BAY OF QUINTE MUTUAL INSURANCE CO.

FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2017

WILKINSON

BAY OF QUINTE MUTUAL INSURANCE CO.

TABLE OF CONTENTS

AS AT DECEMBER 31, 2017

WILKINSON

INDEPENDENT AUDITOR'S REPORT

To the Policyholders of
Bay of Quinte Mutual Insurance Co.

Report on the Financial Statements

We have audited the accompanying financial statements of Bay of Quinte Mutual Insurance Co., which comprise the balance sheet as at December 31, 2017 and the statements of surplus and resources for protection of policyholders, comprehensive income and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of Bay of Quinte Mutual Insurance Co. as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Wilkinson & Company LLP

BELLEVILLE, Canada
January 29, 2018

Chartered Professional Accountants
Licensed Public Accountants

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BAY OF QUINTE MUTUAL INSURANCE CO.
BALANCE SHEET AS AT DECEMBER 31, 2017

	2017 $	2016 $
ASSETS		
Cash	**3,757,378**	3,136,952
Portfolio investments - Note 4	**45,054,856**	42,816,864
Accrued interest	**187,624**	193,628
Accounts receivable		
- Agents and policyholders	**6,955,294**	6,883,624
- Reinsurer - Note 5	**1,653**	
- Other	**353,585**	
Reinsurer's share of provision for unpaid claims and adjustment expenses - Note 5	**5,099,509**	6,215,999
Deferred policy acquisition expenses - Note 5	**2,477,699**	2,438,611
Prepaid expenses	**11,238**	9,277
Property, plant and equipment - Note 6	**782,515**	839,005
Deferred income taxes - Note 7	**98,000**	83,000
	64,779,351	62,616,960
LIABILITIES		
Accounts payable and accrued liabilities	**1,004,159**	769,032
Due to reinsurer	**63,006**	110,242
Income taxes payable	**196,081**	322,080
Provision for unpaid claims and adjustment expenses - Note 5	**12,162,902**	12,555,577
Unearned premiums - Note 5	**12,794,129**	12,872,848
	26,220,277	26,629,779
POLICYHOLDERS' SURPLUS		
Surplus and resources for protection of policyholders	**38,559,074**	35,987,181
	64,779,351	62,616,960

APPROVED ON BEHALF OF THE BOARD

George R. Taylor Director

Colerin Thomas Director

The accompanying notes form an integral part of these financial statements

BAY OF QUINTE MUTUAL INSURANCE CO.
STATEMENT OF SURPLUS AND RESOURCES FOR PROTECTION OF POLICYHOLDERS
FOR THE YEAR ENDED DECEMBER 31, 2017

	2017	2016
	$	$
BALANCE - BEGINNING OF YEAR	**35,987,181**	33,886,776
COMPREHENSIVE INCOME FOR YEAR	**2,571,893**	2,100,405
BALANCE - END OF YEAR	**38,559,074**	35,987,181

The accompanying notes form an integral part of these financial statements

BAY OF QUINTE MUTUAL INSURANCE CO.
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2017

	2017 $	2016 $
PREMIUM INCOME		
Gross premiums written	**24,441,584**	24,603,763
Less reinsurance premiums	**(3,771,620)**	(3,470,158)
Net premiums written	**20,669,964**	21,133,605
Decrease (increase) in unearned premiums	**78,719**	(465,402)
Net premiums earned	**20,748,683**	20,668,203
Service charges	**176,518**	181,927
	20,925,201	20,850,130
DIRECT LOSSES INCURRED		
Gross claims and adjusting expenses - Note 8	**12,939,085**	14,163,006
Less reinsurer's share of claims and adjustment expenses	**(2,632,602)**	(2,679,816)
	10,306,483	11,483,190
	10,618,718	9,366,940
EXPENSES		
Net premium acquisition costs		
Policy services - Note 8	**329,206**	226,665
Other	**4,531,993**	4,638,358
Salaries and benefits	**1,517,266**	1,812,567
Directors and professional fees	**254,883**	251,382
Travel and education	**182,958**	178,908
Loss prevention - Note 8	**560,198**	598,561
Advertising	**56,192**	99,162
Office and communications	**1,100,705**	657,261
Ontario premium taxes	**104,169**	101,864
Licences and dues	**85,291**	75,549
Miscellaneous	**55,531**	56,814
Building occupancy costs	**89,409**	80,538
Depreciation of property, plant and equipment	**102,047**	90,256
	8,969,848	8,867,885
UNDERWRITING INCOME	**1,648,870**	499,055
INVESTMENT INCOME - Note 11	**1,743,023**	2,258,350
COMPREHENSIVE INCOME BEFORE TAXES	**3,391,893**	2,757,405
INCOME TAX EXPENSE - Note 7		
Current	**835,000**	644,000
Deferred	**(15,000)**	13,000
	820,000	657,000
COMPREHENSIVE INCOME FOR YEAR	**2,571,893**	2,100,405

The accompanying notes form an integral part of these financial statements

BAY OF QUINTE MUTUAL INSURANCE CO.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017

	2017	2016
	$	$
OPERATING ACTIVITIES		
Comprehensive income for year	**2,571,893**	2,100,405
Adjustment for items which do not affect cash		
Depreciation of property, plant and equipment	**102,047**	90,256
Realized gains on disposal of portfolio investments - Note 11	**(234,944)**	(137,892)
(Increase) in unrealized gain on portfolio investments - Note 11	**(25,953)**	(611,371)
(Increase) decrease in deferred income taxes	**(15,000)**	13,000
	2,398,043	1,454,398
Net change in non-cash working capital balances related to operations - Note 9	**245,035**	(285,347)
CASH FLOWS PROVIDED FROM OPERATING ACTIVITIES	**2,643,078**	1,169,051
INVESTING ACTIVITIES		
Purchase of portfolio investments	**(10,951,182)**	(6,491,836)
Proceeds on sale of portfolio investments	**8,974,087**	5,193,671
Purchase of property, plant and equipment	**(45,557)**	(137,582)
CASH FLOWS USED IN INVESTING ACTIVITIES	**(2,022,652)**	(1,435,747)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS FOR YEAR	**620,426**	(266,696)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	**3,136,952**	3,403,648
CASH AND CASH EQUIVALENTS - END OF YEAR	**3,757,378**	3,136,952
REPRESENTED BY:		
Cash	**3,757,378**	3,136,952

The accompanying notes form an integral part of these financial statements

BAY OF QUINTE MUTUAL INSURANCE CO.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

1. NATURE OF BUSINESS OPERATIONS

(a) Reporting Entity

The Company was incorporated without share capital on August 11, 1874 under the laws of the Province of Ontario as a mutual insurance company and is subject to the Insurance Act (Ontario). It is licenced to conduct its principal business activity which is to write property and liability insurance in Ontario. The Company's head office is located at 13379 Loyalist Parkway, Picton, Ontario, Canada.

These financial statements have been authorized for issue by the Board of Directors on January 29, 2018.

(b) Basis of Presentation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (the IASB).

These financial statements were prepared under the historical cost convention.

The Company presents the balance sheet in order of liquidity with a distinction based on expectations regarding recovery or settlement within twelve months after the balance sheet date (current) and more than twelve months after the balance sheet date (non-current), as described below.

The following balances are generally classified as current unless otherwise noted in these financial statements: cash and cash equivalents, portfolio investments, accrued interest, accounts receivable, income taxes recoverable, reinsurer's share of provision for unpaid claims and adjustment expenses, deferred policy acquisition expenses, prepaid expenses, accounts payable and accrued liabilities, due to reinsurer, income taxes payable, provision for unpaid claims and adjustment expenses and unearned premiums.

The following balances are generally classified as non-current unless otherwise noted in these financial statements: property, plant and equipment and deferred income taxes.

The Company's functional and presentation currency is the Canadian dollar.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment of complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2(a).

2. ACCOUNTING POLICIES

The Company follows International Financial Reporting Standards, which comply with the requirements for filing with the Financial Services Commission of Ontario. Those accounting policies considered to be particularly significant are as follows:

(a) Accounting Estimates

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change effects that period only; or in the period of the change and future periods, if the change affects both.

The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) Provision for Unpaid Claims

The estimation of the provision for unpaid claims and the related reinsurer's share are the Company's most critical accounting estimates. There are several sources of uncertainty that need to be considered by the Company in estimating the amount that will ultimately be paid on these claims. The uncertainty arises because all events affecting the ultimate settlement of claims have not taken place and may not take place for some time. Changes in the estimate of the provision can be caused by receipt of additional claim information, changes in judicial interpretation of contracts, or significant changes in severity or frequency of claims from historical trends. The estimates are based on the Company's historical experience and industry experience. More details are included in Note 5 to these financial statements.

(ii) Income Taxes

The Company periodically assesses its liabilities and contingencies related to income taxes for all years open to audit based on the latest information available. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

BAY OF QUINTE MUTUAL INSURANCE CO.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

2. ACCOUNTING POLICIES (Cont'd)

(b) Insurance Contracts

In accordance with IFRS 4, Insurance Contracts, the Company has continued to apply the accounting policies it applied in accordance with pre-changeover Canadian generally accepted accounting principles.

Balances arising from insurance contracts primarily include unearned premiums, provisions for unpaid claims and adjustment expenses, the reinsurer's share of provisions for unearned premiums and unpaid claims and adjustment expenses and deferred policy acquisition expenses.

(i) Premiums and Unearned Premiums

Premiums written comprise the premiums on contracts incepting in the financial year. Premiums written are stated gross of commissions' payable to agents and exclusive of taxes levied on premiums.

The Company earns premium income evenly over the term of the insurance policy generally using the pro rata method. The portion of the premium related to the unexpired portion of the policy at the end of the fiscal year is reflected in unearned premiums.

(ii) Deferred Policy Acquisition Expenses

Acquisition costs are substantially comprised of agents' commissions. These costs are deferred and amortized over the terms of the related policies to the extent that they are considered to be recoverable from unearned premiums, after considering the related anticipated claims and expenses.

(iii) Provisions for Unpaid Claims and Adjustment Expenses

Individual loss estimates are provided on each claim reported. In addition, provisions are made for adjustment expenses, changes in reported claims and for claims incurred but not reported, based on past experience and business in force. The estimates are regularly reviewed and updated, and any resulting adjustments are included in current income.

Provisions for unpaid claims and adjustment expenses are carried on an undiscounted basis.

BAY OF QUINTE MUTUAL INSURANCE CO.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

2. ACCOUNTING POLICIES (Cont'd)

(b) Insurance Contracts (Cont'd)

(iv) Liability Adequacy Test

At each reporting date, the Company performs a liability adequacy test on its insurance liabilities less deferred policy acquisition expenses to ensure the carrying value is adequate, using current estimates of future cash flows, taking into account the relevant investment return. If that assessment shows that the carrying amount of the liabilities is inadequate, any deficiency is recognized as an expense to the income statement initially writing off the deferred policy acquisition expense and subsequently by recognizing an additional claims liability for claims provisions.

(v) Reinsurer's Share of Provisions for Unpaid Claims and Adjustment Expenses

The Company enters into reinsurance contracts in the normal course of business in order to limit potential losses arising from certain exposures. Reinsurance premiums are accounted for in the same period as the related premiums for the direct insurance business being reinsured. Reinsurance liabilities, comprised of premiums payable for the purchase of reinsurance contracts, are included in due to reinsurer and are recognized as an expense when due.

Expected reinsurance recoveries on unpaid claims and adjustment expenses are recognized as assets at the same time and using principles consistent with the Company's method for establishing the related liability.

(vi) Salvage and Subrogation Recoverable

In the normal course of business, the Company obtains the ownership of damaged property, which they resell to various salvage operations. Unsold property is valued at its estimated net realizable value.

Where the Company indemnifies policyholders against a liability claim, it acquires rights to subrogate its claim against other parties. These claims are reflected when received or expected to be received from the subrogated parties, net of related costs, and are netted against the provision for unpaid claims and adjustment expenses.

(vii) Refund from Premium

Under the discretion of the Board of Directors, the Company may declare a refund to its policyholders based on the premiums paid in the fiscal period. This refund would be recognized in the statement of comprehensive income in the period for which it is declared.

BAY OF QUINTE MUTUAL INSURANCE CO.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

2. ACCOUNTING POLICIES (Cont'd)

(c) Structured Settlements, Fire Mutuals Guarantee Fund and Financial Guarantee Contracts

The Company has the ability to enter into annuity agreements with various life insurance companies to provide for fixed and recurring payments to claimants. Under such arrangements, the Company's liability to its claimants is substantially transferred, although the Company remains exposed to the credit risk that life insurers fail to fulfil their obligations.

The Company is a member of the Fire Mutuals Guarantee Fund ("the Fund"). The Fund was established to provide payment of outstanding policyholders' claims and unearned premiums if a member company becomes bankrupt. As a result, the Company may be required to contribute assets to their proportionate share in meeting this objective.

These exposures represent financial guarantee contracts. The Company accounts for financial guarantee contracts in accordance with IFRS 4, Insurance Contracts.

(d) Financial Instruments

The Company classifies its financial instruments into one of the following categories based on the purpose for which the asset was acquired or liability incurred. All transactions related to financial instruments are recorded on a trade date basis. The Company's accounting policy for each category is as follows:

(i) Loans and Receivables

These assets are non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue and subsequently carried at amortized cost, using the effective interest rate method, less any impairment losses.

Impairment provisions are recognized when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Company will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For amounts due from policyholders and reinsurer, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognized in comprehensive income. On confirmation that the amounts receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

BAY OF QUINTE MUTUAL INSURANCE CO.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

2. ACCOUNTING POLICIES (Cont'd)

(d) Financial Instruments (Cont'd)

(ii) Fair Value Through Profit and Loss Investments

Financial assets at fair value through profit and loss are financial assets held for trading. A financial asset is classified in this category if it is acquired principally for selling in the short term. Derivatives are also classified as held for trading unless they are designated hedges. Fair value through profit and loss instruments are carried at fair value in the balance sheet with changes in fair value recorded in the statement of comprehensive income.

The Company uses settlement date accounting for the purchase and sale of equity instruments.

(iii) Other Financial Liabilities

Other financial liabilities include all financial liabilities and comprise accounts payables, and other short-term monetary liabilities. These liabilities are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carrying in the balance sheet. Interest expense in this context includes initial transaction costs and premium's payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

(iv) Classification

Cash and cash equivalents are classified as fair value through profit and loss. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Portfolio investments are classified in accordance with Note 2(e) below. Accounts payable and accrued liabilities and due to reinsurer are classified as other financial liabilities, which are measured at amortized cost.

BAY OF QUINTE MUTUAL INSURANCE CO.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

2. ACCOUNTING POLICIES (Cont'd)

(e) Portfolio Investments

Portfolio investments are classified as fair value through profit and loss and are initially recorded at their acquisition cost on the date of trade. Portfolio investments are subsequently adjusted to fair value as at the date of the balance sheet and the corresponding unrealized gains and losses are recorded in income.

(f) Property, Plant and Equipment and Depreciation

Property, plant and equipment are stated at acquisition cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses. Gains or losses on the disposal of individual assets are recognized in income in the year of disposal. Depreciation is provided on the basis as detailed below:

Asset	Basis	Rate
Buildings	Straight-line	4%
Computer equipment	Straight-line	33%
Office furniture and fixtures	Straight-line	10%

Depreciation methods and useful lives are reviewed annually and adjusted if necessary.

(g) Income Taxes

Income tax expense comprises of current and deferred tax. Current tax and deferred tax are recognized in comprehensive income except to the extent that it relates to a business combination or items recognized directly in equity or in other earnings.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit or loss.

BAY OF QUINTE MUTUAL INSURANCE CO.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

2. ACCOUNTING POLICIES (Cont'd)

(g) Income Taxes (Cont'd)

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The amount of the deferred tax asset or liability is measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been acted or substantively enacted by the year-end date and are expected to apply when the liabilities / (assets) are settled / (recovered).

(h) Provisions

Provisions are recognized for liabilities of uncertain timing or amounts that have arisen as a result of past transactions, including legal, equitable or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

(i) Accounts Receivable

Accounts receivable are classified as loans and receivables and are measured at initial recognition at fair value and are expected to be settled within one year. Appropriate allowances for estimated irrecoverable amounts are recognized in profit or loss when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable is impaired.

The carrying amount of the asset is reduced through the direct write-down of the asset in the statement of comprehensive income. Subsequent recoveries of amounts previously written off are credited against operating expenses in the statement of comprehensive income.

(j) Post-employment Benefits - Pension Plan

The Company participates in a multi-employer defined benefit pension plan, however, sufficient information is not available to use defined benefit accounting. Therefore, the Company accounts for the plan as if it were a defined contribution plan, recognizing contributions, including deficit payments, as an expense in the year to which they relate.

2. ACCOUNTING POLICIES (Cont'd)

(k)Post-employment Benefits - Non-Pension Benefits

The Company participates in a multi-employer health and dental benefit plan that provides post-employment extended health and dental benefits to eligible retired employees. Entitlement to these benefits is conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. There are no employee contributions and the benefits are not funded.

The accrued obligation is based on the present value of expected future benefit plan payments once an employee reaches the age of eligibility. This method includes various estimates including retirement dates and ages of employees, expected extended health and dental benefit plan costs and related factors. Such estimates are subject to uncertainty.

The accrued obligation is included in accounts payable and accrued liabilities in the statement of financial position.

(l) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on deposit.

(m) Standards, Amendments and Interpretations Not Yet Effective

Certain new standards, amendments and interpretations have been published that are mandatory for the Company's accounting periods beginning on or after January 1, 2017 or later periods that the Company has decided not to early adopt. The standards, amendments and interpretations that will be relevant to the Company are:

- IFRS 7 - Financial Instruments: Disclosures. This was amended to require additional disclosure on transition from IAS 39 to IFRS 9. This amendment is effective on the adoption of IFRS 9 which is effective for annual periods beginning on or after January 1, 2018; however, insurance entities have been provided the option of deferring the adoption of IFRS 9 until January 1, 2021, which is the effective date of IFRS 17, Insurance Contracts. The Company does not plan to defer the effective date of IFRS 9, and therefore, expects to adopt IFRS 7 on January 1, 2018.

- IFRS 9 - Financial Instruments. This standard addresses the classification and measurement of financial assets and liabilities and will replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 has two measurement categories: amortized cost and fair value. Financial assets are recorded at amortized cost or fair value depending on the company's business model for managing the assets and their associated contractual cash flow characteristics. All financial assets are measured at fair value if they are not recorded at amortized cost. IFRS 9 allows financial assets and liabilities not designated at amortized cost to be recognized as fair value through profit and loss or fair value through other comprehensive income. This standard is effective for annual periods beginning on or after January 1, 2018; however, insurance entities have been provided the option of deferring the adoption of IFRS 9 until January 1, 2021, which is the effective date of IFRS 17, Insurance Contracts. The Company does not plan to defer the effective date of IFRS 9, and therefore, expects to adopt IFRS 9 on January 1, 2018.

BAY OF QUINTE MUTUAL INSURANCE CO.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

2. ACCOUNTING POLICIES (Cont'd)

(m) Standards, Amendments and Interpretations Not Yet Effective (Cont'd)

The Company expects that its portfolio investments will continue to be classified at fair value through profit and loss based on the business model assessment, therefore, the adoption of IFRS 9 is not expected to have a material impact on the Company's financial position or performance.

- IFRS 15 - Revenue from Contracts with Customers. IFRS 15 provides more guidance on revenue recognition. The core principal is that an entity recognizes revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. IFRS 15 contains a scope exception which excludes insurance contracts within the scope of IFRS 4 "Insurance Contracts", therefore, this standard will have a limited impact on the Company. This standard is effective for annual periods beginning on or after January 1, 2018.

- IFRS 16 - Leases. This standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity. This standard is effective for annual periods beginning on or after January 1, 2019.

- IFRS 17 - Insurance Contracts (to supersede IFRS 4 Insurance Contracts). This standard changes how entities account for insurance contracts. Under IFRS 17, the general model requires entities to measure an insurance contract using the total of the fulfillment cash flows (which is comprised of the estimated future cash flows, an adjustment to reflect the time value of money and an explicit risk adjustment for non-financial risk) and the contractual service margin. The fulfillment cash flows are re-measured on a current basis each reporting period. The contractual service margin is recognized over the coverage period. If the insurance contract is less than one year in length, the standard allows a simplified approach called the premium allocation method. This standard is effective for annual periods beginning on or after January 1, 2021 with early adoption permitted for entities that apply IFRS 9 - Financial Instruments and IFRS 15 - Revenue from Contracts with Customers before the date of initial application of IFRS 17. The standard is to be applied retrospectively unless impracticable, in which case, the modified retrospective approach or fair value approach is to be used. The Company is currently assessing the impact of IFRS 17.

With the exception of IFRS 17, the Company does not expect the above amendments to have significant impacts on the financial statements in future years.

BAY OF QUINTE MUTUAL INSURANCE CO.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

3. FINANCIAL INSTRUMENT CLASSIFICATION

The carrying amount of the Company's financial instruments by classification is as follows:

	Fair value through Profit and Loss $	Loans and Receivables $	Other Financial Liabilities $	Total $
December 31, 2017				
Cash	**3,757,378**			**3,757,378**
Portfolio investments	**45,054,856**			**45,054,856**
Accrued interest		**187,624**		**187,624**
Accounts receivable				
- Agents and policyholders		**6,955,294**		**6,955,294**
- Reinsurer		**1,653**		**1,653**
- Other		**353,585**		**353,585**
Accounts payable and accrued liabilities			**(1,004,159)**	**(1,004,159)**
Due to reinsurer			**(63,006)**	**(63,006)**
	48,812,234	**7,498,156**	**(1,067,165)**	**55,243,225**
December 31, 2016				
Cash	3,136,952			3,136,952
Portfolio investments	42,816,864			42,816,864
Accrued interest		193,628		193,628
Accounts receivable				
- Agents and policyholders		6,883,624		6,883,624
Accounts payable and accrued liabilities			(769,032)	(769,032)
Due to reinsurer			(110,242)	(110,242)
	45,953,816	7,077,252	(879,274)	52,151,794

BAY OF QUINTE MUTUAL INSURANCE CO.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

4. PORTFOLIO INVESTMENTS

As noted in Note 2(e) to these financial statements, portfolio investments are classified as fair value through profit and loss and are adjusted to market value as at the balance sheet date.

The cost and market values of the investments are as follows:

	2017		2016	
	Cost	**Fair Value**	Cost	Fair Value
	$	**$**	$	$
Term deposits	**3,284,439**	**3,291,285**	2,880,000	2,880,000
Fixed-income securities				
Federal government	**3,425,489**	**3,511,459**	3,425,489	3,618,802
Provincial government	**9,185,357**	**9,595,383**	7,020,478	7,696,274
Municipal government	**1,800,674**	**1,862,174**	1,900,556	2,027,498
Canadian Corporate - Rated A or better	**8,166,388**	**8,129,141**	10,694,196	10,925,609
Canadian Corporate - Rated less than A	**1,885,446**	**1,971,946**		
	24,463,354	**25,070,103**	23,040,719	24,268,183
Guarantee Fund	**60,821**	**60,821**	59,762	59,762
Preferred shares	**4,947,981**	**5,163,083**	4,790,106	4,565,672
Common shares	**4,765,039**	**5,963,260**	7,838,601	8,797,951
Mutual and pooled funds	**5,586,641**	**5,506,304**	2,299,648	2,245,296
	15,299,661	**16,632,647**	14,928,355	15,608,919
	43,108,275	**45,054,856**	40,908,836	42,816,864

The effective interest rates range from 1.65% to 9.98% (1.65% to 9.98% for December 31, 2016).

The maximum exposure to credit risk would be the fair market value as shown above.

BAY OF QUINTE MUTUAL INSURANCE CO.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

4. PORTFOLIO INVESTMENTS (Cont'd)

Fair Value

The estimated market value of bonds and debentures are based on quoted market values. The estimated market value of preference and common shares are determined using the last bid price.

Maturity Profile

The expected maturity dates for fixed-income securities and term deposits are as follows:

	2017	2016
	$	$
Maturing within one year	**3,448,051**	2,919,726
Maturing between one and five years	**14,173,980**	13,700,362
Maturing over five years	**10,739,357**	10,528,095
	28,361,388	27,148,183

5. INSURANCE CONTRACTS

Accounts Receivable - Reinsurer

	2017	2016
	$	$
Submitted to reinsurer	**3,749,092**	2,370,213
Received from reinsurer	**(3,747,439)**	(2,370,213)
Due from reinsurer, end of the year	**1,653**	NIL
Expected settlement		
Within one year	**1,653**	NIL
More than one year	**NIL**	NIL

BAY OF QUINTE MUTUAL INSURANCE CO.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

5. INSURANCE CONTRACTS (Cont'd)

Reinsurer's Share of Provision for Unpaid Claims

	2017	2016
	$	$
Balance, beginning of the year	**6,215,999**	5,906,396
New claims reserve	**3,633,158**	4,346,630
Change in prior years' reserve	**(1,000,556)**	(1,666,814)
Submitted to reinsurer	**(3,749,092)**	(2,370,213)
Balance, end of the year	**5,099,509**	6,215,999

Expected settlement

Within one year	**1,684,280**	3,390,568
More than one year	**3,415,229**	2,825,431

Deferred Policy Acquisition Expenses

	2017	2016
	$	$
Balance, beginning of the year	**2,438,611**	2,410,814
Acquisition costs incurred	**4,900,287**	4,892,820
Expensed during the year	**(4,861,199)**	(4,865,023)
Balance, end of the year	**2,477,699**	2,438,611

Deferred policy acquisition expenses will be recognized as an expense within one year.

Unearned Premiums (UEP)

	2017	2016
	$	$
Balance, beginning of the year	**12,872,848**	12,407,446
Premiums written	**24,441,584**	24,603,763
Premiums earned during year	**(24,520,303)**	(24,138,361)
Changes in UEP recognized in income	**(78,719)**	465,402
Balance, end of the year	**12,794,129**	12,872,848

BAY OF QUINTE MUTUAL INSURANCE CO.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

5. INSURANCE CONTRACTS (Cont'd)

The determination of the provision for unpaid claims and adjustment expenses and the related reinsurer's share requires the estimation of the following variables: development of claims and reinsurance recoveries. The estimates are based on the Company's historical experience and classified as follows:

	2017		2016	
	Gross	**Ceded**	Gross	Ceded
	$	**$**	$	$
Short settlement term	**5,442,130**	**1,684,280**	7,307,733	3,390,568
Long settlement term	**5,465,772**	**3,415,229**	4,187,844	2,825,431
Provision for claims incurred but not reported	**1,255,000**		1,060,000	
	12,162,902	**5,099,509**	12,555,577	6,215,999

Short settlement term is defined as expected settlement within one year, long term settlement is defined as expected settlement of more than one year.

Comments and Assumptions for Specific Claims Categories

The ultimate cost of long term settlement general liability claims are difficult to predict for several reasons. Claims may not be reported until many years after a policy expires. Changes in the legal environment have created further complications. Court decisions and federal and provincial legislation may dramatically increase the liability between the time a policy is written and associated claims are ultimately resolved. For example, liability for exposure to toxic substances and environmental impairment, which did not appear likely or even exist when the policies were written, has been imposed by legislators and judicial interpretation. Tort liability has been expanded by some jurisdictions to cover defective workmanship. Provisions for such difficult-to-estimate liabilities are established by examining the facts of tendered claims and adjusted in the aggregate for ultimate loss expectations based upon historical experience patterns and current socioeconomic trends.

BAY OF QUINTE MUTUAL INSURANCE CO.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

5. INSURANCE CONTRACTS (Cont'd)

Claims and Adjustment Expenses

Changes in claim liabilities recorded in the balance sheet for the years ended December 31, 2017 and 2016 and their impact on claims and adjustment expenses for the two years are as follows:

	2017 $	2016 $
Unpaid claim liabilities, beginning of year	**12,555,577**	13,404,300
Decrease in estimated losses and expenses for losses occurring in prior years	**(1,291,951)**	(2,470,671)
Provision for losses and expenses on claims occurring in the current year	**14,371,341**	16,437,010
Payment on claims:		
Current year	**(6,726,422)**	(9,427,045)
Prior years	**(6,745,643)**	(5,388,017)
Unpaid claims, end of year	**12,162,902**	12,555,577
Reinsurer's share	**5,099,509**	6,215,999
Unpaid claims, end of year - net	**7,063,393**	6,339,578

The change in estimate of losses occurring in prior years is due to changes arising from new information received.

Provision for Unpaid Claims and Adjustment Expenses

The determination of the provision for unpaid claims and adjustment expenses and the related reinsurer's share requires the estimation of three major variables which are the development of claims, reinsurance recoveries and future investment income.

Claim Development

The estimation of claim development involves assessing the future behaviour of claims, taking into consideration the consistency of the Company's claim handling procedures, the amount of information available, the characteristics of the line of business from which the claim arises and historical delays in reporting claims. In general, the longer the term required for the settlement of a group of claims the more variable the estimates. Short settlement term claims are those which are expected to be substantially paid within a year of being reported.

BAY OF QUINTE MUTUAL INSURANCE CO.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

5. INSURANCE CONTRACTS (Cont'd)

The tables that follow present the development of claims payments and the estimated ultimate cost of claims for the claim years 2008 to 2017. The first table presents the claims at gross and the second table presents the claims net of reinsurance recoveries. The upper half of the tables shows the cumulative amounts paid or estimated to be paid during successive years related to each claim year. The original estimates will be increased or decreased, as more information becomes known about the original claims and overall claim frequency and severity.

Provision for Unpaid Claims and Adjustment Expenses

Gross Claims

	2008 $ (000's)	2009 $ (000's)	2010 $ (000's)	2011 $ (000's)	2012 $ (000's)	2013 $ (000's)	2014 $ (000's)	2015 $ (000's)	2016 $ (000's)	2017 $ (000's)	Total $ (000's)
Gross estimate of cumulative claims costs											
At the end year of claim	10,941	6,725	7,622	14,235	12,465	16,668	10,822	17,377	16,437	14,371	
One year later	10,268	6,418	7,312	13,527	11,108	15,917	10,308	16,367	15,420		
Two years later	9,869	6,836	7,348	13,109	10,940	15,613	10,255	16,317			
Three years later	9,925	6,746	7,266	13,115	10,494	14,463	10,090				
Four years later	9,834	6,699	7,305	12,985	10,459	14,171					
Five years later	9,494	7,412	7,285	12,993	10,448						
Six years later	9,236	7,397	7,250	13,069							
Seven years later	9,297	7,387	7,240								
Eight years later	9,132	7,387									
Nine years later	9,112										
Current estimate of cumulative claims cost	9,112	7,387	7,240	13,069	10,448	14,171	10,090	16,317	15,420	14,371	117,625
Cumulative payments	8,996	6,199	7,235	12,914	10,414	14,031	9,731	15,063	14,417	6,726	105,726
Outstanding claims	116	1,188	5	155	34	140	359	1,254	1,003	7,645	11,899
Outstanding claims 2007 and prior											264
Provision for unpaid claims and expenses											12,163

BAY OF QUINTE MUTUAL INSURANCE CO.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

5. INSURANCE CONTRACTS (Cont'd)

Net Claims

	2008 $ (000's)	2009 $ (000's)	2010 $ (000's)	2011 $ (000's)	2012 $ (000's)	2013 $ (000's)	2014 $ (000's)	2015 $ (000's)	2016 $ (000's)	2017 $ (000's)	Total $ (000's)
Net estimate of cumulative claims costs											
At the end year of claim	8,294	6,137	6,744	9,760	9,204	10,702	10,448	12,403	12,091	10,738	
One year later	8,256	5,775	6,818	9,701	8,434	10,390	10,041	11,823	11,787		
Two years later	7,855	6,008	6,845	9,473	8,295	10,410	9,988	12,035			
Three years later	7,910	5,918	6,628	9,490	8,492	10,044	9,822				
Four years later	7,819	5,691	6,665	9,359	8,141	9,965					
Five years later	7,708	5,743	6,646	9,367	8,129						
Six years later	7,473	5,728	6,611	9,437							
Seven years later	7,533	5,718	6,599								
Eight years later	7,548	5,716									
Nine years later	7,528										
Current estimate of cumulative claims cost	7,528	5,716	6,599	9,437	8,129	9,965	9,822	12,035	11,787	10,738	91,756
Cumulative payments	7,412	5,337	6,598	9,300	8,095	9,906	9,464	11,082	11,199	6,369	84,762
Outstanding claims	116	379	1	137	34	59	358	953	588	4,369	6,994
Outstanding claims 2007 and prior											69
Total net outstanding claims net of reinsurance											7,063

BAY OF QUINTE MUTUAL INSURANCE CO.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

6. PROPERTY, PLANT AND EQUIPMENT

	Property, Plant and Equipment				
	Land $	Building $	Computer Equipment $	Office Furniture and Fixtures $	Total $
Cost					
Balance on December 31, 2016	196,000	739,000	482,906	383,222	1,801,128
Additions			45,557		45,557
Disposals			(144,369)		(144,369)
Balance on December 31, 2017	196,000	739,000	384,094	383,222	1,702,316
Accumulated Depreciation					
Balance on December 31, 2016		206,920	384,309	370,894	962,123
Depreciation expense		29,560	69,261	3,226	102,047
Disposals			(144,369)		(144,369)
Balance on December 31, 2017	NIL	236,480	309,201	374,120	919,801
Net book value					
December 31, 2016	196,000	532,080	98,597	12,328	839,005
December 31, 2017	196,000	502,520	74,893	9,102	782,515

7. INCOME TAX INFORMATION

The significant components of tax expense included in comprehensive income are composed of:

	2017 **$**	2016 $
Current Tax Expense		
Based on current year taxable income	**835,000**	644,000
Deferred Tax Expense		
Reversal of prior year temporary differences	**83,000**	96,000
Current year temporary differences	**(98,000)**	(83,000)
	(15,000)	13,000
Total income tax expense	**820,000**	657,000

WILKINSON

BAY OF QUINTE MUTUAL INSURANCE CO.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

7. INCOME TAX INFORMATION (Cont'd)

Reasons for the difference between tax expense for the year and the expected income taxes based on the effective statutory tax rate are as follows:

	2017	2016
	$	$
Net income for the year	**3,391,893**	2,757,405
Effective statutory rate	**26.50 %**	26.50 %
Expected taxes based on the effective statutory rate	**898,852**	730,712
Non-taxable dividends	**(78,678)**	(78,338)
Non-taxable portion of claims reserves, sick leave and post-employment benefits	**16,209**	(12,547)
Capital cost allowance in excess of amortization	**(851)**	231
Non-deductible expenses	**4,775**	5,288
Other	**(5,307)**	(1,346)
Total income tax expense	**835,000**	644,000

The movement in 2017 deferred tax assets and liabilities are:

	Opening Balance at January 1, 2017	**Recognize in Net Income**	**Closing Balance at December 31, 2017**
	$	**$**	**$**
Deferred Tax Assets			
Claims liabilities	**84,000**	**10,000**	**94,000**
Sick leave liability	**45,000**	**1,000**	**46,000**
Other	**17,000**	**1,000**	**18,000**
Deferred tax asset	**146,000**	**12,000**	**158,000**
Deferred Tax Liabilities			
Land and property, plant and equipment	**(63,000)**	**3,000**	**(60,000)**
2017 net deferred tax asset movement	**83,000**	**15,000**	**98,000**

BAY OF QUINTE MUTUAL INSURANCE CO.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

7. INCOME TAX INFORMATION (Cont'd)

The movement in 2016 deferred tax assets and liabilities are:

	Opening Balance at January 1, 2016 $	Recognize in Net Income $	Closing Balance at December 31, 2016 $
Deferred Tax Assets			
Claims liabilities	99,000	(15,000)	84,000
Sick leave liability	49,000	(4,000)	45,000
Other	25,000	(8,000)	17,000
Deferred tax asset	173,000	(27,000)	146,000
Deferred Tax Liabilities			
Land and property, plant and equipment	(77,000)	14,000	(63,000)
2016 net deferred tax asset movement	96,000	(13,000)	83,000

	2017 **$**	2016 $
Deferred Tax Assets		
Deferred tax assets to be recovered within 12 months	**140,000**	129,000
Deferred tax assets to be recovered after more than 12 months	**18,000**	17,000
	158,000	146,000
Deferred Tax Liabilities		
Deferred tax liabilities to be settled after more than 12 months	**(60,000)**	(63,000)
Net deferred tax asset	**98,000**	83,000

The Company has a capital loss carry-forward balance for tax purposes of approximately $406,000 which may be used to reduce income taxes on specific taxable capital gains of future years. The deferred tax asset relating to this balance has not been recognized in these financial statements.

BAY OF QUINTE MUTUAL INSURANCE CO.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

8. SALARIES AND BENEFITS

Included in the below line items within the statement of comprehensive income are the following amounts of salaries and benefits:

	2017	2016
	$	$
Gross claims and adjusting expenses	**150,516**	140,888
Policy services	**278,244**	189,610
Loss prevention	**436,374**	454,509

9. NET CHANGE IN NON-CASH WORKING CAPITAL BALANCES RELATED TO OPERATIONS

Cash provided from (used in) non-cash working capital is compiled as follows:

	2017	2016
	$	$
(INCREASE) DECREASE IN CURRENT ASSETS		
Accrued interest	**6,004**	4,457
Accounts receivable - agents and policyholders	**(71,670)**	(428,609)
Accounts receivable - reinsurer	**(1,653)**	
Accounts receivable - other	**(353,585)**	
Income taxes recoverable		623,157
Reinsurer's share of provision for unpaid claims and adjustment expenses	**1,116,490**	(309,603)
Deferred policy acquisition expenses	**(39,088)**	(27,797)
Prepaid expenses	**(1,961)**	(7,067)
	654,537	(145,462)
INCREASE (DECREASE) IN CURRENT LIABILITIES		
Accounts payable and accrued liabilities	**235,127**	(61,383)
Due to reinsurer	**(47,236)**	(17,261)
Income taxes payable	**(125,999)**	322,080
Provision for unpaid claims and adjustment expenses	**(392,675)**	(848,723)
Unearned premiums	**(78,719)**	465,402
	(409,502)	(139,885)
NET CHANGE IN NON-CASH WORKING CAPITAL BALANCES RELATED TO OPERATIONS	**245,035**	(285,347)

BAY OF QUINTE MUTUAL INSURANCE CO.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

10. INSURANCE RISK MANAGEMENT

The principal risk the Company faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Company is to ensure that sufficient reserves are available to cover these liabilities.

The above risk exposure is mitigated by diversification across a large portfolio of insurance. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

The Company purchases reinsurance as part of its risks mitigation program. Retention limits for the excess-of-loss reinsurances vary by product line.

Amounts recoverable from reinsurer are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements.

The Company writes insurance primarily over a twelve-month duration. The most significant risks arise through high severity, low frequency events such as natural disasters or catastrophes. A concentration of risk may arise from insurance contracts issued in a specific geographic location since all insurance contracts are written in Ontario.

The Company manages this risk via its underwriting and reinsurance strategy within an overall risk management framework. Exposures are limited by having documented underwriting limits and criteria. Pricing of property and liability policies are based on assumptions in regard to trends and past experience, in an attempt to correctly match policy revenue with exposed risk. Reinsurance is purchased to mitigate the effect of the potential loss to the Company. Reinsurance is placed with Farm Mutual Reinsurance Plan Inc., a Canadian registered reinsurer.

The Company follows a policy of underwriting with reinsuring contracts of insurance. The limit of liability of the Company is to a maximum amount of any one claim of $350,000 in the event of a property claim, and $400,000 in the event of a liability claim. For claims incurred over the respective limits, there is a 10% retention to a specified maximum for claims occurring prior to 2013 and 100% is recovered for all claims occurring in 2013 and subsequent years over the respective limits. In addition, the Company has obtained reinsurance having an upper amount of $6,000,000 and which limits the Company's liability to $1,050,000 in the event of a series of claims arising out of a single occurrence. The Company also has obtained stop loss reinsurance which limits the liability of all claims in a specific year to 80% of gross net earned premiums for all property and liability lines of business.

BAY OF QUINTE MUTUAL INSURANCE CO.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

10. INSURANCE RISK MANAGEMENT (Cont'd)

The Company is exposed to a pricing risk to the extent that unearned premiums are insufficient to meet the related future policy costs. Evaluation is performed regularly to estimate future claims costs, related expenses and expected profit in relation to unearned premiums. There was no premium deficiency at December 31, 2017 and 2016.

The risks associated with insurance contracts are complex and subject to a number of variables which complicate quantitative sensitivity analysis. The Company uses various techniques based on past claims development experience to quantify these sensitivities. This includes indicators such as average claim cost, amount of claims occurrences, expected loss ratios and claims development as described in Note 5.

Results of sensitivity testing based on expected loss ratios are as follows, shown gross and net of reinsurance on a pre-tax basis:

	Property Claims		**Liability Claims**	
	2017	2016	**2017**	2016
	$	$	**$**	$
5% change in loss ratios				
Gross claims change	**1,042,000**	1,045,000	**180,000**	185,000
Net claims change	**880,000**	909,000	**153,000**	147,000

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

11. INVESTMENT INCOME

	2017	2016
	$	$
Interest income	**1,226,110**	1,214,949
Dividend income	**316,828**	312,546
Increase in unrealized gain on fair value measurement	**25,953**	611,371
Realized gains on disposal of portfolio investments	**234,944**	137,892
Investment expenses	**(60,812)**	(18,408)
	1,743,023	2,258,350

BAY OF QUINTE MUTUAL INSURANCE CO.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

12. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with key management personnel, which are defined by IAS 24, Related Party Disclosures, as those persons having authority and responsibility for planning, directing and controlling the activities of the Company including directors and management:

	2017	2016
	$	$
Compensation		
Salaries, wages and director's fees	**849,618**	866,918
Short-term employee benefits	**44,358**	48,563
Pension and post-employment benefits	**91,313**	98,892
Premiums	**42,920**	46,189
Claims incurred	**1,000**	7,322

Amounts owing from and to key management personnel and directors (excluding compensation due and accrued) at December 31, 2017 are $9,337 (2016 - $8,564) and $Nil (2016 - $Nil) respectively. The amounts owing from related parties are subject to regular payment terms for policyholders and are included in accounts receivable agents and policyholders.

13. FINANCIAL RISKS AND CONCENTRATION OF RISK

Credit Risk

Credit risk is the risk of financial loss to the Company if a debtor fails to make payments of interest and principal when due. The Company is exposed to this risk relating to its fixed-income securities in its investment portfolio and the reliance on its reinsurer to make payment when certain loss conditions are met.

The Company's investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits, corporate sector limits and general guidelines for geographic exposure. The fixed-income security portfolio remains very high quality with 93% of the securities rated A or better; all fixed-income securities must have an A rating or better at the time of purchase per the Company's investment policy. All fixed-income portfolios are measured for performance on a quarterly basis and monitored by management on a monthly basis.

Reinsurance is placed with Farm Mutual Reinsurance Plan Inc., a Canadian registered reinsurer. Management monitors the creditworthiness of Farm Mutual Reinsurance Plan Inc. by reviewing their annual financial statements and through ongoing communications. Reinsurance treaties are reviewed annually by management prior to renewal of the reinsurance contract.

Accounts receivable are short term in nature and are not subject to material credit risk. The maximum exposure to credit risk and concentration of this risk is limited to the carrying value of these instruments.

There have been no significant changes from the previous period in the exposure to risk or policies, procedures and methods used to measure the risk.

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of market factors. Market factors include three types of risk: currency risk, interest rate risk and equity risk.

The Company's investment policy operates within the guidelines of the Insurance Act (Ontario). An investment policy is in place and its application is monitored the Board of Directors. Diversification techniques are utilized to minimize risk. The Policy limits the investment in any one corporate issuer to a maximum of 10% of the Company's total debt securities portfolio.

Currency Risk

Currency risk relates to the Company operating in different currencies and converting non-Canadian earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur.

The Company does not hold any significant financial instruments in foreign currency, and as such, is not exposed to significant currency risk.

There have been no significant changes from the previous period in the exposure to risk or policies, procedures and methods used to measure the risk.

BAY OF QUINTE MUTUAL INSURANCE CO.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

13. FINANCIAL RISKS AND CONCENTRATION OF RISK (Cont'd)

Interest Rate Risk

Interest rate risk is the potential for financial loss caused by fluctuations in fair value or future cash flows of financial instruments because of changes in market interest rates.

The Company is exposed to risk through its interest-bearing investments (term deposits and fixed-income securities).

Historical data and current information is used to profile the ultimate claims settlement pattern by class of insurance, which is then used in a broad sense to develop an investment policy and strategy. However, because a significant portion of the Company's assets relate to its capital rather than liabilities, the value of its interest rate based assets exceeds its interest based liabilities. As a result, generally, the Company's investment income will move with interest rates over the medium to long-term with short-term interest rate fluctuations creating unrealized gains or losses in comprehensive income. There are no occurrences where interest would be charged on liabilities, therefore, little protection is needed to ensure the fair market value of assets will be offset by a similar change in liabilities due to an interest rate change.

The objective and policies and procedures for managing interest rate risk is to diversify the bond portfolio in such a way that the bonds are a portfolio laddered over several years and an approximately equal portion of the bond portfolio would come due each year and be reinvested. This protects the Company from fluctuations in the interest rates.

As prevailing interest rates increase or decrease, the market value of these interest-bearing investments change. If interest rates were to change by 1%, with all other variables being held constant, then the effect on the market value of these investments would be approximately $1,004,000 (2016 - $976,000). The Company has structured its portfolio in a manner as to be able to allow fixed-income securities to be held to maturity to reduce any potential interest rate risk. For bonds that the Company did not sell during the year, the change during the year and changes prior to the year would be recognized as comprehensive income during the period.

There have been no significant changes from the previous period in the exposure to risk or policies, procedures and methods used to measure the risk.

Equity Risk

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Company is exposed to this risk through its equity holdings within its investment portfolio.

BAY OF QUINTE MUTUAL INSURANCE CO.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

13. FINANCIAL RISKS AND CONCENTRATION OF RISK (Cont'd)

The Company's portfolio includes Canadian stocks with fair values that move with the Toronto Stock Exchange Composite Index. A 10% movement in the stock markets with all other variables held constant would have an estimated effect on the fair values of the Company's preference and common shares and mutual and pooled funds of $1,221,000 (2016 - $1,444,000). For shares that the Company did not sell during the period, the change would be recognized in the asset value and in comprehensive income. For shares that the Company did sell during the period, the change during the period and changes prior to the period would be recognized as net realized gains in income during the period.

The Company's investments policy operates within the guidelines of the Insurance Act. An investment policy is in place and its application is monitored by the Board of Directors. Diversification techniques are utilized to minimize risk. The Policy limits the investment in portfolio investments as follows:

Investment Category	Maximum percentage of investment portfolio	Minimum percentage of investment portfolio
Preference shares	30%	0%
Common shares	25%	0%
Mutual and pooled funds	20%	0%
Bonds and debentures	80%	50%
Individual corporate group	10%	0%
Foreign securities	10%	0%

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet all cash outflow obligations as they come due. The Company mitigates this risk by monitoring cash activities and expected outflows. Current liabilities arise as claims are made. There are no material liabilities that can be called unexpectedly at the demand of a lender or client. There are no material commitments for capital expenditures and there is no need for such expenditures in the normal course of business. Claim payments are funded by current operating cash flow including the investment income.

There have been no significant changes from the previous period in the exposure to risk or policies procedures and methods used to measure the risk.

BAY OF QUINTE MUTUAL INSURANCE CO.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

14. DISCLOSURES RELATING TO FAIR VALUE MEASUREMENTS

The Company has categorized its financial assets and liabilities where fair value does not approximate cost based on the priority of the inputs to the valuation techniques used to measure fair value, into a three level fair value hierarchy. Financial assets and liabilities measured at fair value are categorized as follows:

Level 1: Fair value is based on unadjusted quoted prices for identical assets or liabilities in an active market.

Level 2: Fair value is based on quoted prices in markets that are not active or inputs that are observable for the asset or liability either directly as price or indirectly derived from price.

Level 3: Fair value is based on valuation techniques that require one or more significant unobservable inputs that are supported by little or no market activity and are significant to the estimated fair value of the assets and liabilities.

	Level 1 $ (000's)	Level 2 $ (000's)	Total $ (000's)
December 31, 2017			
Fixed-income securities			
Term deposits	3,291		3,291
Federal government	3,512		3,512
Provincial government and Provincially guaranteed	9,596		9,596
Canadian Municipal government	1,862		1,862
Canadian Corporate	10,101		10,101
Fire Mutual's Guarantee Fund		61	61
Equity Securities			
Preference shares	5,163		5,163
Common shares	5,963		5,963
Mutual and pooled funds	5,506		5,506
TOTAL ASSETS MEASURED AT FAIR VALUE	44,994	61	45,055

BAY OF QUINTE MUTUAL INSURANCE CO.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

14. DISCLOSURES RELATING TO FAIR VALUE MEASUREMENTS (Cont'd)

	Level 1 $ (000's)	Level 2 $ (000's)	Total $ (000's)
December 31, 2016			
Fixed-income securities			
Term deposits	2,880		2,880
Federal government	3,619		3,619
Provincial government and Provincially guaranteed	7,696		7,696
Canadian Municipal and School Boards	2,027		2,027
Canadian Corporate	10,926		10,926
Fire Mutual's Guarantee Fund		60	60
Equity Securities			
Preference shares	4,566		4,566
Common shares	8,798		8,798
Mutual and pooled funds	2,245		2,245
TOTAL ASSETS MEASURED AT FAIR VALUE	42,757	60	42,817

Levels of fair value for financial assets are consistent with those in the prior year.

BAY OF QUINTE MUTUAL INSURANCE CO.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

15. CAPITAL MANAGEMENT

The Company's objectives with respect to capital management are to maintain a capital base that is structured to exceed regulatory requirements and to best use capital allocations. Reinsurance is utilized as outlined in the Company's underwriting policy on Note 10 to these financial statements to protect the Company's capital. In addition, reinsurance is utilized to protect capital from catastrophic losses as the frequency and severity of these losses are inherently unpredictable. To limit their potential impact, catastrophic coverage limits exposure to $1,050,000. The $1,050,000 retained amount represents approximately 2.72% of the Company's capital. For the purpose of capital management, the Company has defined capital as policyholders' surplus.

The regulators measure the financial strength of property and casualty insurers using a minimum capital test (MCT). The regulators generally expect property and casualty companies to comply with capital adequacy requirements. This test compares a Company’s capital against the risk profile of the organization. The risk-based capital adequacy framework assesses the risk of assets, policy liabilities and other exposures by applying various factors. The regulator indicates that the Company should produce a minimum MCT of 150%. The regulator has the authority to request more extensive reporting and can place restrictions on the Company’s operations if deemed necessary.

The Company uses a ratio of policyholders' surplus to gross premiums written to monitor capital adequacy. The Company's goal is to have a ratio of policyholders' surplus to gross premiums written of at least 1:1. As at December 31, 2017, the Company has policyholders' surplus to gross premiums written of 1.58:1 (2016 - 1.46:1).

The Company has several guidelines and benchmarks established by the Financial Services Commission of Ontario regarding capital management which it continues to review and manage. As at December 31, 2017, the Company's MCT ratio is well in excess of the minimum requirement of 150%.

16. PENSION PLAN

The Company makes contributions on behalf of its employees to "The Retirement Annuity Plan for Employees of the Ontario Mutual Insurance Association and Member Companies," which is a multi-employer plan. Each member company has signed an Ontario Mutual Insurance Association Pension Plan Agreement. Eligible employees participate in the defined benefit plan. The defined benefit plan specifies the amount of the retirement benefit to be received by the employee based on the number of years the employee has contributed and his/her final average earnings. The plan is accounted for as a defined contribution plan as insufficient information is available to account for the plan as a defined benefit plan. The Company is one of a number of employers that participates in the plan and the financial information provided to the Company on the basis of the contractual agreements is insufficient to reliably measure the Company's proportionate share in the plan assets and liabilities on defined benefit accounting requirements.

16. PENSION PLAN (Cont'd)

The Company matches the employee contributions and funds the excess defined benefit based on the Company's percentage of pensionable earnings as calculated by the Pension Plan actuaries. The Pension Plan agreement states that the Company is responsible for its share of any deficit as a result of any actuarial valuation or cost certificate. The minimum funding requirement is the solvency valuation amount determined by the Pension Plan actuary on the valuation dates prescribed by the Pensions Benefit Act. In the event of a wind-up, voluntary withdrawal or bankruptcy, either by the Company or the group as a whole, the Company is responsible for its portion of all expenses and deficit related to such.

For the year ended December 31, 2017, the Company recognized $192,508 (2016 - $183,827) in operating expenses for current pension contributions. The Company had a 3.20% share of the total contributions to the Plan in 2017 (2016 - 3.70%).

The Company's expected contributions for current service to the Plan for 2018 are approximately $211,000.

An actuarial valuation of the Pension Plan as of December 31, 2016 showed a solvency deficit of $6,931,000. The Company's portion of this deficit is $226,692, which has been recorded in the salaries and benefits line of the statement of comprehensive income. Based on this actuarial valuation and direction from the Ontario Mutual Insurance Association, this deficit was to be paid over three years, with the first payment of $75,564 having been made during the December 31, 2017 fiscal year. The remaining portion is included within accounts payable and accrued liabilities on the balance sheet. The next actuarial valuation to be filed under the Pension Benefit Act is expected to be as of December 31, 2017.

17. COMMITMENTS

The Company has entered into operating lease agreements covering certain computer and office equipment. Future minimum payments on operating leases are as follows:

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2018	**4,668**
2019	**4,101**
2020	**4,101**
2021	**1,368**