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

Contents

Tel: 905 270-7700
Fax: 905 270-7915
Toll-free: 866 248 6660
www.bdo.ca

BDO Canada **LLP**
1 City Centre Drive, Suite 1700
Mississauga ON L5B 1M2 Canada

Independent Auditor's Report

To the Members of Brant Mutual Insurance Company

Opinion

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

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

Basis for Opinion

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

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

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

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

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

Other Matter

The financial statements for the year ended December 31, 2017 were audited by another auditor who expressed an unmodified opinion on those financial statements on February 20, 2018.

Auditor's Responsibilities for the Audit of the Financial Statements

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

Auditor's Responsibilities for the Audit of the Financial Statements (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 Entity's internal control.

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

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

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

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

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants
Mississauga, Ontario
February 27, 2019

Brant Mutual Insurance Company
Statement of Financial Position

December 31	2018	2017
Assets		
Cash	**$ -**	$ 143,156
Investments (Note 5)	**7,286,657**	7,337,412
Due from policyholders (Note 4)	**1,944,398**	1,692,041
Other receivables	**-**	36,058
Prepaid expenses	**25,613**	39,221
Due from reinsurer (Note 4)	**166,739**	144,090
Reinsurer's share of unpaid claims and adjustment expenses (Note 4)	**1,325,666**	2,790,774
Deferred policy acquisition expenditures (Note 4)	**671,312**	533,533
Income taxes recoverable	**-**	16,915
Property and equipment (Note 15)	**107,250**	2,309,978
Land and building held for sale (Note 14)	**2,112,819**	-
Deferred tax asset	**373,106**	338,384
	$ 14,013,560	$ 15,381,562
Liabilities		
Bank indebtedness	**$ 467,642**	$ -
Accounts payable and accrued liabilities	**259,072**	232,259
Unearned premiums (Note 4)	**3,361,570**	3,179,318
Unpaid claims and adjustment expenses (Note 4)	**4,545,367**	5,963,888
	8,633,651	9,375,465
Members' surplus		
Unappropriated members' surplus	**5,379,909**	6,006,097
	$ 14,013,560	$ 15,381,562

On behalf of the Board:

____________________ Director

____________________ Director

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

Brant Mutual Insurance Company
Statement of Operations and Unappropriated Members' Surplus

For the year ended December 31	2018	2017
Revenue		
Gross premiums written	**$ 6,673,450**	$ 6,375,023
Less reinsurance ceded	**(1,161,409)**	(1,255,310)
Net premiums written	**5,512,041**	5,119,713
(Increase) decrease in unearned premiums	**(190,641)**	21,265
Net premiums earned	**5,321,400**	5,140,978
Direct losses incurred		
Gross claims and adjustment expenses	**4,582,700**	3,983,870
Less reinsurer's share of claims and adjustment expenses	**(676,516)**	(536,463)
	3,906,184	3,447,407
Underwriting income before expenses and commissions	**1,415,216**	1,693,571
Expenses		
Commissions and premium taxes (Note 8)	**1,132,987**	1,050,845
Operating expenses (Note 9)	**1,021,036**	1,073,197
	2,154,023	2,124,042
Net underwriting loss	**(738,807)**	(430,471)
Investment and other income (Note 6)	**128,938**	391,214
Investment expenses	**(51,032)**	(50,387)
Loss before income taxes	**(660,901)**	(89,644)
Income taxes (recovery)		
Deferred (Note 11)	**(34,713)**	(17,485)
Net loss for the year	**(626,188)**	(72,159)
Unappropriated members' surplus, beginning of year	**6,006,097**	6,078,256
Unappropriated members' surplus, end of year	**$ 5,379,909**	$ 6,006,097

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

Brant Mutual Insurance Company
Statement of Cash Flows

For the year ended December 31	2018	2017
Cash provided by (used in)		
Operating activities		
Net loss for the year	$ **(626,188)**	$ (72,159)
Adjustments for:		
Depreciation of property and equipment	**132,915**	90,822
Investment income	**(128,938)**	(391,214)
Provision for deferred taxes	**(34,713)**	(17,485)
	(656,924)	(390,036)
Changes in working capital and insurance contract related balances		
Change in due from policy holders	**(252,357)**	(34,787)
Change in due from reinsurer	**(22,649)**	63,316
Change in accounts payable and other liabilities	**26,804**	(131,469)
Change in income tax recoverable	**16,915**	93
Change in reinsurer's share of unpaid claims and adjustment expenses	**1,465,108**	174,200
Change in prepaid expenses	**13,608**	20,841
Change in other receivables	**36,058**	(83,814)
Change in unpaid claims and adjustment expenses	**(1,418,521)**	161,697
Change in unearned premiums	**182,252**	(21,265)
Change in deferred policy acquisition expenditures	**(137,779)**	29,732
	(747,485)	(211,492)
Cash flows related to interest, dividends and income taxes		
Interest and dividends received	**358,959**	319,897
Total cash (outflows) inflows from operating activities	**(388,526)**	108,405
Investing activities		
Sale of investments	**408,884**	131,397
Purchase of investments	**(588,150)**	(321,832)
Purchase of property and equipment	**(43,006)**	(31,946)
Total cash outflows from investing activities	**(222,272)**	(222,381)
Decrease in cash during the year	**(610,798)**	(113,976)
Cash, beginning of year	**143,156**	257,132
Cash/(bank indebtedness), end of year	$ **(467,642)**	$ 143,156

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

1. Corporate Information

Brant Mutual Insurance Company (the "Company") was incorporated under the laws of Ontario and is subject to the Ontario Insurance Act. The Company is licensed to write property, liability, automobile and farmers' accident insurance in Ontario. The Company's registered office is located in Brantford, Ontario.

The Company is subject to rate regulation on the automobile business that it writes. Before automobile insurance rates can be changed, a rate filing is prepared as a combined filing for most Ontario Farm Mutuals 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 (“FSCO”). Rate regulation may affect the automobile revenues that are earned by the Company. The actual impact of rate regulation would depend on the competitive environment at the time.

These financial statements have been authorized for issue by the Board of Directors on February 27, 2019.

2. Basis of Presentation

(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 Presentation *(continued)*

(c) Judgment and Estimates (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 (Note 4); and
- The classification of financial assets at FVTPL, which includes assessing the business model within which the assets are held (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 have any impact on the Company's financial statements. For financial liabilities, IFRS 9 retains most of the IAS 39 requirements. The Company did not choose the option of designating any financial liabilities at FVTPL as such, the adoption of IFRS 9 did not impact the Company's accounting policies for financial liabilities.

3. Adoption of New Accounting Standards *(continued)*

(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.

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 exception of cash and accounts receivable changing classification from loans and receivables to amortized cost, and accounts payable and accrued liabilities 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.

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 ("GAAP").

Balances arising from insurance contracts primarily include unearned premiums, unpaid claims and adjustment expenses, reinsurer's share of unpaid claims and adjustment expenses and deferred policy acquisition expenditures.

(a) Premiums and unearned premiums

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

The Company 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:

	2018	2017
Balance, beginning of the year	**$ 3,179,318**	$ 3,200,583
Premiums written	**6,673,450**	6,375,023
Changes in UEP recognized in income	**190,641**	(21,265)
Premiums earned during year	**(6,681,839)**	(6,375,023)
Balance, end of the year	**$ 3,361,570**	$ 3,179,318

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 FSCO 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.

December 31, 2018

4. **Insurance Contracts** (continued)

(b) Deferred policy acquisition expenditures

Acquisition costs are comprised of agents' commissions, premium taxes, salaries and certain identified business development costs considered to be directly related to the premiums written and therefore are allowed to be deferred. These costs are deferred and 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 expenditures recorded in the statement of financial position for the years ended December 31, 2018 and 2017 and the impact on fees, commissions and other acquisition expenses for the two years follow:

	2018	2017
Balance, beginning of the year	**$ 533,533**	$ 563,265
Acquisition expenses incurred	**1,362,700**	1,036,830
Expensed during the year	**(1,224,921)**	(1,066,562)
Balance, end of the year	**$ 671,312**	$ 533,533

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

(c) 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 an undiscounted basis.

4. **Insurance Contracts** (continued)

(c) Unpaid claims and adjustment expenses *(continued)*

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

	December 31, 2018			December 31, 2017		
	Gross	**Re-insurance**	**Net**	Gross	Re-insurance	Net
Outstanding claims provision						
Long settlement term	**$ 1,314,435**	**$ 211,089**	**$ 1,103,346**	$ 1,663,685	$ 546,136	$ 1,117,549
Short settlement term	**449,129**	**37,577**	**411,552**	1,002,980	398,129	604,851
Facility Association and other residual pools	**145,803**	**-**	**145,803**	152,991	-	152,991
	1,909,367	**248,666**	**1,660,701**	2,819,656	944,265	1,875,391
Provision for claims incurred but not reported	**2,636,000**	**1,077,000**	**1,559,000**	3,144,232	1,846,509	1,297,723
	$ 4,545,367	**$ 1,325,666**	**$ 3,219,701**	$ 5,963,888	$ 2,790,774	$ 3,173,114

4. Insurance Contracts (continued

(c) 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	**$ 3,173,114**	$ 2,837,217
Increase in estimated losses and expenses, for losses occurring in prior years	**132,207**	794,593
Provision for losses and expenses on claims occurring in the current year	**3,205,000**	2,001,084
Payment on claims:		
Current year	**(1,906,000)**	(1,562,361)
Prior years	**(1,384,620)**	(897,419)
Unpaid claims – end of year - net of reinsurance	**3,219,701**	3,173,114
Reinsurer’s share	**1,325,666**	2,790,774
	$ 4,545,367	$ 5,963,888

4. Insurance Contracts (continued)

(c) Unpaid claims and adjustment expenses *(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, and the characteristics of the claim. In general, the longer the term required for the settlement the more variable the estimates. Short settlement term claims are those which are expected to be substantially paid within a year of being reported.

The tables 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.

4. Insurance Contracts (continued)

(c) Unpaid claims and adjustment expenses (continued)

Gross claims

	Accident Year										
Reporting Date	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
At end of accident year	$3,724,978	$4,403,624	$5,871,195	$2,891,664	$3,618,085	$3,373,247	$3,976,288	$3,835,569	$3,037,529	$3,484,000	
1 year later	3,864,625	4,931,226	6,044,302	2,864,558	3,504,975	3,191,466	3,951,565	3,975,186	2,750,000		
2 years later	4,439,898	5,501,857	6,107,517	2,714,725	3,402,022	3,060,403	3,778,799	3,764,000			
3 years later	3,265,073	4,954,539	6,477,466	2,577,903	3,288,300	2,835,683	3,302,000				
4 years later	5,344,950	4,787,193	7,116,323	2,463,542	3,390,073	2,585,000					
5 years later	5,288,614	4,749,944	7,191,178	2,453,624	3,365,000						
6 years later	5,320,036	4,750,660	7,236,592	2,480,000							
7 years later	5,573,418	4,687,775	6,945,000								
8 years later	5,522,606	4,690,000									
9 years later	5,530,000										
Current estimate of ultimate cost	5,530,000	4,690,000	6,945,000	2,480,000	3,365,000	2,585,000	3,302,000	3,764,000	2,750,000	3,484,000	$38,895,000
Cumulative payments	5,517,000	4,687,000	6,880,000	2,454,000	3,288,000	2,398,000	3,024,000	2,924,000	1,929,000	1,906,000	35,007,000
Outstanding claims	$ 13,000	$ 3,000	$ 65,000	$ 26,000	$ 77,000	$ 187,000	$ 278,000	$ 840,000	$ 821,000	$1,578,000	3,888,000
Liability for all prior accident years											270,367
Unallocated loss adjustment expenses											241,000
Facility Association and risk sharing pool											146,000
Total gross outstanding claims											$4,545,367

4. Insurance Contracts (continued)

(c) Unpaid claims and adjustment expenses (continued)

Net of reinsurance

	Accident Year										
Reporting Date	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
At end of accident year	$2,754,855	$3,066,402	$4,381,693	$2,117,842	$2,576,217	$2,588,920	$2,784,652	$2,871,606	$2,419,207	$3,205,000	
1 year later	2,574,334	2,914,181	4,638,286	2,178,639	2,544,431	2,529,760	2,694,479	3,155,036	2,452,000		
2 years later	2,916,201	2,987,184	4,586,658	2,241,979	2,686,643	2,586,931	2,678,166	3,190,000			
3 years later	2,957,929	2,793,810	4,558,933	2,347,780	2,596,847	2,626,759	2,712,000				
4 years later	2,942,829	2,747,669	4,620,668	2,344,652	2,563,601	2,545,000					
5 years later	2,954,555	2,761,200	4,713,710	2,365,816	2,578,000						
6 years later	2,969,737	2,772,677	4,746,629	2,359,000							
7 years later	3,007,316	2,730,706	4,674,000								
8 years later	3,003,407	2,690,000									
9 years later	3,014,000										
Current estimate of ultimate cost	3,014,000	2,690,000	4,674,000	2,359,000	2,578,000	2,545,000	2,712,000	3,190,000	2,452,000	3,205,000	$29,419,000
Cumulative payments	3,013,000	2,689,000	4,656,000	2,346,000	2,517,000	2,350,000	2,560,000	2,684,000	1,929,000	1,906,000	26,650,000
Outstanding claims	$ 1,000	$ 1,000	$ 18,000	$ 13,000	$ 61,000	$ 195,000	$ 152,000	$ 506,000	$ 523,000	$1,299,000	2,769,000
Liability for all prior accident years											63,701
Unallocated loss adjustment expenses											241,000
Facility Association and risk sharing pool											146,000
Total net outstanding claims											$3,219,701

4. Insurance Contracts (continued)

(c) Unpaid claims and adjustment expenses *(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 frequency, expected loss ratios and claims development.

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

	Property claims		Auto claims		Liability claims	
	2018	2017	**2018**	2017	**2018**	2017
5% increase in loss ratios						
Gross	**$ 180,038**	$ 169,023	**$ 176,662**	$ 104,902	**$ 43,473**	$ 42,129
Net	**150,996**	145,570	**92,994**	75,958	**34,504**	31,759
5% decrease in loss ratios						
Gross	**$(180,038)**	$(169,023)	**$(176,662)**	$(104,902)	**$ (43,473)**	$ (42,129)
Net	**(150,996)**	(145,570)	**(92,994)**	(75,958)	**(34,504)**	(31,759)

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

4. Insurance Contracts (continued)

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

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

The Company follows a policy of underwriting and reinsuring contracts of insurance which, in the main, limit the liability of the Company to an amount on any one claim of $250,000 (2017 - $250,000) in the event of an automobile claim, an amount of $295,000 (2017 - $295,000) in the event of a liability claim and $290,000 (2017 - $290,000) in the event of a property claim. The Company also obtained catastrophe reinsurance which limits the Company's liability to $870,000 (2017 - $870,000) 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 80% (2017 - 80%) of gross net earned premiums for lines of insurance.

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 reinsurer's share of unpaid claims and adjustment expenses recorded in the statement of financial position for the years ended December 31, 2018 and 2017 is as follows:

	2018	2017
Balance, beginning of the year	**$ 2,790,774**	$ 2,964,974
New claims reserve	**278,607**	-
Change in prior years' reserve	**(1,535,580)**	386,313
Submitted to reinsurer	**(208,135)**	(560,513)
Balance, end of the year	**$ 1,325,666**	$ 2,790,774

4. Insurance Contracts (continued)

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

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

(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.

5. Investments

(a) Recognition and initial measurement

The Company recognizes debt instruments on the date on which they are originated. Equity instruments including pooled funds 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’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 as FVTPL.

The equity instruments are subsequently measured at fair value where the net gains and losses, including any dividend income is 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 Fair Value	2017 Fair Value
Pooled funds		
Fixed income	**$ 5,406,413**	$ 5,388,802
Canadian equity	**925,567**	963,874
Global equity	**921,679**	948,865
	7,253,659	7,301,541
Equity investments:		
Canadian common shares	**500**	500
Canadian preferred shares	**18,809**	20,987
Fire Mutuals Guarantee Fund	**13,689**	14,384
	$ 7,286,657	$ 7,337,412

The Company's investment policy puts limits on the pooled funds portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits and corporate sector limits. The Company's investment policy limits investments in fixed income funds of the various ratings to limits ranging from 65% to 80% and investments in equity funds to limits ranging from 15% to 30% of the Company's portfolio. The Company's policy requires that funds be invested in fixed income of Federal, Provincial or Municipal Government and corporations rated BBB or better with non-investment grade bonds to a maximum of 10% of the Company's portfolio. All portfolios are measured for performance on a quarterly basis and monitored by management on a monthly basis.

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

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

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

5. Investments (continued)

(d) Risks *(continued)*

The Company’s investment policy requires that 0% to 25% of the Company‘s portfolio be held in cash and short-term investments, which mitigates liquidity risk.

There have been no significant changes from the previous year in the exposure to risk or polices, 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 is not exposed to significant currency risk on its investment in global pooled funds.

The Company's investment policy operates within the guidelines of the Insurance Act. An investment policy is in place and its application is monitored by the Board of Directors. Diversification techniques are utilized to minimize risk. The Policy limits the investment in Canadian equities to 30% and international equities to 19.5% thereof.

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

The Company is exposed to interest rate risk through its investment in fixed income pooled funds.

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.

The Company is exposed to equity risk, through its portfolio of equity and equity pooled funds. 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 pooled funds of $728,665 (2017 - $733,741). This change would be recognized in net loss.

Equities and pooled funds are monitored by Management and the Board of Directors and holdings are adjusted following each quarter to ensure the investment portfolio remains in compliance with 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.

5. Investments (continued)

(e) Fair value measurement

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

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

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1	Level 2	Level 3	Total
December 31, 2018				
Pooled funds				
Fixed income	**$ -**	**$ 5,406,413**	**$ -**	**$ 5,406,413**
Canadian equity	**-**	**925,567**	**-**	**925,567**
Global equity	**-**	**921,679**	**-**	**921,679**
Equity investments				
Canadian common shares	**-**	**-**	**500**	**500**
Canadian preferred shares	**-**	**-**	**18,809**	**18,809**
Fire Mutuals Guarantee Fund	**-**	**-**	**13,689**	**13,689**
Total	**$ -**	**$ 7,253,659**	**$ 32,998**	**$ 7,286,657**

	Level 1	Level 2	Level 3	Total
December 31, 2017				
Pooled Funds				
Fixed income	$ -	$ 5,388,802	$ -	$ 5,388,802
Canadian equity	-	963,874	-	963,874
Global equity	-	948,865	-	948,865
Equity investments				
Canadian common shares	-	-	500	500
Canadian preferred shares	-	-	20,987	20,987
Fire Mutuals Guarantee Fund	-	-	14,384	14,384
Total	$ -	$ 7,301,541	$ 35,871	$ 7,337,412

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

6. Investment and Other Income

Investment and other income for the year ended December 31, consists of the following:

	2018	2017
Dividend income	**$ 22,639**	$ 20,617
Interest income	**210,912**	175,024
Realized gain on disposal of investments	**39,570**	-
Unrealized (loss) gain on investments	**(266,719)**	119,530
Service charge income	**81,120**	81,471
Other	**41,416**	(5,428)
	$ 128,938	$ 391,214

7. Capital Management

For the purpose of capital management, the Company has defined capital as unappropriated 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 regulators indicate that the Company should produce a minimum MCT of 150%. During the year, the Company has consistently exceeded this minimum in its quarterly filings. The regulator has the authority to request more extensive reporting and can place restrictions on the Company's operations if the Company falls below this requirement and deemed necessary.

8. Commissions and Premium Taxes

	2018	2017
Commissions	**$ 1,127,874**	$ 1,034,059
Premium taxes	**5,113**	16,786
	$ 1,132,987	$ 1,050,845

9. Other Operating and Administrative Expenses

	2018	2017
Advertising	**$ 36,956**	$ 42,279
Association fees and training	**43,937**	46,852
Building occupancy costs	**84,636**	75,525
Convention and meetings expense	**53,383**	39,158
Data processing and equipment fees	**148,368**	134,416
Depreciation	**132,915**	90,822
Donations	**8,634**	8,671
Employee benefits	**90,082**	82,803
Inspection and investigation	**11,120**	24,092
Insurance	**22,943**	29,777
Licence and filing fees	**22,898**	22,558
Printing, stationery and office supplies	**31,603**	41,253
Professional fees	**164,379**	174,675
Salaries and directors' fees	**115,477**	325,771
Sundry	**34,426**	(86,771)
Travel	**19,279**	21,316
	$ 1,021,036	$ 1,073,197

10. Salaries, Benefits and Directors' Fees

	2018	2017
Underwriter salaries and benefits	**$ 193,018**	$ 301,673
Sales salaries and commissions	**399,993**	354,847
Other salaries, benefits and directors fees	**388,516**	346,434
	$ 981,527	$ 1,002,954

Included in claims expenses were salary costs of $392,407 (2017 - $400,401).

11. Income Taxes

Income tax expense comprises current and deferred tax. Current and deferred tax are recognized in net income.

The significant components of tax expense included in net loss are composed of:

	2018	2017
Deferred tax		
Temporary differences	**(3,379)**	2,351
Non-deductible claims	**(291)**	(778)
Loss carryforwards	**(80,623)**	(18,451)
Other	**(1,079)**	(607)
Adjustment for over/under provision	**50,659**	-
Total tax effect of amounts recorded in net loss	**$ (34,713)**	$ (17,485)

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 12.50% (2017 – 15.50%) are as follows:

	2018	2017
Loss before income taxes	**$ (660,901)**	$ (89,644)
Expected taxes based on the statutory rate	**$ (82,613)**	$ (13,895)
Other non deductible expenses	**71**	171
Non taxable dividend income	**(2,830)**	-
Adjustment for over/under provision	**50,659**	-
Other	**-**	(3,761)
Current income tax expense	**$ (34,713)**	$ (17,485)

12. Credit Facility

The Company has an operating line of credit of $500,000 bearing interest at prime plus 0.50%, repayable on demand and interest payable monthly. As at December 31, 2018, the Company had drawn down $25,000 on the line. Subsequent to year end the balance was repaid.

The line of credit is secured by a general security agreement from the Company and a first fixed charge collateral mortgage in the amount of $1,000,000 over the Company's building.

13. Fire Mutuals Guarantee Fund and Financial Guarantee Contracts

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.

This exposure represents a financial guarantee contract. The Company accounts for financial guarantee contracts in accordance with IFRS 4, *Insurance Contracts*.

14. Land and Building Held for Sale

On November 29, 2018, management of the Company committed to a plan to sell the land, building and parking lot. These have been reclassified as held for sale and have been recorded at the lower of its carrying amount and fair value less costs to sell. As at November 29, 2018, the carrying amount of the land was $490,252, building was $1,558,264 and parking lot was $64,303. Effective November 29, 2018, depreciation had ceased being taken on the building and parking lot. For the year ended December 31, 2018, depreciation of $49,197 was taken on the building and $4,883 on the parking lot prior to reclassification to held for sale.

15. 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 the statement of operations and unappropriated members' surplus, and is provided on a straight-line basis over the estimated useful life of the assets and is calculated as follows:

Building	2.5%
Parking lot	2.5 % to 7%
Sign	10%
Office equipment	10%
Computer equipment	20%

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

15. Property & Equipment (continued)

	Land	Building	Parking lot	Sign	Office equipment	Computer equipment	Total
Cost							
Balance at January 1, 2017	$ 490,252	$ 1,967,253	$ 105,113	$ 41,186	$ 261,504	$ 302,631	$ 3,167,939
Additions	-	-	-	-	1,939	30,007	31,946
Balance at December 31, 2017	490,252	1,967,253	105,113	41,186	263,443	332,638	3,199,885
Additions	-	-	-	-	3,565	39,441	43,006
Transfer to land and building held for sale	(490,252)	(1,967,253)	(105,113)	-	-	-	(2,562,618)
Balance at December 31, 2018	**$ -**	**$ -**	**$ -**	**$ 41,186**	**$ 267,008**	**$ 372,079**	**$ 680,273**
Accumulated Depreciation							
Balance at January 1, 2017	$ -	$ 310,612	$ 31,051	$ 37,550	$ 146,261	$ 273,611	$ 799,085
Depreciation	-	49,180	4,876	1,861	26,265	8,640	90,822
Balance at December 31, 2017	-	359,792	35,927	39,411	172,526	282,251	889,907
Depreciation	-	49,197	4,883	1,775	26,491	50,569	132,915
Transfer to land and building held for sale	-	(408,989)	(40,810)	-	-	-	(449,799)
Balance at December 31, 2018	**$ -**	**$ -**	**$ -**	**$ 41,186**	**$ 199,017**	**$ 332,820**	**$ 573,023**
Net book value:							
December 31, 2017	$ 490,252	$ 1,607,461	$ 69,186	$ 1,775	$ 90,917	$ 50,387	$ 2,309,978
December 31, 2018	**$ -**	**$ -**	**$ -**	**$ -**	**$ 67,991**	**$ 39,259**	**$ 107,250**

16. 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	**$ 205,524**	$ 208,697
Total pension and other post-employment benefits	**7,579**	11,087
	$ 213,103	$ 219,784
Premiums	**$ 31,601**	$ 26,828

The amounts owing from key management personnel at December 31, 2018 are $5,807 (2017 - $2,938). The amounts are included in due from policyholders on the statement of financial position.

17. Comparative Figures

Certain comparative figures have been reclassified to conform with current year presentation.

18. 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.

- *IFRS 16 Leases* supersedes IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. It eliminates the distinction between operating and finance leases from the perspective of the lessee. All contracts that meet the definition of a lease will be recorded in the statement of financial position with a "right of use" asset and a corresponding liability. The asset is subsequently accounted for as property, plant and equipment or investment property and the liability is unwound using the interest rate inherent in the lease. The accounting requirements from the perspective of the lessor remains largely in line with previous IAS 17 requirements. The effective date for IFRS 16 is January 1, 2019. The Company expects no impact on implementation of the standard.

- *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. The Company has not yet determined the impact of adoption, however is expected to significantly impact the overall financial statements.

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