BRANT MUTUAL INSURANCE COMPANY

FINANCIAL STATEMENTS

For the year ended December 31, 2016

BRANT MUTUAL INSURANCE COMPANY

For the year ended December 31, 2016

INDEX

Millards
Chartered Professional Accountants

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INDEPENDENT AUDITORS' REPORT

To the Policyholders of
Brant Mutual Insurance Company

We have audited the accompanying financial statements of Brant Mutual Insurance Company, which comprise the statement of financial position as at December 31, 2016, and the statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

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

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

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

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

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Brant Mutual Insurance Company as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Millard, Rouse & Rosebrugh LLP

February 23, 2017
Brantford, Ontario

CHARTERED PROFESSIONAL ACCOUNTANTS
Licensed Public Accountants

Millard, Rouse & Rosebrugh LLP
Brantford • Hagersville • Simcoe • Delhi • Norwich • Tillsonburg • Port Dover

BRANT MUTUAL INSURANCE COMPANY

STATEMENT OF FINANCIAL POSITION

As at December 31	2016	2015
ASSETS		
Cash and cash equivalents	257,132	287,192
Investments (Note 5)	7,075,660	7,149,482
Premiums outstanding	1,671,392	1,781,641
Other receivables	141,307	144,231
Due from reinsurers (Note 7)	157,630	113,946
Reinsurance recoverable on unpaid claims (Note 7)	2,964,974	2,919,769
Prepaid expenses and other assets	60,062	60,526
Income taxes recoverable	17,008	16,320
Deferred policy acquisition expenses (Note 7)	563,265	491,647
Deferred income tax (Note 9)	320,899	274,101
Property, plant and equipment (Note 6)	2,368,854	2,505,594
	15,598,183	15,744,449
LIABILITIES		
Provision for unpaid claims (Note 7)	5,802,191	5,672,382
Unearned premiums (Note 7)	3,200,583	3,268,102
Accounts payable and accrued liabilities	303,114	322,485
F.A.R.M. Funds due to Facility Association	207,814	126,837
Premiums paid in advance	6,225	38,501
	9,519,927	9,428,307
EQUITY		
Unappropriated members' surplus	6,078,256	6,316,142
	15,598,183	15,744,449

BRANT MUTUAL INSURANCE COMPANY

STATEMENT OF CHANGES IN EQUITY

For the year ended December 31	2016	2015
Unappropriated Members' Surplus		
Opening balance	6,316,142	6,919,469
Comprehensive income (loss)	(237,886)	(603,327)
	6,078,256	6,316,142

BRANT MUTUAL INSURANCE COMPANY

STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31	2016	2015
Underwriting Operations		
Gross premiums written net of rebates and returned premiums	6,513,050	6,458,610
Less: Premiums paid reinsurance	1,484,809	1,454,809
Increase (Decrease) in reserve for unearned premiums	(67,519)	287,214
	1,417,290	1,742,023
Net Premiums Earned	5,095,760	4,716,587
Direct Losses Incurred		
Gross claims and adjustment expenses (Note 10)	4,240,935	4,660,243
Less: reinsurers' share of claims and adjustment expenses	942,268	1,298,692
	3,298,667	3,361,551
Fees, Commissions and Other Acquisition Expenses (Page 5)	1,014,961	986,452
Other Operating and Administrative Expenses (Page 5)	1,447,890	1,459,959
Total Expenses	5,761,518	5,807,962
Underwriting Income (Loss)	(665,758)	(1,091,375)
Investment and Other Income (Note 5)	381,074	377,698
Income (Loss) Before Income Taxes	(284,684)	(713,677)
Provision for income taxes (Note 9)	(46,798)	(110,350)
Total Comprehensive Income (Loss) for the Year	(237,886)	(603,327)

BRANT MUTUAL INSURANCE COMPANY

SCHEDULE OF EXPENSES

For the year ended December 31	2016	2015
Fees, Commissions and Other Acquisition Expenses		
Commissions	1,000,253	971,317
Corporation premium tax	14,708	15,135
	1,014,961	986,452
Other Operating and Administrative Expenses		
Salaries	479,101	483,339
Directors' fees	55,696	63,107
Professional fees	135,476	85,105
Travelling expenses	19,834	27,005
Pension and group insurance	80,747	84,822
Employment insurance	19,777	21,063
Bad debt expense	17,383	830
Advertising	35,389	53,640
Postage and telephone	31,360	29,816
Printing, stationery and office supplies	32,472	29,484
Association fees	45,460	50,133
Insurance	19,619	25,693
Other administrative expense	44,902	59,674
Computer expenses	102,827	102,935
Building expenses	114,115	120,723
Depreciation	144,329	142,125
Conventions and meetings	19,409	29,541
Donations	13,030	20,035
Bank charges and collection fees	10,672	4,560
Loss prevention expenses	26,292	26,329
	1,447,890	1,459,959

BRANT MUTUAL INSURANCE COMPANY

STATEMENT OF CASH FLOWS

For the year ended December 31	2016	2015
Cash Flows From Operating Activities		
Net Loss	(237,886)	(603,327)
Adjustments to convert income to a cash basis:		
Depreciation	144,329	142,125
Investment income	(381,074)	(377,698)
Deferred income taxes (benefit)	(46,798)	(110,350)
(Increase) Decrease in premiums outstanding	110,249	(254,058)
(Increase) Decrease in reinsurers' share of provisions for unpaid claims	(45,205)	1,034,161
Increase (Decrease) in provision for unpaid claims	129,809	(870,717)
Increase (Decrease) in unearned premiums	(67,519)	287,214
Increase (Decrease) in accounts payable, accrued liabilities and other operating liabilities	61,606	45,720
(Increase) Decrease in income taxes recoverable	(688)	(1,081)
Increase (Decrease) in premiums paid in advance	(32,276)	1,452
(Increase) Decrease in deferred policy acquisition expense	(71,618)	(69,853)
(Increase) Decrease in receivables and other operating assets	(40,297)	(26,368)
	(477,368)	(802,780)
Cash Flows From Investing Activities		
Purchase of property, plant and equipment	(7,589)	(47,201)
Interest, dividends and other investment income received	296,030	387,441
Proceeds on sale of investments	710,453	1,720,921
Purchase of investments	(551,586)	(992,426)
	447,308	1,068,735
Net Decrease in Cash and Cash Equivalents	(30,060)	265,955
Opening Cash and Cash Equivalents	287,192	21,237
Closing Cash and Cash Equivalents	257,132	287,192

1. NATURE OF OPERATIONS

Reporting Entity

Brant Mutual Insurance Company (the Company) is incorporated under the laws of Ontario and is subject to the Ontario Insurance Act. It is licensed to write property, liability, automobile and farmers' accident insurance in Ontario. The Company's head office is located in Brantford, 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 Farm Mutual Reinsurance Plan Inc. The rate filing must include actuarial justification for rate increases and 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.

The financial statements have been authorized for issue by the Board of Directors on February 23, 2017.

Basis of Presentation

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

These financial statements were prepared under the historical cost convention, as modified by the use of fair value for financial assets designated as fair value through profit or loss.

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

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas having a higher degree of complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Insurance Contracts

In accordance with IFRS 4, Insurance Contracts, the Company has continued to apply the accounting policies in accordance with pre-changeover Canadian GAAP.

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

(i) Premiums and Unearned Premiums

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

The Company earns premium income evenly over the term of the insurance policy generally using the pro rata method. The portion of the premium related to the unexpired portion of the policy at the end of the fiscal year is reflected in unearned premiums.

(ii) Deferred Policy Acquisition Expenses

Acquisition costs are comprised of agents' commissions and other associated acquisition expenses. These costs are deferred and amortized over the term 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.

(iii) Provisions for Unpaid Claims and Adjustment Expenses

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

Claim liabilities are carried on an undiscounted basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Insurance Contracts (Continued)

(iv) Liability Adequacy Test

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

(v) Reinsurer's Share of Provisions for Unpaid Claims and Adjustment Expenses

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

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.

(vi) Salvage and Subrogation Recoverable

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

Where the Company indemnifies policyholders against a liability claim, it acquires rights to subrogate its claim against other parties. These claims are reflected at amounts expected to be received from the subrogated parties net of related costs.

(vii) Refund of Premium

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Fire Mutual Guarantee Fund

The Company is a member of the Fire Mutual 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.

(c) Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits at call with banks, other short-term highly liquid investments with original maturities of three months or less. For cash flow presentation purposes, cash and cash equivalents includes bank overdrafts.

(d) Financial Instruments

The Company classifies its financial instruments into one of the following categories based on the purpose for which the asset was acquired or liability incurred. All transactions related to financial instruments are recorded on a trade date basis. The Company's accounting policy for each category is as follows:

(i) Fair Value Through Profit or Loss (FVTPL)

FVTPL financial assets and liabilities are carried at fair value on the statement of financial position and changes in fair values are recorded in net income. FVTPL financial assets and liabilities are those that meet the definition as being held for trading and those the Company has chosen to designate as FVTPL. Transaction costs are expensed as incurred.

The Company has classified cash and its pooled fund investments as FVTPL.

(ii) Loans and Receivables

These assets are non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue and subsequently carried at amortized cost, using the effective interest rate method, less any impairment losses.

Impairment provisions are recognized when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Company will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For amounts due from policy holders and reinsurers, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognized in net income. On confirmation that the amounts receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Financial Instruments (Continued)

(iii) Other Financial Liabilities

Other financial liabilities include all financial liabilities and comprise accounts payables, and other short-term monetary liabilities. These liabilities are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carrying in the statement of financial position. Interest expense in this context includes initial transaction costs and premiums payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

(e) Property, Plant and Equipment

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

Real estate	annual rate of 2.5% over a 40 year term
Computer equipment	20% over a 5 year term
Office equipment	10% over a 10 year term

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

(f) Impairment of Non-financial Assets

Non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly.

For the purpose of assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows.

Impairment charges are included in net income, except to the extent they reverse gains previously recognized in other comprehensive income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Income Taxes

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

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit or loss.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The amount of the deferred tax asset or liability is measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date and are expected to apply when the liabilities/ (assets) are settled/ (recovered).

(h) Provisions

Provisions are recognized for liabilities of uncertain timing or amount that have arisen as a result of past transactions, including, legal, equitable or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Standards, Amendments and Interpretations Not Yet Effective

Certain new standards, amendments and interpretations have been published that are mandatory for the Company's accounting periods beginning on or after January 1, 2017 or later periods that the Company has decided not to early adopt.

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:

- IFRS 9 Financial Instruments is part of IASB's wider project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through profit or loss, and fair value through other comprehensive income. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after January 1, 2018.

There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company's future financial statements.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only; or in the period of the change and future periods, if the change affects both.

The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Provision for Unpaid Claims

The estimation of the provision for unpaid claims and the related reinsurer's share are the Company's most critical accounting estimates. There are several sources of uncertainty that need to be considered by the Company in estimating the amount that will ultimately be paid on these claims. The uncertainty arises because all events affecting the ultimate settlement of claims have not taken place and may not take place for some time. Changes in the estimate of the provision can be caused by receipt of additional claim information, changes in judicial interpretation of contracts, or significant changes in severity or frequency of claims from historical trends. The estimates are based on the Company's historical experience and industry experience. More details are included in Note 7.

4. FINANCIAL INSTRUMENT CLASSIFICATION

The carrying amount of the Company's financial instruments by classification is as follows:

	FVTPL	Loans and receivables	Other financial liabilities	Total
December 31, 2016				
Cash	257,132	-	-	257,132
Investments	7,075,660	-	-	7,075,660
Premiums outstanding	-	1,671,392	-	1,671,392
Other receivables	-	141,307	-	141,307
Due from reinsurers	-	157,630	-	157,630
Accounts payable and accrued liabilities	-	-	(303,114)	(303,114)
	7,332,792	1,970,329	(303,114)	9,000,007
December 31, 2015				
Cash	287,192	-	-	287,192
Investments	7,149,482	-	-	7,149,482
Premiums outstanding	-	1,781,641	-	1,781,641
Other receivables	-	144,231	-	144,231
Due from reinsurers	-	113,946	-	113,946
Accounts payable and accrued liabilities	-	-	(322,485)	(322,485)
	7,436,674	2,039,818	(322,485)	9,154,007

5. INVESTMENTS

	December 31, 2016		December 31, 2015	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Canadian preferred shares	18,155	20,987	18,155	22,440
Canadian common shares	500	500	500	500
Pooled funds	6,811,295	7,040,039	6,927,920	7,112,635
Guarantee fund	14,134	14,134	13,907	13,907
Total stocks and other invested assets	6,844,084	7,075,660	6,960,482	7,149,482

(a) Investment and Other Income

Investment and other income for the year ended December 31, was derived from the following:

	2016	2015
FVTPL securities		
- dividend income	21,708	21,051
- interest income	163,510	190,700
Market value change	141,989	119,095
Investment expenses	(50,089)	(51,746)
Service charges	87,000	98,598
Other	16,956	-
	381,074	377,698

The effective investment yield for 2016 is 3.94% (2015 - 3.84%).

5. INVESTMENTS (Continued)

(b) Disclosures Relating to Fair Value Measurements

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 derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

December 31, 2016	**Level 1**	**Level 2**	**Total**
Cash and cash equivalents	257,132	-	257,132
CCL Pooled Funds	-	7,040,039	7,040,039
Other invested assets	-	35,621	35,621
Total assets measured at fair value	257,132	7,075,660	7,332,792

December 31, 2015	**Level 1**	**Level 2**	**Total**
Cash and cash equivalents	287,192	-	287,192
CCL Pooled Funds	-	7,112,635	7,112,635
Other invested assets	-	36,847	36,847
Total assets measured at fair value	287,192	7,149,482	7,436,674

Transfers between levels are considered to have occurred at the date of the event or change in the circumstances that caused the transfer. There were no transfers between level 1 and level 2 for the year ended December 31, 2015 and December 31, 2016.

6. PROPERTY, PLANT AND EQUIPMENT

	Land	Building	Parking Lot	Sign	Office Equipment	Computer Equipment	Total
Cost							
Balance on January 1, 2015	490,252	1,960,473	105,113	41,186	254,097	262,028	3,113,149
Additions	-	6,780	-	-	2,255	38,166	47,201
Balance on December 31, 2015	490,252	1,967,253	105,113	41,186	256,352	300,194	3,160,350
Additions	-	-	-	-	5,152	2,437	7,589
Balance on December 31, 2016	490,252	1,967,253	105,113	41,186	261,504	302,631	3,167,939
Accumulated Depreciation							
Balance on January 1, 2015	-	212,334	21,299	26,455	94,794	157,750	512,632
Depreciation expense	-	49,097	4,876	6,375	25,554	56,222	142,124
Balance on December 31, 2015	-	261,431	26,175	32,830	120,348	213,972	654,756
Depreciation expense	-	49,181	4,876	4,720	25,913	59,639	144,329
Balance on December 31, 2016	-	310,612	31,051	37,550	146,261	273,611	799,085
Net Book Value							
January 1, 2015	490,252	1,748,139	83,814	14,731	159,303	104,278	2,600,517
December 31, 2015	490,252	1,705,822	78,938	8,356	136,004	86,222	2,505,594
December 31, 2016	490,252	1,656,641	74,062	3,636	115,243	29,020	2,368,854

7. INSURANCE CONTRACTS

Due from Reinsurers	2016	2015
Balance, beginning of the year	113,946	113,183
Submitted to reinsurer	897,119	2,332,853
Received from reinsurer	(853,435)	(2,332,090)
Balance, end of the year	157,630	113,946
Expected settlement		
Within one year	157,630	113,946
More than one year	-	-
	157,630	113,946

At year-end, the Company reviewed the amounts owing from its reinsurer and determined that no allowance was necessary.

Reinsurer's Share of Provision for Unpaid Claims	2016	2015
Balance, beginning of the year	2,919,769	3,953,930
New claims reserve	282,641	510,258
Change in prior year reserves	659,683	788,434
Submitted to reinsurer	(897,119)	(2,332,853)
Balance, end of the year	2,964,974	2,919,769
Expected Settlement		
Within one year	426,951	311,151
More than one year	2,538,023	2,608,618
	2,964,974	2,919,769

7. INSURANCE CONTRACTS (Continued)

Deferred Policy Acquisition Expenses	2016	2015
Balance, beginning of the year	491,647	421,794
Acquisition costs incurred	1,041,100	1,039,336
Expensed during the year	(969,482)	(969,483)
Balance, end of the year	563,265	491,647

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

Unearned Premiums (UEP)	2016	2015
Balance, beginning of the year	3,268,102	2,980,888
Premiums written	6,513,050	6,458,610
Premiums earned during the year	(6,580,569)	(6,171,396)
Balance, end of the year	3,200,583	3,268,102

7. INSURANCE CONTRACTS (Continued)

The following is a summary of the insurance contract provisions and related reinsurance assets at December 31.

	December 31, 2016			December 31, 2015		
	Gross	**Reinsurance**	**Net**	**Gross**	**Reinsurance**	**Net**
Outstanding claims provision						
Long settlement term	1,499,247	549,816	949,431	1,570,524	603,806	966,718
Short settlement term	994,705	418,649	576,056	776,736	319,454	457,282
Facility Association and other residual pools	164,007	-	164,007	180,890	-	180,890
	2,657,959	968,465	1,689,494	2,528,150	923,260	1,604,890
Provision for claims incurred but not reported	3,144,232	1,996,509	1,147,723	3,144,232	1,996,509	1,147,723
	5,802,191	2,964,974	2,837,217	5,672,382	2,919,769	2,752,613

7. INSURANCE CONTRACTS (Continued)

Comments and Assumptions for Specific Claims Categories

The ultimate cost of long settlement general liability and accident benefit 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 have created 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 environment impairment, which did not appear likely or even exist when the policies were written, has been imposed by legislation 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 liabilities provided by the actuaries of the pools.

Claims and Adjustment Expenses

Changes in claim liabilities recorded in the statement of financial position for the years-ended December 31, 2016 and 2015 and their impact on claims and adjustment expenses for the two years follow:

	2016	2015
Unpaid claim liabilities - beginning of year - net of reinsurance	2,752,613	2,589,169
Increase (decrease) in estimated losses and expenses, for losses occurring in prior years	510,875	751,241
Provisions for losses and expenses on claims occurring in the current year	2,440,436	2,353,270
Payment on claims:		
Current year	(1,698,565)	(1,560,050)
Prior years	(1,168,142)	(1,381,017)
Unpaid claims - end of year - net	2,837,217	2,752,613
Reinsurer's share and subrogation recoverable	2,964,974	2,919,769
	5,802,191	5,672,382

The change in estimate of losses occurring in prior years is due to changes arising from new information received.

7. INSURANCE CONTRACTS (Continued)

Provision for Unpaid Claims and Adjustment Expenses

The determination of the provision for unpaid claims and adjustment expenses and the related reinsurer's share requires the estimation of three major variables which are the development of claims, reinsurance recoveries and future investment income.

The Superintendent of the Financial Services Commission of Ontario has required that consideration of future investment income be disregarded except in the evaluation of automobile accident benefit claims.

Claim Development

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

The tables that follow present the development of claims payments and the estimated ultimate cost of claims for the claim year 2007 to 2016 The upper half of the tables shows the cumulative amounts paid or estimated to be paid during successive years related to each claim year. The original estimates will be increased or decreased, as more information becomes known about the original claims and overall claim frequency and severity.

In 2011, the year of adoption of IFRS, only information from periods beginning on or after January 1, 2007 was required to be disclosed. This is being increased in each succeeding additional year, until ten years of information is included.

7. INSURANCE CONTRACTS (Continued)

Gross Claims	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**Total**
Gross estimate of cumulative claims cost											
At the end year of claim	1,670,013	2,404,091	2,469,112	3,147,758	4,615,329	1,635,798	2,362,219	2,117,381	2,812,922	2,672,203	
One year later	1,741,881	2,615,453	2,880,298	3,946,899	5,059,975	1,880,231	2,520,648	2,279,639	3,039,738		
Two years later	2,174,788	3,102,908	3,794,994	4,856,953	5,462,613	2,069,821	2,804,618	2,462,999			
Three years later	2,491,348	3,358,832	4,993,534	4,683,000	6,205,927	2,326,364	3,036,761				
Four years later	2,774,986	3,172,465	5,243,123	4,685,366	7,021,996	2,369,215					
Five years later	2,707,869	3,073,732	5,220,729	4,687,059	7,128,293						
Six years later	2,661,538	3,089,732	5,257,151	4,687,775							
Seven years later	2,661,538	3,129,298	5,573,418								
Eight years later	2,661,538	3,165,958									
Nine years later	2,661,538										
Current estimate of cumulative claims cost	2,661,538	3,165,958	5,573,418	4,687,775	7,128,293	2,369,215	3,036,761	2,462,999	3,039,738	2,672,203	36,797,898
Cumulative payments	2,661,538	3,111,815	5,547,710	4,687,775	7,002,717	2,325,710	2,730,296	2,351,140	2,148,036	1,918,557	34,485,294
Outstanding claims	-	54,143	25,708	-	125,576	43,505	306,465	111,859	891,702	753,646	2,312,604
Outstanding claims 2006 and prior											181,348
Facility Association and other residual pools											164,007
IBNR											3,144,232
Total Gross Outstanding Claims											5,802,191

7. INSURANCE CONTRACTS (Continued)

Net of Reinsurance	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**Total**
Net estimate of cumulative claims cost											
At the end year of claim	1,670,013	2,023,817	2,272,811	2,584,358	3,899,649	1,635,798	2,094,173	2,106,876	2,302,608	2,389,562	
One year later	1,719,344	2,219,527	2,275,926	2,615,773	4,339,878	1,880,231	2,246,023	2,231,352	2,396,071		
Two years later	1,933,754	2,500,343	2,744,043	2,815,026	4,414,500	2,069,821	2,514,485	2,414,773			
Three years later	2,030,627	2,596,781	2,877,588	2,713,469	4,478,592	2,267,439	2,516,508				
Four years later	2,196,768	2,551,617	2,908,397	2,713,237	4,586,236	2,310,220					
Five years later	2,138,558	2,503,321	2,920,123	2,726,768	4,679,278						
Six years later	2,122,857	2,519,527	2,923,828	2,726,768							
Seven years later	2,122,857	2,559,093	3,003,833								
Eight years later	2,122,857	2,595,752									
Nine years later	2,122,857										
Current estimate of cumulative claims cost	2,122,857	2,595,752	3,003,833	2,726,768	4,679,278	2,310,220	2,516,508	2,414,773	2,396,071	2,389,562	27,155,622
Cumulative payments	2,122,857	2,541,608	3,001,263	2,726,768	4,621,064	2,266,716	2,455,671	2,302,913	1,925,222	1,684,190	25,648,272
Outstanding claims	-	54,144	2,570	-	58,214	43,504	60,837	111,860	470,849	705,372	1,507,350
Outstanding claims 2006 and prior											18,137
Facility Association and other residual pools											164,007
IBNR											1,147,723
Total Net Outstanding Claims											2,837,217

8. OTHER PROVISIONS AND CONTINGENT LIABILITIES

In common with the insurance industry in general, the Company is subject to litigation arising in the normal course of conducting its insurance business which is taken into account in establishing the provision for unpaid claims and adjustment expenses.

The Company has been named in statements of claim unrelated to its insurance business. It is not practical to estimate the impact of these claims.

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

9. INCOME TAXES

The Company is subject to income taxes on that portion of its income derived from insuring other than farm related risks.

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

	2016	**2015**
Current tax expenses		
Adjustments for over / under provision in prior periods	-	-
Deferred tax expense		
Origination and reversal of temporary differences	(46,798)	(110,350)
Total income tax expense (recovery)	(46,798)	(110,350)

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 15.00% (2015 - 15.50%) are as follows:

	2016	2015
Income (loss) before income taxes	(284,684)	(713,677)
Expected taxes based on the statutory rate of 15.00% (2015 - 15.50%)	(42,703)	(110,620)
Non deductible portion of claims liabilities	2,401	1,267
Other non deductible expenses	120	277
Capital cost allowance in excess of amortization	4,332	1,624
Non-capital loss carryforward (application)	38,554	107,609
Other	(2,704)	(157)
Current income tax expense (recovery)	-	-

The movement in 2016 deferred tax liabilities and assets are:

	Opening balance at January 1, 2016	Recognized in net income	Closing balance at December 31, 2016
Deferred Tax Liabilities			
Property, plant and equipment	(34,077)	4,477	(29,600)
Deferred Tax Assets			
Claims liabilities	21,333	2,481	23,814
Loss carryforward	286,845	39,840	326,685
Deferred tax assets	308,178	42,321	350,499
2016 net deferred income tax	274,101	46,798	320,899

9. INCOME TAXES (Continued)

	Opening balance at January 1, 2015	Recognized in net income	Closing balance at December 31, 2015
Deferred Tax Liabilities			
Property, plant and equipment	(35,701)	1,624	(34,077)
Deferred Tax Assets			
Claims liabilities	20,066	1,267	21,333
Loss carryforward	179,386	107,459	286,845
Deferred tax assets	199,452	108,726	308,178
2015 net deferred income tax	163,751	110,350	274,101

	2016	**2015**
Deferred Tax Liabilities		
Deferred tax liabilities to be settled within 12 months	(29,600)	(34,077)
Deferred tax liabilities to be settled after more than 12 months	-	-
	(29,600)	(34,077)

	2016	**2015**
Deferred Tax Assets		
Deferred tax assets to be settled within 12 months	23,814	21,333
Deferred tax asset to be settled after more than 12 months	326,685	286,845
	350,499	308,178

In 2014, the Company realized a capital loss of $266,727 for tax purposes. No value has been assigned to this capital loss carryforward in the Company's deferred income tax balance.

10. GROSS CLAIMS AND ADJUSTMENT EXPENSES

Included in claims expenses were internal adjustment costs of $338,764 (2015 - $217,128).

11. 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:

	2016	**2015**
Compensation		
Short term employee benefits and director's fees	179,337	281,855
Total pension and other post-employment benefits	9,702	16,556
	189,039	298,411
Premiums	26,351	27,856
Claims paid	10,124	-

Amounts owing to and from key management personnel at December 31, 2016 are $nil (2015 - $nil), and $2,882 (2015 - $4,519) respectively. The amounts are included in due from policyholders and accounts payable and accrued liabilities on the statement of financial position.

12. CAPITAL MANAGEMENT

The Company's objectives with respect to capital management are to maintain a capital base that is structured to exceed regulatory requirements and to best utilize capital allocations while following the limitations as dictated by the regulators.

The regulators measure the financial strength of property and casualty insurers using a minimum capital test (MCT). The regulators generally expect property and casualty companies to comply with capital adequacy requirements. The test compares a Company's capital against the risk profile of the organization. The risk-based capital adequacy framework assesses the risk of assets, policy liabilities and other exposures by applying various factors. The regulator indicates that the Company should produce a minimum MCT of 150%. During the year, the Company has consistently exceeded this minimum. The regulator has the authority to request more extensive reporting and can place restrictions on the Company's operations if the Company falls below this requirement and is deemed necessary.

The Company uses Net Risk Ratio (unappropriated members' surplus to net premiums written) to monitor capital adequacy. The Company benchmarks an adequate Net Risk Ratio to be less than 1.00. The Company's Net Risk Ratio at December 31, 2016 was 0.83 (2015 - 0.79).

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

13. FINANCIAL INSTRUMENT AND INSURANCE RISK MANAGEMENT

Insurance Risk Management

The principal risk that 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 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 and arrangements to transfer risk.

The Company purchases reinsurance as part of its risks mitigation program. Retention limits for the excess-of-loss and quota share reinsurance vary by product line and affordability.

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

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 Company manages this risk via its underwriting and reinsurance strategy with clear eligibility risk management framework. Exposures are limited by having documented underwriting limits and criteria. 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 absolute approval by the Financial Services Commission of Ontario and therefore may result in a delay in adjusting the pricing to exposed risk; in this case the Company has policies regarding renewal and new business accepted as allowed by the Financial Services Commission of Ontario. All reinsurance is purchased to mitigate the effect of the potential loss to the Company. Reinsurance is placed with Farm Mutual Reinsurance Plan Inc. (FMRP), a Canadian registered reinsurer.

The Company follows the policy of underwriting and reinsuring contracts of insurance which, in the main, limit the liability of the Company to a maximum amount on any one claim of $290,000 (2015 - $290,000) in the event of a property claim, an amount of $295,000 (2015 - $295,000) in the event of a liability claim, and an amount of $250,000 (2015 - $240,000) in the event of an automobile claim. For claims occurring prior to 2013, for amounts over the respective limits there is a 10% retention to a specified maximum. The Company obtained catastrophe reinsurance which limits the Company's liability to $870,000 (2015 - $870,000). In addition, the Company has obtained stop loss reinsurance which limits the liability of all claims in a specific year to 80% (2015 - 80%) of gross net earned premiums for property and 100% (2015 - 100%) of gross net earned premiums for automobile and liability.

13. FINANCIAL INSTRUMENT AND INSURANCE RISK MANAGEMENT (Continued)

Insurance Risk Management (Continued)

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 preformed regularly to estimate future claims costs, related expenses, and expected profit in relation to unearned premiums. There was no premium deficiency at December 31, 2016.

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 as described in Note 7.

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

	Property Claims		**Auto Claims**		**Liability Claims**	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
5% point change in loss ratios would result in the following increase / decrease:						
Gross	169,925	163,069	111,199	119,942	42,268	37,990
Net	150,258	143,416	67,148	76,670	31,747	28,174

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.

Credit Risk

Credit risk is the risk of financial loss to the Company if a debtor fails to make payments of interest and principal when due. The Company is exposed to this risk relating to its reliance on reinsurers to make payment when certain loss conditions are met.

Reinsurance is placed with Farm Mutual Reinsurance Plan Inc. (FMRP), a Canadian registered reinsurer. Management monitors the creditworthiness of FMRP by reviewing their annual financial statements and through ongoing communications. Reinsurance treaties are reviewed annually by management prior to renewal of the reinsurance contract.

Accounts receivable are short term in nature consisting of a large number of policyholders, and are not subject to material credit risk. Regular review of outstanding receivables is performed to ensure credit worthiness.

The maximum exposure to investment credit risk is outlined in Note 5.

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.

13. FINANCIAL INSTRUMENT AND INSURANCE RISK MANAGEMENT (Continued)

Market Risk

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

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

Currency Risk

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

The Company is exposed to currency risk through its holdings in global equity pooled funds. Management monitors its foreign currency exposure regularly and adjusts holdings when deemed necessary. It is estimated that an immediate hypothetical 1% decrease in the value of foreign currency would result in an unrealized loss of $8,852 (2015 - $9,508).

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.

Interest Rate Risk

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

The Company is not significantly exposed to interest rate risk.

13. FINANCIAL INSTRUMENT AND INSURANCE RISK MANAGEMENT (Continued)

Equity Risk

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

Fluctuations in the market value of these investments affect the carrying value of these securities causing changes in investment income. Management and the Board of Directors monitor the ongoing performance of pooled funds monthly and ensures that investments are diversified by sector and geographically.

The Company’s pooled fund investments are concentrated as follows:

	2016	2015
CCL Bond Pooled Fund	3,979,646	4,015,995
CCL Short Term Bond Pooled Fund	986,446	935,729
CCL Canadian Equity Pooled Fund	887,768	881,862
CCL High Yield Bond Pooled Fund	300,948	328,241
CCL Global Alpha Equity Pooled Fund	160,591	143,973
CCL Global Equity Pooled Fund	724,640	806,835
	7,040,039	7,112,635

It is estimated that an immediate hypothetical 5% decrease in market value of pooled funds would result in a unrealized loss of $352,002 at December 31, 2016 (2015 - $355,632).

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet all cash outflow obligations as they come due. The Company mitigates this risk by monitoring cash activities and expected outflows. The Company's current liabilities arise as claims are made. The Company does not have material liabilities that can be called unexpectedly at the demand of a lender or client. 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.

To manage its cash flow requirements, the Company maintains its invested assets in liquid securities. In addition, the Company has access to a line of credit if necessary.

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.