YARMOUTH MUTUAL INSURANCE COMPANY
Financial Statements
For the year ended December 31, 2018

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Independent Auditor's Report

To the Policyholders of
YARMOUTH MUTUAL INSURANCE COMPANY

Opinion

We have audited the financial statements of YARMOUTH MUTUAL INSURANCE COMPANY (the Entity), which comprise the statement of financial position as at December 31, 2018, and the statements of comprehensive income, members' surplus and cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the 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.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants
Woodstock, Ontario
February 14, 2019

YARMOUTH MUTUAL INSURANCE COMPANY
Statement of Financial Position

As at December 31		2018	2017
Assets			
Cash	$	**1,068,273**	$ 4,384,869
Investments (Note 5)		**14,919,917**	13,180,112
Investment income accrued		**87,989**	88,368
Income taxes recoverable		**220,242**	-
Due from policyholders		**4,183,433**	3,756,557
Reinsurer's share of provision for unpaid claims (Note 4)		**3,970,191**	5,553,278
Deferred policy acquisition expenses (Note 4)		**791,280**	705,335
Property, plant & equipment (Note 13)		**775,141**	830,057
Deferred income taxes		**290,070**	116,480
Other assets		**177,506**	153,893
	$	**26,484,042**	$ 28,768,949
Liabilities			
Accounts payable and accrued liabilities	$	**542,922**	$ 765,606
Income taxes payable		**-**	89,148
Unearned premiums (Note 4)		**5,949,788**	5,368,476
Provision for unpaid claims (Note 4)		**8,528,728**	10,282,656
		15,021,438	16,505,886
Members' Surplus			
Unappropriated members' surplus		**11,462,604**	11,282,141
Accumulated other comprehensive income		**-**	980,922
		11,462,604	12,263,063
	$	**26,484,042**	$ 28,768,949

Signed on behalf of the Board by:

Bill [signature], Director

Robert Foster [signature], Director

The accompanying notes are an integral part of these financial statements.

YARMOUTH MUTUAL INSURANCE COMPANY
Statement of Comprehensive Income

For the year ended December 31	2018	2017
Underwriting income		
Gross premiums written	**$11,969,806**	$ 10,969,107
Less reinsurance ceded	**2,072,359**	1,991,258
Net premiums written	**9,897,447**	8,977,849
Less change in unearned premiums	**581,312**	146,916
Net premiums earned	**9,316,135**	8,830,933
Service charge income	**98,851**	89,485
	9,414,986	8,920,418
Direct losses incurred		
Gross claims and adjustment expenses	**7,117,859**	6,708,884
Less reinsurer's share of claims and adjustment expenses	**198,186**	1,473,235
	6,919,673	5,235,649
	2,495,313	3,684,769
Expenses		
Fees, commissions and other acquisition expenses (Note 8)	**1,690,587**	1,593,893
Other operating and administrative expenses (Note 9)	**1,758,902**	1,894,345
	3,449,489	3,488,238
Net underwriting income (loss)	**(954,176)**	196,531
Investment and other income (loss) (Note 6)	**(184,306)**	404,896
Income (loss) before taxes	**(1,138,482)**	601,427
Provision (recovery) for income taxes (Note 11)	**(338,023)**	13,967
Net income (loss)	**(800,459)**	587,460
Other comprehensive income - (net of tax)		
Change in unrealized gains / (losses) on available-for-sale investments	**-**	84,250
Reclassification of realized (gains) / losses on available-for-sale investments	**-**	(46,918)
Total other comprehensive income - (net of tax)	**-**	37,332
Total comprehensive income (loss) for the year	**$ (800,459)**	$ 624,792

The accompanying notes are an integral part of these financial statements.

YARMOUTH MUTUAL INSURANCE COMPANY
Statement of Members' Surplus

	Unappropriated Members' Surplus	Accumulated Other Comprehensive Income	Total
Balance at January 1, 2017	$ 10,694,681	$ 943,590	$ 11,638,271
Net income	587,460	-	587,460
Change in unrealized gains / (losses) on available-for-sale investments	-	84,250	84,250
Reclassification of realized (gains) / losses on available-for-sale investments	-	(46,918)	(46,918)
Balance on December 31, 2017	$ 11,282,141	$ 980,922	$ 12,263,063
Effect of adoption of IFRS 9 on January 1, 2018 (Note 3)	980,922	(980,922)	-
Net loss	(800,459)	-	(800,459)
Balance on December 31, 2018	**$11,462,604**	**$ -**	**$11,462,604**

The accompanying notes are an integral part of these financial statements.

YARMOUTH MUTUAL INSURANCE COMPANY
Statement of Cash Flows

For the year ended December 31	2018	2017
Operating activities		
Net income (loss)	$ (800,459)	$ 587,460
Adjustments for:		
Depreciation	96,528	96,315
Interest and dividend income	(444,449)	(373,773)
Provision for income taxes	(338,023)	13,967
Realized gain from disposal of investments	(122,662)	(59,390)
Unrealized loss on investments	726,717	-
	(882,348)	264,579
Changes in working capital		
Change in due from policyholders	(426,876)	(136,677)
Change in other assets	(23,613)	19,053
Change in accounts payable and other liabilities	(223,179)	192,777
	(673,668)	75,153
Changes in insurance contract related balances		
Change in reinsurer's share of provision for unpaid claims	1,583,087	448,145
Change in deferred policy acquisition expenses	(85,945)	(17,348)
Change in unearned premiums	581,312	146,916
Change in provision for unpaid claims	(1,753,928)	(451,968)
	324,526	125,745
Cash flows related to interest, dividends and income taxes		
Interest and dividends received	444,828	382,608
Income taxes (paid) recovered	(144,460)	(141,360)
	300,368	241,248
Total cash (outflows) inflows from operating activities	(931,122)	706,725
Investing activities		
Sale of investments	2,034,146	754,011
Purchase of investments	(4,378,006)	(594,427)
Purchase of property plant & equipment	(41,614)	(84,689)
Total cash (outflows) inflows from investing activities	(2,385,474)	74,895
Net (decrease) increase in cash and cash equivalents	(3,316,596)	781,620
Cash and cash equivalents, beginning of year	4,384,869	3,603,249
Cash and cash equivalents, end of year	$ 1,068,273	$ 4,384,869

The accompanying notes are an integral part of these financial statements.

1. Corporate Information

YARMOUTH MUTUAL INSURANCE COMPANY (the Company) is incorporated under the laws of Ontario and is subject to the Ontario Insurance Act. It is licensed to write property, liability and automobile insurance in Ontario. The Company's head office is located at 1229 Talbot Street in St. Thomas, Ontario.

The Company is subject to rate regulation in the automobile business that it writes. Before automobile insurance rates can be changed, a combined rate filing is prepared for most Ontario Farm Mutual Insurance Companies. The rate filing must include actuarial justification for rate increases or decreases. All rate filings are approved or denied by the Financial Services Commission of Ontario. Rate regulation may affect the automobile revenues that are earned by the Company. The actual impact of rate regulation would depend on the competitive environment at the time.

These financial statements have been authorized for issue by the Board of Directors on February 14, 2019.

2. Basis of Presentation

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

These financial statements were prepared under the historical cost convention, except for financial assets classified as fair value through profit or loss ("FVTPL")

The financial statements are presented in Canadian dollars ("CDN"), which is also the Company's functional currency.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving critical judgments and estimates in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year are:

- The calculation of unpaid claims, including the determination of the initial claim liability, claims development and estimate of time until ultimate settlement; (Note 4)
- The determination of the recoverability of deferred policy acquisition expenses (Note 4).
- The classification of financial assets at FVTPL, which includes assessing the business model within which the assets are held and whether the contractual terms of the assets are solely payments of principal and interest on the principal amount outstanding (Note 5).

The notes to the financial statements were prepared and ordered in such a way that the most relevant information was presented earlier in the notes and disclosures that management deemed to be immaterial were excluded from the notes to the financial statements. The determination of the relevance and materiality of disclosures involved significant judgment.

3. Adoption of New Accounting Standards

Accounting standards, interpretations and amendments effective for accounting years beginning on or after January 1, 2018 did not materially affect the Company's financial statements other than those described below.

IFRS 9 Financial Instruments (IFRS 9)

On January 1, 2018, the Company adopted IFRS 9, Financial Instruments (IFRS 9), which supersedes IAS 39, Financial Instruments: Recognition and Measurement (IAS 39). IFRS 9 includes revised guidance on the classification and measurement of financial assets and liabilities; new guidance for measuring impairment on financial assets; and new hedge accounting guidance.

On adoption of IFRS 9, in accordance with its transitional provisions, the Company has not restated prior periods but has reclassified the financial assets held at January 1, 2018, retrospectively, based on the new classification requirements and the characteristics of each financial instrument as at the transition date. For financial liabilities, IFRS 9 retains most of the IAS 39 requirements. The Company did not choose the option of designating any financial liabilities at FVTPL as such, the adoption of IFRS 9 did not impact the Company's accounting policies for financial liabilities.

(i) Classification and measurement of financial instruments

Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 contains three primary measurement categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVTOCI), and fair value through profit and loss (FVTPL).

The following table shows the original classification and carrying amount under IAS 39 and the new classification and carrying amount under IFRS 9 for each class of the Company's financial assets and financial liabilities as at January 1, 2018.

Financial Instrument	Note	IAS 39		IFRS 9	
Financial assets					
Cash		Loans and receivables	$ 4,384,869	Amortized cost	$ 4,384,869
Investments – GICS	5	Available for sale	$1,670,000	FVTPL	$1,670,000
Investments – bonds	5	Available for sale	$7,379,951	FVTPL	$7,379,951
Investments – equity	5	Available for sale	$4,068,655	FVTPL	$4,068,655
Investments – other	5	Available for sale	$61,506	FVTPL	$61,506
Financial liabilities					
Accounts payable and accrued liabilities		Other financial liabilities	$765,606	Amortized cost	$765,606

3. Adoption of New Accounting Standards (cont'd)

(ii) Impairment of financial assets

IFRS 9 replaces the incurred loss model in IAS 39 with an expected credit loss ("ECL") model. This applies to financial assets classified at amortized cost and debt instruments classified at FVTOCI. Under IFRS 9, credit losses are recognized earlier than under IAS 39. This change did not have a material impact to the Company's financial statements.

(iii) Hedge accounting

The new hedge accounting model which replaces hedge accounting guidance in IAS 39 did not impact the Company's financial statements.

(iv) Disclosure

Amendments were also made to IFRS 7 introducing expanded qualitative and quantitative disclosures related to IFRS 9, which the Company has also adopted for the annual period beginning January 1, 2018.

Impacts of adoption of IFRS 9

The following table presents the impact of adopting IFRS 9 on members' surplus as at January 1, 2018:

	Unappropriated Members' Surplus	Accumulated Other Comprehensive Income	Total
Balance at December 31, 2017	$ 11,282,141	$ 980,922	$ 12,263,063
Impact of adopting IFRS 9 - change in classification (i)	980,922	(980,922)	-
Adjusted balance at January 1 2018	$ 12,263,063	$ -	$ 12,263,063

(i) Available-for-sale debt and equity securities under IAS 39 have been reclassified to FVTPL under IFRS 9. Unrealized gains/losses and the related tax effects on the available-for-sale securities were reclassified to unappropriated members' surplus.

4. Insurance Contracts

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

Balances arising from insurance contracts primarily include the following:

(a) Premiums and unearned premiums

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

The Company recognizes premium income evenly over the term of the insurance policy generally using the pro rata method. The portion of the premium related to the unexpired portion of the policy at the end of the fiscal year is reflected in unearned premiums. Changes in unearned premiums recorded in the statement of financial position and their impact on net premiums earned are as follows:

Unearned Premiums	**2018**	2017
Balance, beginning of the year	**$ 5,368,476**	$ 5,221,560
Premiums written	**11,969,806**	10,969,107
Premiums earned during year	**(11,388,494)**	(10,822,191)
Balance, end of the year	**$ 5,949,788**	$ 5,368,476

The pricing of property and liability policies are based on assumptions in regards to trends and past experience, in an attempt to correctly match policy revenue with exposed risk. Automobile premiums are subject to approval by the Financial Services Commission of Ontario and therefore may result in a delay in adjusting the pricing to exposed risk.

The Company is exposed to a pricing risk to the extent that unearned premiums are insufficient to meet the related future policy costs. Evaluation is performed regularly to estimate future claims costs, related expenses, and expected profit in relation to unearned premiums. There was no premium deficiency at December 31, 2018 or 2017.

Amounts due from policyholders are short-term in nature consisting of a large number of policyholders, and are not subject to material credit risk. Regular review of amounts outstanding is performed to ensure credit worthiness.

4. Insurance Contracts (cont'd)

(b) Deferred policy acquisition expenses

Acquisition costs are comprised of agents' and brokers' commissions and premium taxes. These costs are deferred and amortized over the terms of the related policies to the extent that they are considered to be recoverable from unearned premiums, after considering the related anticipated claims and expenses. Changes in deferred policy acquisition expenses recorded in the statement of financial position and their impact on fees, commissions and other acquisition expenses follows:

Deferred policy acquisition expense	**2018**	2017
Balance, beginning of the year	**$ 705,335**	$ 687,987
Acquisition costs incurred	**1,776,532**	1,611,241
Expensed during the year (Note 8)	**(1,690,587)**	(1,593,893)
Balance, end of the year	**$ 791,280**	$ 705,335

(c) Unpaid claims and adjustment expenses

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

A summary of the Company's outstanding gross unpaid liabilities, related reinsurer's share of unpaid claims and the net insurance liabilities follows:

	December 31, 2018		
	Gross	**Reinsurance**	**Net**
Outstanding claims provision			
Long term	**$ 1,486,931**	**$ 657,130**	**$ 829,801**
Short term	**3,402,607**	**1,258,061**	**2,144,546**
Facility Association and other pools	**339,190**	**-**	**339,190**
	5,228,728	**1,915,191**	**3,313,537**
Provision for claims incurred but not reported	**3,300,000**	**2,055,000**	**1,245,000**
	$ 8,528,728	**$ 3,970,191**	**$ 4,558,537**

4. Insurance Contracts (cont'd)

	December 31, 2017 Gross	Reinsurance	Net
Outstanding claims provision			
Long term	$ 5,142,721	$ 3,449,686	$ 1,693,035
Short term	1,526,719	48,592	1,478,127
Facility Association and other pools	313,216	-	313,216
	6,982,656	3,498,278	3,484,378
Provision for claims incurred but not reported	3,300,000	2,055,000	1,245,000
	$ 10,282,656	$ 5,553,278	$ 4,729,378

The Company must participate in industry automobile residual pools of business, and recognizes a share of this business based on its automobile market share. The Company records its share of the liabilities provided by the actuaries of the pools.

Changes in claim liabilities recorded in the balance sheet for the years ended December 31, 2018 and 2017 and their impact on claims and adjustment expenses for the two years follow:

	2018	2017
Unpaid claims - beginning of year – net of reinsurance	**$ 4,729,378**	$ 4,733,201
Increase in estimated losses and expenses, for losses occurring in prior years	**589,178**	634,510
Provision for losses and expenses on claims occurring in the current year	**5,943,648**	4,024,789
Change in IBNR	**-**	150,000
Payment on claims:		
Current year	**(4,448,955)**	(2,720,101)
Prior years	**(2,254,712)**	(2,093,021)
Unpaid claims – end of year - net of reinsurance	**4,558,537**	4,729,378
Reinsurer's share	**3,970,191**	5,553,278
	$ 8,528,728	$ 10,282,656

4. Insurance Contracts (cont'd)

Claim development

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

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

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

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

The tables that follow present the development of claims payments and the estimated ultimate cost of claims for the claim years 2013 to 2018. The tables show the cumulative amounts paid or estimated to be paid during successive years related to each claim year. The original estimates will be increased or decreased, as more information becomes known about the original claims and overall claim frequency and severity.

4. Insurance Contracts (cont'd)

Gross claims	2013	2014	2015	2016	2017	2018	Total
Gross estimate of cumulative claims cost							
At the end year of claim	$ 2,299,116	$ 4,591,503	$ 5,776,127	$ 4,157,986	$ 4,042,789	$ 6,401,528	
One year later	3,303,750	4,873,077	6,349,477	4,258,010	4,163,072		
Two years later	3,427,440	5,254,520	6,928,401	4,421,617			
Three years later	3,143,378	6,179,517	6,740,392				
Four years later	3,159,518	6,204,459					
Five years later	3,198,377						
Gross estimate of cumulative claims cost	3,198,377	6,204,459	6,740,392	4,421,617	4,163,072	6,401,528	$ 31,129,445
Cumulative payments	2,699,776	5,777,432	5,030,909	4,036,476	3,852,921	4,861,172	26,258,686
Outstanding claims	$ 498,601	$ 427,027	$ 1,709,483	$ 385,141	$ 310,151	$ 1,540,356	4,870,759
Outstanding claims 2012 and prior							18,779
Facility reserves and all other residual pools							339,190
Incurred but not reported							3,300,000
Total gross outstanding claims and claims handling expense							**$ 8,528,728**

Net of Reinsurance	2013	2014	2015	2016	2017	2018	Total
Net estimate of cumulative claims cost							
At the end year of claim	$ 2,250,876	$ 3,927,922	$ 3,241,962	$ 4,111,138	$ 4,024,789	$ 5,943,648	
One year later	2,680,848	4,274,740	3,731,412	4,221,560	4,163,072		
Two years later	2,804,538	4,649,706	3,857,633	4,385,167			
Three years later	2,754,965	4,905,607	3,973,601				
Four years later	2,764,394	4,891,073					
Five years later	2,798,447						
Current estimate of cumulative claims cost	2,798,447	4,891,073	3,973,601	4,385,167	4,163,072	5,943,648	$ 26,155,008
Cumulative payments	2,532,514	4,860,830	3,504,194	4,000,026	3,852,921	4,448,955	23,199,440
Outstanding claims	$ 265,933	$ 30,243	$ 469,407	$ 385,141	$ 310,151	$ 1,494,693	2,955,568
Outstanding claims 2012 and prior							18,779
Facility reserves and all other residual pools							339,190
Incurred but not reported							1,245,000
Total net outstanding claims and claims handling expense							**$ 4,558,537**

4. Insurance Contracts (cont'd)

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

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

	Property claims		Auto claims		Liability claims	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
5% change in the loss ratios would result in the following increase/decrease:						
Gross	**$ 235,175**	$ 200,147	**$ 315,674**	$ 304,895	**$ 47,641**	$ 43,413
Net	**$ 218,477**	$ 186,184	**$ 235,942**	$ 226,017	**$ 40,454**	$ 36,962

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

(d) Liability adequacy test

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

(e) Reinsurer's share of provisions for unpaid claims and adjustment expenses

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

The Company follows a policy of underwriting and reinsuring contracts of insurance which, in the main, limit the liability of the Company to an amount on any one claim of $400,000 in the event of a property claim, an amount of $400,000 in the event of an automobile claim and $400,000 in the event of a liability claim. The reinsurer is responsible for losses exceeding these retention limits, to a maximum of $6,000,000 per risk for property losses, and $16,000,000 per loss for automobile and liability losses. All of these excess of loss contracts include stop loss reinsurance. The Company has obtained stop loss reinsurance which limits the liability of all claims in a specific year to 80% of gross net earned premiums on a combined basis for property, automobile and liability. The Company also obtained reinsurance which limits the Company's liability to $1,200,000 (2017 – $1,200,000) in the event of a series of claims arising out of a single occurrence.

4. Insurance Contracts (cont'd)

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

Expected reinsurance recoveries on unpaid claims and adjustment expenses are recognized as assets at the same time and using principles consistent with the Company's method for establishing the related liability. There are no changes in due from reinsurer recorded in the statement of financial position for the years ended December 31, 2018 and 2017.

Reinsurance is placed with Farm Mutual Reinsurance Plan Inc. (FMRP), a Canadian registered reinsurer. Management monitors the creditworthiness of FMRP by reviewing their annual financial statements and through ongoing communications. Reinsurance treaties are reviewed annually by management prior to renewal of the reinsurance contract. At year-end, the Company reviewed the amounts owing from its reinsurer and determined that no allowance is necessary.

Changes in reinsurer's share of provision for unpaid claims recorded in the statements of financial position and their impact on net premiums earned as as follows:

Reinsurer's share of provision for unpaid claims	**2018**	2017
Balance, beginning of the year	**$ 5,553,278**	$ 6,001,423
New claims reserve	**457,879**	-
Change in prior year's reserve	**(259,694)**	1,473,235
Submitted to reinsurer	**(1,781,272)**	(1,921,380)
Balance, end of the year	**$ 3,970,191**	$ 5,553,278
Expected settlement		
Within one year	**$ 1,258,061**	$ 48,592
More than one year	**$ 2,712,130**	$ 5,504,686

(f) Salvage and subrogation recoverable

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

Where the Company indemnifies policyholders against a liability claim, it acquires rights to subrogate its claim against other parties.

5. Investments

(a) Recognition and initial measurement

The Company recognizes debt instruments on the date on which they are originated. Equity instruments are recognized on the settlement date, which is the date that the asset is received by the Company. The instruments are initially measured at fair value.

(b) Classification and subsequent measurement

The Company classifies its debt instruments (GIC's and bonds) as FVTPL because the Company manages the debt instruments and evaluates their performance on a fair value basis in accordance with a documented investment strategy and the instruments are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

The Company's mutual funds are redeemable at the option of the holder and therefore considered debt instruments under IFRS 9 that do not give rise to cash flows that are solely payments of principal and interest and therefore are classified as FVTPL.

The Company classifies its equity instruments in listed and unlisted companies, as FVTPL.

The debt and equity instruments are subsequently measured at fair value where the net gains and losses, including any interest or dividend income and foreign exchange gains and losses, are recognized in comprehensive income.

(c) Derecognition

The Company derecognizes investments when the contractual rights to the cash flows from the investment expires or the Company transfers the investment. On derecognition, the difference between the carrying amount at the date of derecognition and the consideration received is recognized in comprehensive income.

5. Investments (cont'd)

(d) Risks

The following table provides cost and fair value information of investments by type of security and issuer.

	December 31, 2018		December 31, 2017	
	Cost	**Fair value**	Cost	Fair value
GICs	**$ 2,245,000**	**$ 2,245,000**	$ 1,670,000	$ 1,670,000
Bonds issued by				
Provincial	**3,759,619**	**3,692,284**	3,738,868	3,687,092
Municipal	**13,061**	**13,061**	26,840	26,840
Corporate				
A or better	**3,451,250**	**3,404,781**	3,673,483	3,666,019
B to BBB	**387,476**	**385,482**	-	-
	7,611,406	**7,495,608**	7,439,191	7,379,951
Equity investments				
Canadian	**3,070,729**	**3,858,399**	2,532,430	3,910,188
US	**974,368**	**945,843**	150,292	158,467
Preferred shares	**350,000**	**305,260**	-	-
	4,395,097	**5,109,502**	2,682,722	4,068,655
Mutual funds	**42,052**	**46,695**	35,010	42,662
Fire Mutuals Guarantee Fund	**24,004**	**23,112**	19,430	18,844
Total investments	**$14,317,559**	**$14,919,917**	$ 11,846,353	$ 13,180,112

5. Investments (cont'd)

The Company is exposed to credit risk relating to its debt holdings in its investment portfolio.

The Company's investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits, corporate sector limits and general guidelines for geographic exposure. All bonds purchased and held by the company require a minimum credit rating of 'A' for corporate bonds and 'BBB' for provincial bonds as rated by the Dominion Bond Rating Services. There are no restrictions on the amount or rating of federal bonds that are purchased and the investment manager is also empowered to purchase up to 10% of the bond portfolio in bonds and debentures of the Municipalities of Elgin County. The bond portfolio includes 95% (2017 – 100%) of bonds rated A or better. All fixed income portfolios are measured for performance and monitored by the Board of Directors on a quarterly basis.

Eligible bonds for investment are Federal, Provincial, Municipal and Corporate bonds including GICs of chartered banks. Investments in each of these sectors will be restricted by the following limitation:

Federal	0% - 100%
Provincial	0% - 65%
Municipal	0% - 20%
Corporate and GICs	0% - 60%

The investment policy includes limitations on provincial bond holdings with 'AA', 'A' or 'BBB' ratings and corporate 'A' rated bonds.

The maximum exposure to investment credit risk is the carrying value of the investments.

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

5. Investments (cont'd)

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

The Company's investment policy requires that 0% to 15% of the Company's portfolio be held in cash and short-term investments. Short-term investments include treasury bills, bankers acceptances, GICs, and term deposits with an original maturity of less than one year.

Maturity profile of bonds held is as follows:

	Within 1 year	2 to 5 years	6 to 10 years	Over 10 years	Fair value
December 31, 2018					
GICs	**$ 600,000**	**$1,645,000**	**$ -**	**$ -**	**$2,245,000**
Bonds	**213,661**	**3,399,286**	**3,882,661**	**-**	**7,495,608**
	$ 813,661	**$5,044,286**	**$3,882,661**	**$ -**	**$9,740,608**
Percent of Total	**8 %**	**52 %**	**40 %**	**- %**	
December 31, 2017					
GICs	$ 780,000	$ 890,000	$ -	$ -	$ 1,670,000
Bonds	216,999	2,390,339	4,772,613	-	7,379,951
	$ 996,999	$ 3,280,339	$ 4,772,613	$ -	$ 9,049,951
Percent of Total	11 %	36 %	53 %	- %	

The effective interest rate of the bond portfolio held is 2.62% (2017 - 2.54%)

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

5. Investments (cont'd)

Market factors that will impact the fair value of investments include three types of risk: currency risk, interest rate risk and equity risk.

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

The Company's investment policy has a benchmark for asset holdings and limits the investment held within their portfolio investments to the following:

Investment	Limits	Benchmark
Short term	0% - 15%	5%
Bonds	65% - 90%	80%
Equities	0% - 25%	15%

Currency risk

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

The Company's foreign exchange risk is related to stock holdings which are limited to United States equities in sectors which are not readily available in Canada. Foreign exchange risk is limited to the company's stock portfolio. A 1% change in the value of the United States dollar would affect the fair value of stocks by $6,969 (2017 - $1,267) which would be recognized in comprehensive income.

Interest rate risk

The Company is exposed to this risk through its interest bearing investments (Bonds and GICs).

The Company's investment income will move with interest rates over the medium to long-term with short-term interest rate fluctuations creating unrealized gains or losses in comprehensive income. There are no occurrences where interest would be charged on liabilities; therefore, little protection is needed to ensure the fair value of asset will be offset by a similar change in liabilities due to an interest rate change.

The objective and policies and procedures for managing interest rate risk is to diversify the bond portfolio in such a way that the maturity profile for the holdings is as follows:

Investment	Limits	Benchmark
1 - 5 years	20% - 70%	30%
5 - 10 years	30% - 80%	70%

5. Investments (cont'd)

At December 31, 2018, a 1% move in interest rates, with all other variables held constant, could impact the market value of bonds by $390,339 (2017 - $355,119). These changes would be recognized in profit and loss.

Equity risk

The Company is exposed to this risk through its equity holdings within its investment portfolio. The Company's portfolio includes Canadian stocks with fair values that move with the Toronto Stock Exchange Composite Index. At December 31, 2018, a 10% movement in the stock markets with all other variables held constant would have an estimated effect on the fair values of the Company's Canadian equity investments of $351,979 (2017 - $334,044). This change would be recognized in comprehensive income.

The Company is also exposed to this risk through its US equity holdings within its investment portfolio. The Company's portfolio includes US stocks with fair values that move with the NYSE Composite Index. At December 31, 2018, a 10% movement in the stock markets with all other variables held constant would have an estimated effect on the fair values of the Company's US equity investments of $94,298 (2017 - $1,267). This change would be recognized in comprehensive income.

The Company's investment policy limits equity investments to 25% of the total portfolio. The investment policy also states that no individual equity will exceed 10% of the total stock portfolio.

In addition to investment portfolio weighting, the company's investment policy statement also has mandates regarding sector investment which dictate that at a minimum the company is invested in 7 of the 10 global classification sectors, with overweighting of investments in any one sector limited to a maximum of two times that of the average sector investment.

Equities are monitored by the Board of Directors and holdings are adjusted following each quarter to ensure holdings are in compliance with the investment policy.

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

5. Investments (cont'd)

(e) Fair value measurement

The following table provides an analysis of investments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities using the last bid price;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1	Level 2	Level 3	Total
December 31, 2018				
GICs	**$ 2,245,000**	**$ -**	**$ -**	**$ 2,245,000**
Bonds	**-**	**7,495,608**	**-**	**7,495,608**
Equities	**5,109,502**	**-**	**-**	**5,109,502**
Mutual funds	**-**	**46,695**	**-**	**46,695**
Other investments	-	**23,112**	**-**	**23,112**
Total	**$ 7,354,502**	**$ 7,565,415**	**$ -**	**$14,919,917**
December 31, 2017				
GICs	$ 1,670,000	$ -	$ -	$ 1,670,000
Bonds	-	7,379,951	-	7,379,951
Equities	4,068,655	-	-	4,068,655
Mutual funds	-	42,662	-	42,662
Other investments	-	18,844	-	18,844
Total	$ 5,738,655	$ 7,441,457	$ -	$ 13,180,112

There were no transfers between any levels of the fair value hierarchy for the years ended December 31, 2018 and 2017.

6. Investment and other income (loss)

	2018	2017
Interest income	**$ 256,480**	$ 236,598
Dividend income	**187,969**	137,175
Realized gains on disposal of investments	**122,662**	59,390
Unrealized losses on investments	**(726,717)**	-
Investment expenses	**(54,988)**	(51,416)
Other income	**30,288**	23,149
	$ (184,306)	$ 404,896

7. Capital management

For the purpose of capital management, the Company has defined capital as members' surplus.

The Company’s objectives with respect to capital management are to maintain a capital base that is structured to exceed regulatory requirements and to best utilize capital allocations.

The regulators measure the financial strength of property and casualty insurers using a minimum capital test (MCT). The regulators require property and casualty companies to comply with capital adequacy requirements. This test compares a Company’s capital against the risk profile of the organization. The risk-based capital adequacy framework assesses the risk of assets, policy liabilities and other exposures by applying various factors that are dependent on the risks associated with the Company's assets. Additionally, an interest rate risk margin is included in the MCT by assessing the sensitivity of the Company's interest-sensitive assets and liabilities to changes in interest rates. The regulator indicates that the Company should produce a minimum MCT of 150%. During the year, the Company has consistently exceeded this minimum. The regulator has the authority to request more extensive reporting and can place restrictions on the Company’s operations if the Company falls below this requirement or if deemed necessary.

8. Fees, commissions and other acquisition expenses

	2018	2017
Agents commissions	**$ 540,789**	$ 477,856
Brokers commissions	**1,169,897**	1,075,851
Other, including change in deferred policy acquisition expenses	**(20,099)**	40,186
	$ 1,690,587	$ 1,593,893

9. Other operating and administrative expenses

	2018	2017
Computer costs	**$ 241,660**	$ 303,465
Depreciation	**81,083**	83,113
Licenses, fees and dues	**102,257**	103,900
Postage, office expenses and property taxes	**85,773**	82,538
Professional fees	**105,360**	67,818
Repairs and maintenance	**15,651**	16,446
Salaries, benefits and directors fees	**913,570**	1,037,487
Utilities	**7,010**	10,673
Other	**206,538**	188,905
	$ 1,758,902	$ 1,894,345

10. Salaries, benefits and directors fees

	2018	2017
Adjusting salaries and benefits	**$ 163,348**	$ 217,514
Agents commissions (Note 8)	**540,789**	477,856
Other salaries, benefits and directors fees (Note 9)	**913,570**	1,037,487
	$ 1,617,707	$ 1,732,857

11. Income taxes

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

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

	2018	2017
Current tax provision		
Based on current year taxable income	$ -	$ 161,729
Loss carry-back	(167,760)	-
Adjustments for over provision in prior periods	3,327	2,138
	(164,433)	163,867
Deferred tax provision		
Origination and reversal of temporary differences	(173,590)	(149,900)
Total income tax provision	$ (338,023)	$ 13,967

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 26.5% are as follows:

	2018	2017
Income before taxes	$ (1,138,482)	$ 601,427
Expected taxes based on the statutory rate of 26.5%	(301,698)	159,378
Small business deduction	-	(27,314)
Income from dividends	(40,869)	(36,351)
Other non deductible expenses	1,217	30,378
Market to market and other adjustments related to investments	-	(114,262)
Under provision in prior years	3,327	2,138
Total income tax (recovery) provision	$ (338,023)	$ 13,967

12. Structured settlements, Fire Mutuals Guarantee Fund and financial guarantee contracts

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

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

The Company is a member of the Farm Mutual Reinsurance Plan Inc. ("the Plan"), which is a general reinsurer that shares in the insurance risks originally accepted by member insurance companies. As a member of the Plan, the Company may be required to contribute additional capital to the Plan in the form of subordinated debt should the Plan's capital fall below a prescribed minimum.

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

13. Property, plant & equipment

Property, plant & equipment is initially recorded at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses, with the exception of land which is not depreciated. Depreciation is recognized in other operating and administrative expenses in the statement of comprehensive income and is provided for using the straight line method based on useful life:

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

2018

	Useful Life	Cost	Accumulated Depreciation	Net Book Value
Land	**N/A**	**$ 100,000**	**$ -**	**$ 100,000**
Buildings	**25 years**	**1,249,762**	**652,106**	**597,656**
Computer hardware	**5 years**	**270,099**	**258,269**	**11,830**
Computer software	**2 years**	**150,832**	**122,497**	**28,335**
Furniture and fixtures	**5 years**	**237,132**	**199,812**	**37,320**
		$ 2,007,825	**$ 1,232,684**	**$ 775,141**

2017

	Useful Life	Cost	Accumulated Depreciation	Net Book Value
Land	N/A	$ 100,000	$ -	$ 100,000
Buildings	25 years	1,247,861	602,115	645,746
Computer hardware	5 years	259,868	244,814	15,054
Computer software	2 years	122,497	99,897	22,600
Furniture and fixtures	5 years	235,985	189,328	46,657
		$ 1,966,211	$ 1,136,154	$ 830,057

14. Pension Plans

The Company participates in a multi-employer defined benefit pension plan (the Ontario Mutual Insurance Association Pension Plan, "the plan"), however, sufficient information is not available to use the defined benefit accounting. Therefore, the Company accounts for the plan as if it were a defined contribution plan, recognizing contributions as an expense in the year to which they relate.

The Company makes contributions to the plan on behalf of members of its staff. The plan is a money purchase plan, with a defined benefit option at retirement available to some employees, which specifies the amount of the retirement benefit plan to be received by the employees based on length of service and rates of pay.

The amount contributed to the plan for 2018 was $109,764 (2017 - $98,604). The contributions were made for current service and these have been recognized in net income. The current service amount is determined by the plan actuary using the projected accrued benefit actuarial cost method. The Company had a 2.03% (2017 - 1.80%) share of the total contributions to the plan in 2018.

Expected contributions to the plan for the next annual reporting period amount to $111,959.

The defined benefit pension plan was closed to future eligible employees effective December 31, 2015. The Company and all current employees who are accruing benefits under the defined benefit plan will continue to contribute to the defined benefit plan according to the existing terms of the agreement. Future eligible employees will become part of a defined contribution plan.

Defined contribution plan

The Company's agents and employees hired after December 30, 2015 participate in a defined contribution plan. The Company's obligation with respect to this plan is to make specified monthly payments based on a percentage of the employee's eligible earnings. The amount contributed to this plan for 2018 was $17,658 (2017 - $16,485).

15. Related party transactions

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

	2018	2017
Compensation		
Short term employee benefits and directors fees	**$ 501,063**	$ 458,707
Total pension and other post-employment benefits	**118,662**	107,102
	$ 619,725	$ 565,809
Premiums	**$ 38,283**	$ 37,357
Claims paid	**$ 1,138**	$ 11,812

There are no amounts owing to or from key management personnel at December 31, 2018 or December 31, 2017.

16. New standards, interpretations and amendments not yet effective

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting years beginning after January 1, 2019 or later.

- IFRS 16 Leases supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. It eliminates the distinction between operating and finance leases from the perspective of the lessee. All contracts that meet the definition of a lease will be recorded in the statement of financial position with a "right of use" asset and a corresponding liability. The asset is subsequently accounted for as property, plant and equipment or investment property and the liability is unwound using the interest rate inherent in the lease. The accounting requirements from the perspective of the lessor remains largely in line with previous IAS 17 requirements. The effective date for IFRS 16 is January 1, 2019. The Company expects this to have minimum impact.

- *IFRS 17 Insurance Contracts* supersedes IFRS 4 Insurance Contracts. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts. IFRS 17 requires entities to measure insurance contract liabilities using updated estimates and assumptions that reflect the timing of cash flows and any uncertainty relating to insurance contracts. Additionally, IFRS 17 requires entities to recognize profits as it delivers insurance services. The effective date for IFRS 17 is January 1, 2022. The Company has not yet determined the impact of adoption, however is expected to significantly impact the Financial Statements.

- *IFRIC 23 Uncertainty over Income Tax Treatments* provides guidance on recognition and measurement of uncertain income tax treatments. The effective date for IFRIC 23 is January 1, 2019. The Company is in the process of evaluating the impact of this interpretation.