Town & Country Mutual Insurance

Stability. Security. Close to home.

TOWN & COUNTRY MUTUAL INSURANCE COMPANY

FINANCIAL STATEMENTS

DECEMBER 31, 2017

TOWN & COUNTRY MUTUAL INSURANCE COMPANY

DECEMBER 31, 2017

CONTENTS

BKF LLP

Bailey
Kearney
Ferguson LLP
CHARTERED ACCOUNTANTS

PARTNERS
STEPHEN J. OUTRIDGE, CPA, CA
KEVIN M. SABOURIN, CPA, CA
JAMES D. KEARNEY, CPA, CA (RET.)

INDEPENDENT AUDITORS' REPORT

To the Policyholders of
Town & Country Mutual Insurance Company

We have audited the accompanying financial statements of **Town & Country Mutual Insurance Company**, which comprise the statement of financial position as at December 31, 2017, and the statements of comprehensive loss, policyholders' surplus and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Bailey Kearney Ferguson LLP

Wallaceburg, Ontario
February 27, 2018

Chartered Professional Accountants
Licensed Public Accountants

TOWN & COUNTRY MUTUAL INSURANCE COMPANY
(Incorporated under the Laws of Ontario)

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2017

ASSETS

	2017	2016
Cash and bank	$ 3,353,562	$ 6,095,409
Receivables	43,110	12,981
Investments (Note 3)	26,678,373	23,933,693
Income taxes recoverable	492,162	125,810
Due from reinsurer (Note 2)	88,906	68,835
Reinsurers' share of provision for unpaid claims (Note 2)	12,229,250	11,965,907
Premiums receivable	3,598,808	3,412,735
Prepaid expenses	34,925	53,250
Deferred policy acquisition expenses (Note 2)	977,734	955,253
Property, plant and equipment (Note 11)	2,003,925	1,444,977
Intangible assets	-	6,897
Deferred income taxes	133,000	112,000
Goodwill (Note 10)	2,800,000	2,800,000
	$ 52,433,755	$ 50,987,747

LIABILITIES

	2017	2016
Provision for unpaid claims (Note 2)	$ 24,620,684	$ 22,421,399
Accounts payable and accrued liabilities	405,111	468,884
Unearned premiums (Note 2)	7,383,498	7,134,619
Promissory note payable	-	100,000
	32,409,293	30,124,902
POLICYHOLDERS' SURPLUS		
Policyholders' surplus	20,024,462	20,862,845
	$ 52,433,755	$ 50,987,747

APPROVED ON BEHALF OF THE BOARD

David Latta, **DIRECTOR**

Linda McCormick, **DIRECTOR**

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

STATEMENT OF COMPREHENSIVE LOSS

FOR THE YEAR ENDED DECEMBER 31, 2017

	2017	2016
GROSS INSURANCE PREMIUMS WRITTEN	$ 15,089,456	$ 14,646,572
REINSURANCE PREMIUMS CEDED	2,859,988	2,394,903
NET PREMIUMS WRITTEN	12,229,468	12,251,669
INCREASE IN UNEARNED PREMIUMS	248,879	305,876
NET PREMIUMS EARNED	11,980,589	11,945,793
SERVICE CHARGES	92,925	153,619
TOTAL UNDERWRITING REVENUE	12,073,514	12,099,412
DIRECT LOSSES INCURRED		
Gross claims and adjustment expenses	11,431,356	11,035,775
Less reinsurer share of claims and adjustment expenses	(1,965,733)	(3,296,243)
	9,465,623	7,739,532
UNDERWRITING INCOME BEFORE EXPENSES	2,607,891	4,359,880
EXPENSES		
Fees, commissions and other acquisition expenses (Note 6)	2,155,717	2,074,593
Other operating and administrative expenses (Note 7)	2,364,671	2,298,277
	4,520,388	4,372,870
UNDERWRITING LOSS	(1,912,497)	(12,990)
INVESTMENT AND OTHER INCOME (Note 4)	804,449	987,805
INCOME (LOSS) BEFORE INCOME TAXES	(1,108,048)	974,815
PROVISION FOR (RECOVERY OF) INCOME TAXES (Note 8)	(269,665)	218,309
NET INCOME AND COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	$ (838,383)	$ 756,506

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

TOWN & COUNTRY MUTUAL INSURANCE COMPANY

STATEMENT OF POLICYHOLDERS' SURPLUS

FOR THE YEAR ENDED DECEMBER 31, 2017

	2017	2016
BALANCE, beginning of the year	$ 20,862,845	$ 20,106,339
Comprehensive income (loss) for the year	(838,383)	756,506
BALANCE, end of the year	$ 20,024,462	$ 20,862,845

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2017

	2017	2016
OPERATING ACTIVITIES		
Net income (loss) for the year	$ (838,383)	$ 756,506
Items not requiring cash		
Depreciation	84,975	49,384
Loss on sale of property, plant and equipment	-	10,235
Deferred income taxes	(21,000)	(27,000)
Realized gain on disposal of investments	(14,916)	(8,841)
Unrealized loss (gain) on investments	(146,497)	(581,969)
	(935,821)	198,315
Net change in non-cash working capital balances		
Receivables	(30,129)	479
Income taxes recoverable	(366,352)	(125,810)
Due from reinsurer	(20,071)	(39,535)
Reinsurers' share of provisions for unpaid claims	(263,343)	(2,674,931)
Premiums receivable	(186,073)	198,830
Prepaid expenses	18,325	(3,599)
Deferred policy acquisition expenses	(22,481)	(39,801)
Provision for unpaid claims	2,199,285	4,939,985
Accounts payable and accrued liabilities	(63,773)	(163,791)
Unearned premiums	248,879	305,876
Income taxes payable	-	(118,755)
Net cash provided by operating activities	578,446	2,477,263
INVESTING ACTIVITIES		
Proceeds from sale of investments	4,248,411	2,140,057
Purchase of investments	(6,831,679)	(652,161)
Additions to property, plant and equipment	(637,025)	(775,347)
Net cash provided by (used in) investing activities	(3,220,293)	712,549
FINANCING ACTIVITIES		
Repayment of promissory note payable	(100,000)	(100,000)
Cash used in financing activities	(100,000)	(100,000)
INCREASE (DECREASE) IN CASH AND BANK, during the year	(2,741,847)	3,089,812
CASH AND BANK, beginning of the year	6,095,409	3,005,597
CASH AND BANK, end of the year	$ 3,353,562	$ 6,095,409
SUPPLEMENTARY DISCLOSURE OF CASH INFORMATION		
Income taxes paid	$ 119,401	$ 489,269

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

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

Town & Country 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, automobile and farmers' accident insurance in Ontario. The Company head office is located in Strathroy, Ontario.

The Company is subject to rate regulation in 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. Rate regulation may affect the automobile insurance 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 27, 2018.

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, as modified by the revaluation of financial instruments designated as fair value through profit or loss.

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

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving critical judgments and estimates in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amount 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, the development of claims, the estimate of time until ultimate settlement and the performance of a liability adequacy test (Note 2); and

The determination of the recoverability of deferred policy acquisition expenses.

In addition, in preparing the financial statements, the notes to the financial statements were ordered 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 financial statements. The determination of the relevance and materiality of disclosures involved significant judgement.

2. INSURANCE CONTRACTS

The Company accounts for insurance contracts in accordance with IFRS 4 and has continued to apply the accounting policies it applied in accordance with pre-changeover Canadian generally accepted accounting principles.

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

(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 earns premiums on 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 for the years ended December 31, 2017 and 2016 and their impact on net premiums earned for the two years follows:

	2017	2016
Balance, beginning of the year	$ 7,134,619	$ 6,828,743
Premiums written	15,089,456	14,632,541
Premiums earned	(14,840,577)	(14,326,665)
Balance, end of the year	$ 7,383,498	$ 7,134,619

Pricing of property and liability policies are based on assumptions in regard to trends and past experience, in an attempt to correctly match policy revenue with exposed risk. 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, 2017 and 2016.

Premiums receivables 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.

2. INSURANCE CONTRACTS (continued)

(b) DEFERRED POLICY ACQUISITION EXPENSES

Acquisition expenses are comprised of agents' commissions for acquiring and renewing policies. 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 for the years ended December 31, 2017 and 2016 and their impact on fees, commissions and other acquisition expenses for the two years follows:

	2017	2016
Balance, beginning of the year	$ 955,253	$ 915,452
Acquisition costs incurred	2,178,198	2,114,394
Expensed during the year	(2,155,717)	(2,074,593)
Balance, end of the year	$ 977,734	$ 955,253

(c) PROVISION FOR UNPAID CLAIMS AND ADJUSTMENT EXPENSES

Individual loss estimates are provided on each claim reported. In addition, provisions are made for adjustment expenses, claims development, 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 comprehensive income.

Claim liabilities are carried on an undiscounted basis.

2. INSURANCE CONTRACTS (continued)

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

	December 31, 2017		
	Gross	Reinsurance	Net
Outstanding claims provision			
Long settlement term	$ 15,509,650	$ 8,372,841	$ 7,136,809
Short settlement term	3,996,722	526,409	3,470,313
Facility Association and other residual pools	377,312	-	377,312
	19,883,684	8,899,250	10,984,434
Provision for claims incurred but not reported	4,737,000	3,330,000	1,407,000
	$ 24,620,684	$ 12,229,250	$ 12,391,434

	December 31, 2016		
	Gross	Reinsurance	Net
Outstanding claims provision			
Long settlement term	$ 14,156,708	$ 8,028,354	$ 6,128,354
Short settlement term	3,175,084	607,553	2,567,531
Facility Association and other residual pools	352,607	-	352,607
	17,684,399	8,635,907	9,048,492
Provision for claims incurred but not reported	4,737,000	3,330,000	1,407,000
	$ 22,421,399	$ 11,965,907	$ 10,455,492

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

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 assets, liabilities, revenue and expenses provided by the actuaries of the pools.

2. INSURANCE CONTRACTS (continued)

Changes in claim liabilities recorded in the statement of financial position for the years ended December 31, 2017 and 2016 and their impact on claims and adjustment expenses for the two years follows:

	2017	2016
Balance, beginning of the year	$ 22,421,399	$ 17,481,415
Increase (decrease) in estimated losses and expenses, for losses occurring in prior years	244,865	2,614,849
Provision for losses and expenses on claims occurring in the current year	11,186,492	8,420,926
Payment on claims:		
Current year	(5,173,098)	(3,785,241)
Prior years	(4,058,974)	(2,310,550)
Balance, end of the year	$ 24,620,684	$ 22,421,399

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 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 year 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 frequency and severity.

2. INSURANCE CONTRACTS (continued)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
Gross estimate of cumulative claims cost											
At the end year of claim	$ 7,392,950	$ 6,268,804	$ 5,204,826	$ 6,644,176	$ 5,683,967	$ 7,533,978	$ 6,777,347	$ 9,871,712	$ 8,420,926	$ 11,186,492	
One year later	6,656,653	5,757,329	5,040,385	8,084,050	5,206,382	8,625,504	7,586,432	12,260,902	9,782,049		
Two years later	7,018,365	6,019,375	5,015,690	8,735,594	6,196,850	7,969,775	7,296,048	11,149,701			
Three years later	7,625,582	6,547,869	4,685,754	9,298,536	5,677,394	7,621,843	6,979,072				
Four years later	7,639,885	6,980,110	4,761,216	9,162,856	5,593,509	7,360,639					
Five years later	8,259,504	6,881,842	4,469,739	9,911,986	5,516,870						
Six years later	7,594,164	6,847,552	4,462,521	10,168,586							
Seven years later	7,387,468	7,049,194	4,341,070								
Eight years later	7,841,874	7,702,925									
Nine years later	7,696,528										
Current estimate of cumulative claims cost	7,696,528	7,702,925	4,341,070	10,168,586	5,516,870	7,360,639	6,979,072	11,149,701	9,782,049	11,186,492	81,883,932
Cumulative payments	(7,503,060)	(6,625,983)	(4,250,183)	(7,342,250)	(4,635,328)	(6,275,236)	(5,177,965)	(4,766,663)	(5,528,482)	(5,173,098)	(57,278,248)
Outstanding claims	193,468	1,076,942	90,887	2,826,336	881,542	1,085,403	1,801,107	6,383,038	4,253,567	6,013,394	24,605,684
Outstanding claims 2007 and prior											15,000
Total gross outstanding claims											**$ 24,620,684**

2. INSURANCE CONTRACTS (continued)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
Net estimate of cumulative claims cost											
At the end year of claim	$ 4,958,714	$ 5,281,333	$ 4,594,873	$ 7,238,503	$ 4,947,976	$ 6,006,095	$ 6,324,032	$ 6,937,263	$ 7,578,254	$ 9,614,611	
One year later	4,521,032	4,386,609	4,074,872	7,674,496	4,553,639	6,048,164	6,159,898	7,520,108	8,069,640		
Two years later	4,393,958	4,382,229	3,667,558	7,529,660	4,861,392	5,797,730	5,921,277	7,245,056			
Three years later	4,302,213	4,460,412	3,829,078	7,348,753	4,640,506	5,690,274	5,837,643				
Four years later	4,367,158	4,446,916	3,547,481	7,253,189	4,666,575	5,641,708					
Five years later	4,252,429	4,511,886	3,440,954	7,235,938	4,647,257						
Six years later	4,282,411	4,562,633	3,399,537	7,164,271							
Seven years later	4,240,149	4,566,725	3,337,272								
Eight years later	4,267,640	4,535,882									
Nine years later	4,232,455										
Current estimate of cumulative claims cost	4,232,455	4,535,882	3,337,272	7,164,271	4,647,257	5,641,708	5,837,643	7,245,056	8,069,640	9,614,611	60,325,795
Cumulative payments	(4,233,758)	(4,469,622)	(3,312,751)	(6,701,769)	(4,064,870)	(4,833,490)	(5,108,148)	(4,766,663)	(5,311,701)	(5,146,589)	(47,949,361)
Outstanding claims	(1,303)	66,260	24,521	462,502	582,387	808,218	729,495	2,478,393	2,757,939	4,468,022	12,376,434
Outstanding claims 2007 and prior											15,000
Total net outstanding claims											**$ 12,391,434**

2. INSURANCE CONTRACTS (continued)

The risks associated with insurance contracts are complex and subject to a number of variables which complicate quantitative sensitivity analysis. The Company utilizes 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 as impact on pre-tax income:

	Property claims		**Auto claims**		**Liability Claims**	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
5% increase in loss ratios						
Gross	$ (326,991)	$ (312,846)	$ (360,149)	$ (354,669)	$ (67,333)	$ (64,814)
Net	$ (262,306)	$ (250,758)	$ (240,681)	$ (256,482)	$ (47,339)	$ (44,085)
5% decrease in loss ratios						
Gross	$ 326,991	$ 312,846	$ 360,149	$ 354,669	$ 67,333	$ 64,814
Net	$ 262,306	$ 250,758	$ 240,681	$ 256,482	$ 47,339	$ 44,085

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

2. INSURANCE CONTRACTS (continued)

(e) REINSURANCE

The Company enters into reinsurance contracts in the normal course of business in order to limit potential losses arising from certain exposures. Retention limits for the excess-of-loss reinsurance are set by product line. 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 an amount on any one claim of $375,000 (2016 - $375,000) in the event of a property claim, an amount of $400,000 (2016 - $400,000) in the event of an automobile claim and $375,000 (2016 - $375,000) in the event of a liability claim. The Company also obtained reinsurance which limits the Company liability to $1,125,000 (2016 - $1,125,000) in the event of a series of claims arising out of a single occurrence. In addition, the Company has obtained stop loss reinsurance which limits the liability of all claims in a specific year to 70% of gross net earned premiums.

Reinsurance is placed with Farm Mutual Re, a Canadian registered reinsurer. Management monitors the creditworthiness of Farm Mutual Re 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.

Amounts recoverable from reinsurers 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 method for establishing the related liability. Changes in due from reinsurer recorded in the statement of financial position for the years ended December 31, 2017 and 2016 follow:

Due from Reinsurer

	2017	2016
Balance, beginning of the year	$ 68,835	$ 29,300
Submitted to reinsurer	1,702,390	621,312
Received from reinsurer	(1,682,319)	(581,777)
Balance, end of the year	$ 88,906	$ 68,835

2. INSURANCE CONTRACTS (continued)

Changes in the reinsurers' share of provision for unpaid claims recorded in the statement of financial position for the years ended December 31, 2017 and 2016 follow:

Reinsurers' share of provision for unpaid claims

	2017	2016
Balance, beginning of the year	$ 11,965,907	$ 9,290,976
New claims reserve	1,571,881	842,672
Change in prior years reserve	393,852	2,453,571
Submitted to reinsurer	(1,702,390)	(621,312)
Balance, end of the year	$ 12,229,250	$ 11,965,907

(f) REFUND OF PREMIUM

At the discretion of the board of directors, the Company may declare a refund to its policyholders based on the premiums paid. This refund is recognized as a reduction of revenue in the period for which it is declared.

3. INVESTMENTS

The Company classifies its investments into one of the following categories based on the purpose for which the asset was acquired.

(a) FAIR VALUE THROUGH PROFIT OR LOSS

Fair value through profit or loss includes both debt and equity instruments. These instruments are initially recognized at fair value and transaction costs that are directly attributable to their acquisition are recognized in profit or loss as incurred. Subsequently they are carried at fair value and changes therein are recognized in profit or loss.

Where there is a significant or prolonged decline in the fair value of a fair value through profit or loss financial asset, which constitutes objective evidence of impairment, the full amount of the impairment is recognized in profit or loss.

Purchases and sales of debt and equity instruments are recognized on a settlement date basis.

(b) HELD-TO-MATURITY

If the Company has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transactions costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortized costs using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as fair value through profit and loss, and prevent the Company from classifying investment securities as held-to-maturity for the current and the following two financial years.

3. INVESTMENTS (continued)

The following table provides cost and 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.

Fair value through profit or loss

	December 31, 2017		December 31, 2016	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Short-term deposits	$ 6,155,632	$ 6,155,632	$ 4,111,116	$ 4,111,116
Bonds issued by				
Corporate - A or better	700,000	700,000	700,000	700,000
Equity investments				
Canadian	1,632,310	2,405,099	1,532,395	2,175,638
Pooled funds				
Canadian fixed income	9,191,105	8,843,128	8,989,765	8,819,609
Commercial mortgage	5,645,124	5,592,251	5,466,651	5,454,573
Canadian equity	2,346,610	2,880,612	2,258,412	2,556,845
	17,182,839	17,315,991	16,714,828	16,831,027
	$ 25,670,781	$ 26,576,722	$ 23,058,339	$ 23,817,781

Held-to-Maturity

	Cost 2017	Fair Value 2017	Cost 2016	Fair Value 2016
Bonds issued by				
Municipal	$ 70,340	$ 70,340	$ 85,147	$ 85,147
Other investments				
Fire Mutuals Guarantee Fund	31,311	31,311	30,765	30,765
	$ 101,651	$ 101,651	$ 115,912	$ 115,912

3. INVESTMENTS (continued)

Credit Risk

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

The Company investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits, corporate sector limits and general guidelines for geographic exposure. The Company investment policy limits investment in bonds and debentures to only fixed income investments with an average A rating 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 policies procedures and methods used to measure the risk.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet all cash outflow obligations as they come due. The Company mitigates this risk by monitoring cash activities and expected outflows. 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. Claim payments are funded by current operating cash flow including investment income.

Maturity profile of short-term deposits and bonds held is as follows:

	Within 1 Year	2 to 5 years	Over 5 years	Fair value
December 31, 2017	$ 15,843	$ 754,497	$ -	$ 770,340
Percent of total	2 %	98 %	- %	
December 31, 2016	$ 14,807	$ 770,340	$ -	$ 785,147
Percent of total	2 %	98 %	- %	

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

3. INVESTMENTS (continued)

Market Risk

Market factors include three types of risk: currency risk, interest rate risk, and equity risk.

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

The Company currency risk is related to stock holdings which are limited to United States equities in sectors which are not readily available in Canada. The Company currently has minimal exposure to this risk through its holdings of pooled funds.

The Company is exposed to this risk through its interest bearing investments (Short-term deposits, T-Bills, GICs, Bonds, and pooled funds - Canadian fixed income and Commercial mortgage).

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

At December 31, 2017, a 1% move in interest rates, with all other variables held constant, could impact the market value of interest rate sensitive investments by $290,000 (2016 - $320,000). These changes would be recognized in comprehensive income.

3. INVESTMENTS (continued)

The Company is exposed to equity risk through its portfolio of Canadian stocks and ownership of Canadian equity pooled funds. At December 31, 2017 a 10% movement in the Toronto Stock Exchange with all other variables held constant would have an estimated effect on the fair values of the Company's equity portfolio of $510,000 (2016 - $442,000). These changes would be recognized in comprehensive income.

The Company investment policy limits investment in preferred and common shares to a maximum of 25% of the market value of the investment portfolio. The Company only invests in equities which are constituents of the S&P/TSX Index.

Equities are monitored by the Investment Committee and holdings are adjusted following each quarter when the investments are offside of the investment policy.

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

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, 2017				
Short-term deposits	$ -	$ 6,155,632	$ -	$ 6,155,632
Bonds	-	700,000	-	700,000
Equities	2,405,099	-	-	2,405,099
Pooled funds	-	17,315,991	-	17,315,991
Total	$ 2,405,099	$ 24,171,623	$ -	$ 26,576,722
December 31, 2016				
Short-term deposits	$ -	$ 4,111,116	$ -	$ 4,111,116
Bonds	-	700,000	-	700,000
Equities	2,175,638	-	-	2,175,638
Pooled funds	-	16,831,027	-	16,831,027
Total	$ 2,175,638	$ 21,642,143	$ -	$ 23,817,781

There were no transfers between Level 1 and Level 2 for the years ended December 31, 2017 and 2016.

4. INVESTMENT AND OTHER INCOME

	2017	2016
Interest income	$ 149,511	$ 148,652
Dividend income	574,249	580,537
Investment expenses	(94,724)	(115,002)
Realized gains on disposal of investments	14,916	8,841
Change in unrealized gains (losses) on investments	146,497	581,969
Gain (loss) on disposal of property, plant and equipment	-	(10,235)
Other income (expenses)	14,000	(206,957)
	$ 804,449	$ 987,805

5. CAPITAL MANAGEMENT

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

The Company 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 generally expect property and casualty companies to comply with capital adequacy requirements. This test compares a company's capital against the risk profile of the organization. The risk-based capital adequacy framework assesses the risk of assets, policy liabilities and other exposures by applying various factors. The regulator indicates that the Company should produce a minimum MCT of 150%. 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 operations if the Company falls below this requirement and deemed necessary.

6. FEES, COMMISSIONS AND OTHER ACQUISITION EXPENSES

	2017	2016
Commissions	$ 2,155,717	$ 2,074,593

7. OTHER OPERATING AND ADMINISTRATIVE EXPENSES

	2017	2016
Salaries and benefits	$ 1,162,316	$ 1,170,612
Computer	357,970	360,399
Dues and fees	138,010	124,058
Education and convention	119,267	132,826
Advertising, promotion and donations	94,801	91,311
Loss prevention	85,592	68,710
Utilities, property tax and repairs	79,555	48,383
Depreciation	78,077	36,971
Directors' fees	77,340	83,357
Office	50,986	85,695
Professional fees	42,717	29,398
Premium tax	31,925	30,585
Telephone	25,770	21,643
Insurance	20,345	14,329
	$ 2,364,671	$ 2,298,277

8. INCOME TAXES

Income tax expense is comprised of current and deferred tax. Current and deferred tax are recognized in comprehensive income. The Company is subject to income taxes on the portion of its income derived from insuring other than farm related risks.

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

	2017	2016
Current tax expense		
Based on current year taxable income	$ (248,000)	$ 247,000
Adjustment for over/under provision in prior periods	(665)	(1,691)
	(248,665)	245,309
Deferred tax expense (recovery)	(21,000)	(27,000)
Total provision for income taxes	$ (269,665)	$ 218,309

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 26.5% (2016 - 26.5%) are as follows:

	2017	2016
Income before income taxes	$ (1,108,048)	$ 974,815
Expected taxes based on the statutory rate of 26.5% (2016 - 26.5%)	(293,633)	258,326
Income from insuring farm related risks	33,543	(31,090)
Non deductible portion of claims liabilities	25,651	30,012
Adjustments related to investments	(19,403)	(18,497)
Other	5,842	8,249
Total current tax expense	$ (248,000)	$ 247,000

9. 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 settlement amount is removed from the provision for unpaid claims as the Company liability to its claimants is substantially transferred. However, the Company remains exposed to the credit risk that life insurers fail to fulfill their obligations.

Pursuant to an agreement effective January 1, 1976, the Company is a member of the Fire Mutuals Guarantee Fund ("the Fund"). The Fund was established to provide payment of outstanding policyholders' claims and unearned premiums if a member company becomes insolvent. As a result, the Company may be required to contribute assets to their proportionate share in meeting this objective.

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

10. GOODWILL

Goodwill arising on the acquisition of a subsidiary is recognized as an asset at the date that control is acquired. Goodwill is measured as the excess of the sum of the consideration transferred over the net fair value of the identifiable net assets recognized.

Goodwill is not amortized, but is reviewed for impairment at least annually. Any impairment loss is recognized immediately in profit or loss and is not subsequently reversed.

Effective August 31st, 2014, the Company acquired all of the issued and outstanding shares of Donohue-Kok Insurance Group Inc. (DK). DK operated an insurance brokerage offering property and casualty insurance coverage to its customers.

Total consideration paid for the acquisition was $2,800,000.

Goodwill reflects the quality of the acquired business and enhances the Company's ability to continue to grow its business.

The goodwill impairment testing for the current year determined that there was no evidence of impairment.

The goodwill is not expected to be deductible for tax purposes.

11. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is initially recorded at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses, with the exception of land and land improvements which is not depreciated. Depreciation is recognized in comprehensive income and is provided over the estimated useful life of the assets as follows:

Buildings	4%	declining balance basis
Parking lot	8%	declining balance basis
Office furniture and equipment	20%	declining balance basis
Computer hardware	5	years straight-line

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

	Property, plant and equipment						Intangible Assets
	Land and land improvements	Buildings	Parking Lot	Office furniture and equipment	Computer Hardware	Total	Computer Software
Cost							
Balance at January 1, 2016	$ 347,837	$ 459,028	$ 45,329	$ 150,942	$ 110,804	$ 1,113,940	$ 24,826
Additions	-	759,546	-	12,761	3,040	775,347	-
Disposals	-	16,306	-	-	-	16,306	-
Balance on December 31, 2016	347,837	1,202,268	45,329	163,703	113,844	1,872,981	24,826
Additions	10,022	525,533	25,421	65,546	10,503	637,025	-
Balance on December 31, 2017	$ 357,859	$ 1,727,801	$ 70,750	$ 229,249	$ 124,347	$ 2,510,006	$ 24,826
Accumulated depreciation							
Balance at January 1, 2016	$ -	$ 182,067	$ 23,942	$ 121,763	$ 69,333	$ 397,105	$ 5,515
Depreciation expense	-	11,158	1,711	5,836	18,266	36,971	12,413
Disposals	-	6,072	-	-	-	6,072	-
Balance on December 31, 2016	-	187,153	25,653	127,599	87,599	428,004	17,928
Depreciation expense	-	44,539	2,434	15,440	15,664	78,077	6,898
Balance on December 31, 2017	$ -	$ 231,692	$ 28,087	$ 143,039	$ 103,263	$ 506,081	$ 24,826
Net book value							
December 31, 2016	$ 347,837	$ 1,015,115	$ 19,676	$ 36,104	$ 26,245	$ 1,444,977	$ 6,898
December 31, 2017	$ 357,859	$ 1,496,109	$ 42,663	$ 86,210	$ 21,084	$ 2,003,925	$ -

12. RELATED PARTY TRANSACTIONS

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

	2017	2016
Compensation		
Short-term employee benefits and directors' fees	$ 598,041	$ 600,774
Premiums	$ 85,605	$ 80,906
Claims paid	$ 28,916	$ 9,966

Amounts owing to and from key management personnel at December 31, 2017 are $nil (2016 - $nil) and $13,057 (2016 - $13,839) respectively.

13. STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET EFFECTIVE

Certain new standards, amendments and interpretations have been published that are mandatory for the Company's accounting period beginning on or after January 1, 2018 or later periods that the Company has decided not to early adopt.

The standards, amendments and interpretations that will be relevant to the Company are:

IFRS 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, insurance entities have been provided the option of deferring the adoption of IFRS 9 until January 1, 2021, which is the effective date of IFRS 17, Insurance Contracts. The Company does not plan to defer the effective date of IFRS 9 and therefore expects to adopt IFRS 9 on January 1, 2018.

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

IFRS 17 Insurance Contracts supersedes IFRS 4 Insurance Contracts. IFRS 17 fundamentally changes how entities account for insurance contracts, introducing a default "building block approach", which disaggregates the cash flows in an insurance contract and provides a different measurement basis for each component, and a simplified "premium allocation approach" for certain short-term contracts. Assumptions used in measuring insurance assets and liabilities such as cash flows, discount rates and risk adjustment will be updated at each reporting period. The discount rate will reflect the characteristics of the insurance liabilities and the estimated future cash flows to settle claims incurred will be discounted unless the period of time between claim occurrence and settlement is less than one year. Presentation changes include 'insurance revenue' replacing the current reporting of 'written premiums' and 'earned premiums' and insurance contract assets and liabilities will not be netted. Under this standard, premiums receivable, unearned premiums and claims payable may no longer be presented separately from other insurance assets and liabilities. The effective date for IFRS 17 is January 1, 2021 with mandatory restatement of comparative periods. The Company is currently assessing the impact of IFRS 17.