ 162,897	$ 135,188	$ 97,273	$ 93,548	$ 98,500
Investments	(17,638)	132,368	105,152	55,362	104,198
Self-insured employers	140,022	122,553	115,404	66,147	48,528
	285,281	390,109	317,829	215,057	251,226
EXPENSES					
Claims costs incurred					
Assessed employers					
Benefit payments	165,990	160,056	142,797	128,552	119,082
Changes in actuarial valuation of benefit liabilities	200,470	191,423	126,928	104,078	37,712
	366,460	351,479	269,725	232,630	156,794
Self-insured employers					
Benefit payments	58,010	52,084	46,245	37,171	37,045
Changes in actuarial valuation of benefit liabilities	71,967	62,473	60,797	21,920	5,932
	129,977	114,557	107,042	59,091	42,977
Total claims costs	496,437	466,036	376,767	291,721	199,771
Administration	52,450	52,454	48,747	43,730	41,356
Legislative obligations	3,461	3,865	3,402	3,677	1,553
Appeals Tribunal	-	-	-	438	1,564
	55,911	56,319	52,149	47,845	44,473
Total expenses	552,348	522,355	428,916	339,566	244,244
Excess of (expenses) over income for the year	$ (267,067)	$ (132,246)	$ (111,087)	$ (124,509)	$ 6,982
Excess of (expenses) over income for the year attributable to:					
WorkSafeNB	(271,535)	(134,339)	(114,801)	(126,341)	6,638
Non-controlling interests	4,468	2,093	3,714	1,832	344
	$ (267,067)	$ (132,246)	$ (111,087)	$ (124,509)	$ 6,982

Certain of the above figures have been reclassified to conform with the presentation adopted in 2018.

FIVE-YEAR HISTORICAL CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

CONSOLIDATED STATEMENT OF CHANGES IN FUNDED POSITION

AS AT DECEMBER 31, 2018

	2018 (000s)	2017 (000s)	2016 (000s)	2015 (000s)	2014 (000s)
WorkSafeNB					
WorkSafeNB funded position, beginning of year	**$ 37,465**	$ 171,804	$ 286,605	$ 412,946	$ 406,308
Excess of (expenses) over income for the year	**(271,535)**	(134,339)	(114,801)	(126,341)	6,638
WorkSafeNB funded position, end of year	**$ (234,070)**	$ 37,465	$ 171,804	$ 286,605	$ 412,946
Non-controlling interests					
Non-controlling interests funded position, beginning of year	**$ 25,447**	$ 19,401	$ 13,380	$ 3,005	$ 405
Capital contributions by non-controlling interests	**515**	6,395	4,541	8,543	2,930
Distributions to non-controlling interests	**(225)**	(2,442)	(2,234)	-	(674)
Excess of income over expenses for the year	**4,468**	2,093	3,714	1,832	344
Non-controlling interests funded position, end of year	**$ 30,205**	$ 25,447	$ 19,401	$ 13,380	$ 3,005
Total funded position					
Total funded position, beginning of year	**$ 62,912**	$ 191,205	$ 299,985	$ 415,951	$ 406,713
Capital contributions by non-controlling interests	**515**	6,395	4,541	8,543	2,930
Distributions to non-controlling interests	**(225)**	(2,442)	(2,234)	-	(674)
Excess of (expenses) over income for the year	**(267,067)**	(132,246)	(111,087)	(124,509)	6,982
Total funded position, end of year	**$ (203,865)**	$ 62,912	$ 191,205	$ 299,985	$ 415,951

Certain of the above figures have been reclassified to conform with the presentation adopted in 2018.