Tarion Warranty Corporation

Financial Statements
For the year ended December 31, 2017

BUILDING CONFIDENCE

Tarion Warranty Corporation

December 31, 2017

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Management's Responsibility For Financial Reporting

Management is responsible for the integrity of the Financial Statements and operational information presented in this Annual Report. The Financial Statements have been presented in accordance with International Financial Reporting Standards and reflect management's best estimates and judgments. Financial information presented elsewhere in the Annual Report is consistent with these Financial Statements.

Management maintains a system of internal controls, to provide reasonable assurance that all assets are safeguarded and to facilitate the preparation of relevant, reliable and timely financial information.

The external actuary who is appointed by the Board of Directors is responsible for ensuring that the assumptions and methods used in the determination of the warranty liabilities are in accordance with accepted actuarial practice.

The external auditor has audited and reported on the annual Financial Statements prepared in accordance with International Financial Reporting Standards.

The Audit Committee, consisting of non-executive directors, has reviewed these Financial Statements with management and the external auditor and has reported to the Board of Directors, which has approved the Financial Statements.

S/D

Howard Bogach
President & Chief Executive Officer
April 26, 2018

S/D

Edmond Lee
Vice President & Chief Financial Officer
April 26, 2018

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INDEPENDENT AUDITORS' REPORT

To the Board of Tarion Warranty Corporation

We have audited the accompanying financial statements of Tarion Warranty Corporation, which comprise the statement of financial position as at December 31, 2017, the statements of comprehensive results of operations, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the 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.

Auditors' 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 our 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, we consider 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 is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Tarion Warranty Corporation 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.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

April 26, 2018
Toronto, Canada

Appointed Actuary's Report

To the Directors of Tarion Warranty Corporation

I have valued the warranty liabilities of Tarion Warranty Corporation for its Statement of Financial Position as at December 31, 2017 and their change in the Statement of Comprehensive Results of Operations for the year ended December 31, 2017 in accordance with accepted actuarial practice in Canada, including the selection of appropriate assumptions and methods.

In my opinion, the amount of these warranty liabilities makes appropriate provision for all warranty obligations, and the Financial Statements fairly present the results of the valuation.

Pierre Laurin
Fellow, Canadian Institute of Actuaries
April 26, 2018

Tarion Warranty Corporation
Statement of Financial Position
For the years ended December 31
($CAD thousands)

	Notes	2017	2016
ASSETS			
Cash and cash equivalents	4	4,770	3,093
Trade and other receivables from vendors and builders	5	9,705	10,871
Prepaid expenses and other assets		405	370
Investments	6	583,424	542,129
Unearned excess loss premium	7	1,915	1,027
Equipment and leaseholds	8	1,408	2,059
Intangible assets	9	3,842	2,299
TOTAL ASSETS		605,469	561,848
EQUITY AND LIABILITIES			
LIABILITIES			
Accounts payable and accrued liabilities	10	8,776	7,457
Lease obligations and inducements	11	1,026	1,635
Warranty liabilities	12	258,006	239,092
Funds held as security	13	56,379	55,155
Employee future benefits liabilities	14	6,113	6,046
TOTAL LIABILITIES		330,300	309,385
EQUITY		275,169	252,463
TOTAL EQUITY AND LIABILITIES		605,469	561,848

See accompanying notes to financial statements.

Approved by the Board of Directors

S/D

Mark Basciano
Director and Chair of the Board

S/D

Hari Panday
Director and Chair of Audit Committee

Tarion Warranty Corporation
Statement of Comprehensive Results of Operations
For the years ended December 31
($CAD thousands)

	Notes	2017	2016
REVENUE			
Gross home enrolment fees earned	12	45,098	38,409
Earned excess loss premium	7	(1,037)	(948)
Net home enrolment fees earned		44,061	37,461
Builders' registration and renewal fees		3,207	3,390
Investment results			
Investment income	15	24,396	33,196
Investment management fees		(1,575)	(1,463)
Other revenue		738	777
TOTAL REVENUE		70,827	73,361
EXPENSES			
Net claims incurred	12	6,561	10,163
Salaries and benefits		26,488	24,970
General and administrative		12,962	11,705
Depreciation and amortization	8, 9	2,136	2,249
Interest expense	16	483	440
TOTAL EXPENSES		48,630	49,527
EXCESS OF REVENUE OVER EXPENSES		22,197	23,834
OTHER COMPREHENSIVE RESULTS OF OPERATIONS			
Amounts not subsequently classified to Statement of Results of Operations			
Actuarial gains/(losses) for employee future benefits	14	509	(80)
TOTAL COMPREHENSIVE RESULTS OF OPERATIONS FOR THE YEAR		22,706	23,754

See accompanying notes to financial statements.

Statement of Changes in Equity
For the years ended December 31
($CAD thousands)

	2017	2016
Beginning of the year	252,463	228,709
Excess of revenue over expenses for the year	22,197	23,834
Other comprehensive result of operations		
Amounts not subsequently classified to Statement of Results of Operations		
Actuarial gains/(losses) for employee future benefits	509	(80)
TOTAL EQUITY, END OF YEAR	275,169	252,463

See accompanying notes to financial statements.

Tarion Warranty Corporation
Statement of Cash Flows
For the years ended December 31
($CAD thousands)

	2017	2016
NET INFLOWS (OUTFLOWS) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
OPERATING		
Home enrolment fees received	63,783	52,954
Builders' registration fees received	3,207	3,390
Recoveries from builders for claims and conciliation fees	9,085	4,087
Securities receipts from builders, net of releases	1,092	6,360
Payments to employees for salaries and benefits	(25,341)	(24,455)
Payments to suppliers for general and administrative expenses	(12,711)	(12,481)
Claims payments	(13,621)	(13,139)
Reinsurance premiums paid	(1,925)	(1,975)
Interest expenses	(351)	(389)
Other miscellaneous fees refunded	(91)	(276)
Cash provided by operating activities	23,127	14,076
INVESTING		
Dividend received	9,138	14,528
Interest received	7,985	8,095
Proceeds from sale and maturity of investments	738,929	824,417
Purchase of investments	(772,514)	(861,017)
Investment management fees	(1,554)	(1,454)
Purchase of intangible assets	(2,838)	(1,236)
Purchase of equipment and leaseholds	(192)	(84)
Cash used in investing activities	(21,046)	(16,751)
FINANCING		
Payment of finance lease liabilities	(404)	(469)
Cash used in financing activities	(404)	(469)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE YEAR	1,677	(3,144)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,093	6,237
CASH AND CASH EQUIVALENTS, END OF YEAR	4,770	3,093

See accompanying notes to financial statements.

1. CORPORATION OPERATIONS

Tarion Warranty Corporation (the "Corporation"), domiciled in Ontario, Canada, was designated in 1976 by the Government of Ontario to administer the Ontario New Home Warranties Plan Act (the "Act"). The objectives of the Act include consumer protection, builder regulation and providing consumers and builders with a broad range of services including information and education. The Corporation collects home enrolment and builder registration fees and invests available funds (guarantee fund) which is used for the purposes of settling warranty claims from homeowners, and providing for investigation, enforcement, and other administrative costs related to its responsibilities in administering the Act. Among other things, the Act affords new home buyers a right of compensation in respect of:

- loss of deposit if a builder cannot or will not complete the sale of a home, through no fault of the home buyer;
- specified builder construction and contractual warranties for defects in work or material; and
- the effects of delays in closing, under certain circumstances.

In 2015, the Government of Ontario commissioned the Honourable J. Douglas Cunningham Q.C. to conduct an independent, public review of consumer protections for owners of newly built homes in Ontario, to help identify opportunities for improvement. This report was released by the Government of Ontario on March 28, 2017. In December 2017, a provincial legislation was passed which requires the separation of the regulatory and warranty mandates into two separate entities. The Corporation has filed a transformation plan with the Government of Ontario, and subject to comments from the Government, is anticipating implementing the transformation over the next two years. Until the transformation plan is implemented, the Corporation will continue to deliver its mandate as noted above.

The Government of Ontario has designated the Corporation as a non-profit organization incorporated without share capital under the Act. The Corporation's equity is not traded in a public market and it represents the retained accumulation of excess of revenue over expenses and actuarial gains / (losses) for employee future benefits. The registered office is located at 5160 Yonge Street, 12th Floor, Toronto, Ontario, M2N 6L9.

As a non-profit organization, the Corporation is exempt from income taxes.

The Financial Statements for the year ended December 31, 2017, were approved by the Corporation's Board of Directors and authorized for issue on April 26, 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Financial Statements of the Corporation have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The significant accounting policies used in the preparation of these Financial Statements are described below.

A. Cash and cash equivalents

Cash and cash equivalents comprises of cash on hand and at the bank, any short-term deposits with a maturity of up to three months on the date of purchase, net of any bank overdrafts payable on demand. Cash equivalents held for investment purposes are included in the fixed income portfolio.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Prepaid expenses and other assets

Prepaid expenses are measured at historical costs which approximates their fair value due to their short-term nature. Prepaid expenses are generally settled within one year.

Other assets include unsettled investment trade receivable. These are investments trades made within three business days of the end of the reporting period and are generally settled immediately after the end of the reporting period.

C. Financial instruments

Financial assets are classified on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are measured either at amortized cost or fair value through profit or loss.

- Financial assets at fair value through profit or loss ("FVTPL")

  Cash and cash equivalents, the fixed income portfolio and the equity portfolio are classified as FVTPL. Financial assets at FVTPL are measured initially at fair value with any gains / (losses) arising on subsequent measurement recognized in the Statement of Comprehensive Results of Operations, in investment income.

  Transaction costs are recognized in the Statement of Comprehensive Results of Operations as incurred. Interest income on the fixed income portfolio is included in investment income as earned using the effective interest method. Dividend income on the equity portfolio is recognized as of the declaration date in investment income. The gains / (losses) from currency translation are recognized in the Statement of Comprehensive Results of Operations in investment income.

- Financial assets at amortized cost

  Trade and other receivables from vendors and builders are measured at amortized cost less accumulated impairment. The carrying value is based on management's best estimate of the recoverable value determined by considering past collection experience, the amount of security held and the existence of guarantees. At the end of each reporting period the Corporation will assess for indicators of impairment. Where there is objective evidence that there is impairment in these amounts, the impairment charge is recognized in the Statement of Comprehensive Results of Operations in net claims incurred, at an amount that reduces the carrying value of the financial assets to their recoverable amounts.

- Other financial liabilities

  Accounts payable and accrued liabilities, and funds held as security, are measured at amortized cost using the effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Equipment and leaseholds

Equipment and leaseholds are recorded at cost less accumulated depreciation and impairment. The assets' residual values, useful lives and the method of depreciation are reviewed at the end of each reporting period, and adjusted as necessary on a prospective basis. The depreciation expense on equipment and leaseholds is disclosed separately in Note 8 to the Financial Statements and included in the Statement of Comprehensive Results of Operations.

Depreciation is provided at the following rates:

Computer equipment	Straight-line over three years
Furniture and office equipment	Declining balance at 20% a year
Leasehold improvements	Straight-line over the term of the lease
Computer and office equipment	Straight-line over the expected term of the lease under finance lease

Leased property includes buildings, computer and office equipment. There are no renewal terms on building leases but equipment leases include renewal options. These options are based on the fair market value of the equipment and the lease rate available at the time of expiry. The Corporation also has the option to extend leases on a month to month basis making the same payments and this is typically the option taken by the Corporation.

The gains / (losses) arising on the disposal or retirement of an item of equipment and leaseholds is determined as the difference between the disposal proceeds and the carrying amount of the asset and is recognized in the Statement of Comprehensive Results of Operations in other revenue. The gains / (losses) are recognized upon disposal of an item of equipment and leaseholds or when no future economic benefits are expected from its use.

E. Intangible assets

Intangible assets consist of acquired software and applications and internal software enhancements related to the customization of these software systems and applications. These intangible assets have finite lives and are amortized over their useful economic life. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. The amortization expense on intangible assets are disclosed separately in Note 9 to the Financial Statements and included in the Statement of Comprehensive Results of Operations.

Software and applications	Straight-line over three years
Internal software enhancements	Straight-line over three years

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the Corporation. All other leases are classified as operating leases. Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

Assets held under finance leases are initially recognized as assets of the Corporation at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the Statement of Financial Position as finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the finance lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in the Statement of Comprehensive Results of Operations.

Assets under finance leases are depreciated over the shorter of the estimated useful life of the asset and the lease term.

G. Warranty liabilities

Warranty liabilities include estimates of costs for claims reported and in process, provisions for claims incurred but not yet reported at the Statement of Financial Position date where it is anticipated that costs will be incurred by the Corporation, and deferred home enrolment fees to be taken into revenue as earned based on the expected claims experience over the warranty period.

The warranty period spans seven years and significant periods of time can elapse between the incurrence of claims liabilities and their settlement. Accordingly, the estimation of the liabilities involves significant measurement uncertainty, which is further described in Note 3. Annual reviews are performed by management and reviewed by the appointed actuary to assess whether warranty claims liabilities recorded for homes and condominiums, and deferred home enrolment fees are adequate relative to future claims and related administration costs to administer claims.

The warranty claims liabilities are discounted to reflect the investment income expected to be earned over the period between the incurrence and settlement of claims. The discount rate reflects the expected future yield from the fixed income investments. Provisions for adverse deviation are added to allow for the inherent measurement uncertainty that arises because actual investment yields may differ from the discount rate; because the actual settlements may occur at amounts that differ from expected settlement amounts; and because the actual timing of settlements may differ from expected timing.

Net claims incurred include claims recoveries, and changes in the provisions for claims reported and in process and for claims incurred but not yet reported.

Claims recoveries include amounts recovered in the current year from builders on claims incurred during the current or previous years, and changes in the estimate of amounts recoverable from builders on outstanding warranty claims liabilities. Estimated amounts recoverable from builders are presented on the Statement of Financial Position in trade and other receivables from vendors and builders as described in Note 5.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Excess loss reinsurance premium

Benefits to which the Corporation is entitled under its reinsurance contract are recognized as reinsurance assets. Amounts recoverable are dependent on the expected claims and benefits arising under the related reinsured new home warranty contracts. Reinsurance liabilities are primarily premiums payable for reinsurance contracts. The reinsurance premium paid are recognized as an expense over the terms of coverage they provide. The annual claims-made policy is expensed in the current year upon its expiry date, while the enrolment-based policy is expensed based on the same earnings pattern recognized for the home enrolment over the life of the warranty period.

The Corporation assesses its reinsurance assets for impairment on an annual basis. If the reinsurance asset is impaired, the Corporation reduces the carrying amount of the reinsurance assets to its recoverable amount and recognizes that impairment loss in the Statement of Comprehensive Results of Operations. A reinsurance asset is impaired if there is objective evidence, which is determined using the same approach adopted from non-financial assets.

The Corporation reflects reinsurance balances on the Statement of Financial Position on a gross basis to indicate the extent of credit risk related to reinsurance and its obligations to homeowners and on a gross basis in the Statement of Comprehensive Results of Operations to indicate the results of home enrolment fees earned.

I. Provisions

Provisions are recognized when the Corporation has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account of the risks and uncertainties surrounding the obligation. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as a separate asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably. Expenses related to any provision are presented in the Statement of Comprehensive Results of Operations net of any reimbursement.

J. Employee future benefits liabilities

In addition to participating in government managed employee benefit plans, the Corporation has the following employee benefit plans:

- A pension plan consisting of a fully vested and closed defined benefit component, and an active defined contribution component; and
- A post-employment medical and dental benefits plan for employees.

The costs of pension and other post-employment benefits earned by employees are actuarially determined using the projected unit credit valuation method. This takes into account management's best estimates of salary escalation, retirement ages of employees and expected health care costs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Actuarial gains / (losses) are recognized in the Statement of Comprehensive Results of Operations in the period they occur. They are not reclassified to excess of revenue over expenses in subsequent periods.

The Corporation accrues its obligations under employee benefit plans and the related costs, net of plan assets. The defined benefit asset or liability comprises the net present value of the defined benefit obligation less the fair value of the plan assets, out of which obligations are to be settled. Plan assets are held in a trust and are not available to creditors of the Corporation, nor can they be paid directly to the Corporation. Fair value is determined based on market price information.

The Corporation's contributions to the defined contribution pension plan are expensed in the Statement of Comprehensive Results of Operations in the year to which they relate and are included as part of salaries and benefits expenses.

K. Revenue recognition

Home enrolment fees are remitted by builders during the year. These fees are deferred to the Statement of Financial Position as warranty liabilities and taken into revenue as gross home enrolment fees earned based on the expected claims experience over the warranty period. The earning patterns are reviewed annually. When the initially selected patterns for prior years' enrolments differ from the actual claims emergence, the patterns are updated prospectively. If claims experience indicates that home enrolment fees collected will not be sufficient to discharge related liabilities, a provision for premium deficiency is included in the warranty liabilities.

Builders' registration fees are recorded as revenue upon registration and renewal fees are recorded as revenue in the year in which they are due.

Other revenue comprises of various administration fees charged for services generally related to the handling of claims and licensing and underwriting. These fees are recorded as earned.

L. Interest expense

Interest expense is recognized in the Statement of Comprehensive Results of Operations as it accrues and is calculated by using the effective interest method. Accrued interest is included within the carrying value of the interest-bearing liability.

M. Impairment of non-financial assets

The Corporation assesses at each reporting date for any indication that an asset may be impaired. The Corporation reviews and considers both internal and external sources of information that indicate any events or changes in circumstances causing the carrying amount of the non-financial assets to not be recoverable.

For the purposes of assessing impairment, assets are grouped into cash-generating units at the lowest levels for which there are separately identifiable cash flows. An impairment loss is recognized in the Statement of Comprehensive Results of Operations for the amount by which the carrying amount of the cash-generating unit exceeds its recoverable amount. The recoverable amount is the higher of the cash-generating unit's fair value less costs to sell and value in use.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Where an impairment loss subsequently reverses, the carrying amount of the cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the cash-generating unit in prior years. A reversal of an impairment loss is recognized immediately in the Statement of Comprehensive Results of Operations.

N. Currency translation

The Corporation's Financial Statements are presented in Canadian dollars, the functional currency of the Corporation and the currency of the primary economic environment in which the Corporation operates. Transactions in foreign currencies are initially recorded at the functional currency exchange rate prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the period-end rate. The translation impact is recorded in the Statement of Comprehensive Results of Operations in the period in which they arise. Currency exchange gains / (losses) on financial assets at fair value through profit or loss are reported as part of investment income in the Statement of Comprehensive Results of Operations.

Revenue and expense items in a foreign currency are translated into Canadian dollars at the exchange rate on the transaction date.

O. Future accounting changes

IFRS 17 – Insurance Contracts

In May 2017, the IASB published *IFRS 17 – Insurance Contracts* ("IFRS 17"), a comprehensive standard that establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts. The standard introduces consistent accounting for all insurance contracts. The measurement approach under IFRS 17 is based on the following:

- a current, unbiased probability-weighted estimate of future cash flows expected to arise as the insurer fulfills the contract;
- the effect of the time value of money;
- a risk adjustment that measures the effects of uncertainty about the amount and timing of future cash flows; and
- a contractual service margin which represents the unearned profit in a contract and that is recognized as the insurer fulfils its performance obligations under the contract. Estimates are required to be re-measured each reporting period.

Certain types of contracts, typically short-duration contracts, will be permitted to use a simplified measurement approach. Additionally, for contracts in which the cash flows are linked to underlying terms, the liability value will reflect that linkage. There will also be a new financial statement presentation for insurance contracts and additional disclosure requirements.

IFRS 17 is effective for annual periods beginning on or after January 1, 2021. IFRS 17 will replace *IFRS 4 – Insurance Contracts*. The Corporation intends to adopt IFRS 17 in its Financial Statements for the annual periods beginning on January 1, 2021. The extent of the impact of adoption of the standard has not yet been determined.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS 9 – Financial Instruments

In July 2014, the IASB published an amended version of *IFRS 9 – Financial Instruments (*"IFRS 9"*)*, which replaces *IAS 39 – Financial Instruments: Recognition and Measurement*, and includes guidance on the classification and measurement of financial instruments, impairment of financial assets, and a new general hedge accounting model. Financial asset classification is based on the cash flow characteristics and the business model in which an asset is held. The classification determines how a financial instrument is accounted for and measured. IFRS 9 also introduces a single impairment model for financial instruments not measured at fair value through profit or loss that requires recognition of expected credit losses at initial recognition of a financial instrument and the recognition of full lifetime expected credit losses if certain criteria are met. The new model for hedge accounting aligns hedge accounting with risk management activities.

The new standard has a mandatory effective date of January 1, 2018, but may be adopted early. As the standard has been completed in stages, entities that have adopted a previous version prior to February 1, 2016 may continue to apply that version until the mandatory effective date of January 1, 2018. The Corporation does not expect the amendments to have a material impact on the Financial Statements.

IFRS 15 – Revenue from Contracts with Customers

On May 28, 2014 the IASB issued *IFRS 15 – Revenue from Contracts with Customers* ("IFRS 15"). The new standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. IFRS 15 will replace *IAS 18 – Revenue* alongside other standards and interpretations.

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much, and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and / or timing of revenue recognized. The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs.

On April 12, 2016, the IASB issued *Clarifications to IFRS 15 – Revenue from Contracts with Customers*, which is effective at the same time as IFRS 15. The clarifications to IFRS 15 provide additional guidance with respect to the five-step analysis, transition, and the application of the standard to licenses of intellectual property.

The Corporation intends to adopt IFRS 15 and the related clarifications in its Financial Statements for the annual period beginning on January 1, 2018. The Corporation does not expect the amendments to have a material impact on the Financial Statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS 16 – Leases

On January 13, 2016 the IASB issued *IFRS 16 – Leases* ("IFRS 16"). The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply *IFRS 15 – Revenue from Contracts with Customers* at or before the date of initial adoption of IFRS 16. IFRS 16 will replace *IAS 17 – Leases*.

This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of *IAS 17 – Leases*, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. The Corporation intends to adopt IFRS 16 in its Financial Statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

3. KEY ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of Financial Statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities and disclosure of contingent assets and liabilities as at the reporting date. Actual amounts could differ from those estimates.

A. Key management judgments

In the process of applying the Corporation's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the Financial Statements:

Internally generated software enhancements

Internally generated software enhancements costs are capitalized if, and only if, all of the following criteria are met:

- the technical feasibility can be demonstrated;
- management has the intention to complete the intangible asset and use it;
- management has the ability to use the intangible asset;
- the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and use the intangible asset; and
- expenditures attributable to the intangible asset can be measured reliably.

B. Key management estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Valuation of warranty claims liabilities

Warranty claims liabilities involve a high level of estimation uncertainty as described in Note 2. The amount of claims liabilities equals the present value of cash flows on account of claims and related expenses incurred before the reporting date. The ultimate cost of outstanding claims is estimated by using actuarial valuation techniques, taking into account the Corporation's claims handling practices, actuarial assessments, the judgment of management, difference between actual and expected settlement amounts, historical precedents and trends, prevailing legal, economic, social and regulatory environments and expectations of future developments.

Details of the key assumptions used in the estimates are contained in Note 12. The warranty liabilities amounts presented for these claims are stated at the amounts expected to be paid directly by the Corporation to settle its obligations which reflect the amounts paid in the normal course of operations.

3. KEY ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Valuation of trade and other receivables from vendors and builders

As described in Note 2, trade and other receivables are measured at amortized cost less accumulated impairment, which approximates fair value. The carrying value is based on management's best estimate of recoverable value determined by considering past collection experience, financial condition of the builders, security held, legal action sought and judgments awarded. Details of the key assumptions used in the estimates are contained in Note 5.

Revenue recognition of home enrolment fees earned

Home enrolment fees are deferred and taken into revenue as earned based on the expected claims experience over the warranty period. The deferred portion of home enrolment fees is included in warranty liabilities. The results are subject to significant uncertainty based on the actual claims experience over the warranty period. Details of the key assumptions used in the estimates are contained in Note 12.

Valuation of employee future benefits liabilities

The costs of defined benefit pension plans and other post-employment medical benefits are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Details of the key assumptions used in the estimates are contained in Note 14.

4. CASH AND CASH EQUIVALENTS

At December 31, 2017, cash and cash equivalents was solely cash at the bank and on hand of $4,770 (2016: $3,093) with no short-term deposits or bank overdrafts payable on demand.

The Corporation also has a $2,000 (2016: $2,000) unsecured demand operating facility it can draw on of which the amount outstanding at December 31, 2017 is nil (2016: Nil).

($CAD thousands)

5. TRADE AND OTHER RECEIVABLES FROM VENDORS AND BUILDERS

Trade and other receivables from vendors and builders consist of three types of receivables:

- Trade receivables from vendors and builders represent amounts receivable arising from warranty claims that the Corporation has paid out on behalf of vendors and builders during the remediation process. Trade receivables from vendors and builders are measured at amortized cost less accumulated impairment. Amounts receivable from registered builders are classified as financial assets. All the amounts are due immediately.
- Amounts recoverable from vendors and builders represent the estimated amounts recoverable from vendors and builders in respect to the outstanding warranty claims recognized under the warranty liabilities. Amounts are invoiced to the vendors and builders only when the Corporation has paid out monies for the claim.
- Other receivables from vendors and builders represent other receivables such as enrolment and registration fees.

	2017	2016
Gross trade receivables	31,795	30,646
Less: Allowance for impairment	(29,306)	(25,902)
Trade receivables	2,489	4,744
Amounts recoverable from vendors and builders	6,724	5,621
Other receivables from vendors and builders	492	506
Total trade and other receivables from vendors and builders	**9,705**	**10,871**

Before accepting registration for any vendor and builder, the Corporation undergoes an underwriting process that typically includes obtaining an external credit score to assist in assessing the applicant's credit quality, an assessment of the applicant's construction expertise, the applicant's business acumen and where applicable, the merits of the applicant's proposal to construct a building or project. Terms and conditions of registration vary from applicant to applicant but typically include limits on the volume and type of new home construction, and a requirement to provide security and/or indemnitors. Assessments are revisited annually at the point of registration renewal or earlier if additional risk factors surface.

As at December 31, 2017, there were 2 vendors and builders (2016: 3 vendors and builders) each of whom represent more than 5% of the balance of trade receivables net of allowances. However, due to trade receivables being almost fully reserved, the overall net exposure of the Corporation to these vendors and builders as at December 31, 2017 was only $662 (2016: $2,980).

As described in Note 13, the Corporation obtains security from builders to minimize its financial losses from future warranty claims. At December 31, 2017 there is $3,816 (2016: $3,500) of cash and non-cash security held associated with the trade and other receivables from vendors and builders.

($CAD thousands)

5. TRADE AND OTHER RECEIVABLES FROM VENDORS AND BUILDERS (continued)

A. Unregistered vendors and builders

Warranty coverage is also available for homes which were built by unregistered builders. However, under the Act, unregistered builders are deemed to be building illegally, subject to prosecution and are required to indemnify the Corporation for any financial loss the Corporation incurs with respect to the homes the unregistered vendors and builders built. Included in the total trade and other receivables from vendors and builders as at December 31, 2017 are amounts recoverable from unregistered vendors and builders of $210 (2016: $523).

B. Aging of past due but not impaired

In assessing the impairment of the trade and other receivables from vendors and builders, the Corporation individually assesses accounts that are greater than $50 based on the credit history of the vendor and builder, their financial condition, security held, legal action sought and judgment awarded. For accounts less than $50, a historical recovery rate is applied. The rate used depends on the account status as to whether it is in collection litigation or active collection. The recoverability rates are based on trailing averages.

Actual recovery on these balances may differ if the financial health of the vendor and builder changes, if the guarantors / indemnitors financial situation changes and / or if the court or tribunal’s decision differs from that of the Corporation. The objective evidence of impairment for the amounts recoverable from builders includes the Corporation’s past collection experience, financial condition of the builders, security held, legal action sought, and judgments awarded.

As at December 31, 2017, the trade and other receivables from vendors and builders includes $1,570 (2016: $4,269) that are greater than 90 days past due but not considered to be impaired. The Corporation considers registered builders who have past due but not impaired balances to be able to pay their debts as they fall due. In addition, the credit quality of these builders’ receivables is enhanced by the existence of indemnities and / or guarantees. The trade receivables may take significant time to settle and collect due to complex claims cases and / or when litigation is involved.

	2017	**2016**
1 to 90 Days	919	475
91 to 360 Days	702	780
Over 360 Days	868	3,489
Total trade receivables	**2,489**	**4,744**

($CAD thousands)

5. TRADE AND OTHER RECEIVABLES FROM VENDORS AND BUILDERS (continued)

C. Movement in trade receivables

	2017	2016
Gross Trade Receivables		
Beginning of year	30,646	24,842
New Bills Issued	11,961	10,738
Write-offs Processed	(1,727)	(852)
Recoveries	(9,085)	(4,082)
End of year	31,795	30,646
Allowance for Impairment		
Beginning of year	(25,902)	(22,527)
Change in Allowance	(5,131)	(4,227)
Write-offs Processed	1,727	852
End of year	(29,306)	(25,902)
Total trade receivables, end of year	**2,489**	**4,744**

The Corporation employs various methods to collect its receivables which could extend over multiple years. Trade receivables are written off when the likelihood of further collection is considered remote, or when a settlement agreement is reached. Until such time, an allowance for impairment is carried; included in the 2017 change in allowance is a reversal of $2.5M (2016: $1.6M).

6. FINANCIAL INSTRUMENTS

Investments in the fixed income portfolio and the equity portfolio represent accumulated proceeds from the enrolment and builder registrations fees. These investments are made by the Corporation in accordance with the Statement of Investment Policies and Procedures, and represent the guarantee fund which supports:

i. Ability to fulfil current and future estimated warranty obligations: Investments held support the Corporation's ability to fulfil current and future estimated warranty obligations. Due to the long warranty coverage period of up to seven years and to other factors explained in Note 12, warranty obligations are subject to a high level of measurement uncertainty and variability;

ii. Funds held as security from the builders: The Corporation receives security in the form of cash, letters of credit and other guarantees from builders in order to reduce the risk of financial loss related to future warranty claims from homeowners, as noted in Note 13. Security received in cash is invested as part of the Corporation's investment portfolio, and is recorded at amortized cost on the Statement of Financial Position as a liability; and

iii. Financial stability of the Corporation: Financial stability of the Corporation is achieved by applying the capital management framework, as noted in Note 17, which has been modeled after the framework used by the property and casualty insurance industry in Canada. Carried capital of the Corporation has been determined by management to be sufficient to cover possible losses from future catastrophic events, and is supported by the annual dynamic capital adequacy testing performed by the Corporation's appointed actuary during the year and reflects the Corporation's inability to raise capital in traditional ways.

6. FINANCIAL INSTRUMENTS (continued)

A. Fair value

Fair value represents the amount that would be exchanged in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act. The Corporation's cash and cash equivalents and investments are measured at fair value.

The Corporation has classified the fixed income portfolio and the equity portfolio as FVTPL financial assets. Both classes of assets are reported at fair value based on quoted bid prices in active markets on the Statement of Financial Position. The fair values of bonds and equities denominated in foreign currencies, if any, are translated into Canadian dollars at the exchange rate in effect as at the reporting date.

The fair value of trade and other receivables from vendors and builders approximates carrying value; there is no external active market for this type of asset and the inputs required to value these are primarily based on the Corporation's assumptions about the credit quality of the vendors and builders, and the availability of collateral for the receivable. See Note 5 on the valuation methodology used.

The carrying value for accounts payable and accrued liabilities approximates fair value due to their short-term nature. Under *IFRS 13 – Fair Value Measurement*, the fair value of financial liabilities measured using amortized cost has to be disclosed and categorized according to a fair value hierarchy. The fair value of the funds held as security is calculated based on discounted cash flow. The key inputs include cash flow received from builders as security, the estimated duration periods of such funds by building types and a discount rate of 4.20% (2016: 3.70%).

Fair value hierarchy

IFRS 13 – Fair Value Measurement requires classifying of fair value measurements using a three-level fair value hierarchy, described below, for disclosure purposes. Each level reflects the types of inputs used to measure the fair values of financial assets and financial liabilities:

- Level 1 – inputs are unadjusted quoted prices of identical instruments in active markets.
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – inputs used in a valuation technique are based on unobservable market data.

The following table discloses the categories of financial instruments measured at fair value and classified by fair value hierarchy as at December 31, 2017:

($CAD thousands)

6. FINANCIAL INSTRUMENTS (continued)

	2017			2017
	Level 1	Level 2	Level 3	Fair Value
Financial assets measured at FVTPL				
Fixed income portfolio:				
Federal, provincial and municipal government bonds	0	165,854	0	165,854
Financial institution bonds	0	118,822	0	118,822
Other corporate bonds	0	74,647	0	74,647
Treasury bills and short-term notes	0	2,547	0	2,547
MortgageTrust Fund	0	11,298	0	11,298
Fixed income portfolio	0	373,168	0	373,168
Equity portfolio	49,557	160,699	0	210,256
Total investments	49,557	533,867	0	583,424
Cash and cash equivalents	4,770	0	0	4,770
Total financial assets	54,327	533,867	0	588,194
Financial liabilities measured at FVTPL				
Unsettled investment payable	478	0	0	478
Financial liabilities measured at amortized cost				
Funds held as security	0	0	52,652	52,652
Total financial liabilities	478	0	52,652	53,130

	2016			2016
	Level 1	Level 2	Level 3	Fair Value
Financial assets measured at FVTPL				
Fixed income portfolio:				
Federal, provincial and municipal government bonds	0	131,552	0	131,552
Financial institution bonds	0	122,518	0	122,518
Other corporate bonds	0	79,530	0	79,530
Treasury bills and short-term notes	0	6,524	0	6,524
MortgageTrust Fund	0	14,244	0	14,244
Fixed income portfolio	0	354,368	0	354,368
Equity portfolio	45,131	142,630	0	187,761
Total investments	45,131	496,998	0	542,129
Cash and cash equivalents	3,093	0	0	3,093
Total financial assets	48,224	496,998	0	545,222
Financial liabilities measured at FVTPL				
Unsettled investment payable	24	0	0	24
Financial liabilities measured at amortized cost				
Funds held as security	0	0	51,770	51,770
Total financial liabilities	24	0	51,770	51,794

There were no transfers among Levels 1, 2 and 3 in the year ended December 31, 2017 (2016: Nil).

($CAD thousands)

6. FINANCIAL INSTRUMENTS (continued)

B. Market risk

To manage the risks in the investment portfolio, management regularly monitors the performance of investment managers who are required to operate within specific investment criteria related to credit quality, diversification and to maximize yield within those constraints.

Market risk is comprised of three risks that may impact the fair value of a financial instrument as described below.

Interest rate risk

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates. The Corporation is exposed to interest rate risk on its fixed income portfolio and its funds held as security. Details of the Corporation's fixed income portfolio with interest rate exposure as at December 31 are disclosed below:

	2017				
Terms of Maturity (1)	**Due within one year**	**Due one through five years**	**Due after five years**	**Due after ten years**	**Total**
Government					
Federal	7,302	129,142	8,259	0	144,703
Yield to Maturity (YTM)	1.3%	1.8%	1.9%	0.0%	1.8%
Provincial	367	20,480	0	0	20,847
YTM	1.8%	2.0%	0.0%	0.0%	2.0%
Treasury Bills	2,546	0	0	0	2,546
YTM	0.9%	0.0%	0.0%	0.0%	0.9%
Total Government	10,215	149,622	8,259	0	168,096
YTM	1.3%	1.9%	1.9%	0.0%	1.8%
Financial Institutions	8,277	109,727	325	0	118,329
YTM	1.6%	2.3%	2.9%	0.0%	2.3%
Other Corporate	8,623	62,080	3,299	0	74,002
YTM	2.0%	2.3%	2.7%	0.0%	2.3%
Mortgage Trust Fund	2,691	5,404	3,172	30	11,297
YTM	1.7%	3.5%	3.8%	3.9%	3.2%
Total Fixed Income	29,806	326,833	15,055	30	371,724
Accrued Interest	1,444	0	0	0	1,444
Total Fixed Income with Accrued Interest	**31,250**	**326,833**	**15,055**	**30**	**373,168**
YTM	**1.6%**	**2.1%**	**2.5%**	**3.9%**	**2.1%**

(1) The timing of actual maturities may differ from the contractual maturities shown above, since borrowers may have the right to prepay obligations with or without prepayment penalties.

($CAD thousands)

6. FINANCIAL INSTRUMENTS (continued)

Terms of Maturity (1)	2016 Due within one year	Due one through five years	Due after five years	Due after ten years	Total
Government					
Federal	3,799	99,709	5,145	0	108,653
Yield to Maturity (YTM)	0.7%	1.1%	1.2%	0.0%	1.1%
Provincial	0	18,997	3,725	0	22,722
YTM	0.0%	1.3%	2.0%	0.0%	1.4%
Treasury Bills	6,523	0	0	0	6,523
YTM	0.5%	0.0%	0.0%	0.0%	0.5%
Total Government	10,322	118,706	8,870	0	137,898
YTM	0.6%	1.1%	1.5%	0.0%	1.1%
Financial Institutions	705	115,015	6,192	0	121,912
YTM	1.1%	1.8%	2.8%	0.0%	1.8%
Other Corporate	14,351	58,604	5,895	0	78,850
YTM	1.3%	1.8%	2.7%	0.0%	1.7%
Mortgage Trust Fund	3,357	6,271	4,510	105	14,243
YTM	2.0%	3.0%	3.6%	4.2%	2.7%
Total Fixed Income	28,735	298,596	25,467	105	352,903
Accrued Interest	1,465	0	0	0	1,465
Total Fixed Income with Accrued Interest	**30,200**	**298,596**	**25,467**	**105**	**354,368**
YTM	**1.1%**	**1.5%**	**2.5%**	**4.2%**	**1.5%**

(1) The timing of actual maturities may differ from the contractual maturities shown above, since borrowers may have the right to prepay obligations with or without prepayment penalties.

Equity price risk

Equity price risk is the risk that the value of a financial instrument will fluctuate due to changes in equity markets. The Corporation is exposed to equity price risk on its equity portfolio, including through its pooled fund investments. The Corporation's equity portfolio is diversified and invested in well established, active, liquid markets.

	2017		2016	
Financials	61,185	29%	54,708	29%
Industrials	31,544	15%	26,403	14%
Energy	23,500	11%	24,973	13%
Consumer Discretionary	22,196	11%	19,764	10%
Materials	17,933	9%	16,337	9%
Information Technology	15,699	7%	13,652	7%
Consumer Staples	13,488	6%	11,010	6%
Telecommunication	7,671	4%	6,837	4%
Health Care	7,013	3%	6,003	3%
Utilities	3,165	2%	3,411	2%
Real Estate	1,983	1%	1,592	1%
Cash	4,879	2%	3,071	2%
Total equity portfolio	**210,256**	**100%**	**187,761**	**100%**

($CAD thousands)

6. FINANCIAL INSTRUMENTS (continued)

Foreign currency risk

Foreign currency risk is the risk of loss due to adverse movements in foreign currency rates versus the Canadian dollar. The equity portfolio contains investment in pooled funds along with investment in individual securities. The Corporation is exposed to currency risk on its global pooled fund and U.S. denominated investments. As at December 31, 2017, the Corporation had approximately 21.2% (2016: 19.9%) of its fair value of the total investments with foreign currency risk; the largest foreign currency exposure was to the U.S. dollar of 7.9% (2016: 8.1%) of the total portfolio. The Corporation manages its foreign currency exposure by limiting the foreign content in the investment managers' portfolio.

To mitigate the foreign currency risk the Corporation has access to a foreign currency hedging facility and various hedging strategies are initiated when certain pre-determined foreign exchange fluctuations occur. During the year, the Corporation did not utilize the foreign currency hedging facility since those pre-determined thresholds were not reached.

Sensitivity analysis on market risk

The table below shows the potential impact on the Statement of Comprehensive Results of Operations and Statement of Changes in Equity as a result of specific stress scenarios applied to financial assets and financial liabilities (excluding warranty liabilities). The analysis reflects management's view of key sensitivities. The actual results may differ from this sensitivity analysis and the difference could be material.

The stress scenarios for 2017 are:

- Interest rate risk: a shift of -25/+25 basis points in interest rates for all maturities. Funds held as security are credited at floating interest rates (Prime less 2%) and are changed semi-annually to calculate the interest paid on security. The annual interest paid impact on a -25/+25 basis points change in interest rates is disclosed below.
- Equity price risk: an increase/decrease of 10% in equity market prices.
- Foreign currency risk: a strengthening/weakening of 5% in the Canadian dollar relative to all foreign currencies in the portfolio.

	2017						
	Fair Value	**Interest Rate Risk**		**Equity Price Risk**		**Foreign Exchange**	
		-25 BP	+25 BP	-10%	+10%	-5%	+5%
Financial Assets							
FVTPL investments:							
Fixed income portfolio	373,168	2,561	(2,538)				
Equity portfolio							
Domestic	86,845			(8,671)	8,671		
United States Dollar	46,279					(2,314)	2,314
Great Britain Pound	17,154					(858)	858
Euro	13,452					(673)	673
Other currencies	46,526					(2,326)	2,326
Foreign	123,411			(12,341)	12,341	(6,171)	6,171
Financial Liabilities							
Funds held as security	54,898	137	(137)				

($CAD thousands)

6. FINANCIAL INSTRUMENTS (continued)

	2016						
	Fair Value	**Interest Rate Risk**		**Equity Price Risk**		**Foreign Exchange**	
		-25 BP	+25 BP	-10%	+10%	-5%	+5%
Financial Assets							
FVTPL investments:							
Fixed income portfolio	354,368	2,636	(2,610)				
Equity portfolio							
Domestic	79,808			(7,967)	7,967		
United States Dollar	43,721					(2,186)	2,186
Great Britain Pound	14,142					(707)	707
Euro	12,523					(626)	626
Other currencies	37,567					(1,879)	1,879
Foreign	107,953			(10,795)	10,795	(5,398)	5,398
Financial Liabilities							
Funds held as security	53,806	135	(135)				

For the above scenarios, the Corporation has assumed that interest rates, equity prices, and currency moved independently.

C. Credit risk

Credit risk arises from the possibility of financial loss occurring as a result of a default by a counterparty on its obligation to the Corporation. Financial instruments that potentially subject the Corporation to concentrations of credit risk consist of investments, and trade and other receivables from vendors and builders. The carrying value of financial assets, including investments and trade and other receivables from vendors and builders, represents the maximum credit exposure. The Corporation has adopted the following strategies to mitigate this risk:

- The Corporation's investment policies, limits the concentration in any one investee or related group of investees, except for financial instruments issued by the Government of Canada for which there is no limit.
- The Corporation only deals with counterparties believed to be creditworthy and actively monitors credit exposure, requiring minimum credit ratings of A for debt securities at the time an investment is purchased. At December 31, 2017, 99.2% of the debt securities have a rating of A or better (2016: 98.9%).
- Cash and cash equivalents and investments are placed with governments, well-capitalized financial institutions and other creditworthy counterparties.
- The Corporation assesses the builders' risk profile, including their financial position, during the registration and renewal processes. Based on the assessment, a builder may be licensed and as disclosed in Note 12, security is obtained in the form of cash, letters of credit, and other guarantees from the builder in order to reduce the risk of financial loss related to future warranty claims from homeowners.

($CAD thousands)

6. FINANCIAL INSTRUMENTS (continued)

D. Liquidity risk

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations associated with financial liabilities. The Corporation is exposed to daily cash requirements from settlement of claims, operating expenses and cash security releases. The settlement of claims have no fixed terms and is dependent on the timing of the repair work involved. The cash security release has no fixed terms and is contingent upon fulfilment of certain requirements (see Note 12). Liquidity risk is considered low as a significant percentage of the investment portfolio is traded in an active market and can be readily converted into cash.

The Corporation also has a $2,000 (2016: $2,000) unsecured demand operating facility it can draw on of which the amount outstanding at December 31, 2017 is nil (2016: Nil).

7. EXCESS LOSS REINSURANCE PREMIUM

The Corporation entered into a reinsurance contract on an “excess-of-loss” basis for premiums of $1,925 (2016: $1,975). The reinsurance contract limits the Corporation’s exposure by providing a maximum of $55M in coverage on claims from specified enrolment years in excess of the retained amount of $75M. The reinsurance contract does not relieve the Corporation of its primary warranty obligation to homeowners.

In 2017, the excess of loss premium earned was $1,037 (2016: $948). The unearned excess loss premium at the end of the year was $1,915 (2016: $1,027) which is recorded on the Statement of Financial Position. The reinsurance asset for recoveries under the contract as at December 31, 2017 was nil (2016: Nil).

8. EQUIPMENT AND LEASEHOLDS

Equipment and leaseholds consist of the following as at December 31:

	Computer Equipment	Furniture and office equipment	Leashold improvements	Computer & office equipment under finance lease	Total
At cost					
Balance at December 31, 2016	1,105	1,558	2,436	1,723	6,822
Additions	178	5	9	0	192
Disposals	0	0	0	(249)	(249)
Balance at December 31, 2017	1,283	1,563	2,445	1,474	6,765
Accumulated depreciation					
Balance at December 31, 2016	813	1,389	1,627	934	4,763
Depreciation expense	195	34	198	416	843
Disposals	0	0	0	(249)	(249)
Balance at December 31, 2017	1,008	1,423	1,825	1,101	5,357
Carrying amount					
Balance at December 31, 2017	**275**	**140**	**620**	**373**	**1,408**
Balance at December 31, 2016	**292**	**169**	**809**	**789**	**2,059**

($CAD thousands)

9. INTANGIBLE ASSETS

The Corporation's intangible assets are comprised of externally purchased software and applications and internally developed software enhancements.

	Software and applications	Internal software enhancements	Total
At cost			
Balance at December 31, 2016	11,470	4,284	15,754
Additions	2,333	505	2,838
Disposal	0	0	0
Balance at December 31, 2017	13,803	4,789	18,592
Accumulated amortization			
Balance at December 31, 2016	9,610	3,845	13,455
Amortization expense	1,061	234	1,295
Disposal	0	0	0
Balance at December 31, 2017	10,671	4,079	14,750
Carrying amount			
Balance at December 31, 2017	**3,132**	**710**	**3,842**
Balance at December 31, 2016	**1,860**	**439**	**2,299**

Development costs were recognized as an expense under general and administrative in the Statement of Comprehensive Results of Operations during the year amount to $474 (2016: $422).

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

These amounts are expected to be settled within one year from December 31:

	2017	**2016**
Salaries and benefits	3,257	2,819
Trade and supplier accruals	2,270	1,918
Amounts due to vendors and builders	1,052	1,416
Unsettled investment trade payable	478	24
Other liabilities	1,719	1,280
Total accounts payable and accrued liabilities	**8,776**	**7,457**

($CAD thousands)

11. PROVISIONS, CONTINGENCIES, COMMITMENTS AND GUARANTEES

In the normal course of business, the Corporation is a party to a number of lawsuits as the administrator of the Act. To the extent that lawsuits relate to disputes of warranty coverage, provisions for loss are included in warranty liabilities on the Statement of Financial Position.

In the normal course of operations, the Corporation executes agreements that provide for indemnification to third parties in transactions such as service agreements, leases and purchases of goods. Under these agreements, the Corporation agrees to indemnify the counterparty against loss or liability arising from the acts or omissions of the Corporation in relation to the agreement. In addition, the Corporation has also agreed to indemnify its directors and certain of its officers and employees in accordance with the Corporation's by-laws.

These indemnification provisions will vary based on the nature and terms of the agreements. The nature of these agreements precludes the possibility of making a reasonable estimate of the maximum potential amount the Corporation could be required to pay as the agreements often do not specify a maximum amount and the amounts are dependent on the outcome of future contingent events, the nature and likelihood of which cannot be determined. Historically, the Corporation has not made significant payments under such indemnification agreements. Accordingly, no amounts have been accrued related to these agreements as at December 31, 2017 and 2016.

A. Operating lease commitments

The Corporation has entered into commercial leases on premises and other miscellaneous equipment which are recognized and reported as part of general and administrative costs in the Statement of Comprehensive Results of Operations. For 2017, the Corporation recognized lease payments of $859 (2016: $791) in the Statement of Comprehensive Results of Operations. These leases have an average life of three years with renewal option included in the miscellaneous equipment contracts. There are no restrictions placed upon the Corporation by entering into these leases.

The future minimum annual lease payments under operating leases are as follows:

	2017	**2016**
	Minimum lease payments	Minimum lease payments
Within one year	850	745
Between one and five years	1,867	2,717
Minimum lease payments	**2,717**	**3,462**

B. Finance lease obligations

The Corporation has leased computers and other office equipment that qualifies as a finance lease. The balance of the finance lease obligations arising from the acquisition of certain computer and office equipment are reported as lease obligations and inducements on the Statement of Financial Position. The total value of these obligations as at December 31, 2017 is $357 (2016: $761). Interest expense of $39 was incurred during 2017 (2016: $80) on the leases and is reported in the Statement of Comprehensive Results of Operations. These leases have renewal options for either single or multi-years. They may contain purchase options and escalation clauses. Renewals are at the option of the Corporation.

($CAD thousands)

11. PROVISIONS, CONTINGENCIES, COMMITMENTS AND GUARANTEES (continued)

Future minimum lease payments and the present value of the net minimum lease payments under the finance leases are as follows:

	2017	
	Minimum lease payments	Present value minimum payments
Within one year	256	250
Between one and five years	107	107
More than five years	0	0
	363	357
Less amounts representing finance charges	6	0
Present value of minimum lease payments	**357**	**357**

C. Lease inducements

The Corporation received various forms of lease inducements for its current corporate offices including reduced rent and leasehold improvements. These lease inducements are amortized over the term of the lease agreements and offset against rent expenses which are included in general and administrative expense on the Statement of Comprehensive Results of Operations. The amortized benefits in December 31, 2017 were $206 (2016: $117).

As of December 31, 2017, the total unamortized lease inducements reported on the Statement of Financial Position is $669 (2016: $874).

($CAD thousands)

12. WARRANTY LIABILITIES

A. Components of warranty liabilities

The following table summarizes the components of the warranty liabilities as at December 31:

	2017	2016
Deferred home enrolment fees, beginning of year	212,762	198,217
Fees received	63,783	52,954
Fees earned	(45,098)	(38,409)
Deferred home enrolment fees, end of year	231,447	212,762
Warranty claims liabilities, beginning of the year	26,330	21,003
Claim losses incurred:		
Relating to current occurrence year	17,350	19,549
Relating to prior occurrence years	(3,221)	(1,355)
Change in discounting and inflation impact	(279)	272
	13,850	18,466
Claim losses paid:		
Relating to current occurrence year	(3,881)	(5,270)
Relating to prior occurrence years	(9,740)	(7,869)
	(13,621)	(13,139)
Warranty claims liabilities, end of year	26,559	26,330
Total warranty liabilities, end of year	**258,006**	**239,092**

Claim losses incurred relating to prior occurrence years developed favorably in 2017 primarily on account of favorable experience in warranty claims on high-rise condominiums enrolled in previous years.

Claims losses incurred during the year are recorded net of recoveries in the Statement of Comprehensive Results of Operations as noted below:

	2017	2016
Change in provisions	13,850	18,466
Recoveries		
Relating to current occurrence year	(4,442)	(5,759)
Relating to prior occurrence years	(2,847)	(2,544)
Total recoveries	(7,289)	(8,303)
Net claims incurred for the year	**6,561**	**10,163**

Amounts recoverable from vendors and builders are included in trade and other receivables on the Statement of Financial Position and are described in Note 5.

B. Warranty coverage and policy

The warranty coverage begins when the home is enrolled, providing deposit protection and compensation for delayed closing and occupancy. Once the new owner takes possession of the home, there are three periods of warranties: one-year, two-year and seven-year warranty, each with different indemnity scopes and limits of settlement covering defects that are prescribed under the Act.

12. WARRANTY LIABILITIES (continued)

C. Significant risks and assumptions relate to warranty claims liabilities and deferred enrolment fees

The market in which the Corporation participates is unique. The Corporation is the sole provider for mandatory warranty coverage on new homes in the province of Ontario. The Corporation was designated in 1976 by the Government of Ontario to administer the Act. The primary objectives of the Act include consumer protection, builder regulation and homeowner and builder education. An overview of the Corporation's risk management framework and assumptions with regards to the warranty liabilities are summarized below.

Earnings pattern

As home enrolment fees are collected, they are deferred and taken in to revenue over the period of the warranty that the fees cover. The rate at which these fees are recognized in revenue is based on the expected pattern of incurrence of claim costs over the warranty period, or 'earning pattern'. The actual emergence of claims may differ from the initial expected pattern. When an update of the pattern is required for prior years' enrolments, it will result in the estimate change for the unamortized deferred enrolment fees not yet recognized into revenue. The impact of changes in the earnings pattern is set out in the sensitivity analysis in Note 12E.

Insurance risk

As the administrator of the Act, the Corporation is exposed to insurance risk similar to a property and casualty insurance company. The insurance risk is the risk of loss if the Corporation pays compensation from the guarantee fund because builders have failed to perform their warranty obligations to the new homeowners. For major structural defect warranty coverage after June 30, 2012, the insurance risk for the Corporation for the three to seven years of the warranty is the loss arising from the failure of builders to perform their warranty obligations; post-2012, builders are fully responsible for major structural defect warranties but have the option to elect a co-share payment where the costs are shared by the builder and the Corporation according to a set formula. Generally, the Corporation is primarily concerned with the number and nature of the warrantable events and the uncertainty of the amount of the potential resulting claims and loss.

Insurance risks are managed through the Corporation's builder regulation and licensing strategy. Annual licensing assessments are performed on new and existing registered builders to verify that they have the technical experience, customer service capabilities and financial capacity required to build new homes in compliance with the terms and conditions of the Act. The Corporation has entered into an excess loss reinsurance contract with a third-party insurance company to reinsure its insurance risk for warrantable claims for specified enrolment periods in accordance with the Corporation's risk management framework starting in 2016. The reinsurer has a rating of A++ as at December 31, 2017.

12. WARRANTY LIABILITIES (continued)

The Corporation also maintains a proactive claims management program to ensure the adequacy of the warranty liabilities:

- Collection of home enrolment fees from builders prior to construction of each home to help discharge the related liabilities;
- Obtain securities in the form of cash, letters of credit and other guarantees from the builders during the registration and renewal process to reduce risk of financial loss related to the claims;
- Experienced claims service representatives work closely with homeowners and builders to assess the adequacy of the claims in accordance to the Act;
- Processes exist to ensure that all claims are captured, reviewed and updated on a timely basis with a realistic assessment of the ultimate settlement costs;
- Engage qualified actuaries annually to review and assess the adequacy of the warranty liabilities and the provisioning amounts; and
- The appointed actuary determines assumptions used to measure warranty liabilities in accordance with the process recommended by the Canadian Institute of Actuaries. Management reviews the assumptions recommended by the actuary.

The establishment of warranty liabilities is based on established actuarial practice, management judgment and experience. Actual settlements may also differ significantly from the estimates of these liabilities due to the measurement uncertainty involved in establishing assumptions for such variables as future rates of claim frequency, severity, inflation, the ability of builders to fulfill their obligations to home buyers, recoveries from builders and administrative costs. The Corporation is exposed to the following claims provisioning risks in the process of administering the Act:

- *Future claims adjustment cost* – This assumption reflects the costs generally related to claims administration, including claims staff salaries and a related share of facilities overhead and rent, none of which are allocated to individual claim files. An actuarially estimated cost percentage of the future claim cost is applied to the outstanding claims at the end of the reporting period. This assumption is reviewed annually by the Corporation's actuary.

- *Incurred but not reported claims* – Actual claim settlements may differ from estimated claim settlements and claims may exist of which the Corporation is unaware. These claims are estimated based on historical patterns of fluctuations in claim estimates and settlements. In general, the longer the period of time between the incidence of loss and the settlement of the related claim, the greater the potential for actual settlement amounts to differ from the recorded estimates. The impact of changes in incurred but not reported claims is set out in the sensitivity analysis in Note 12E.

- *Adverse deviation* – The liability has inherent measurement uncertainty that arises because:
  - (i) actual investment returns may differ from the discount rate used in actuarial calculations; and
  - (ii) actual claims settlements may occur for amounts or at times that differ from estimates (claim risk), which can occur due to actual experience differing from the experience assumed.

The developments of assumptions for future claims are based on the Corporation's experience and known cases or potential issues. Such assumptions require a significant amount of professional judgment; therefore, actual experience may be materially different than the assumptions made by the Corporation. Home builder payment patterns, renewals, withdrawals and surrender activities can be influenced by many factors including market and general economic conditions. Their behavior also has an impact on assessing future claims. The impact of changes in adverse deviation is set out in the sensitivity analysis in Note 12E.

($CAD thousands)

12. WARRANTY LIABILITIES (continued)

Concentration of insurance risk

The Corporation's exposure to concentration of insurance risk is mitigated by the establishment of a diversified portfolio of competent builders through the Corporation's strong regulating and licensing strategy.

Builders' registration and renewals are assessed annually. The table below shows the warranty claim liabilities by claim types as at December 31:

	2017			
	Freehold	High-rise Condo	Low-rise Condo	Total
Unpaid claims	6,521	6,864	159	13,544
Incurred but not reported	2,373	841	42	3,256
Provision for adverse deviation	1,135	1,565	19	2,719
Unallocated loss adjustment expense	3,601	3,006	128	6,735
Discount and inflation impact	(179)	486	(2)	305
	6,930	5,898	187	13,015
Total warranty claim liabilities	**13,451**	**12,762**	**346**	**26,559**

	2016			
	Freehold	High-rise Condo	Low-rise Condo	Total
Unpaid claims	4,005	8,606	54	12,665
Incurred but not reported	2,313	1,406	40	3,759
Provision for adverse deviation	853	2,024	18	2,895
Unallocated loss adjustment expense	2,943	3,373	111	6,427
Discount and inflation impact	(75)	661	(2)	584
	6,034	7,464	167	13,665
Total warranty claim liabilities	**10,039**	**16,070**	**221**	**26,330**

Liquidity risk

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations associated with warranty liabilities. The Corporation is exposed to daily cash requirements from settlement of claims, cash security releases and operating expenses. Liquidity risk is considered low as the majority of its investment portfolio are traded in a highly liquid market and can be readily converted to cash.

The Corporation also has a $2,000 (2016: $2,000) unsecured demand operating facility that it can draw on, and cash and cash equivalents of $4,770 (2016: $3,093).

($CAD thousands)

12. WARRANTY LIABILITIES (continued)

Market risk

Market risk is the risk that the fair value or future cash flows of the warranty liabilities will fluctuate because of changes in market prices. This risk is comprised of:

- *Interest rate risk*
  Interest rate risk is the risk that the value of future cash-flows of a financial instrument will fluctuate because of changes in market interest rates. Warranty claims liabilities are discounted to reflect the time value of money over the periods between the reporting date and settlement date based on accepted actuarial practice. The discount rate used is based on market yield of the fixed income portfolio supporting the warranty claims liabilities. The impact of changes in interest rate is set out in the sensitivity analysis in Note 12E.

- *Inflation rate*
  The cost to resolve claims are subject to inflationary pressure. The Corporation used the Construction Price Index as the basis of inflationary index, adjusted by expected economic and housing industry implications based on management's past experiences and expertise. The impact of changes in inflation rate is set out in the sensitivity analysis in Note 12E.

D. Excess of loss reinsurance

During 2017, no claims expenses exceeded the retention of $75M layer of the reinsurance coverage, as such, no claims and claims expenses included in the Statement of Comprehensive Results of Operations were decreased on account of the reinsurance arrangements. Such reinsurance arrangements limit the Corporation's liability in the event of large losses in excess of $75M, up to $55M.

E. Sensitivity analysis and maturity profile on warranty claims liabilities

The following table illustrates the assumptions used in developing the adequate warranty claim liability required for the Statement of Financial Position:

	2017	**2016**
Discount rate	2.4%	1.7%
Inflation rate	4.8%	4.2%
Future claims adjustment costs	25.5%	26.5%

($CAD thousands)

12. WARRANTY LIABILITIES (continued)

Sensitivity analysis on warranty claims liabilities

The analysis below is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact to warranty claims liabilities, Statement of Comprehensive Results of Operations and equity.

	Change in assumption	Impact on warranty liability		Impact on comprehensive results of operations		Impact on equity	
2017		Increase	Decrease	Increase	Decrease	Increase	Decrease
Discount rate	1.0%	(461)	476	461	(476)	461	(476)
Inflation rate	1.0%	311	(305)	(311)	305	(311)	305
Future claims adjustment costs	1.0%	191	(191)	(191)	191	(191)	191
2016							
Discount rate	1.0%	(507)	525	507	(525)	507	(525)
Inflation rate	1.0%	377	(370)	(377)	370	(377)	370
Future claims adjustment costs	1.0%	190	(190)	(190)	190	(190)	190

Maturity profile of warranty claims liabilities

The table below summarizes the maturity profile of the warranty claims liabilities. The maturity profiles are determined based on estimated timing of net cash outflows from the recognized warranty liabilities.

	Due within one year	Due two through five years	Total
2017	18,570	7,989	26,559
2016	16,593	9,737	26,330

F. Sensitivity analysis on deferred home enrolment fees

Shifts in claims patterns affect the earning pattern and how enrolment fees are recognized. The analysis below is performed for reasonably possible movements in the earning pattern with all other assumptions held constant, showing the impact to warranty liabilities, Statement of Comprehensive Results of Operations, and equity. Below is the sensitivity analysis of a +/- 2.5% change in the 2017 earning factors for all enrolment years, presented net of reinsurance:

	Change in assumption	Impact on warranty liability		Impact on comprehensive results of operations		Impact on equity	
2017		Accelerated	Decelerated	Accelerated	Decelerated	Accelerated	Decelerated
Earning Pattern	2.5%	(9,821)	9,515	9,821	(9,515)	9,821	(9,515)
2016							
Earning Pattern	2.5%	(8,784)	8,391	8,784	(8,391)	8,784	(8,391)

($CAD thousands)

12. WARRANTY LIABILITIES (continued)

G. Claims history

Claims are classified, managed, analyzed and reserved for based on specific known cases and potential cases and the liability is adjusted for adverse deviation. The following table illustrates the past experience related to the claims before reinsurance that the Corporation has settled; there was nil reinsurance impact in 2017:

	All prior years claims with outstanding liability	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
Estimate of cumulative claims reported												
All prior years	0											
At end of occurrance year		29,550	26,571	16,095	6,425	4,955	5,999	7,162	9,870	11,629	9,437	
One year later		22,424	20,773	12,538	9,058	5,823	6,164	8,797	12,435	15,653		
Two years later		20,625	19,179	12,752	9,438	6,014	6,217	9,723	13,375			
Three years later		20,446	19,276	12,583	9,885	5,882	6,380	10,194				
Four years later		20,474	19,613	13,703	9,818	6,275	6,621					
Five years later		20,404	19,589	13,922	9,315	6,165						
Six years later		20,415	19,795	14,011	9,344							
Seven years later		20,487	20,048	14,095								
Eight years later		20,924	19,480									
Nine years later		20,877										
Current estimate of cumulative claims reported	0	20,877	19,480	14,095	9,344	6,165	6,621	10,194	13,375	15,653	9,437	**125,241**
Claims paid												
All prior years	0											
At end of occurrance year		7,831	9,914	5,720	3,628	2,267	3,047	3,474	4,776	5,270	3,881	
One year later		7,944	6,831	3,506	2,635	1,877	2,333	3,689	5,290	5,703		
Two years later		3,862	625	1,300	681	905	585	1,832	1,948			
Three years later		194	339	803	1,149	485	275	855				
Four years later		214	698	1,639	508	288	13					
Five years later		65	111	853	25	228						
Six years later		74	332	121	12							
Seven years later		48	0	84								
Eight years later		33	590									
Nine years later		307										
Cumulative claims paid	0	20,572	19,440	14,026	8,638	6,050	6,253	9,850	12,014	10,973	3,881	**111,697**
Reconciliation to the Statement of Financial Position												
Current reported provision before discounting	0	305	40	69	706	115	368	344	1,361	4,680	5,556	**13,544**
Actuarial reserves (1)		129	17	33	777	114	147	192	720	2,668	7,913	12,710
Discounting and inflation impact		(5)	0	5	44	21	0	9	58	165	8	305
Present value recognized on the Statement of Financial Position												**26,559**

(1) Actuarial reserves are comprised of incurred but not reported claims, the provision for adverse deviation and unallocated loss adjustment expenses.

13. FUNDS HELD AS SECURITY

The Corporation receives security in the form of cash, letters of credit and other guarantees from builders in order to reduce the risk of financial loss related to future warranty claims from homeowners. The funds held as security do not have any fixed contractual maturities and are to be returned to the builders or released only upon satisfactory completion of certain requirements, such as there being no or minimal deposit or financial loss risk and the completion of outstanding warranty obligations under the Act.

Security received in cash is invested as part of the Corporation's investment portfolio. As at December 31, 2017, the funds held as security of $56,379 (2016: $55,155), presented at amortized cost on the Statement of Financial Position as a liability are the potentially refundable security deposits received in cash, including cumulative accrued interest thereon to December 31, 2017 of $1,481 (2016: $1,349).

The fair value of the funds held as security is $52,652 as at December 31, 2017 (2016: $51,700). Letters of credit and other guarantees are available to be drawn upon to settle known claims. Such drawn amounts would reduce the amounts recoverable from builders in the Statement of Financial Position.

During the year, the Corporation incurred interest of $444 (2016: $360) on cash security deposits. Interest is calculated based on Prime less 2%, adjusted every sixth months.

14. EMPLOYEE FUTURE BENEFIT PLANS

The Corporation's Pension Plan, the Pension Plan for the Employees of Tarion Warranty Corporation, is comprised of a defined benefit plan ("DB Plan") which is closed to further accruals, and a defined contribution plan ("DC Plan").

In addition, the Corporation provides other post-employment benefits ("OPEB"), primarily health and dental coverage, on an unfunded basis.

A. Defined contribution plan

The DC Plan is open to all full-time employees of the Corporation, subject to meeting certain eligibility conditions. Under the terms of the DC Plan, employees contribute a percentage of eligible earnings per year. The Corporation makes contributions for each contributing employee in amounts that vary dependent upon the employee's age and the number of years of eligible service.

There also exists a Supplementary Executive Retirement Plan ("SERP") for senior management. The purpose of the SERP is to offset the limitation on contributions otherwise payable under the registered pension plan resulting from the application of the maximum contribution limits specified under the Income Tax Act (Canada). The SERP provides only for benefits in excess of those payable under the Registered Plan.

14. EMPLOYEE FUTURE BENEFIT PLANS (continued)

B. Defined benefit plan and other post-employment benefits

The DB Plan is fully vested and closed to new employees effective January 1, 1999. Plan participants who elected not to convert to the defined contribution plan retained their DB pensions earned to date. For service subsequent to December 31, 1998, all members of the Pension Plan participate on a defined contribution basis.

The DB Plan and OPEB are subject to periodic actuarial valuations. The Corporation has a December 31 reporting date. A valuation of the accrued pension benefit obligation was performed as at January 1, 2017 and a valuation of the OPEB was performed as of December 31, 2017. The next valuation of the accrued pension benefit obligation will be performed as at January 1, 2020 and the valuation of the OPEB will be performed as at December 31, 2020.

C. Defined benefit plan wind up

On March 1, 2018, after Board approval, Management gave notice to the Financial Services Commission of Ontario to wind up the DB Plan with an effective date of May 1, 2018.

The process will involve establishing a new defined contribution plan (“New Plan”), transferring of assets from the DC Plan into the New Plan, and then winding up the original Pension Plan with the remaining defined benefit provision. All members of the original Pension Plan have been notified in early 2018. The New Plan is anticipated to be established on May 1, 2018 with the DC Plan assets transferred from the original Pension Plan. After the New Plan is in place, a formal report on the DB Plan wind up will be submitted to Financial Services Commission of Ontario for approval.

D. Pension plan regulatory framework

The Pension Plan is registered with the Financial Services Commission of Ontario (# 0594754) and with the Canada Revenue Agency.

Under the Ontario Pension Benefits Act, the employer must make contributions to fully fund the plan. The plan's liabilities are determined using actuarial valuations once every three years or on an annual basis, if the market value of assets is below 85% of the solvency liabilities.

According to the most recent actuarial valuation for funding purposes as at January 1, 2017, the plan had a shortfall on a solvency basis. Thus, the Corporation is required to make minimum amortization payments to fund the shortfall in accordance with Regulation. The required amortization payments in 2018 are $148. The expected employer contributions in respect of current accruals to the DC Plan in 2018 are $1,116 (employee contributions are expected to be $599).

($CAD thousands)

14. EMPLOYEE FUTURE BENEFIT PLANS (continued)

E. Plan governance

The Human Resources & Compensation Committee and the Investment Committee are responsible for the management and administration of the plan, which it delegates to various providers. Manulife Financial is the custodian and is responsible for maintaining the assets, receiving contributions and investment income, paying out benefits and expenses as instructed. The assets of the defined benefit component of the Pension Plan is invested in Beutel Goodman balance pool fund. Morneau Shepell, the actuary and pension consultant, is responsible for providing actuarial, administrative and consulting services to the plan. Aon Hewitt provides investment consulting services to the plan. All external providers report to the plan administrator.

F. Significant risks to which the plan exposes the Corporation

In addition to the traditional risks (interest rate risk, market risk, credit risk, currency risk, longevity risk, etc.), the plan exposes the Corporation to no other unusual risk. The amounts recognized in the Statement of Financial Position for employee future benefits liabilities at the reporting date are shown in the table below:

	2017			2016		
	DB Plan	OPEB & SERP	Total	DB Plan	OPEB & SERP	Total
Fair value of DB assets	4,558	0	4,558	4,279	0	4,279
Present value of the defined benefit obligation	(4,699)	(5,972)	(10,671)	(4,450)	(5,875)	(10,325)
Net defined benefit obligation	(141)	(5,972)	(6,113)	(171)	(5,875)	(6,046)
Impact of asset ceiling	0	0	0	0	0	0
Accrued liability	**(141)**	**(5,972)**	**(6,113)**	**(171)**	**(5,875)**	**(6,046)**
Employer contributions	65	69	134	189	64	253
Employee contributions	0	0	0	0	0	0
Benefit payments and transfers to other plans	159	69	228	509	64	573

The present value of the SERP obligation as at December 31, 2017 was $955 (2016: $797), which is included in the OPEB & SERP amount in the table above. The benefit payments from the SERP for the year ended December 31, 2017 were $12 (2016: $12). For the year ended December 31, 2017, the employer contributions to the DC Plan were $1,093 (2016: $1,087), and the employee contributions to the DC Plan were $587 (2016: $568).

The employee benefits amount for the current and previous years are as follows:

	2017	2016
Fair value of DB assets	4,558	4,279
Accrued benefit obligation, DB Plan	(4,699)	(4,450)
Deficit DB Plan	(141)	(171)
Accrued benefit obligation, OPEB	(5,017)	(5,078)
Accrued benefit obligation, SERP	(955)	(797)
Net employee benefits obligation reported	**(6,113)**	**(6,046)**
Financial/Experience adjustments on employee future benefits liabilities	224	(289)
Financial/Experience adjustments on pension assets	285	209

As of December 31, 2017, the current liabilities were $57 (2016: $53) with respect to the OPEB plan and $12 (2016: $12) with respect to the SERP plan.

($CAD thousands)

14. EMPLOYEE FUTURE BENEFIT PLANS (continued)

The movements in the present value of accrued benefit obligation are as follows:

	2017			2016		
	DB Plan	OPEB & SERP	Total	DB Plan	OPEB & SERP	Total
Beginning of year	(4,450)	(5,875)	(10,325)	(4,789)	(5,116)	(9,905)
Current service cost	0	(338)	(338)	0	(288)	(288)
Past service cost	0	0	0	0	0	0
Interest costs	(164)	(296)	(460)	(170)	(246)	(416)
Benefit payments	159	69	228	509	64	573
Actuarial gains/(losses) arising from plan experience	(50)	371	321	0	0	0
Actuarial gains/(losses) arising from changes in demographic assumption	0	278	278	0	0	0
Actuarial gains/(losses) arising from changes in financial assumptions	(194)	(181)	(375)	0	(289)	(289)
Curtailments/Settlements	0	0	0	0	0	0
Accrued obligation, end of year	**(4,699)**	**(5,972)**	**(10,671)**	**(4,450)**	**(5,875)**	**(10,325)**

The movements in the fair value of plan assets are as follows:

	2017			2016		
	DB Plan	OPEB & SERP	Total	DB Plan	OPEB & SERP	Total
Beginning of year	4,279	0	4,279	4,271	0	4,271
Contributions by employer	65	69	134	189	64	253
Expected income on plan assets	159	0	159	155	0	155
Actuarial gains/(losses)	285	0	285	209	0	209
Benefits paid	(159)	(69)	(228)	(509)	(64)	(573)
Administration costs*	(71)	0	(71)	(36)	0	(36)
Curtailments/Settlements	0	0	0	0	0	0
DB Plan assets, end of year	**4,558**	**0**	**4,558**	**4,279**	**0**	**4,279**

* Paid from plan assets and excluding cost of managing plan assets

($CAD thousands)

14. EMPLOYEE FUTURE BENEFIT PLANS (continued)

The major categories of plan assets at the end of the reporting period for each category are as follows:

	Fair Value of DB Plan Assets	
	2017	**2016**
International and US equity securities	35%	37%
Canadian equity securities	33%	31%
Bonds	30%	30%
Cash	2%	2%
	100%	**100%**

The expected income on the DB Plan assets net of investment expenses is determined based on the liability discount rate at the beginning of the year (i.e. 3.75% for 2017 and 3.75% for 2016). The actual return on the DB Plan assets net of investment expenses was $444 in 2017 (2016: $364).

A discount rate of 3.40% per annum and 3.60% per annum was used for the disclosures at December 31, 2017 for the Pension Plan and OPEB respectively. Specifically, the discount rate was determined as the single discount rate that would produce the present value of obligations determined by discounting the plans cash flows using Corporate AA spot rates at December 31, 2017.

($CAD thousands)

14. EMPLOYEE FUTURE BENEFIT PLANS (continued)

The amounts recognized in the Statement of Comprehensive Results of Operations in respect of the employee benefits liabilities are as follows:

	2017			2016		
	DB Plan	OPEB & SERP	Total	DB Plan	OPEB & SERP	Total
Current service costs	0	338	338	0	288	288
Administration costs (non-investment related)	71	n/a	71	36	n/a	36
Past service cost (including curtailment)	0	0	0	0	0	0
Losses/(gains) on settlement	0	0	0	0	0	0
Service Cost	**71**	**338**	**409**	**36**	**288**	**324**
Interest cost on the defined benefit obligation	164	296	460	170	246	416
Expected income on plan assets	(159)	0	(159)	(155)	0	(155)
Interest on the effect of the asset ceiling	0	0	0	0	0	0
Net interest on the net defined benefit liability	**5**	**296**	**301**	**15**	**246**	**261**
Expense / (income) recognized in results of operations	**76**	**634**	**710**	**51**	**534**	**585**
Remeasurements of the net defined benefit liability						
Actuarial losses/(gains) on the defined benefit liability	245	(469)	(224)	0	289	289
Return on plan assets less expected income on plan assets	(285)	0	(285)	(209)	0	(209)
Change in the effect of the asset ceiling, excluding interest	0	0	0	0	0	0
Total recognized in other comprehensive results of operations	**(40)**	**(469)**	**(509)**	**(209)**	**289**	**80**

The net expense for the SERP in 2017 was $170 (2016: $114) included in the OPEB & SERP amounts above. The net expense for the DC Plan in 2017 was $1,093 (2016: $1,087).

Service cost is reported as part of the Corporation's salaries and benefit expense in the Statement of Comprehensive Results of Operations.

($CAD thousands)

14. EMPLOYEE FUTURE BENEFIT PLANS (continued)

G. Significant assumptions

The discount rate was determined with reference to market interest rates of AA corporate bond yields. As per *IAS 19R – Employee Benefits*, the expected income on DB Plan assets net of investment expenses is determined based on the discount rate used for determining the accrued benefit obligation.

The principal actuarial assumptions used in determining the pension benefit obligation for the Corporation's plans are as follows:

	2017		**2016**	
	DB Plan	OPEB	DB Plan	OPEB
Accrued Benefit Obligation:				
Discount rate	3.40%	3.60%	3.75%	4.00%
Salary Increase	2.15%	N/A	2.25%	N/A
General Inflation	2.15%	2.15%	2.25%	2.25%
Mortality	New Canadian Pensioner Mortality Priv Table (CPM2014Priv), with improvement Scale B	New Canadian Pensioner Mortality Priv Table (CPM2014Priv), with improvement Scale B	New Canadian Pensioner Mortality Priv Table (CPM2014Priv), with improvement Scale B	New Canadian Pensioner Mortality Priv Table (CPM2014Priv), with improvement Scale B
Benefit Cost for the Period:				
Discount rate	3.75%	4.00%	3.75%	4.25%
Salary Increase	2.25%	N/A	2.25%	N/A
General Inflation	2.25%	2.25%	2.25%	2.25%
Mortality	New Canadian Pensioner Mortality Priv Table (CPM2014Priv), with improvement Scale B	New Canadian Pensioner Mortality Priv Table (CPM2014Priv), with improvement Scale B	New Canadian Pensioner Mortality Priv Table (CPM2014Priv), with improvement Scale B	New Canadian Pensioner Mortality Priv Table (CPM2014Priv), with improvement Scale B
Assumed Health Care Cost Trend Rates:				
Initial health care cost trend rate	N/A	6.00%	N/A	6.00%
Cost trend rate declines to	N/A	4.50%	N/A	4.75%
Year that the rate reaches the rate it is assumed to stay at	N/A	2025	N/A	2020

($CAD thousands)

14. EMPLOYEE FUTURE BENEFIT PLANS (continued)

H. Sensitivity analysis for OPEB

Assumed health and dental care cost trend rates and discount rates have a significant effect on the amounts reported for the health and dental care plans. The following demonstrates the impact of a one-percentage change in these assumptions to the accrued benefit obligation at December 31, 2017:

	Valuation Assumptions	1% Change in Health and Dental Care Trend Rates		1% Change in Discount Rate	
		Increase	Decrease	Increase	Decrease
Accrued benefit obligation as at December 31, 2017 at 3.60% per	5,017	1,415	(1,039)	(1,025)	1,406

I. Sensitivity analysis for DB Plan

The discount rates have a significant effect on the amounts reported for the DB Plan. A one-percentage change in the discount rate would have the following impact on the accrued benefit obligation for 2017:

	Valuation Assumption	1% Change in Discount Rate	
		Increase	Decrease
Accrued benefit obligation as at December 31, 2017 at 3.40% per	4,699	(534)	645

15. INVESTMENT INCOME

	2017	2016
Realized and change in unrealized gains / (losses) of equity portfolio	13,425	13,606
Dividends from equity portfolio	9,128	14,556
Realized and change in unrealized gains / (losses) of fixed income portfolio	(6,129)	(2,951)
Interest income from fixed income portfolio	7,972	7,985
Total investment income	**24,396**	**33,196**

16. INTEREST EXPENSE

	Notes	2017	2016
Interest on funds held as security	13	444	360
Interest on lease obligations	11	39	80
Total interest expense		**483**	**440**

($CAD thousands)

17. CAPITAL MANAGEMENT

The Corporation's capital consists of its equity. Although there is no external regulatory requirements imposed on the Corporation's capital, management has adopted a capital management framework modeled after the framework used in the property and casualty insurance industry in Canada and modified to reflect the Corporation's circumstances including its inability to raise capital in traditional ways. This framework incorporates the business requirements for sufficient capital throughout the variations of the new home building cycle, including possible losses from a future catastrophic event. It also reflects the relatively high-risk profile of the Corporation's warranty operations, including the high level of measurement uncertainty inherent in its warranty liabilities due to the long warranty period of up to seven years and to other factors explained in Note 12. As part of the Corporation's capital management framework, reinsurance arrangement was put in place since 2016; the excess loss limits from the reinsurance arrangement were established after a review of large historic claim losses of other jurisdictions.

In applying the framework, the total equity of the Corporation as at December 31, 2017 and 2016 has been determined by management to be sufficient to cover possible losses from a future catastrophic event as further supported by the annual dynamic capital adequacy testing performed by the Corporation's appointed actuary during the year.

18. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Corporation provides a broad range of services to homeowners and builders based on its mandate to administer the Act. Accordingly, the Corporation may enter into transactions with builders related with the Corporation's Board of Directors through a relationship of principal, director, officer and/or guarantor.

As at December 31, 2017, there are no collection and litigation account receivables and cash securities recognized due from related parties (2016: Nil). Letters of credit and other guarantees lodged by related parties are recognized in the Financial Statements only to the extent they are expected to be drawn upon to settle known claims. Transactions between related parties are made at normal market prices.

The Corporation pays an oversight fee to the Government of Ontario for each calendar year. The fee is calculated based on the estimated number of enrolments by home purchasers in the Act during the fiscal year of the Government of Ontario (April 1 to March 31) at five dollars per enrolment. The Corporation is required to pay an amount not less than $200 and not more than $300 per annum. In 2017, the Corporation incurred a fee of $300 (2016:$300).

Key management personnel compensation

The key leadership personnel of the Corporation are members of the board of directors and the corporate management leadership team. Compensation for these leadership personnel includes the following expenses:

	2017	2016
Short-term employee benefits	3,633	3,820
Board of directors fees	554	554
Post-employment benefits	368	376
Compensation for key leadership personnel	**4,555**	**4,750**