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

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Independent Auditor's Report

To the Policyholders of
Howard Mutual Insurance Company

Opinion
We have audited the financial statements of Howard Mutual Insurance Company ("the Company"), which comprise the statement of financial position as at December 31, 2018 and the statement of comprehensive income, statement of policyholders' 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 Company 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.

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

Other Information
Management is responsible for the other information. The other information comprises the Company's Annual Report. The Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

Auditor's 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.

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

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

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

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

BDO Canada LLP.

Chartered Professional Accountants, Licensed Public Accountants

Chatham, Ontario
February 19, 2019

Howard Mutual Insurance Company
Statement of Financial Position

December 31	2018	2017
Assets		
Cash	**$ 3,456,499**	$ 2,067,785
Investments (Note 5)	**38,118,536**	41,799,580
Investment income accrued	**240,315**	172,619
Income taxes recoverable (Note 12)	**-**	290,113
Due from reinsurer (Note 4)	**135,050**	28,379
Due from policyholders	**2,585,840**	2,427,837
Reinsurer's share of provision for unpaid claims (Note 4)	**3,427,967**	4,626,148
Deferred policy acquisition expenses (Note 4)	**492,881**	458,269
Property, plant & equipment (Note 14)	**1,402,125**	1,387,351
Other assets	**32,991**	28,776
Deferred income taxes (Note 12)	**2,194,300**	112,800
	$52,086,504	$ 53,399,657
Liabilities		
Accounts payable and other liabilities	**$ 311,040**	$ 1,274,278
Premiums due to reinsurer	**69,491**	41,121
Income taxes payable (Note 12)	**992,560**	-
Unearned premiums (Note 4)	**6,121,678**	5,796,180
Provision for unpaid claims (Note 4)	**9,085,059**	12,031,190
Premium refund payable (Note 4)	**600,000**	350,000
	17,179,828	19,492,769
Policyholders' Surplus		
Unappropriated policyholders' surplus	**34,906,676**	33,906,888
	$52,086,504	$ 53,399,657

Signed on behalf of the Board by:

Director

Director

Howard Mutual Insurance Company
Statement of Comprehensive Income

For the year ended December 31	2018	2017
Underwriting income		
Gross premiums written	**$12,482,985**	$ 11,862,568
Less reinsurance ceded	**1,577,913**	1,480,107
Net premiums written	**10,905,072**	10,382,461
Less increase in unearned premiums	**325,498**	236,107
Net premiums earned	**10,579,574**	10,146,354
Service charges	**79,962**	79,226
	10,659,536	10,225,580
Direct losses incurred		
Gross claims and adjustment expenses (Note 11)	**5,453,480**	8,196,652
Less reinsurer's share of claims and adjustment expenses (recoveries)	**(507,397)**	499,605
	5,960,877	7,697,047
	4,698,659	2,528,533
Expenses		
Fees, commissions and other acquisition expenses (Note 8)	**1,135,608**	982,370
Other operating and administrative expenses (Note 9)	**2,451,924**	1,887,015
	3,587,532	2,869,385
Net underwriting income (loss) before premium refund	**1,111,127**	(340,852)
Premium refund	**600,437**	350,000
Net underwriting income (loss)	**510,690**	(690,852)
Other items		
Investment and other income (Note 6)	**(6,390)**	637,381
Comprehensive income (loss) before income taxes	**504,300**	(53,471)
Provision (recovery) for income taxes (Note 12)	**(495,488)**	(55,669)
Comprehensive income for the year	**$ 999,788**	$ 2,198

Howard Mutual Insurance Company
Statement of Policyholders' Surplus

For the year ended December 31	2018	2017
Unappropriated policyholders' surplus		
Balance, beginning of year	**$33,906,888**	$ 33,904,690
Comprehensive income for the year	**999,788**	2,198
Balance, end of year	**$34,906,676**	$ 33,906,888

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

Howard Mutual Insurance Company
Statement of Cash Flows

For the year ended December 31	2018	2017
Operating activities		
Comprehensive income for the year	**$ 999,788**	$ 2,198
Adjustments for:		
Depreciation property, plant and equipment	**149,318**	145,960
Interest and dividend income	**(976,744)**	(768,739)
Realized loss (gains) from disposal of investments	**236,246**	(524,059)
Unrealized losses on investments	**644,880**	543,589
Gain from disposal of property, plant & equipment	**(3,097)**	-
Provision (recovery) for income tax	**(495,488)**	(55,669)
	(444,885)	(658,918)
Changes in working capital		
Change in due from policyholders	**(158,003)**	(139,785)
Change in other assets	**(4,215)**	(2,241)
Change in accounts payable and other liabilities	**(963,238)**	(4,288)
Change in amounts due to/from reinsurer	**(78,301)**	61,307
Change in premium refund payable	**250,000**	(150,000)
	(953,757)	(235,007)
Changes in insurance contract related balances, provisions		
Change in deferred policy acquisition expenses	**(34,612)**	(9,106)
Change in unearned premiums	**325,498**	236,107
Reinsurer's share of provision for unpaid claims	**1,198,181**	(162,185)
Change in provision for unpaid claims	**(2,946,131)**	1,479,141
	(1,457,064)	1,543,957
Cash flows related to interest, dividends and income taxes		
Interest and dividends received	**909,048**	762,119
Income taxes paid	**(303,339)**	(287,463)
	605,709	474,656
Total cash inflows (outflows) from operating activities	**(1,250,209)**	1,126,886
Investing activities		
Proceeds from sale of investments	**21,444,320**	23,581,689
Purchase of investments	**(18,644,402)**	(25,149,931)
Proceeds from sale of property, plant & equipment	**3,098**	-
Purchase of property, plant & equipment	**(164,093)**	(18,969)
Total cash inflows (outflows) from investing activities	**2,638,923**	(1,587,211)
Net increase (decrease) in cash and cash equivalents	**1,388,714**	(460,325)
Cash and cash equivalents, beginning of year	**2,067,785**	2,528,110
Cash and cash equivalents, end of year	**$ 3,456,499**	$ 2,067,785

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

1. Corporate Information

Howard 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 at 20 Ebenezer Street West in Ridgetown, Ontario.

The Company is subject to rate regulation in the automobile business that it writes. Before automobile insurance rates can be changed, a rate filing is prepared as a combined filing for most Ontario Farm Mutuals. The rate filing must include actuarial justification for rate increases or decreases. All rate filings are approved or denied by the Financial Services Commission of Ontario. Rate regulation may affect the automobile revenues that are earned by the Company. The actual impact of rate regulation would depend on the competitive environment at the time.

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

2. Basis of Preparation

(a) Statement of Compliance

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

(b) Basis of Measurement

These financial statements were prepared under the historical cost convention, as modified by the revaluation of financial assets designated at fair value through profit and 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:

- The calculation of unpaid claims, including the determination of the initial claim liability, the development of claims, the estimate of time until ultimate settlement and the performance of a liability adequacy test (Note 4); and
- The determination of the recoverability of the deferred policy acquisition expenses (Note 4).
- The classification of financial assets at FVTPL, which includes assessing the business model within which the assets are held and whether the contractual terms of the assets are solely payments of principal and interest on the principal amount outstanding (Note 5).

2. Basis of Preparation (continued)

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.

On adoption of IFRS 9, in accordance with its transitional provisions, the Company has not restated prior periods but has reclassified the financial assets held at January 1, 2018, retrospectively, based on the new classification requirements and the characteristics of each financial instrument as at the transition date. 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.

(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 fair value through profit and loss ("FVTPL").

The following table shows 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.

Financial Instrument	Note	IAS 39		IFRS 9	
Financial assets					
Cash		Loans and receivables	$ 2,067,785	Amortized cost	$2,067,785
Investments – treasury bills and GIC's	5	FVTPL	4,499,738	FVTPL	4,499,738
Investments – bonds	5	FVTPL	24,393,905	FVTPL	24,393,905
Investments – equity securities in listed companies	5	FVTPL	12,579,149	FVTPL	12,579,149
Investments – other	5	FVTPL	326,788	FVTPL	326,788
Financial liabilities					
Accounts payable and accrued liabilities		Other financial liabilities	1,274,278	Amortized cost	1,274,278

3. Adoption of New Accounting Standards (continued)

(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.

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 and deferred policy acquisition expenses.

(a) Premiums and unearned premiums

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

The Company recognizes premium income evenly over the term of the insurance policy using the pro rata method. The portion of the premium related to the unexpired portion of the policy at the end of the fiscal year is reflected in unearned premiums (UEP). Changes in unearned premiums recorded in the statement of financial position for the years ended December 31, 2018 and 2017 and their impact on net premiums earned for the two years follow:

	2018	2017
Balance, beginning of the year	**$ 5,796,180**	$ 5,560,073
Premiums written	**12,482,985**	11,862,568
Premiums earned during year	**(11,831,989)**	(11,390,354)
Changes in UEP recognized in income	**(325,498)**	(236,107)
Balance, end of the year	**$ 6,121,678**	$ 5,796,180

4. Insurance Contracts (Continued)

(a) Premiums and unearned premiums (continued)

Pricing of property and liability policies are based on assumptions in regard to trends and past experience, in an attempt to correctly match policy revenue with exposed risk. Automobile premiums are subject to approval by the Financial Services Commission of Ontario and therefore may result in a delay in adjusting the pricing to exposed risk.

The Company is exposed to a pricing risk to the extent that unearned premiums are insufficient to meet the related future policy costs. Evaluation is performed regularly to estimate future claims costs, related expenses, and expected profit in relation to unearned premiums. There was no premium deficiency at December 31, 2018 and 2017.

Amounts due from policyholders are measured at amortized cost less any impairment losses. These amounts are short-term in nature consisting of a large number of policyholders, and are not subject to material credit risk. Regular review of amounts outstanding is performed to ensure credit worthiness.

(b) Deferred policy acquisition expenses

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

	2018	2017
Balance, beginning of the year	**$ 458,269**	$ 449,163
Acquisition costs incurred	**1,103,044**	933,632
Expensed during the year	**(1,068,432)**	(924,526)
Balance, end of the year	**$ 492,881**	$ 458,269

(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.

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 the net insurance liabilities follows:

	December 31, 2018		
	Gross	**Reinsurance**	**Net**
Outstanding claims provision			
Long settlement term	**$ 3,104,909**	**$ 767,157**	**$ 2,337,752**
Short settlement term	**1,783,224**	**410,810**	**1,372,414**
Facility Association and other residual pools	**318,426**	**-**	**318,426**
	5,206,559	**1,177,967**	**4,028,592**
Provision for claims incurred but not reported	**3,878,500**	**2,250,000**	**1,628,500**
	$ 9,085,059	**$ 3,427,967**	**$ 5,657,092**

	December 30, 2017		
	Gross	Reinsurance	Net
Outstanding claims provision			
Long settlement term	$ 6,185,437	$ 1,948,029	$ 4,237,408
Short settlement term	1,783,224	428,119	1,355,105
Facility Association and other residual pools	304,029	-	304,029
	8,272,690	2,376,148	5,896,542
Provision for claims incurred but not reported	3,758,500	2,250,000	1,508,500
	$ 12,031,190	$ 4,626,148	$ 7,405,042

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.

4. Insurance Contracts (Continued)

(c) Unpaid claims and adjustment expenses (continued)

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 claim liabilities - beginning of year – net of reinsurance	**$ 7,405,042**	$ 6,088,086
Decrease in estimated losses and expenses, for losses occurring in the prior years	**(1,541,679)**	(859,644)
Provision for losses and expenses on claims occurring in the current year	**7,502,199**	8,449,299
Payment on claims:		
Current year	**(5,386,204)**	(5,006,375)
Prior years	**(2,322,266)**	(1,266,324)
Unpaid claim liabilities - end of year – net of reinsurance	**5,657,092**	7,405,042
Reinsurer’s share of outstanding claims	**3,427,967**	4,626,148
Total provision for unpaid claims	**$ 9,085,059**	$ 12,031,190

Claim development

The principal risk the Company faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Company is to ensure that sufficient reserves are available to cover these liabilities.

The Company writes insurance primarily over a twelve month duration. The most significant risks arise through high severity, low frequency events such as natural disasters or catastrophes. A concentration of risk may arise from insurance contracts issued in a specific geographic location since all insurance contracts are written in Ontario.

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

The estimation of claim development involves assessing the future behaviour of claims, taking into consideration the consistency of the Company's claim handling procedures, the amount of information available, the characteristics of the line of business from which the claim arises and claims reporting patterns. 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 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	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**Total**
Gross estimate of cumulative claims cost											
At the end of accident year	$4,952,938	$6,065,153	$6,876,961	$7,142,498	$7,513,848	$7,609,941	$6,821,730	$7,469,126	$10,221,591	$8,852,199	
One year later	4,565,195	4,767,418	6,232,963	5,908,276	6,323,928	6,233,941	5,590,696	6,887,574	8,335,728		
Two years later	4,167,175	4,645,199	5,699,128	5,748,122	5,981,550	5,637,745	5,040,226	6,678,800			
Three years later	4,295,042	4,210,356	5,276,094	5,787,239	5,867,014	5,387,429	4,678,967				
Four years later	3,925,180	4,028,980	5,098,305	5,816,993	6,123,577	5,180,259					
Five years later	3,778,191	4,027,230	5,017,115	5,690,613	6,007,063						
Six years later	3,734,191	3,918,162	5,131,737	5,613,295							
Seven years later	3,734,191	3,917,016	5,070,833								
Eight years later	3,734,191	3,917,016									
Nine years later	3,734,191										
Current estimate of cumulative claims cost	3,734,191	3,917,016	5,070,833	5,613,295	6,007,063	5,180,259	4,678,967	6,678,800	8,335,728	8,852,199	$58,068,351
Cumulative payments	3,734,191	3,917,016	4,274,526	5,447,660	5,630,445	5,107,627	4,139,957	5,447,849	6,216,243	5,386,204	49,301,718
Outstanding claims	$-	$-	$796,307	$165,635	$376,618	$72,632	$539,010	$1,230,951	$2,119,485	$3,465,995	8,766,633
Outstanding claims 2008 and prior											-
Outstanding reserves - facility and risk sharing pool											318,426
Total gross unpaid claims and adjustment expenses											**$ 9,085,059**

4. Insurance Contracts (Continued)

(c) Unpaid claims and adjustment expenses (continued)

Net of reinsurance	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**Total**
Net estimate of cumulative claims cost											
At the end of accident year	$ 4,116,000	$ 4,504,000	$ 5,535,000	$ 4,926,000	$ 6,207,332	$ 5,885,099	$ 5,307,742	$ 6,119,486	$ 8,449,299	$ 7,502,199	
One year later	3,163,000	4,008,000	5,204,000	4,314,021	5,666,293	5,089,191	4,268,075	5,732,545	7,523,292		
Two years later	3,837,000	4,047,000	4,911,327	4,453,368	5,545,407	4,788,995	3,998,057	5,495,821			
Three years later	3,733,000	3,609,216	4,644,483	4,521,170	5,543,905	4,673,217	3,998,086				
Four years later	3,639,977	3,538,806	4,507,657	4,570,775	5,578,912	4,614,948					
Five years later	3,537,825	3,565,001	4,464,838	4,428,204	5,501,104						
Six years later	3,527,825	3,497,042	4,483,918	4,403,688							
Seven years later	3,527,825	3,496,928	4,391,159								
Eight years later	3,527,825	3,496,928									
Nine years later	3,527,825										
Current estimate of cumulative claims cost	3,527,825	3,496,928	4,391,159	4,403,688	5,501,104	4,614,948	3,998,086	5,495,821	7,523,292	7,502,199	$ 50,455,050
Cumulative payments	3,527,825	3,496,928	4,273,273	4,374,137	5,385,150	4,554,877	3,575,673	4,498,263	6,048,696	5,386,204	45,121,026
Outstanding claims	$ -	$ -	$ 117,886	$ 29,551	$ 115,954	$ 60,071	$ 422,413	$ 997,558	$ 1,474,596	$ 2,115,995	5,334,024
Outstanding claims 2008 and prior											4,642
Outstanding reserves - facility and risk sharing pool											318,426
Total net unpaid claims and adjustment expenses											**$ 5,657,092**

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 comprehensive income before tax:

	Property claims		Auto claims		Liability claims	
	2018	2017	**2018**	2017	**2018**	2017
5% increase in loss ratios						
Gross	**$ 287,000**	$ 267,000	**$ 280,000**	$ 260,000	**$ 50,000**	$ 49,000
Net	**$ 249,000**	$ 255,000	**$ 241,000**	$ 228,000	**$ 39,000**	$ 37,000
5% decrease in loss ratios						
Gross	**$ (287,000)**	$ (267,000)	**$ (280,000)**	$ (260,000)	**$ (50,000)**	$ (49,000)
Net	**$ (249,000)**	$ (255,000)	**$ (241,000)**	$ (228,000)	**$ (39,000)**	$ (37,000)

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

(d) Liability adequacy test

At each reporting date the Company performs a liability adequacy test on its insurance liabilities less deferred policy acquisition expenses to ensure the carrying value is adequate, using current estimates of future cash flows, taking into account the relevant discount rate. If that assessment shows that the carrying amount of the liabilities is inadequate, any deficiency is recognized as an expense in profit and loss initially by writing down the deferred policy acquisition expense and subsequently by recognizing additional unearned premiums.

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

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

The Company follows a policy of underwriting and reinsuring contracts of insurance which, in the main, limit the liability of the Company to an amount on any one claim of $335,000 (2017 - $335,000) in the event of a property claim, an amount of $600,000 (2017 - $500,000) in the event of an automobile claim and $225,000 (2017 - $225,000) in the event of a liability claim. The Company also obtained reinsurance which limits the Company's liability to $1,005,000 (2017 - $1,005,000) 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 income.

4. Insurance Contracts (Continued)

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

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

Expected reinsurance recoveries on unpaid claims and adjustment expenses are recognized as assets at the same time and using principles consistent with the Company's method for establishing the related liability. Changes in due from reinsurer recorded in the statement of financial position for the years ended December 31, 2018 and 2017 follow:

	2018	2017
Balance, beginning of the year	**$ 28,379**	$ 111,579
Submitted to reinsurer	**695,836**	337,421
Received from reinsurer	**(589,165)**	(420,621)
Balance, end of the year	**$ 135,050**	$ 28,379

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

Changes in reinsurer's share of provision for unpaid claims 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:

Reinsurer's share of provision for unpaid claims	**2018**	2017
Balance, beginning of the year	**$ 4,626,148**	$ 4,463,963
New claims reserve	**-**	428,119
Change in prior years' reserve	**(502,345)**	71,487
Submitted to reinsurer	**(695,836)**	(337,421)
Balance, end of the year	**$ 3,427,967**	$ 4,626,148

(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 an expense 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 are recognized on the settlement date, which is the date that the asset is received by the Company. The instruments are initially measured at fair value.

(b) Classification and subsequent measurement

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

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

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

(c) Derecognition

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

5. Investments (Continued)

(d) Risks

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

	December 31, 2018 Fair value	December 31, 2017 Fair value
Canada Treasury Bills	$ 4,308,179	$ 1,100,790
Guaranteed Investment Certificates	2,032,000	3,398,948
Bonds issued by		
Federal	9,674,890	12,827,203
Provincial	2,926,293	1,951,757
Corporate		
Canadian	10,480,614	8,676,220
Foreign	1,073,439	938,725
	24,155,236	24,393,905
Equity investments		
Canadian	6,121,921	7,518,016
Foreign	1,173,442	5,061,133
	7,295,363	12,579,149
Other investments		
Fire Mutuals guarantee fund	27,758	26,788
Debentures	300,000	300,000
	327,758	326,788
Total investments	$ 38,118,536	$ 41,799,580

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

The Company's investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits, corporate sector limits and general guidelines for geographic exposure. The bond portfolio includes 100% (2017 - 100%.) of bonds rated B or better. The Company's investment policy limits investment in bonds and debentures of the various ratings to limits ranging from 60% to 90% of the Company's portfolio. The Company's policy requires that funds be invested in high quality bonds and debentures of Federal, Provincial or Municipal Government and corporations. All fixed income portfolios are measured for performance on a quarterly basis and monitored by management on a monthly basis.

5. Investments (Continued)

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

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

The Company's investment policy requires that up to 40% of the Company's portfolio be held in cash and short-term investments, which mitigates liquidity risk. Short-term investments include treasury bills, commercial paper and term deposits with an original maturity of less than one year.

Maturity profile of bonds, T-bills and GICs held is as follows:

	Within 1 year	2 to 5 years	6 to 10 years	Over 10 years	Fair value
December 31, 2018	$ 5,673,867	$ 16,270,073	$ 7,078,350	$ 1,473,125	$ 30,495,415
Percent of Total	19 %	53 %	23 %	5 %	
December 31, 2017	$ 2,467,738	$ 9,153,279	$ 15,824,023	$ 1,448,603	$ 28,893,643
Percent of Total	8 %	32 %	55 %	5 %	

The effective interest rate of the bond portfolio is 2.78% at December 31, 2018 (2017 - 2.26%).

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

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

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

The Company's currency risk is related to stock holdings which are limited to foreign equities in sectors which are not readily available in Canada. The Company limits its holdings in foreign equities to 20% of the total investment portfolio in accordance with its investment policy. Foreign currency changes are monitored by the Investment Committee and holdings are adjusted when offside of the investment policy.

5. Investments (Continued)

The Company is exposed to interest rate risk through its interest bearing investments (T-Bills, GICs, and Bonds).

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 unrealized gains or losses.

At December 31, 2018, a 1% move in interest rates, with all other variables held constant, could impact the market value of bonds by $773,850 (2017 - $1,452,055). These changes would be recognized in income.

The Company is exposed to equity risk through its portfolio of Canadian and foreign stocks. 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 equities of $729,536 (2017 - $1,257,915). This change would be recognized in profit or loss.

The Company's investment policy limits investments in preferred shares to a maximum of 10% and common shares to a maximum of 25% of the market value of the investment assets.

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

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

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

5. Investments (Continued)

	Level 1	Level 2	Level 3	Total
December 31, 2018				
Treasury bills	**$ 4,308,179**	**$ -**	**$ -**	**$ 4,308,179**
Guaranteed investment certificates	**-**	**2,032,000**	**-**	**2,032,000**
Bonds	**-**	**24,155,236**	**-**	**24,155,236**
Equities	**7,295,363**	**-**	**-**	**7,295,363**
Other investments	-	**-**	**327,758**	**327,758**
Total	**$11,603,542**	**$26,187,236**	**$ 327,758**	**$38,118,536**
December 31, 2017				
Treasury bills	$ 1,100,790	$ -	$ -	$ 1,100,790
Guaranteed investment certificates	-	3,398,948	-	3,398,948
Bonds	-	24,393,905	-	24,393,905
Equities	12,579,149	-	-	12,579,149
Other investments	-	-	326,788	326,788
Total	$ 13,679,939	$ 27,792,853	$ 326,788	$ 41,799,580

6. Investment and Other Income

	2018	2017
Interest income	**$ 792,948**	$ 422,043
Dividend income	**183,796**	346,696
Realized gains (losses) on disposal of investments	**(236,246)**	524,059
Investment expenses	**(106,605)**	(113,328)
Unrealized gains (losses) on investments	**(644,880)**	(543,589)
Loss on disposal of property, plant & equipment	**3,097**	-
Other income	**1,500**	1,500
	$ (6,390)	$ 637,381

7. Capital Management

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

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

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

	2018	2017
Sales commissions	**$ 1,068,432**	$ 924,526
Benefits	**52,783**	47,679
Other	**14,393**	10,165
	$ 1,135,608	$ 982,370

9. Other Operating and Administrative Expenses

	2018	2017
Advertising	**$ 235,248**	$ 96,081
Bad debt	**9,348**	7,940
Bank charges and interest (recovery)	**(6,523)**	5,643
Computer costs	**346,168**	292,354
Directors' fees and expenses	**137,431**	132,591
Equipment expenses	**36,745**	26,556
Inspections and investigations	**53,610**	59,388
Insurance	**24,691**	22,720
Licenses, fees and dues	**45,781**	47,172
Occupancy costs	**140,544**	116,844
Postage and office supplies	**69,438**	62,424
Professional fees	**91,446**	25,977
Salaries and benefits	**1,097,754**	897,439
Telephone and communication	**33,451**	30,432
Travel and education	**72,221**	31,650
Other	**64,571**	31,804
	$ 2,451,924	$ 1,887,015

Depreciation is included in the above expense categories as follows:

	2018	2017
Advertising	**$ 972**	$ 972
Computer costs	**76,563**	71,716
Equipment expenses	**27,143**	26,422
Occupancy costs	**37,728**	39,944
	$ 142,406	$ 139,054

10. Salaries, Benefits, Commissions and Directors Fees

	2018	2017
Claims salaries and benefits (Note 11)	**$ 400,119**	$ 366,490
Sales commissions and benefits (Note 8)	**1,121,215**	972,205
Other salaries and benefits (Note 9)	**1,097,754**	897,439
Directors' fees and expenses (Note 9)	**137,431**	132,591
	$ 2,756,519	$ 2,368,725

11. Gross Claims and Adjustment Expenses

Included in claims expenses were salaries and benefits of $400,119 (2017 - $366,490), other operating and administrative costs of $666,845 (2017 - $643,863) and depreciation of $6,912 (2017 - $6,906).

12. Income Taxes

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

The 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:

	2018	2017
Current tax		
Based on current year taxable income	**$ 1,586,012**	$ 20,231
Deferred tax		
Change resulting from temporary differences	**(1,514,200)**	(72,400)
Change resulting from change in tax rate	**(567,300)**	(3,500)
	(2,081,500)	(75,900)
Total provision (recovery) for income taxes	**$ (495,488)**	$ (55,669)

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

	2018	2017
Comprehensive income (loss) before tax for the year	**$ 504,300**	$ (53,471)
Expected taxes based on the statutory rate of 26.5%	**133,640**	(14,170)
Tax reduction on exempt income from:		
Insuring farm related risks	**(34,586)**	3,805
Canadian dividends	**(30,334)**	(46,543)
Difference between current and expected future tax rates	**(567,300)**	(3,500)
Other	**3,092**	4,739
Total provision (recovery) for income taxes	**$ (495,488)**	$ (55,669)

13. Structured Settlements, Fire Mutuals Guarantee Fund and Financial Guarantee Contracts

The Company enters into annuity agreements with various life insurance companies to provide for fixed and recurring payments to claimants. Under such arrangements, the Company's liability to its claimants is substantially transferred, although the Company remains exposed to the credit risk that life insurers fail to fulfill their obligations.

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.

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

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

14. Property, Plant & Equipment

Property, plant & 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 on a straight-line basis over the estimated useful lives of the assets.

	Useful Life	Cost	2018 Accumulated Depreciation	Net Book Value
Land	N/A	$ 41,878	$ -	$ 41,878
Buildings	40 years	1,845,411	757,265	1,088,146
Land improvements	10 years	24,657	24,657	-
Computer	3 to 5 years	840,131	655,026	185,105
Furniture and fixtures	5 years	497,470	448,044	49,426
Vehicles	4 to 5 years	65,217	27,647	37,570
Total		$ 3,314,764	$ 1,912,639	$ 1,402,125

14. Property, Plant & Equipment (Continued)

	Useful Life	Cost	2017 Accumulated Depreciation	Net Book Value
Land	N/A	$ 41,878	$ -	$ 41,878
Buildings	40 years	1,845,411	719,537	1,125,874
Land improvements	10 years	24,657	24,657	-
Computer	3 to 5 years	696,132	578,462	117,670
Furniture and fixtures	5 years	477,376	419,929	57,447
Vehicles	4 to 5 years	102,653	58,171	44,482
Total		$ 3,188,107	$ 1,800,756	$ 1,387,351

15. Pension Plan

The company maintains a defined contribution pension plan for its employees with more than three months of service. The Company's obligation with respect to this plan is to make specified monthly contributions based on a percentage of the employee's eligible earnings. The pension contributions by the Company for the year amounted to $104,640 (2017 - $91,350), were for current service and have been recognized in net income.

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 salaries, directors' fees and other benefits	**$ 414,521**	$ 316,023
Total pension and other post-employment benefits	**18,948**	14,075
	$ 433,469	$ 330,098
Insurance premiums paid by key management	**$ 76,142**	$ 82,011
Insurance claims paid to key management	**$ -**	$ 15,951

Amounts owing to and from key management personnel at December 31, 2018 are $- (2017 - $11,408) and $NIL (2017 - $NIL) respectively. The amounts are included in due from policyholders and accounts payable and accrued liabilities on the statement of financial position.

17. 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 does not have any material lease contracts or transactions, as a result, no material impacts are expected on the Company's financial position or performance as a result of the adoption of IFRS 16.

- *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. As of November 14, 2018, the IASB has proposed a one year deferral of the effective date to 2022. The Company has not yet determined the impact of adoption, however it 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.