Co-operators General Insurance Company

Unaudited Condensed Consolidated Interim Financial Statements

---

For the first quarter ended March 31, 2018

CO-OPERATORS GENERAL INSURANCE COMPANY
CONSOLIDATED BALANCE SHEETS
(unaudited)

As at

(in thousands of Canadian dollars)	**March 31, 2018 $**	December 31, 2017 $
Assets		
Cash and cash equivalents	**31,927**	84,382
Invested assets including securities on loan (note 3)	**4,294,077**	4,298,938
Premiums due	**873,503**	938,128
Income taxes recoverable	**29,537**	4,245
Reinsurance ceded contracts (note 5)	**108,978**	112,177
Deferred acquisition expenses	**215,743**	224,504
Deferred income taxes	**106,854**	106,121
Intangible assets (note 7)	**72,583**	73,308
Other assets (note 8)	**71,530**	80,261
	5,804,732	5,922,064
Liabilities		
Accounts payable and accrued charges	**187,374**	248,819
Income taxes payable	**-**	239
Insurance contracts (note 4)	**3,853,271**	3,875,709
Retirement benefit obligations	**127,825**	126,686
Deferred income taxes	**4,053**	4,186
Provisions and other liabilities (note 9)	**136,785**	135,397
	4,309,308	4,391,036
Shareholders' equity		
Share capital	**229,086**	227,840
Contributed capital	**10,132**	10,132
Retained earnings	**1,140,245**	1,169,323
Accumulated other comprehensive income	**115,961**	123,733
	1,495,424	1,531,028
	5,804,732	5,922,064

See accompanying notes to condensed consolidated interim financial statements.

CO-OPERATORS GENERAL INSURANCE COMPANY
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(unaudited)

3 months ended March 31, 2018 (in thousands of Canadian dollars)	**Share capital $**	**Contributed capital $**	**Retained earnings $**	**Accumulated other comprehensive income $**	**Total shareholders' equity $**
Balance, beginning of period	**227,840**	**10,132**	**1,169,323**	**123,733**	**1,531,028**
Net loss	**-**	**-**	**(27,781)**	**-**	**(27,781)**
Other comprehensive loss	**-**	**-**	**-**	**(7,772)**	**(7,772)**
Total comprehensive loss	**-**	**-**	**(27,781)**	**(7,772)**	**(35,553)**
Staff share loan plan	**429**	**-**	**-**	**-**	**429**
Preference shares issued	**2,366**	**-**	**-**	**-**	**2,366**
Preference shares redeemed	**(1,549)**	**-**	**(47)**	**-**	**(1,596)**
Dividends declared (note 11)	**-**	**-**	**(1,250)**	**-**	**(1,250)**
Balance, end of period	**229,086**	**10,132**	**1,140,245**	**115,961**	**1,495,424**

3 months ended March 31, 2017 (in thousands of Canadian dollars)	Share capital $	Contributed capital $	Retained earnings $	Accumulated other comprehensive income $	Total shareholders' equity $
Balance, beginning of period	222,720	10,132	1,218,439	127,591	1,578,882
Net income	-	-	34,552	-	34,552
Other comprehensive income	-	-	-	25,719	25,719
Total comprehensive income	-	-	34,552	25,719	60,271
Staff share loan plan	233	-	-	-	233
Preference shares issued	2,205	-	-	-	2,205
Preference shares redeemed	(1,736)	-	(50)	-	(1,786)
Dividends declared (note 11)	-	-	(51,250)	-	(51,250)
Balance, end of period	223,422	10,132	1,201,691	153,310	1,588,555

See accompanying notes to condensed consolidated interim financial statements.

CO-OPERATORS GENERAL INSURANCE COMPANY
CONSOLIDATED STATEMENTS OF INCOME
(unaudited)

(in thousands of Canadian dollars except for earnings per share and weighted average number of common shares)	**3 months ended March 31, 2018 $**	3 months ended March 31, 2017 $
Income		
Net earned premium (note 10)	**658,125**	609,311
Net investment income and gains (note 3)	**3,972**	62,820
Fees and other income	**1,552**	1,711
	663,649	673,842
Expenses		
Claims and benefits	**489,560**	400,458
Ceded claims and benefits	**(2,614)**	18,325
Premium and other taxes	**22,132**	19,901
Commissions and advisor compensation	**116,984**	110,732
Ceded commission	**(1,110)**	(1,080)
General expenses	**79,484**	80,627
	704,436	628,963
Income (loss) before income taxes	**(40,787)**	44,879
Income tax expense (recovery) (note 6)	**(13,006)**	10,327
Net income (loss)	**(27,781)**	34,552
Earnings (loss) per share	**(1.35)**	1.55
Weighted average number of common shares	**21,504**	21,458

CO-OPERATORS GENERAL INSURANCE COMPANY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

(in thousands of Canadian dollars)	**3 months ended March 31, 2018 $**	3 months ended March 31, 2017 $
Net income (loss)	**(27,781)**	34,552
Other comprehensive income (loss)		
Items that may be reclassified subsequently to the statement of income:		
Net unrealized gains (losses) on available-for-sale financial assets	**(25,274)**	47,074
Net reclassification adjustment for (gains) losses included in net income	**14,028**	(12,169)
Items that may be reclassified before income taxes	**(11,246)**	34,905
Income tax expense (recovery) relating to items that may be reclassified	**(3,474)**	9,186
Other comprehensive income (loss)	**(7,772)**	25,719
Comprehensive income (loss)	**(35,553)**	60,271

See accompanying notes to condensed consolidated interim financial statements.

CO-OPERATORS GENERAL INSURANCE COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

(in thousands of Canadian dollars)	3 months ended March 31, 2018 $	3 months ended March 31, 2017 $
Operating activities		
Net income (loss)	**(27,781)**	34,552
Items not requiring the use of cash (note 12)	**30,031**	(25,376)
Changes in non-cash operating components (note 12)	**(17,284)**	(39,955)
Cash provided by (used in) operating activities	**(15,034)**	(30,779)
Investing activities		
Purchases and advances of:		
Invested assets	**(1,209,882)**	(675,543)
Intangible assets	**-**	(1,324)
Property and equipment	**(652)**	(1,741)
Sale and redemption of:		
Invested assets	**1,179,258**	725,360
Cash provided by (used in) investing activities	**(31,276)**	46,752
Financing activities		
Share capital - preference shares issued	**2,366**	2,205
Share capital - preference shares redeemed	**(1,596)**	(1,786)
Dividends paid (note 11)	**(3,858)**	(53,717)
Cash provided by (used in) financing activities	**(3,088)**	(53,298)
Net increase (decrease) in cash and cash equivalents, net of payments in transit	**(49,398)**	(37,325)
Cash and cash equivalents, net of payments in transit, beginning of period	**34,996**	26,588
Cash and cash equivalents, net of payments in transit, end of period	**(14,402)**	(10,737)

Cash	**7,552**	19,365
Cash equivalents	**24,375**	-
Net payments in transit, included in accounts payable and accrued charges	**(46,329)**	(30,102)
Cash and cash equivalents, net of payments in transit, end of period	**(14,402)**	(10,737)

See accompanying notes to condensed consolidated interim financial statements.

(Amounts in thousands of Canadian dollars, except for per share amounts and where otherwise noted)

1. Nature of operations

Unless otherwise noted or the context otherwise indicates, in these notes “Company” refers to the Consolidated Co-operators General Insurance Company. CGIC refers to the Non-Consolidated Co-operators General Insurance Company.

The Company is comprised of CGIC and its wholly owned subsidiaries: The Sovereign General Insurance Company (Sovereign), COSECO Insurance Company (COSECO), Co-operators Investment Limited Partnership (CILP), Co-operators Strategic Growth Corporation (CSGC) and Co-operators Insurance Agencies Limited (CIAL). 100% of the voting rights attached to all the outstanding voting shares or partnership interests of each of Sovereign, COSECO, CILP, CSGC and CIAL are held by the Company.

The registered office of the Company is 130 Macdonell Street, Guelph, Ontario. The Company is domiciled in Canada and is incorporated under the Insurance Companies Act (Canada). These condensed consolidated interim financial statements of the Company for the three months ended March 31, 2018 were authorized for issue in accordance with a resolution of the Audit Committee of the Board of Directors on April 26, 2018.

CGIC and certain of its subsidiaries are licensed to write all classes of insurance, other than life, in all provinces and territories in Canada. CGIC and certain of its subsidiaries are regulated by the federal insurance act. The Company must comply with reporting requirements of its regulator the Office of the Superintendent of Financial Institutions, Canada (OSFI).

The Company’s common shares are 100% owned by Co-operators Financial Services Limited (CFSL), which in turn is owned 100% by The Co-operators Group Limited (CGL). The Class E preference shares, Series C are traded on the Toronto Stock Exchange under the symbol CCS.PR.C.

2. Summary of significant accounting policies

Basis of preparation and statement of compliance

These condensed consolidated interim financial statements of the Company have been prepared in accordance with International Accounting Standard (IAS) 34, “Interim Financial Reporting”.

The consolidated balance sheets are presented on a non-classified basis. Assets expected to be realized and liabilities expected to be settled within the Company’s normal operating cycle of one year would typically be considered as current. Certain balances are comprised of both current and non-current amounts.

Seasonality

The property and casualty insurance business is seasonal in nature. Premiums are generally written in annual renewal cycles, often in the second quarter each year. Weather conditions can vary significantly between quarters, with extreme weather conditions historically having an impact on the first and third quarters.

Segmented information

The Company’s results of operations are reviewed by senior management and the Board of Directors based on one reporting and operating segment, property and casualty operations.

Significant accounting policies

These condensed consolidated interim financial statements should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2017, which have been prepared in accordance with IFRS as issued by the IASB. The accounting policies followed in these condensed consolidated interim financial statements are consistent as those applied in the Company's audited consolidated financial statements for the year ended December 31, 2017.

The significant estimates and judgments made by management in applying accounting policies and the key sources of estimation uncertainty are the same as those that applied to the consolidated financial statements of the Company for the year ended December 31, 2017.

The Company has the following updates to information provided in the consolidated financial statements ended December 31, 2017 about the standards issued but not yet effective.

IFRS 9 "Financial Instruments"

IFRS 9 was issued in July 2014 and is intended to replace IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 is a three part standard aimed at reducing complexity in reporting financial instruments. The project has been divided into three phases: Phase 1 Classification and measurement, Phase 2 Impairment and Phase 3 Hedge accounting. Phase 1 was issued in November 2009 and amended in October 2010. It requires financial assets to be recorded at amortized cost or fair value depending on the entity's business model for managing the assets and their associated cash flow characteristics. All financial assets are to be measured at fair value on the balance sheet if they are not measured at amortized cost. At initial recognition, an entity may irrevocably designate a financial asset as measured at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases. Phase 2 was completed in July 2014 and introduced a new expected loss impairment methodology that will result in more timely recognition of impairment losses. Phase 3 was completed in November 2013. This phase replaces the rule-based hedge accounting requirements in IAS 39 to more closely align the accounting with risk management activities.

The standard is effective for annual periods beginning on or after January 1, 2018; however, in September 2016, IFRS 4 was amended to provide an option of a temporary exemption from applying IFRS 9 for entities whose predominate activity is issuing insurance contracts within the scope of IFRS 4. Therefore, qualifying entities will have the option to adopt IFRS 9 upon the adoption of IFRS 17. The Company has assessed the qualification criteria and determined that this temporary exemption does apply; thus, IFRS 9 will be effective for annual periods beginning on or after January 1, 2021.

The Company has concluded that it qualifies for the temporary exemption from IFRS 9 based on the following reasons: (1) The Company has not previously applied any version of IFRS 9 for any of the entities and (2) The Company entities are predominantly considered insurance. To be considered predominantly insurance, the carrying amount of liabilities arising from contracts within the scope of IFRS 4 (which includes any deposit components or embedded derivatives unbundled from insurance contracts) must be significant compared to the total carrying amount of all liabilities. The standard goes on to detail that significant is defined as greater than 90 per cent, or less than or equal to 90 per cent but greater than 80 per cent and the insurer does not engage in a significant activity unconnected with insurance.

The Company has assessed the criteria detailed above. Management completed an assessment of the entities that fall within the 80 per cent to 90 per cent range and concluded that significant activities are connected with insurance. This assessment was performed using primarily publicly available information.

(Amounts in thousands of Canadian dollars, except for per share, weighted average number of common shares and where otherwise noted)

Management is evaluating the annual disclosure requirement for the temporary exemption of IFRS 9 and it will be disclosed in the December 31, 2018 financial statements.

IFRS 15 "Revenue from Contracts with Customers"

The IFRS 15 scope exemptions for insurance contract revenue and financial instrument revenue apply to the Company's significant revenue streams (net earned premiums and net investment gains and income, respectively). As a result, this standard does not impact net earned premium or net investment gains and income.

The Company has assessed the other revenue amounts under the new standard and concluded that no change in the revenue recognition policies of the Company is required.

3. Invested assets and net investment income and gains

The Company's invested assets are held within CILP, a wholly-owned subsidiary of the Company.

a) Invested assets

	Fair value			Amortized cost	Carrying value
		Classified	Designated	Loans and	
	AFS	FVTPL	FVTPL	receivables	Total
March 31, 2018	$	$	$	$	$
Bonds					
Federal	521,478	-	28,770	-	550,248
Provincial	699,093	-	38,399	-	737,492
Municipal	31,212	-	-	-	31,212
Corporate	880,682	-	47,821	-	928,503
Asset-backed securities	61,387	-	5,308	-	66,695
International	81,160	-	-	-	81,160
	2,275,012	-	120,298	-	2,395,310
Stocks					
Canadian common	572,752	-	-	-	572,752
Canadian preferred	6,541	-	408,806	-	415,347
U.S. equities	151,179	-	-	-	151,179
Foreign equities	86,321	-	-	-	86,321
	816,793	-	408,806	-	1,225,599
Short-term investments	119,660	-	-	-	119,660
Limited partnerships	104,900	-	-	-	104,900
Foreign currency forward contracts	-	225	-	-	225
Mortgages	-	-	-	415,570	415,570
Other investments	-	-	-	10,230	10,230
Investment income due and accrued	-	-	-	22,583	22,583
Total invested assets	3,316,365	225	529,104	448,383	4,294,077

(Amounts in thousands of Canadian dollars, except for per share, weighted average number of common shares and where otherwise noted)

	Fair Value			Amortized Cost	Carrying Value
		Classified	Designated	Loans and	
	AFS	FVTPL	FVTPL	receivables	Total
December 31, 2017	$	$	$	$	$
Bonds					
Federal	500,639	-	28,871	-	529,510
Provincial	685,693	-	38,737	-	724,430
Municipal	40,884	-	-	-	40,884
Corporate	927,015	-	48,391	-	975,406
Asset-backed securities	55,133	-	5,323	-	60,456
International	48,140	-	-	-	48,140
	2,257,504	-	121,322	-	2,378,826
Stocks					
Canadian common	592,439	-	-	-	592,439
Canadian preferred	6,244	-	394,375	-	400,619
U.S. equities	149,735	-	-	-	149,735
Foreign equities	86,418	-	-	-	86,418
	834,836	-	394,375	-	1,229,211
Short-term investments	143,577	-	-	-	143,577
Limited partnerships	93,800	-	-	-	93,800
Foreign currency forward contracts	-	1,928	-	-	1,928
Mortgages	-	-	-	421,673	421,673
Other investments	-	-	-	10,231	10,231
Investment income due and accrued	-	-	-	19,692	19,692
Total invested assets	3,329,717	1,928	515,697	451,596	4,298,938

The value of the securities on loan included in invested assets above consists of $51,242 (2017 - $52,056) in stocks and $432,027 (2017 - $580,206) in bonds.

b) Investments - measured at fair value

The Company is responsible for determining the fair value of its investment portfolio by utilizing market-driven measurements obtained from active markets where available, by considering other observable and unobservable inputs and by employing valuation techniques that make use of current market data. Assets and liabilities recorded at fair value in the consolidated balance sheets are measured and classified in a hierarchy consisting of three levels for disclosure purposes. The three levels are based on the significance and reliability of the inputs to the respective valuation techniques. The input levels are defined as follows:

Level 1 - Quoted prices

Represents unadjusted quoted prices for identical instruments exchanged in active markets. The fair value is determined based on quoted prices in active markets obtained from external pricing sources.

Level 2 - Significant other observable inputs

Includes directly or indirectly observable inputs other than quoted prices for identical instruments exchanged in active markets. These inputs include quoted prices for similar instruments exchanged in active markets and quoted prices for identical or similar instruments exchanged in inactive markets. For financial instruments that do not have directly observable inputs, the fair value is calculated as the present value of the future cash flows considering inputs other than quoted prices that are observable for the instruments, such as interest rates and yield curves, volatilities, prepayment spreads, credit risks and default rates where available; and inputs that are derived principally from or corroborated by observable market data by correlation or other means. Consistent with market participants, the Company determines the fair values of foreign exchange forward contracts by using a discounted cash flow valuation technique using observable market data.

(Amounts in thousands of Canadian dollars, except for per share, weighted average number of common shares and where otherwise noted)

Level 3 - Significant unobservable inputs

Includes inputs that are not based on observable market data. Management is required to use its own assumptions regarding unobservable inputs as there is little, if any, market activity in these assets or liabilities or related observable inputs that can be corroborated at the measurement date. Unobservable inputs require significant management judgement or estimation to make certain projections and assumptions about the information that would be used by market participants in pricing assets or liabilities. To verify pricing, the Company assesses the reasonability of the fair values by comparing to industry accepted valuation models, to movements in credit spreads and to recent transaction prices for similar assets where available.

The following summarizes how fair values were determined for recurring measurements as at:

March 31, 2018	Level 1 - Quoted prices $	Level 2 - Significant other observable inputs $	Level 3 - Significant unobservable inputs $	Total fair value $
AFS				
Bonds	-	2,275,012	-	2,275,012
Stocks	808,543	6,541	-	815,084
Short-term investments	-	119,660	-	119,660
Limited partnerships	-	-	104,900	104,900
	808,543	2,401,213	104,900	3,314,656
FVTPL				
Bonds	-	120,298	-	120,298
Stocks	408,806	-	-	408,806
Foreign currency forward contracts	-	225	-	225
	408,806	120,523	-	529,329
Total invested assets at fair value	1,217,349	2,521,736	104,900	3,843,985
FVTPL				
Foreign currency forward contracts (note 9)	-	2,819	-	2,819
Total financial liabilities at fair value	-	2,819	-	2,819

(Amounts in thousands of Canadian dollars, except for per share, weighted average number of common shares and where otherwise noted)

December 31, 2017	Level 1 - Quoted prices $	Level 2 - Significant other observable inputs $	Level 3 - Significant unobservable inputs $	Total fair value $
AFS				
Bonds	-	2,257,504	-	2,257,504
Stocks	826,883	6,244	-	833,127
Short-term investments	-	143,577	-	143,577
Limited partnerships	-	-	93,800	93,800
	826,883	2,407,325	93,800	3,328,008
FVTPL				
Bonds	-	121,322	-	121,322
Stocks	394,375	-	-	394,375
Foreign currency forward contracts	-	1,928	-	1,928
	394,375	123,250	-	517,625
Total invested assets at fair value	1,221,258	2,530,575	93,800	3,845,633
FVTPL				
Foreign currency forward contracts (note 9)	-	2,855	-	2,855
Total financial liabilities at fair value	-	2,855	-	2,855

Excluded from these totals are AFS investments of $1,709 (2017 - $1,709) in shares of other co-operative entities which are carried at cost as they do not have quoted market prices in active markets.

The following table is a reconciliation of the Level 3 fair value measurements.

3 months ended March 31, 2018	**Limited partnerships $**
Balance, beginning of period	**93,800**
Purchases	**5,642**
Sales and redemptions	**(227)**
Gains	
Unrealized included in OCI	**5,685**
Balance, end of period	**104,900**

No investments were transferred between levels during the period (2017 - $nil).

The investments measured at fair value and classified as Level 3 as at March 31, 2018 are limited partnerships, which represent units of third-party managed private equity funds (Funds). The fair values of limited partnership investments are based on the net asset value (NAV) from each of the individual Funds most recent quarterly or annual financial statements. Limited partnership NAV's are derived by valuation techniques employed by each Funds' management using unobservable inputs. The Company assesses the NAV disclosed in each Funds most recent financial statement using independent analytical procedures to ensure the amount is a reasonable representation of fair value. The Company does not assess the sensitivity of the fair value of limited partnerships because the inputs used by each fund manager to determine the NAV are unobservable and not readily available.

(Amounts in thousands of Canadian dollars, except for per share, weighted average number of common shares and where otherwise noted)

The fair value of mortgages at March 31, 2018 is $417,735 (March 31, 2017 - $508,616). Mortgages measured at fair value, for disclosure purposes only, are classified as Level 3. The fair value of the mortgages has been calculated by discounting the expected cash flows of each instrument. The discount rate is determined using the Government of Canada benchmark bond yield for instruments of similar maturity adjusted for specific credit risk. In determining the adjustment for credit risk, the Company considers market conditions, the value of the properties that the mortgage is secured by and other indicators of creditworthiness.

c) Net investment income and gains

	3 months ended March 31, 2018 $	3 months ended March 31, 2017 $
Interest income	**19,629**	19,693
Dividend and other income	**9,255**	9,126
Investment expense	**(1,548)**	(1,567)
Net investment income	**27,336**	27,252
Net realized gains (losses)	**(11,082)**	10,640
Net foreign exchange gains (losses)	**(2,893)**	3,439
Change in fair value (note 12)	**(5,527)**	21,489
Impairment losses (note 12)	**(3,862)**	-
Net investment gains (losses)	**(23,364)**	35,568
Net investment income and gains	**3,972**	62,820

4. Insurance contracts

Insurance contracts are comprised of the following balances:

	As at March 31, 2018 $	As at December 31, 2017 $
Undiscounted unpaid claims and adjustment expenses	**2,428,388**	2,370,384
Effect of time value of money	**(115,795)**	(121,040)
Provisions for adverse deviation (PFADs)	**217,801**	226,608
Effect of discounting	**102,006**	105,568
Discounted unpaid claims and adjustment expenses	**2,530,394**	2,475,952
Unearned premiums	**1,322,877**	1,399,757
	3,853,271	3,875,709

The most recent set of annual consolidated financial statements provides a summary of the Company's unpaid claims and adjustment expense provision and unearned premiums by type of insurance contract both before and after reinsurance.

(Amounts in thousands of Canadian dollars, except for per share, weighted average number of common shares and where otherwise noted)

5. Reinsurance contracts

The Company follows the policy of underwriting and reinsuring contracts of insurance which limits the liability of the Company to a maximum amount on any one loss. In addition, the Company has obtained reinsurance which limits the Company's liability in the event of a series of claims arising out of a single occurrence.

The Company's net retentions are as follows:

	As at March 31, 2018 $	As at December 31, 2017 $
Individual loss		
Property	**7,500**	7,500
General liability	**5,000**	5,000
Automobile	**5,000**	5,000
Catastrophe		
Maximum limit	**1,300,000**	1,450,000
Company retention	**70,000**	70,000

For certain special classes of business or types of risk, the retention for single risk events may be lower through specific treaties or the use of facultative reinsurance. The maximum limit for catastrophe reinsurance is applied to all property and casualty insurance operations ultimately owned by CGL. After application of the catastrophe program, the Company's retention is $70,000 in incurred claims.

The amounts presented under reinsurance ceded contracts in the consolidated balance sheets represent the Company's net contractual rights under reinsurance contracts and consist of the following:

	As at March 31, 2018 $	As at December 31, 2017 $
Reinsurance ceded assets		
Reinsurers' share of unearned premiums	**6,082**	6,475
Reinsurers' share of unpaid claims and adjustment expenses	**127,533**	135,236
Reinsurer receivables	**8,855**	7,758
	142,470	149,469
Reinsurance ceded liabilities		
Unearned reinsurance commissions	**1,858**	1,954
Payable to reinsurers	**945**	2,218
Unlicensed reinsurer deposits	**30,689**	33,120
	33,492	37,292
Reinsurance ceded contracts	**108,978**	112,177

(Amounts in thousands of Canadian dollars, except for per share, weighted average number of common shares and where otherwise noted)

6. Income taxes

Reconciliation to statutory income tax rate

In the consolidated statements of income, the income taxes reflect an effective tax rate which differs from the statutory tax rate for the following reasons:

	3 months ended March 31, 2018		3 months ended March 31, 2017	
	$	**%**	$	%
Income (loss) before income taxes	**(40,787)**		44,879	
Income tax expense (recovery) at statutory rates	**(11,012)**	**27.0**	12,117	27.0
Effects of:				
Non-taxable investment income	**(2,160)**	**5.3**	(1,956)	(4.4)
Non-deductible expenses	**151**	**(0.4)**	107	0.2
Change in income tax rates	**2**	**-**	(16)	-
Difference in effective tax rate of subsidiaries	**1**	**-**	-	-
Other	**12**	**-**	75	0.2
Income tax expense (recovery)	**(13,006)**	**31.9**	10,327	23.0

7. Intangible assets

	Goodwill	**Licenses**	**Software**	**Broker Customer Lists**	**Total**
	$	**$**	**$**	**$**	**$**
Cost					
January 1, 2017	1,076	50,000	18,395	24,359	93,830
Additions	-	3,750	-	2,035	5,785
December 31, 2017	1,076	53,750	18,395	26,394	99,615
March 31, 2018	**1,076**	**53,750**	**18,395**	**26,394**	**99,615**
Accumulated amortization					
January 1, 2017	-	-	17,897	5,431	23,328
Amortization	-	-	230	2,749	2,979
December 31, 2017	-	-	18,127	8,180	26,307
Amortization	-	-	39	686	725
March 31, 2018	**-**	**-**	**18,166**	**8,866**	**27,032**
Net carrying value					
December 31, 2017	1,076	53,750	268	18,214	73,308
March 31, 2018	**1,076**	**53,750**	**229**	**17,528**	**72,583**

(Amounts in thousands of Canadian dollars, except for per share, weighted average number of common shares and where otherwise noted)

8. Other assets

	As at March 31, 2018 $	As at December 31, 2017 $
Due from related parties	**35,291**	39,494
Loans to related parties	**-**	300
Reinsurance assumed receivables	**980**	1,085
Property and equipment	**22,048**	23,518
Due from risk sharing pools	**1,309**	1,008
Investments in associates and joint ventures	**8,136**	8,405
Prepaid expenses	**1,279**	1,874
Other	**2,487**	4,577
	71,530	80,261

9. Provisions and other liabilities

	As at March 31, 2018 $	As at December 31, 2017 $
Provision for advisor transition commissions	**112,808**	109,610
Advisor transition commission payable	**13,725**	15,369
Other provisions	**4,600**	4,599
Foreign currency forward contracts (note 3)	**2,819**	2,855
Other liabilities	**2,833**	2,964
	136,785	135,397

10. Net earned premium

	3 months ended March 31, 2018 $	3 months ended March 31, 2017 $
Direct written premium	**599,686**	540,288
Assumed written premium	**1,785**	1,646
Gross written premium	**601,471**	541,934
Ceded written premium	**(19,833)**	(18,431)
Net written premium	**581,638**	523,503
Change in gross unearned premium	**76,880**	86,217
Change in ceded unearned premium	**(393)**	(409)
Net earned premium	**658,125**	609,311

11. Share capital

The number of shares and the amounts per share are not in thousands.

For the three months ended March 31, 2018, the Company issued 23,659 (2017 - 22,054) Class A preference shares, series B for $2,366 (2017 - $2,205) and redeemed 14,554 shares (2017 - 16,362) for $1,455 (2017 - $1,636). The Company redeemed 3,753 (2017 - 3,996) Class A preference shares, series A for $94 (2017 - $100).

Dividends are as follows:

	3 months ended March 31, 2018				3 months ended March 31, 2017			
	Declared	**Declared per share**	**Paid**	**Paid per share**	Declared	Declared per share	Paid	Paid per share
	$	**$**	**$**	**$**	$	$	$	$
Class A, series A	**-**	**-**	**154**	**0.94**	-	-	162	0.94
Class A, series B	**-**	**-**	**1,727**	**2.50**	-	-	1,578	2.50
Class B	**-**	**-**	**1**	**1.25**	-	-	1	1.25
Class D, series A	**-**	**-**	**35**	**2.50**	-	-	35	2.50
Class D, series B	**-**	**-**	**106**	**2.50**	-	-	106	2.50
Class D, series C	**-**	**-**	**108**	**2.50**	-	-	108	2.50
Class E, series C	**1,250**	**0.31**	**1,250**	**0.31**	1,250	0.31	1,250	0.31
Class F, series A	**-**	**-**	**458**	**0.94**	-	-	458	0.94
Class G, series A	**-**	**-**	**19**	**1.25**	-	-	19	1.25
Common shares	**-**	**-**	**-**	**-**	50,000	2.33	50,000	2.33
	1,250		**3,858**		51,250		53,717	

During the three months ended March 31, 2018, the Company declared and paid common dividends to its parent for $nil (2017 - $50,000).

(Amounts in thousands of Canadian dollars, except for per share, weighted average number of common shares and where otherwise noted)

12. Statement of cash flows - other non-cash items

	3 months ended March 31, 2018	3 months ended March 31, 2017
	$	$
i) Items not requiring the use of cash		
Investing activities (gains) losses	**13,975**	(14,079)
Amortization and depreciation of:		
Bond premium/discount	**3,670**	4,702
Mortgage accretion	**58**	202
Intangible assets	**725**	741
Property and equipment	**2,121**	2,426
Change in fair value of FVTPL invested assets (note 3)	**5,527**	(21,489)
Impairment losses (note 3)	**3,862**	-
Deferred income taxes	**(1,315)**	799
Retirement benefit obligations	**1,139**	1,181
Loss from investments in joint ventures	**269**	141
	30,031	(25,376)
ii) Changes in non-cash operating components		
Other		
Insurance contracts	**(22,438)**	(108,468)
Reinsurance ceded contracts	**3,199**	54,781
Premiums due	**64,625**	71,346
Deferred acquisition expenses	**8,761**	9,819
Staff share loan plan	**429**	233
Accounts receivable and other assets	**4,103**	(1,070)
Accounts payable and accrued charges	**(55,780)**	(54,738)
Income taxes payable/recoverable	**(21,607)**	(12,654)
Provisions and other liabilities	**1,424**	796
	(17,284)	(39,955)

13. Events after the interim period

On April 1, 2018, CGIC entered into an agreement with an associated company, CUMIS Services Inc., to acquire 100% of the common shares of CUMIS General Insurance Company (CUMIS General), a property and casualty insurance company. The fair value purchase price will be paid in cash and will be funded by CGIC issuing common shares to its parent, CFSL.

Both parties to the agreement are owned 100% by CFSL. The Company will record the acquisition at the carrying value of CUMIS General. Differences between this carrying value and consideration paid will be recorded through shareholders' equity in the Company's financial statements. The internal reorganization simplifies the structure of CGL by aligning the P&C operations under a common legal entity.