Dufferin Mutual
Insurance Company
Consolidated Financial Statements
For the year ended December 31, 2017

Contents

Independent Auditor's Report

To the Policyholders of Dufferin Mutual Insurance Company

We have audited the accompanying consolidated financial statements of Dufferin Mutual Insurance Company, which comprise the consolidated statement of financial position as at December 31, 2017 and the consolidated statements of operations and unappropriated members' surplus, comprehensive (loss) income and accumulated other comprehensive income and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consoildated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of Dufferin Mutual Insurance Company 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.

Chartered Professional Accountants, Licensed Public Accountants
Mississauga, Ontario
February 23, 2018

Dufferin Mutual Insurance Company
Consolidated Statement of Financial Position

December 31		2017		2016
Assets				
Cash	$	**1,044,389**	$	1,193,815
Accounts receivable		**1,642,165**		1,783,671
Income taxes recoverable		**90,860**		-
Due from related party		**15,000**		-
Prepaid expenses		**5,650**		3,306
Investments (Note 4)		**9,286,251**		9,672,513
Investment in associated company (Note 5)		**581,500**		-
Unpaid claims recoverable from reinsurer (Note 3c,e)		**3,675,715**		2,961,216
Deferred acquisition expenditures (Note 3b)		**753,319**		765,904
Due from reinsurer (Note 3e)		**-**		72,407
Property and equipment (Note 11)		**14,050**		791,673
Land and building held for sale (Note 11)		**741,110**		-
Intangible asset (Note 10)		**315,026**		368,400
Deferred tax asset (Note 9)		**19,016**		18,491
	$	**18,184,051**	$	17,631,396
Liabilities				
Accounts payable and accrued liabilities	$	**325,001**	$	337,711
Unearned premiums (Note 3a)		**3,230,628**		3,322,766
Due to reinsurer (Note 3e)		**77,547**		-
Income taxes payable		**-**		102,002
Unpaid claims (Note 3c)		**7,452,804**		6,327,954
		11,085,980		10,090,433
Members' surplus				
Unappropriated members' surplus		**6,409,187**		6,750,237
Accumulated other comprehensive income		**688,884**		790,726
		7,098,071		7,540,963
	$	**18,184,051**	$	17,631,396

On behalf of the Board:

Kevin Greer _______________ Director

John Stark _______________ Director

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

Dufferin Mutual Insurance Company
Consolidated Statement of Operations and Unappropriated Members' Surplus

For the year ended December 31	2017	2016
Revenue		
Premiums written	$ 6,572,118	$ 6,397,230
Change in unearned	92,138	(309,208)
Less: reinsurance ceded	(1,571,452)	(1,306,327)
Net premium earned	5,092,804	4,781,695
Service charges	63,158	72,145
	5,155,962	4,853,840
Expenses		
Gross incurred losses and claims expenses	4,385,488	1,977,272
Reinsurance recoveries	(1,336,824)	(132,423)
Commissions expense	1,132,800	1,192,287
Operating expenses (Note 8)	1,833,177	1,613,889
	6,014,641	4,651,025
Net underwriting (loss) income	(858,679)	202,815
Other income		
Investment income (Note 6)	417,266	500,933
(Loss) income before income taxes	(441,413)	703,748
Income taxes (recovery) (Note 9)		
Current	(91,331)	111,867
Deferred	(9,032)	23,416
	(100,363)	135,283
Net (loss) income for the year	(341,050)	568,465
Unappropriated members' surplus, beginning of year	6,750,237	6,181,772
Unappropriated members' surplus, end of year	$ 6,409,187	$ 6,750,237

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

Dufferin Mutual Insurance Company
Consolidated Statement of Comprehensive (Loss) Income and Accumulated Other Comprehensive Income

For the year ended December 31	2017	2016
Net (loss) income for the year	$ (341,050)	$ 568,465
Other comprehensive income		
Unrealized gains on available for sale assets, net of income taxes payable of $5,734 (2016 - $47,865)	47,360	372,946
Transfer of realized gains available for sale assets to statement of operations net of income taxes payable of $18,976 (2016 - $24,450)	(149,202)	(189,644)
Total other comprehensive income	(101,842)	183,302
Comprehensive (loss) income for the year	$ (442,892)	$ 751,767
Accumulated other comprehensive income, beginning of year	$ 790,726	$ 607,424
Other comprehensive income, for the year	(101,842)	183,302
Accumulated other comprehensive income, end of year	$ 688,884	$ 790,726

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

Dufferin Mutual Insurance Company
Consolidated Statement of Cash Flows

For the year ended December 31	2017	2016
Cash provided by (used in)		
Operating activities		
Net income for the year	$ **(341,050)**	$ 568,465
Adjustments for:		
Depreciation of property and equipment	**40,996**	36,930
Amortization of intangible asset	**53,374**	53,374
Current income taxes	**(91,331)**	111,867
Deferred income taxes	**(9,032)**	23,416
Unpaid claims, net of recoverable from reinsurer	**410,351**	(93,347)
Unearned premiums	**(92,138)**	309,209
	(28,830)	1,009,914
Changes in working capital and insurance contract related balances		
Accounts receivable	**141,506**	(210,775)
Due from related party	**(15,000)**	-
Accounts payable and accrued liabilities	**(12,710)**	65,858
Deferred tax asset	**(525)**	-
Prepaid expenses	**(2,344)**	-
Deferred acquisition expenditures	**12,585**	(63,316)
Due from reinsurer	**149,954**	(66,364)
	273,466	(274,597)
Cash flows related to income taxes		
Income taxes (paid) recovered	**(101,006)**	109,693
Total cash (outflows) inflows from operating activities	**143,630**	845,010
Investing activities		
Sale of investments	**983,291**	2,539,085
Purchase of investments	**(541,162)**	(2,957,531)
Purchase of property and equipment	**(4,483)**	(22,381)
Purchase of associated company	**(581,500)**	-
Purchase of business	**-**	(409,312)
Total cash outflows from investing activities	**(143,854)**	(850,139)
Decrease in cash during the year	**(224)**	(5,129)
Cash, beginning of year	**1,193,815**	1,198,944
Cash, end of year	$ **1,193,591**	$ 1,193,815

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

1. Corporate Information

Dufferin Mutual Insurance Company (the "Company") was incorporated without share capital under the laws governed in Ontario on May 15, 1895. The Company is licensed to write property, auto and liability insurance in Ontario. The Company's products are marketed through independent agents and brokers located throughout Ontario. The Company's registered office is 712 Main Street East, Shelburne, Ontario.

The Company is subject to rate regulation on the automobile business that it writes. Before automobile insurance rates can be changed, a rate filing is prepared as a combined filing for most Ontario Farm Mutuals. 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 ("FSCO"). 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 consolidated financial statements have been authorized for issue by the Board of Directors on February 23, 2018.

2. Basis of Presentation

(a) Statement of Compliance

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

(b) Basis of Measurement

These consolidated financial statements were prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets.

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

(c) Judgment and Estimates

The preparation of consolidated financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment of complexity, or areas where assumptions and estimates are significant to the consolidated financial statements within the next financial year are:

- The calculation of unpaid claims, including the determination of the initial claim liability, discount rates, the estimate of time until ultimate settlement and the performance of a liability adequacy test (Note 3); and
- The determination of the recoverability of deferred policy acquisition expenses (Note 3).
- The determination of impairment on available-for-sale financial assets (Note 4).

2. Basis of Presentation (continued)

(d) Consolidation

The Company acquired 100% of the shares of Mount Forest Insurance Brokers ("MFIB") during the prior year on July 19, 2016. The assets, liabilities and operations of MFIB are included in these consolidated financial statements. All material intercompany accounts and transactions have been eliminated.

During the current year, the Company incorporated 100% of the shares of 2598738 Ontario Inc. The assets, liabilities and operations of 2598738 Ontario Inc. are included in these consolidated financial statements. All material intercompany accounts and transactions have been eliminated.

In addition, in preparing the consolidated financial statements, the notes to the consolidated financial statements were organized such that the most relevant information was presented earlier in the notes and the disclosures that management deemed to be immaterial were excluded from the notes to the consolidated financial statements. The determination of the relevance and materiality of disclosures involved significant judgement.

3. 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 ("GAAP").

Balances arising from insurance contracts primarily include unearned premiums, unpaid claims recoverable from reinsurer, due from reinsurer, unpaid claims, and deferred acquisition expenditures.

(a) Premiums and unearned premiums

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

The Company's automobile insurance rates are subject to approval by the Financial Services Commission of Ontario ("FSCO"). Application for automobile rate increases are presented to FSCO by Farm Mutual Reinsurance Plan on behalf of members of Ontario Mutual Insurnace Association (OMIA). FSCO approves these rates based on information submitted.

The Company earns premium income evenly over the term of the insurance policy 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 consolidated statement of financial position for the year ended December 31, 2017 and the impact on net premiums earned is as follows:

3. Insurance Contracts (continued)

***(a) Premiums and unearned premiums** (continued)*

	2017	2016
Balance, beginning of the year	**$ 3,322,766**	$ 3,013,557
Premiums written	**6,572,118**	6,397,230
Change in unearned	**92,138**	(309,208)
Premiums earned during year	**(6,756,394)**	(5,778,813)
Balance, end of the year	**$ 3,230,628**	$ 3,322,766

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

Accounts receivable are measured at amortized cost less any impairment losses. These amounts 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.

(b) Deferred acquisition expenditures

Acquisition costs are comprised of agents' commissions, premium taxes, association fees and certain identified business development costs considered to be directly related to the premiums written and therefore are allowed to be deferred. These costs are deferred and recoverable from unearned premiums, after considering the related anticipated claims and amortized over the terms of the related policies to the extent that they are considered to be expenses. Changes in deferred acquisition expenditures recorded in the consolidated statement of financial position for the year ended December 31, 2017 and the impact on fees, commissions and other acquisition expenses is as follows:

	2017	2016
Balance, beginning of the year	**$ 765,904**	$ 702,588
Acquisition expenses incurred	**1,146,413**	1,194,666
Expensed during the year	**(1,158,998)**	(1,131,350)
Balance, end of the year	**$ 753,319**	$ 765,904

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

3. Insurance Contracts (continued)

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

Changes in unpaid claim liabilities recorded in the consolidated statement of financial position and its impact on claims and adjustment expenses is as follows:

	2017	2016
Unpaid claims liabilities - beginning of year – net of reinsurance	**$ 3,366,738**	$ 3,460,085
Decrease in estimated losses and expenses, for losses occurring in prior years	**(1,169,130)**	(1,549,956)
Provision for losses and expenses on claims occurring in the current year	**1,579,481**	1,456,609
Unpaid claims – end of year - net of reinsurance	**3,777,089**	3,366,738
Reinsurer's share	**3,675,715**	2,961,216
	$ 7,452,804	$ 6,327,954

3. **Insurance Contracts** (continued)

(c) Provision for unpaid claims *(continued)*

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 Company primarily insures in Ontario and as a result the Company is exposed to geographical risk. These risks are mitigated by regular review of the claims reserves as well as risk management strategies and the use of reinsurance arrangements.

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, and the characteristics of the claim. In general, the longer the term required for the settlement 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 2008 to 2017. The upper half of the tables shows the cumulative amounts paid or estimated to be paid during successive years related to each claim year. The original estimates will be increased or decreased, as more information becomes known about the original claims and overall claim severity.

3. Insurance Contracts (continued)

(c) Provision for unpaid claims (continued)

Gross claims ('000's)

Accident Year

Reporting Date	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
At end of accident year	$ 6,776	$ 4,187	$ 12,431	$ 5,855	$ 6,864	$ 6,642	$ 2,594	$ 3,434	$ 2,671	$ 4,656	
1 year later	4,512	5,032	11,747	4,275	5,906	6,483	2,621	2,835	2,268		
2 years later	4,138	4,281	11,127	2,794	5,451	6,211	2,206	2,350			
3 years later	3,567	3,583	10,222	2,757	5,073	5,824	2,349				
4 years later	3,522	3,446	8,725	2,576	5,183	5,922					
5 years later	3,512	3,129	8,679	2,464	5,100						
6 years later	3,452	3,115	8,587	2,457							
7 years later	3,056	3,115	8,594								
8 years later	3,056	3,115									
9 years later	3,056										
10 years later											
Current estimate of ultimate cost	3,056	3,115	8,594	2,457	5,100	5,922	2,349	2,350	2,268	4,656	$ 39,867
Cumulative payments	3,056	3,115	8,552	2,457	4,330	4,750	1,478	1,992	1,305	2,275	33,310
Outstanding claims	$ -	$ -	$ 42	$	$ 770	$ 1,172	$ 871	$ 358	$ 963	$ 2,381	6,557
Liability for all prior accident years											102
Impact of discount and PFAD											424
Facility Association and risk sharing pool											370
Total gross outstanding claims											$ 7,453

3. Insurance Contracts (continued)

***(c) Provision for unpaid claims** (continued)*

Net of reinsurance ('000's)

	Accident Year										
Reporting Date	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
At end of accident year	$ 2,024	$ 2,417	$ 3,009	$ 2,590	$ 3,222	$ 2,980	$ 2,087	$ 2,441	$ 2,263	$ 3,325	
1 year later	2,925	2,270	3,233	2,263	2,794	2,377	1,859	2,162	2,034		
2 years later	2,758	2,258	2,896	1,911	2,793	2,435	1,622	1,763			
3 years later	2,604	2,123	2,428	1,920	2,681	2,172	1,657				
4 years later	2,591	2,066	2,348	1,890	2,709	2,158					
5 years later	2,585	1,996	2,314	1,835	2,603						
6 years later	2,581	1,996	2,345	1,835							
7 years later	2,559	1,996	2,331								
8 years later	2,559	1,996									
9 years later	2,559										
Current estimate of ultimate cost	2,559	1,996	2,331	1,835	2,603	2,158	1,657	1,763	2,034	3,325	$ 22,261
Cumulative payments	2,559	1,996	2,331	1,835	2,481	2,051	1,478	1,462	1,305	1,682	19,180
Outstanding claims	$ -	$ -	$ -	$ -	$ 122	$ 107	$ 179	$ 301	$ 729	$ 1,643	3,081
Liability for all prior accident years											39
Impact of discount and PFAD											287
Facility Association and risk sharing pool											370
Total net outstanding claims											$ 3,777

3. Insurance Contracts (continued)

***(c) Provision for unpaid claims** (continued)*

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

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

	Property claims		Auto claims		Liability claims	
	2017	2016	**2017**	2016	**2017**	2016
5% increase in loss ratios						
Gross	**$ 198,659**	$ 193,601	**$ 95,472**	$ 92,684	**$ 32,082**	$ 31,974
Net	**160,730**	169,049	**69,888**	64,113	**20,681**	22,395
5% decrease in loss ratios						
Gross	**$(198,659)**	$(193,601)	**$ (95,472)**	$ (92,684)	**$ (32,082)**	$ (31,974)
Net	**(160,730)**	(169,049)	**(69,888)**	(64,113)	**(20,681)**	(22,395)

A 1% change in the interest rate used to discount the Company's claims liabilities could have an offsetting impact on net claims liabilities of $58,506 (2016 - $52,882) with all other variables held constant.

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

(d) Liability adequacy test

At each reporting date, the Company performs a liability adequacy test on its insurance liabilities less deferred acquisition expenditures 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 consolidated statement of operations and unappropriated members' surplus initially by writing off the deferred acquisition expenditure and subsequently by recognizing an additional liability for unearned premiums.

3. Insurance Contracts (continued)

(e) Unpaid claims recoverable from reinsurer

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

The Company follows a policy of underwriting and reinsuring contracts of insurance which, in the main, limit the liability of the Company to the first $240,000 on any auto claim and $260,000 on any property claim with no quota share ceded (2016 - $240,000 for auto claim and $260,000 for property claim). It further limits the liability of the Company to the first $150,000 on any liability claim with no quota share ceded (2016 - $150,000). In addition, the Company has obtained reinsurance having an upper amount of $4,000,000 (2016 - $4,000,000), which limits the Company's liability to the first $780,000 (2016 - $780,000) in the event of a series of claims arising out of a single occurrence.

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

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.

	2017	2016
Balance, beginning of the year	**$ 2,961,216**	$ 3,727,569
New claims reserve	**347,177**	11,283
Change in prior years' reserve	**1,001,157**	(319,128)
Submitted to reinsurer	**(633,835)**	(458,508)
Balance, end of the year	**$ 3,675,715**	$ 2,961,216

4. Investments

The Company classifies its investments as available-for-sale, which includes both debt and equity instruments. These instruments are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition. Subsequently they are carried at fair value.

Changes in fair value are recognized as a separate component of other comprehensive income until the time of sale when the balance is recognized in net income (loss). Where there is a significant or prolonged decline in the fair value of an available-for-sale financial asset, which constitutes objective evidence of impairment, the full amount of the impairment, including any amount previously recognized in other comprehensive income, is recognized in net income (loss). Purchases and sales of equity instruments are recognized on a settlement date basis.

Interest on debt securities classified as available for sale is calculated using the effective interest method and is included in comprehensive income (loss).

4. **Investments** (continued)

The following table provides fair value information of investments by type of security and issuer. The maximum exposure to credit risk would be the fair value as shown below.

	2017 Cost	2017 Fair Value	2016 Cost	2016 Fair Value
Bonds and debentures issued by:				
Canadian provincial	$ 2,974,113	$ 2,907,229	$ 3,154,074	$ 3,158,416
Corporate	4,142,105	4,087,107	4,189,878	4,204,288
	7,116,218	6,994,336	7,343,952	7,362,704
Canadian common shares	1,210,501	2,291,915	1,422,123	2,309,809
	$ 8,326,719	$ 9,286,251	$ 8,766,075	$ 9,672,513

Credit risk is the risk of financial loss to the Company if a debtor fails to make payments of interest and principal when due. The Company is exposed to this risk relating to its debt holdings in its investment portfolio.

The Company's investment policy puts limits on the bond and debenture portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits and corporate sector limits. Funds should be invested in bonds and debentures of Federal, Provincial or Municipal Government and corporations rated BBB or better. All fixed income portfolios are measured for performance on a quarterly basis and monitored by management on a monthly basis.

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

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

Liquidity risk is the risk that the Company will not be able to meet all cash outflow obligations as they come due. The Company mitigates this risk by monitoring cash activities and expected outflows. 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.

4. Investments (continued)

The maturity profile of bonds and debentures held is as follows:

	Within 1 year	2 to 5 years	6 to 10 years	Over 10 years	Fair Value
December 31, 2017	**$ -**	**$ 2,651,194**	**$ 4,331,057**	**$ 12,085**	**$ 6,994,336**
Percent of Total	**0.0%**	**37.91%**	**61.92%**	**0.17%**	**100%**
December 31, 2016	$ -	$ 1,782,841	$ 5,458,588	$ 121,275	$ 7,362,704
Percent of Total	0.0%	24.21%	74.14%	1.65%	100%

The effective interest rate of the bonds portfolio held at December 31, 2017 is 3.1% (2016 - 3.4%).

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

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

The Company's investment policy operates within the guidelines of the Insurance Act. An investment policy is in place and its application is monitored by the Board of Directors. Diversification techniques are utilized to minimize risk. The Policy limits the investment in Canadian equities to 25% and international equities to 10% thereof.

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 Policy limits the investment in the United States and outside of North Amercia to 10%. The Company does not have any material investments denominated in foreign currencies.

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

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

The Company is exposed to this risk through its interest-bearing investments (bonds and debentures).

4. Investments (continued)

Historical data and current information is used to profile the ultimate claims settlement pattern by class of insurance, which is then used in a broad sense to develop an investment policy and strategy for its investments held in support of its claims liabilities. This allows the Company to effectively manage a portion of its interest rate risk. However, because a significant portion of the Company's assets relate to its capital rather than liabilities, the value of its interest rate based assets exceeds its interest rate based liabilities. As a result the Company is exposed to significant interest rate risk. Generally, the Company's investment income related to its available-for-sale financial investment portfolio will move with interest rates over the medium to long-term with short-term interest rate fluctuations creating unrealized gains or losses in other comprehensive income.

At December 31, 2017 a 1% move in interest rates, with all other variables held constant, could impact the market value of bonds and debentures by $361,127 (2016 - $350,923). These changes would be recognized in other comprehensive income for the available-for-sale portfolio, otherwise they would be reflected in net income.

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

The Company's portfolio includes Canadian stocks with fair values that move with the Toronto Stock Exchange Composite Index. A 10% movement in the stock market with all other variables held constant would have an estimated effect on the fair value of the Company's common shares of $229,192 (2016 - $230,981).

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

4. Investments (continued)

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).

Financial assets recorded at fair value by the level of the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
December 31, 2017				
Bonds and debentures	**$ - $**	**6,994,336 $**	**- $**	**6,994,336**
Common shares	**2,291,915**	**-**	**-**	**2,291,915**
Total	**$ 2,291,915 $**	**6,994,336 $**	**- $**	**9,286,251**

	Level 1	Level 2	Level 3	Total
December 31, 2016				
Bonds and debentures	$ - $	7,362,704 $	- $	7,362,704
Common shares	2,309,809	-	-	2,309,809
Total	$ 2,309,809 $	7,362,704 $	- $	9,672,513

Transfers between levels are considered to have occurred at the date of the event or change in circumstances that caused the transfer. There were no transfers between Level 1 and Level 2 for the years ended December 31, 2017 and 2016. There were also no transfers in and out of Level 3.

5. Investment in Associated Company

On December 15, 2017, 2598738 Ontario Inc., entered into an agreement with two unrelated companies to acquire the issued and outstanding shares of 2037462 Ontario Inc., which owns 100% of the issued and outstanding shares of 11293374 Ontario Inc. operating as Norwich Insurance Brokers ("Norwich"). Each company acquired 33.33% of the issued shares of 2037462 Ontario Inc. for cash of $581,500 each.

As the investment meets the definition of an associated company as defined under IAS 28, the Company applies the equity method of accounting.

6. Investment Income

	2017	2016
Interest income	$ **227,341**	$ 249,866
Dividend income	**77,359**	82,640
Realized (loss) gain on disposal of investments	**134,898**	190,473
Investment expenses	**(22,333)**	(22,046)
	$ **417,265**	$ 500,933

7. Capital Management

The Company's objectives with respect to capital management are to maintain a capital base that is structured to exceed regulatory requirements and to best utilize capital allocations. Reinsurance is utilized to protect capital from catastrophic losses as the frequency and severity of these losses are inherently unpredictable. To limit their potential impact, the Company purchases reinsurance, the details of which are outlined in Note 3. For the purpose of capital management, the Company has defined capital as its unappropriated members' surplus including accumulated other comprehensive income.

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 regulators indicate that the Company should produce a minimum MCT of 150%. During the year, the Company has consistently exceeded this minimum in its quarterly filings. 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 and deemed necessary.

8. Other Operating and Administrative Expenses

	2017	2016
Advertising	$ **7,072**	$ 8,731
Depreciation on property and equipment	**32,796**	36,930
Amortization on intangible asset	**53,374**	53,374
Association fees and training	**27,844**	27,805
Computer services	**276,188**	223,478
Employee benefits	**292,341**	319,263
Facility office costs	**1,711**	1,050
Inspection of risks and fire prevention	**19,554**	15,567
Occupancy costs	**82,368**	86,809
Postage and telephone	**21,044**	20,711
Printing, stationery and office	**26,778**	33,338
Professional fees	**99,354**	87,741
Provincial premium tax	**33,449**	(25,676)
Salaries and directors' fees	**702,007**	562,199
Statistics and assessments	**19,716**	22,934
Sundry	**56,584**	77,923
Travel	**80,997**	61,712
	$ **1,833,177**	$ 1,613,889

9. Income Taxes

Income tax expense comprises current and deferred tax. Current and deferred tax are recognized in net income except to the extent that it is recognized directly in equity or in other comprehensive income.

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 26.50% (2016 – 26.50%) are as follows:

	2017	2016
Income before income taxes	$ **(441,413)**	$ 703,748
Expected taxes based on the statutory rate	$ **(116,974)**	$ 186,493
Non deductible expenses	**18,225**	2,251
Non taxable dividends	**(20,500)**	(21,900)
Exempt income farm related	**20,201**	(26,194)
Other	**(1,315)**	(5,367)
Total income tax expense	$ **(100,363)**	$ 135,283

10. Intangible Asset

Intangible asset consists of a customer list arising on the purchase of Mount Forest Insurance Brokers Limited on July 19, 2016. Intangible assets are initially recorded as cost and subsequently measured at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized in (loss) income, is provided on a straight-line basis over the estimated finite useful life of the assets and is calculated as follows:

Customer list	8 years

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

The cost of the intangible asset as at December 31, 2017 was \$421,774 (2016 - \$421,774). Additions during the year totalled \$Nil (2016 - \$421,774).

The accumulated amortization of the intangible asset as at December 31, 2017 was \$106,748 (2016 - \$53,374). Amortization during the year totalled \$53,374 (2016 - \$53,374).

The net book value of the asset as at December 31, 2017 was \$315,026 (2016 - \$368,400).

11. Property and Equipment

Property and equipment is initially recorded at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses. Depreciation is recognized in net income, is provided on a straight-line basis over the estimated useful life of the assets and is calculated as follows:

Building	2.5%
Parking lot	8.0%
Equipment and fixtures	20.0% - 30.0%

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

	Land and building	Parking lot	Equipment and fixtures	Total
Cost				
Balance at January 1, 2016	$ 1,435,803	$ 34,121	$ 277,590	$ 1,747,514
Additions	-	-	25,198	25,198
Balance at December 31, 2016	1,435,803	34,121	302,788	1,772,712
Additions	475	-	4,008	4,483
Balance at December 31, 2017	**$ 1,436,278**	**$ 34,121**	**$ 306,796**	**$ 1,777,195**
Accumulated Depreciation				
Balance at January 1, 2016	$ 638,678	$ 34,121	$ 262,077	$ 934,876
Depreciation	28,246	-	17,917	46,163
Balance at December 31, 2016	666,924	34,121	279,994	981,039
Depreciation	28,246	-	12,750	40,996
Balance at December 31, 2017	**$ 695,170**	**$ 34,121**	**$ 292,744**	**$ 1,022,035**
Net book value:				
December 31, 2016	$ 768,879	$ -	$ 22,794	$ 791,673
December 31, 2017	**$ 741,108**	**$ -**	**$ 14,052**	**$ 755,160**

11. Property & Equipment (continued)

On December 19, 2017, the Company signed an agreement to sell the land and building at 712 Main St. E., Shelburne, ON. The purchase price of the agreement was stated at $2,000,000, with the closing date being May 15, 2018. The land and building have been reclassified as held for sale effective December 19, 2017, and have been recorded at the lower of its carrying amount and fair value less costs to sell. As at December 19, 2017, the carrying amount of the land was $305,980 and building was $435,130. Effective December 19, 2017, depreciation had ceased being taken on the building. For the year ended December 31, 2017, depreciation of $28,245 was taken on the building prior to reclassification to held for sale.

12. Pension Plan

The Company makes contributions to the Ontario Mutual Insurance Association ("OMIA") Pension Plan, which is a multi-employer 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. Under the terms of the Ontario Mutual Insurance Association Pension Plan, the Company is liable for the obligations of other companies participating in the pension should they be unable to satisfy their respective funding requirements.

The Company is one of a number of employers who have pooled the assets and liabilities of the pension plan to take advantage of economies of scale in making investment decisions and in minimizing expenses. The information to account for the plan as a defined benefit plan is not readily available for each company to determine its share of the assets and liabilities of the plan. In the event of a wind-up or withdrawal from the plan, the Company is responsible for its portion of the deficit and all expenses as determined by the plan actuary.

The amount contributed to the plan for 2017 was $163,482 (2016 - $214,446). The contributions were made for current service and these have been recognized in net (loss) income. The current service amount is determined by the plan actuary using the projected accrued benefit actuarial cost method. These contributions amount to 1.2% (2016 - 1.4%) of the total contributions made to the Ontario Mutual Insurance Association Pension Plan by all participating entities during the current fiscal year.

Expected contributions to the plan for the next annual reporting period amount to $164,000, which is based on payments made to the multi-employer plan during the current fiscal year.

The funding valuation shows a deficit of $6,902,598 in the plan as at the last triannual valuation. The plan has an agreement with its members to fund the deficit over the next 3 years. The Company's total contributions over the next 3 years are $87,527. A liability has been recognized for the contributions adjusted for the time value of money and an equal expense has been recognized in (loss) income.

13. Related Party Transactions

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

	2017	2016
Compensation		
Short term employee benefits and directors' fees	$ **182,981**	$ 181,321
Premiums	**69,272**	57,260
Claims paid	**32,137**	10,600

14. Standards, Amendments and Interpretations Not Yet Effective

At the date of authorization of these consolidated financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been early adopted by the Company.

Information on new standards, amendments and interpretations that are expected to be relevant to the Company's consolidated financial statements is provided below. Certain other new standards, amendments, and interpretations have been issued but are not expected to have a material impact on the Company's consolidated financial statements.

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement

IFRS 9 Financial Instruments amends the requirements for classification and measurement of financial assets, impairment, and hedge accounting. IFRS 9 introduces an expected loss model of impairment and retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through profit or loss, and fair value through other comprehensive income (loss). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The effective date for IFRS 9 is January 1, 2018; however, the Company has been provided the option of deferring the adoption of IFRS 9 given the nature of its insurance operations until January 1, 2021, which is the effective date of IFRS 17, Insurance Contracts. The Company does not plan to defer the effective date of IFRS 9 and therefore expects to adopt IFRS 9 on January 1, 2018. The Company has not yet evaluated what impact this adoption will have on its financial results.

The Company's investments are currently comprised of debt instruments in the form of bonds and fixed income securities and equity instruments, all of which are currently classified as available-for-sale.

14. Standards, Amendments and Interpretations Not Yet Effective (continued)

IFRS 16 Leases

IFRS 16 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 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.

IFRS 17 Insurance Contracts

IFRS 17 Insurance Contracts, was issued in May 2017 and lays out a fundamentally new way of measuring and presenting insurance contracts and related financial statement items for entities that issue insurance contracts. Some of the key aspects of IFRS 17 include new models for insurance liabilities, changes to discounting and the rate being used to discount claims liabilities, and changes to deferred premium acquisition costs. The technical aspects of IFRS 17 are complex and will require specific consultation on the situation to determine the exact impact. The effective date for IFRS 17 is January 1, 2021, with the requirement to restate comparative figures. The Company is in the process of evaluating the impact of the new standard.