Dumfries Mutual Insurance Company
Financial Statements
For the year ended December 31, 2018

Contents

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Independent Auditor's Report

To the Policyholders of Dumfries Mutual Insurance Company

Opinion

We have audited the financial statements of Dumfries Mutual Insurance Company (the "Company"), which comprise the statement of financial position as at December 31, 2018 and the statements of comprehensive income and unappropriated members' surplus and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

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

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

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

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

Auditor's Responsibility

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

Independent Auditor's Report

Auditor's Responsibility (continued)

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Comapny's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

Mississauga, Ontario
February 19, 2019

Dumfries Mutual Insurance Company
Statement of Financial Position

December 31	2018	2017
Assets		
Cash and short-term investments	**$ 2,834,022**	$ 2,001,417
Due from policyholders	**4,576,823**	4,007,451
Investments (Note 5)	**43,296,644**	48,438,626
Prepaid expenses	**50,549**	115,387
Income taxes recoverable	**857,840**	-
Unpaid claims recoverable from reinsurer (Note 4)	**3,926,000**	6,030,276
Deferred policy acquisition expenditures (Note 4)	**871,465**	818,141
Property and equipment (Note 11)	**4,978,313**	1,983,793
Deferred tax assets	**-**	140,000
	$ 61,391,656	$ 63,535,091
Liabilities		
Accounts payable and accrued liabilities	**$ 299,748**	$ 1,036,247
Provision for refund of premium	**62,632**	376,316
Income taxes payable	**-**	90,191
Due to reinsurer (Note 4)	**145,080**	73,065
Unpaid claims	**14,529,373**	16,321,311
Unearned premiums (Note 4)	**7,634,526**	7,099,838
Future income tax liability	**95,749**	-
	22,767,108	24,996,968
Members' surplus		
Unappropriated members' surplus	**38,624,548**	38,538,123
	$ 61,391,656	$ 63,535,091

On behalf of the Board:

_______________ Director

_______________ Director

Dumfries Mutual Insurance Company
Statement of Comprehensive Income and Unappropriated Members' Surplus

For the year ended December 31	2018	2017
Revenue		
Gross premiums written	**$ 15,849,936**	$ 14,827,520
Less: reinsurance ceded	**(3,007,202)**	(2,604,831)
Net premiums written	**12,842,734**	12,222,689
Change in unearned	**(534,688)**	(217,173)
Net premiums earned	**12,308,046**	12,005,516
Service charges	**124,197**	70,162
	12,432,243	12,075,678
Direct losses incured		
Gross claims and adjustment expenses	**11,920,851**	7,912,475
Reinsurance recoveries	**(1,839,053)**	(479,247)
	10,081,798	7,433,228
	2,350,445	4,642,450
Expenses		
Commissions expense	**1,851,810**	1,787,730
Other operating and administrative expenses (Note 8)	**2,240,048**	1,931,494
	4,091,858	3,719,224
Net underwriting income	**(1,741,413)**	923,226
Other income		
Investment income (Note 6)	**929,455**	1,870,690
Gain on disposal of property (Note 11)	**860,448**	-
	1,789,903	1,870,690
Comprehensive income before refund and income taxes	**48,490**	2,793,916
Refund of surplus to policyholders	**-**	(376,839)
Comprehensive income before income taxes	**48,490**	2,417,077

Dumfries Mutual Insurance Company
Statement of Comprehensive Income and Unappropriated Members' Surplus

For the year ended December 31	2018	2017
Income taxes (Note 9)		
Current	**(273,684)**	584,518
Deferred	**235,749**	3,000
	(37,935)	587,518
Comprehensive income for the year	**86,425**	1,829,559
Unappropriated members' surplus, beginning of year	**38,538,123**	36,708,564
Unappropriated members' surplus, end of year	**$ 38,624,548**	$ 38,538,123

Dumfries Mutual Insurance Company
Statement of Cash Flows

For the year ended December 31	**2018**	2017
Cash provided by (used in)		
Operating activities		
Comprehensive income	**$ 86,425**	$ 1,829,559
Adjustments for:		
Gain on disposal of property and equipment	**(860,448)**	-
Depreciation	**98,484**	24,932
Current income taxes	**(273,684)**	584,518
Deferred income taxes	**235,749**	3,000
Realized gain on disposal of investments	**(863,401)**	(10,284)
Unrealized (loss) gain on investments	**1,298,666**	(1,657,164)
	(278,209)	774,561
Changes in working capital		
Due from policyholders	**(569,372)**	(246,721)
Accounts payable and accrued liabilities	**(736,499)**	57,175
	(1,305,871)	(189,546)
Changes in insurance contract related balances, provisions		
Provision for refund of premium	**(313,684)**	69,625
Due to reinsurer	**72,015**	37,075
Unpaid claims	**(1,791,938)**	(619,146)
Unearned premiums	**534,688**	217,173
Prepaid expenses	**64,838**	(60,631)
Unpaid claims recoverable from reinsurer	**2,104,276**	571,648
Deferred policy acquisition expenditures	**(53,324)**	(18,756)
	616,871	196,988
Cash flows related to income taxes	**(584,156)**	(494,327)
Total cash inflows from operating activities	**(1,551,365)**	287,676
Investing activities		
Disposals of investments	**5,778,956**	46,793
Purchase of property and equipment	**(3,394,986)**	(1,584,895)
Total cash inflows from investing activities	**2,383,970**	(1,538,102)
Increase (decrease) in cash	**832,605**	(1,250,426)
Cash, beginning of year	**2,001,417**	3,251,843
Cash, end of year	**$ 2,834,022**	$ 2,001,417

1. Corporate Information

Dumfries Mutual Insurance Company (the "Company" or "Dumfries") 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's head office is located in Sheffield, 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 by the Ontario Mutual Insurance Association ("OMIA"). The rate filing includes actuarial justification for rate increases or decreases. All rate filings are approved or denied by the Financial Services Commission of Ontario. Rate regulation may affect the automobile revenues that are earned by the Company. The actual impact of rate regulation would depend on the competitive environment at the time.

These financial statements have been authorized for issue by the Board of Directors on February 19, 2019.

2. Basis of Preparation

(a) Statement of Compliance

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

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

(c) Judgment and Estimates

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

2. Basis of Preparation (continued)

- 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 4);
- The determination of the recoverability of deferred policy acquisition expenses and (Note 4); and
- The classification of financial assets at FVTPL, which includes assessing the business model within which the assets are held and whether the contractual terms of the assets are solely payments of principal and interest on the principal amount outstanding (Note 5).

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 judgment.

3. Adoption of new accounting standards

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

IFRS 9 *Financial Instruments* (IFRS 9)

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

The adoption of IFRS 9 did not impact the Company's accounting policies for financial assets or liabilities.

(i) Classification and measurement of financial instruments

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

3. Adoption of new accounting standard (continued)

The original classification and carrying amount under IAS 39 and the new classification and carrying amount under IFRS 9 for each class of the Company's financial assets and financial liabilities as at January 1, 2018 remained the same, with the exception of cash and accounts receivable changing classification from loans and receivables to amortized cost, and accounts payable changing classification from other financial liabilities to amortized cost.

(ii) Impairment of financial assets

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

(iii) Hedge accounting

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

(iv) Disclosure

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

Impacts of adoption of IFRS 9

There was no impact of adopting IFRS 9 on members' surplus as at January 1, 2018.

4. Insurance contracts

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

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

(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 recognizes 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 (UEP). Changes in unearned premiums recorded in the statement of financial position for the years-ended December 31, 2018 and 2017 and their impact on net premiums earned for the two years follow:

4. Insurance contracts (continued)

	2018	2017
Balance, beginning of the year	**$ 7,099,838**	$ 6,882,665
Premiums written	**15,849,936**	14,827,520
Premiums earned during year	**(14,780,560)**	(14,393,174)
Change in unearned premiums	**(534,688)**	(217,173)
Balance, end of the year	**$ 7,634,526**	$ 7,099,838

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, 2018 and 2017.

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

(b) Unpaid claims recoverable from reinsurer

The Unpaid claims recoverable from reinsurer are recognized as an asset using principles consistent with the Company's method for determining the unearned premium liability.

(c) Deferred policy acquisition expenses

Acquisition costs are comprised of agents' commissions and premium taxes. These costs are deferred and amortized over the terms of the related policies to the extent that they are considered to be recoverable from unearned premiums, after considering the related anticipated claims and expenses. Changes in deferred policy acquisition expenses recorded in statement of financial position for the years-ended December 31, 2018 and 2017 and their impact on fees, commissions and other acquisition expenses for the two years follow:

	2018	2017
Balance, beginning of the year	**$ 818,141**	$ 799,385
Acquisition expenses incurred	**1,901,643**	1,786,145
Expensed during the year	**(1,848,319)**	(1,767,389)
Balance, end of the year	**$ 871,465**	$ 818,141

December 31, 2018

4. Insurance Contracts (continued)

(d) 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 current income.

Claim liabilities are carried on a discounted basis to reflect the time value of money. As required by actuarial standards in Canada, claims liabilities also include a provision for adverse deviation (PFAD), which represents an additional margin on valuation variable factors, which are claims development, reinsurance recoveries and interest rates used in discounting claims liabilities.

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, 2018			December 31, 2017		
	Gross	**Re-insurance**	**Net**	Gross	Re-insurance	Net
Outstanding claims provision						
Long-term	**$ 6,808,160**	**$ 2,474,420**	**$ 4,333,740**	$ 10,284,954	$ 4,429,484	$ 5,855,470
Short-term	**2,669,100**	**-**	**2,669,100**	1,059,007	-	1,059,007
Facility Association and other residual pools	**424,374**	**-**	**424,374**	409,971	-	409,971
	9,901,634	**2,474,420**	**7,427,214**	11,753,932	4,429,484	7,324,448
Provision for claims incurred but not reported	**4,627,739**	**1,451,580**	**3,176,159**	4,567,379	1,600,792	2,966,587
	$ 14,529,373	**$ 3,926,000**	**$ 10,603,373**	$ 16,321,311	$ 6,030,276	$ 10,291,035

4. Insurance Contracts (continued)

(d) Unpaid claims and adjustment expenses (continued)

The ultimate cost of long settlement general liability claims are difficult to predict for several reasons. Claims may not be reported until many years after a policy expires. Changes in the legal environment can 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.

Changes in claim liabilities recorded in the statement of financial position for the years-ended December 31, 2018 and 2017 and their impact on claims and adjustment expenses for the two years follow:

	2018	2017
Unpaid claims liabilities - beginning of year – net of reinsurance	**$ 10,291,035**	$ 10,338,533
Decrease in estimated losses and expenses, for losses occurring in prior years	**312,338**	(161,000)
Provision for losses and expenses on claims occurring in the current year	**9,770,000**	7,594,000
Payment on claims:		
Current year	**(6,328,000)**	(4,792,000)
Prior years	**(3,442,000)**	(2,688,498)
Unpaid claims – end of year - net of reinsurance	**10,603,373**	10,291,035
Reinsurer's share	**3,926,000**	6,030,276
	$ 14,529,373	$ 16,321,311

4. Insurance Contracts (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 most significant risks arise through high severity, low frequency events such as natural disasters or catastrophes. A concentration of risk may arise from insurance contracts issued in a specific geographic location since all insurance contracts are written in Ontario.

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

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

The tables below show how the Company’s estimate of cumulative incurred claim cost for each accident year has changed at successive year ends and reconcile the cumulative claims to the amount appearing in the statement of financial position. An accident-year basis is considered to be the most appropriate for the business written by the Company.

December 31, 2018

4. Insurance Contracts (continued)

Gross claims (000's)

	Accident Year										
Reporting date	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
At end of claim year	$ 8,825	$ 6,944	$ 10,641	$ 5,701	$ 6,938	$ 13,724	$ 6,972	$ 7,883	$ 7,906	$ 10,304	
1 year later	9,357	6,884	9,851	6,031	7,184	12,598	7,100	7,249	7,699		
2 years later	9,367	6,994	9,962	5,491	6,631	13,362	6,887	6,836			
3 years later	9,427	6,276	8,814	5,209	6,015	13,166	6,711				
4 years later	8,706	4,807	8,672	5,237	6,052	13,451					
5 years later	7,424	4,780	7,715	5,104	6,617						
6 years later	6,929	4,760	7,249	4,974							
7 years later	6,669	4,766	7,298								
8 years later	6,669	4,192									
9 years later	6,669										
Current estimate of ultimate cost	6,669	4,192	7,298	4,974	6,617	13,451	6,711	6,836	7,699	10,304	$ 74,751
Cumulative payments	6,669	4,192	7,066	4,820	5,435	11,446	5,418	5,450	5,390	5,897	61,783
Outstanding claims	$ -	$ -	$ 232	$ 154	$ 1,182	$ 2,005	$ 1,293	$ 1,386	$ 2,309	$ 4,407	$ 12,968
Liability for all prior accident years											15
Impact of discount and PFAD											569
Facility Association and risk sharing pool											977
Total gross claims											$ 14,529

4. Insurance Contracts (continued)

Net of reinsurance (000's)

	Accident Year										
Reporting date	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
At end of claim year	$ 6,465	$ 4,563	$ 9,002	$ 5,600	$ 6,801	$ 8,576	$ 5,952	$ 7,067	$ 7,314	$ 9,721	
1 year later	7,718	5,495	9,040	5,900	6,328	8,129	6,271	6,461	7,230		
2 years later	7,108	5,732	8,591	5,044	6,017	8,173	6,369	6,302			
3 years later	7,103	4,963	7,014	5,017	5,637	8,081	6,110				
4 years later	6,423	4,094	6,898	5,109	5,734	8,639					
5 years later	6,077	4,067	6,796	4,975	5,854						
6 years later	5,947	4,063	6,509	4,847							
7 years later	5,882	4,069	6,485								
8 years later	5,882	3,959									
9 years later	5,882										
Current estimate of ultimate cost	5,882	3,959	6,485	4,847	5,854	8,639	6,110	6,302	7,230	9,721	$ 65,029
Cumulative payments	5,882	3,959	6,462	4,693	5,154	8,006	5,189	5,157	5,390	5,897	55,789
Outstanding claims	$ -	$ -	$ 23	$ 154	$ 700	$ 633	$ 921	$ 1,145	$ 1,840	$ 3,824	$ 9,240
Liability for all prior accident years											(129)
Impact of discount and PFAD											515
Facility Association and risk sharing pool											977
Total net claims											$ 10,603

4. Insurance Contracts (continued)

Claim development (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	
(000's)	**2018**	2017	**2018**	2017	**2018**	2017
5% increase in loss ratios						
Gross	**$ 309**	$ 289	**$ 420**	$ 390	**$ 63**	$ 61
Net	**264**	250	**332**	320	**47**	44
5% decrease in loss ratios						
Gross	**$ (309)**	$ (289)	**$ (420)**	$ (390)	**$ (63)**	$ (61)
Net	**(264)**	(250)	**(332)**	(320)	**(47)**	(44)

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.

(e) 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 discount rate. If that assessment shows that the carrying amount of the liabilities is inadequate, any deficiency is recognized as an expense in profit and loss intially by writing down the deferred policy acquistion expense and subsequently by recognizing additional unearned premiums.

4. Insurance Contracts (continued)

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

The Company enters into reinsurance contracts in the normal course of business in order to limit potential losses arising from certain exposures. 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 accounts payable and accrued liabilities and are recognized as an expense on the same basis as revenue on the underlying policies being reinsured.

The Company follows a policy of underwriting and reinsuring contracts of insurance which, in the main, limit the liability of the Company to an amount on any one claim of $335,000 (2017 - $335,000) in the event of a property claim, an amount of $410,000 (2017 - $410,000) in the event of an automobile claim and $285,000 (2017 - $285,000) in the event of a liability claim. For amounts over the respective limits there is a 50% retention to a specified maximum. In addition, the Company has obtained stop loss reinsurance which limits the liability of all claims in a specific year to 80% (2017 – 80%) of gross net earned premiums for property and automobile.

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. Changes in due from reinsurer recorded in the statement of financial position for the years-ended December 31, 2018 and 2017 follow:

	2018	2017
Balance, beginning of the year	**$ 6,030,276**	$ 6,601,924
New claims reserve	**720,969**	592,000
Change in prior years' reserve	**59,044**	(457,386)
Submitted to reinsurer	**(2,884,289)**	(706,262)
Balance, end of the year	**$ 3,926,000**	$ 6,030,276

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.

4. Insurance Contracts (continued)

(g) 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.

5. Investments

(a) Recognition and initial measurement

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

(b) Classification and subsequent measurement

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

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

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

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

(c) Derecognition

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

5. Investments (continued)

(d) Risks

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

	2018	**2017**
Bonds issued by		
Provincial	**4,723,296**	2,104,411
Corporate	**1,806,482**	1,732,251
	6,529,778	3,836,662
Equity investments		
Canadian listed companies	**4,668,181**	6,170,754
US listed companies	**4,730,926**	5,885,060
	9,399,107	12,055,813
Other investments		
Guaranteed investment certificates and term deposits	**27,335,079**	8,438,233
Fire mutual guarantee fund	**32,680**	35,556
Pooled funds	**-**	24,072,362
	27,367,759	32,546,151
Total investments	**$43,296,644**	$ 48,438,626

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

The Company's investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits, corporate sector limits and general guidelines for geographic exposure. The bond portfolio includes 88% (2017 – 55%) of bonds rated A or better. The Company's investment policy limits investment in bonds and debentures of the various ratings to limits ranging from 20% to 90% of the Company's portfolio. The Company's policy requires that funds be invested in bonds and debentures of Federal, Provincial or Municipal Government and corporations rated A 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 credit risk.

5. Investments (continued)

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

The Company’s investment policy requires that 5% to 75% of the Company's portfolio be held in cash and short-term investments. Short-term investments include GICs and term deposits with an original maturity of less than one year.

Maturity profile of bonds held is as follows:

	Within 1 year	2 to 5 years	Total Fair Value
December 31, 2018	**$ 2,061,083**	**$ 4,083,727**	**$ 6,144,810**
Percent of Total	**33.54%**	**66.46%**	**100%**
December 31, 2017	$ 2,621,965	$ 1,192,192	$ 3,814,157
Percent of Total	38.71%	61.29%	100%

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

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

The Company's investment policy operates within the guidelines of the Insurance Act. 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.

Company’s currency risk is related to stock holdings which are limited to US listed equities in sectors which are not readily available in Canada. The Company limits its holdings in foreign equity to 50% of total equity investments in accordance with its investment policy. Foreign currency changes are monitored by the Investment Committee and holdings are adjusted when offside of the investment policy

The Company is exposed to currency risk on its investments in the United States. Included in the statement of financial positioon are U.S. denonminated investments of $6,432,344 CDN (2017 - $6,173,754 CDN). If the U.S. dollar weakened/strengthened by 5% against the Candian dollar, all other variables held constant, the net effect on the unappropriate members' surplus for the year would be $321,617 lower/higher (2017 - $308,688).

The Company is exposed to interest rate risk through its interest bearing investments (GICs, term deposits, and bonds).

5. 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. 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, generally, the Company's investment income will move with interest rates over the medium to long-term with short-term interest rate fluctuations creating gains or losses in profit or loss.

At December 31, 2018, a 1% move in interest rates, with all other variables held constant, could impact the market value of bonds by $ 91,119 (2017 - $ 38,222).

The Company is exposed to equity risk through its portfolio of stocks in listed Canadian and US companies. At December 31, 2018, a 10% movement in the stock markets with all other variables held constant would have an estimated effect on the fair values of the Company's equity investments of $939,911 (2017 - $1,209,137). This change would be recognized in comprehensive income.

The Company's investment policy limits investment in preferred and common shares to a maximum of 25% of the market value of the portfolio. The total investment in preferred and common shares cannot exceed 25% of total assets.

Equities are monitored by the Investment Committee and the board of directors and holdings are adjusted following each quarter to ensure the investments portfolio remains in compliance with the investment policy.

There has been a change in exposure to interest rate risk as the Company has divested of its pooled fund which was invested in fixed income securities.

(e) Fair value measurement

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

- 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).

5. Investments (continued)

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

	Level 1	Level 2	Level 3	Total
December 31, 2018				
Guaranteed investment certificates and term deposits	**27,335,079**	**-**	**-**	**27,335,079**
Bonds	**-**	**6,074,993**	**-**	**6,074,993**
Canadian equities	**4,668,181**	**-**	**-**	**4,668,181**
US equities	**4,730,926**	**-**	**-**	**4,730,926**
Canadian preferred shares	**454,785**	**-**	**-**	**454,785**
Fire Mutual Guarantee Fund	**-**	**32,680**	**-**	**32,680**
Total	**$ 37,188,971**	**$ 6,107,673**	**$ -**	**$ 43,296,644**

	Level 1	Level 2	Level 3	Total
December 31, 2017				
Guaranteed investment certificates and term deposits	8,438,233	-	-	8,438,233
Bonds	$ -	3,547,968	-	3,547,968
Canadian equities	6,170,754	-	-	6,170,754
US equities	6,115,692	-	-	6,115,692
Canadian preferred shares	58,062	-	-	58,062
Greystone fixed income pooled fund	-	24,072,360	-	24,072,360
Fire mutual guarantee fund	$ -	$ 35,556	$ -	$ 35,556
Total	$ 20,782,741	$ 27,655,884	$ -	$ 48,438,625

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

December 31, 2018

6. Investment income

		2018		2017
Interest income	$	634,715	$	276,823
Dividend income		277,755		264,548
Realized gain on disposal of investments		863,401		10,284
Investment income (expenses)		452,250		(338,129)
Unrealized (loss) gain on investments		(1,298,666)		1,657,163
	$	929,455	$	1,870,689

7. Capital Management

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

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

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

December 31, 2018

8. Other Operating and Administrative Expenses

	2018	2017
Advertising and donations	**$ 108,182**	$ 113,379
Association fees, training and other	**96,283**	107,141
Bad debts	**36,263**	5,858
Computer services	**581,423**	338,206
Depreciation	**98,484**	24,932
Employee benefits	**269,940**	322,168
Inspection of risks and fire prevention	**36,623**	78,591
Insurance	**52,198**	47,980
Occupancy costs	**135,913**	70,344
Office and professional fees	**201,229**	168,019
Postage and telephone	**79,786**	62,931
Premium Tax	**29,550**	28,535
Salaries and directors' fees	**1,168,133**	1,001,024
Scholarships	**5,100**	5,100
Statistics and assessments	**54,143**	52,556
Travel and conventions	**91,353**	86,794
Internal adjusting - allocation to claims	**(804,555)**	(582,064)
	$ 2,240,048	$ 1,931,494

9. Income taxes

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

The significant components of the tax effect of the amounts recognized in other comprehensive income are composed of:

9. Income taxes (continued)

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 26.5% (2017 – 26.5%) are as follows:

		2018		2017
Net income for the year	**$**	**48,490**	$	2,417,077
Expected taxes based on the statutory rate	**$**	**12,850**	$	640,525
Non deductible expenses		**543**		516
Canadian dividend income not subject to tax		**(48,468)**		(45,218)
Effect of foreign non-business tax credit		**-**		(13,888)
Other		**(2,860)**		5,583
Total income tax expense	**$**	**(37,935)**	$	587,518

10. Fire Mutuals Guarantee Fund

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

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

11. Property and equipment

Property and equipment is initially recorded at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses, with the exception of land which is not depreciated. Depreciation is recognized in net income, is provided on a straight-line basis over the estimated useful lives of the assets and is calculated as follows:

Building	2.5%
Computer equipment	20.0%
Equipment and fixtures	10.0%

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

11. Property and equipment (continued)

	Land and building	Computer equipment	Equipment and fixtures	Total
Cost				
Balance at January 1, 2017	$ 827,475	$ 234,530	$ 255,306	$ 1,317,311
Additions	1,568,022	18,201	-	1,586,223
Balance at December 31, 2017	2,395,497	252,731	$ 255,306	$ 2,903,534
Additions	2,837,901	14,564	542,520	3,394,985
Disposals	739,232	12,430	255,304	1,006,966
Balance at December 31, 2018	**$ 4,494,166**	**$ 254,865**	**$ 542,522**	**$ 5,291,553**
Accumulated Depreciation				
Balance at January 1, 2017	$ 437,114	$ 222,424	$ 235,267	$ 894,805
Depreciation	15,943	5,372	3,621	24,936
Balance at December 31, 2017	453,057	227,796	$ 238,888	$ 919,741
Depreciation	61,896	7,051	29,537	98,484
Disposals	463,686	-	241,299	704,985
Balance at December 31, 2018	**$ 51,267**	**$ 234,847**	**$ 27,126**	**$ 313,240**
Net book value:				
December 31, 2017	$ 1,942,440	$ 24,935	$ 16,418	$ 1,983,793
December 31, 2018	**$ 4,442,899**	**$ 20,018**	**$ 515,396**	**$ 4,978,313**

11. Property and equipment (continued)

On July 17, 2018, the Company signed an agreement to sell the land and building at 12 Cambridge Street for $1,150,000, with a closing date of September 13, 2018. As at September 13, 2018, the carrying amount of the land was $101,500 and building was $174,046, resulting in a gain from sale of land and building of $860,448.

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:

		2018		2017
Compensation				
Short term employee benefits and directors' fees	**$**	**691,041**	$	554,655
Total pension and other post-employment benefits		**31,604**		26,535
Premiums		**79,471**		74,977
Claims paid		**18,665**		800
	$	**820,781**	$	656,967

13. Standards, amendments and interpretations not yet effective

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

The Company has not yet determined the extent of the impact of the following new standards, interpretations and amendments, which have not been applied in these financial statements:

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

13. Standards, amendments and interpretations not yet effective (continued)

- *IFRS 17 Insurance Contracts* supersedes IFRS 4 Insurance Contracts. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts. IFRS 17 requires entities to measure insurance contract liabilities using updated estimates and assumptions that reflect the timing of cash flows and any uncertainty relating to insurance contracts. Additionally, IFRS 17 requires entities to recognize profits as it delivers insurance services. The effective date for IFRS 17 is January 1, 2021. However, the International Accounting Standards Board has proposed delaying the effective date to January 1, 2022.

- *IFRIC 23 Uncertainty over Income Tax Treatments* provides guidance on recognition and measurement of uncertain income tax treatments. The effective date for IFRIC 23 is January 1, 2019.