Middlesex Mutual Insurance Co.

Financial Statements

For the year ended December 31, 2017

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Table of Contents **Page**

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Independent Auditor's Report

To the Policyholders of
Middlesex Mutual Insurance Co.

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

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

Auditor's 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 auditor's 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 Middlesex Mutual Insurance Co. as at December 31, 2017, and its financial performance and cash flows for the year then ended in accordance with International financial reporting standards.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

Strathroy, Ontario
February 6, 2018

Middlesex Mutual Insurance Co.
Statement of Financial Position

December 31 (in thousands of dollars)	**2017**	2016
Assets		
Cash	**$ 4,674**	$ 2,750
Investments (Note 4)	**27,277**	29,933
Investment income due and accrued	**-**	9
Income taxes recoverable	**405**	-
Due from Facility Association	**154**	163
Due from policyholders	**2,966**	2,902
Due from reinsurer (Note 3)	**39**	63
Reinsurer's share of unpaid claims (Note 3)	**5,051**	5,678
Prepaid expenses	**30**	18
Deferred policy acquisition expenses (Note 3)	**651**	644
Investment property (Note 6)	**757**	1,258
Property, plant & equipment and intangible assets (Note 13)	**2,227**	628
	$ 44,231	$ 44,046
Liabilities		
Accounts payable and accrued liabilities	**$ 641**	$ 513
Income taxes payable	**-**	242
Unearned premiums (Note 3)	**5,096**	5,054
Unpaid claims and adjustment expenses (Note 3)	**10,436**	10,489
	16,173	16,298
Policyholders' Surplus		
Unappropriated policyholders' surplus	**28,058**	27,748
	$ 44,231	$ 44,046

Signed on behalf of the Board by:

Director

Director

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

Middlesex Mutual Insurance Co.
Statement of Comprehensive Income

For the year ended December 31 (in thousands of dollars)	**2017**	2016
Underwriting income		
Gross premiums written	**$ 10,670**	$ 10,616
Less reinsurance ceded	**(1,700)**	(1,831)
Net premiums written	**8,970**	8,785
Less increase in unearned premiums	**(42)**	(94)
Net premiums earned	**8,928**	8,691
Service charge income	**8**	8
	8,936	8,699
Direct loss incurred		
Gross claims and adjustment expense	**9,322**	4,646
Less reinsurer's share of claims and adjustment expense	**(3,085)**	(970)
	6,237	3,676
Underwriting income	**2,699**	5,023
Expenses		
Fees, commissions and other acquisition expenses (Note 8)	**1,435**	1,410
Other operating and administrative expenses (Note 9)	**1,744**	1,644
	3,179	3,054
Net underwriting income	**(480)**	1,969
Investment and other income (Note 5)	**806**	1,339
Income before taxes	**326**	3,308
Provision for income taxes (Note 11)	**16**	579
Total comprehensive income for the year	**$ 310**	$ 2,729

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

Middlesex Mutual Insurance Co.
Statement of Policyholders' Surplus

For the year ended December 31 (in thousands of dollars)	**2017**	2016
Unappropriated Policyholders' Surplus		
Balance, beginning of year	**$ 27,748**	$ 25,019
Total comprehensive income for the year	**310**	2,729
Balance, end of year	**$ 28,058**	$ 27,748

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

Middlesex Mutual Insurance Co.
Statement of Cash Flows

For the year ended December 31 (in thousands of dollars)	**2017**	2016
Cash provided by (used in)		
Operating activities		
Comprehensive income for the year	**$ 310**	$ 2,729
Adjustments to convert income to a cash basis:		
Depreciation of property, plant & equipment, and intangible assets	**68**	70
Depreciation of discounts on bonds	**(67)**	23
Gain on disposal of investments	**174**	(40)
Change in unrealized loss on investments classified as fair value through profit and loss	**(177)**	(537)
Decrease in due from Facility Association	**9**	5
(Increase) in due from policyholders	**(64)**	(143)
Decrease in due from reinsurer	**24**	14
Decrease in investment income due and accrued	**9**	11
Decrease in reinsurer's share of unpaid claims	**627**	338
(Increase) decrease in prepaid expenses	**(12)**	9
(Decrease) increase in income taxes payable/receivable	**(647)**	560
(Increase) in deferred policy acquisition expenses	**(7)**	(16)
Increase in accounts payable and accrued liability	**128**	53
(Decrease) in unpaid claims and adjustment expenses	**(53)**	(1,236)
Increase in unearned premiums	**42**	94
Loss on disposal of property, plant & equipment	**1**	9
	365	1,943
Investing activities		
Proceeds on sale and maturity of investments	**7,125**	4,505
Purchase of investments	**(4,399)**	(6,065)
Sale (purchase) of investment property	**501**	(18)
Purchase of property, plant & equipment	**(1,668)**	(133)
	1,559	(1,711)
Increase in cash during the year	**1,924**	232
Cash and equivalents, beginning of year	**2,750**	2,518
Cash and equivalents, end of year	**$ 4,674**	$ 2,750

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

1. Corporate Information

Middlesex Mutual Insurance Co. (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 13271 Ilderton Road, in Ilderton, Ontario.

The Company is subject to rate regulation on the automobile business that it writes. Before automobile insurance rates can be changed, a rate filing is prepared as a combined filing for most Ontario Farm Mutuals. 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 6, 2018.

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 instruments designated as fair value through profit and loss.

The financial statements are presented in Canadian dollars ("CDN"), which is also the Company's functional currency and have been rounded to the nearest thousand (CDN $'000), unless otherwise indicated.

(c) Judgement 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 judgement in applying the Company's accounting policies. The areas involving critical judgements 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 estimate of time until ultimate settlement and the performance of a liability adequacy test (Note 3); and
- The determination of the recoverability of deferred policy acquisition expenses (Note 3).

In addition, in preparing the financial statements, the notes to the financial statements were ordered such that the most relevant information was presented earlier in the notes and the disclosures that management deemed to be immaterial were excluded from the notes to the financial statements. The determination of relevance and materiality of disclosures involves significant judgement.

3. 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 provision for 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 brokers 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, 2017 and 2016 and their impact on net premiums earned for the two years follows:

	2017	2016
Balance, beginning of the year	**$ 5,054**	$ 4,960
Premiums written	**10,670**	10,616
Reinsurance ceded	**(1,700)**	(1,831)
Premiums earned during the year	**(8,928)**	(8,691)
Balance, end of the year	**$ 5,096**	$ 5,054

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 pricing risk to the extent that unearned premiums are insufficient to meet the related future policy costs. Evaluation is performed regularly to estimate future claims costs, related expenses, and expected profit in relation to unearned premiums. There was no premium deficiency at December 31, 2017 and 2016.

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.

3. Insurance Contracts (continued)

(b) Deferred policy acquisition expenses

Acquisition costs are comprised of agent and broker commissions and premium taxes. These costs are deferred and amortized over the terms of the related policies to the extent that they are considered recoverable from unearned premiums, after considering the related anticipated claims and expenses. Changes in deferred policy acquisition expenses recorded in the statement of financial position for the years-ended December 31, 2017 and 2016 and their impact on commissions and other acquisition expenses for the two years follows:

	2017	2016
Balance, beginning of the year	**$ 644**	$ 628
Acquisition costs incurred	**1,330**	1,305
Expensed during the year	**(1,323)**	(1,289)
Balance, end of the year	**$ 651**	$ 644

(c) Unpaid claims and adjustment expenses

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

Claim liabilities are carried on an undiscounted basis.

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

	December 31, 2017			December 31, 2016		
	Gross	**Re-insurance**	**Net**	Gross	Re-insurance	Net
Outstanding claims provision						
Long settlement term	**$ 5,223**	**$ 1,756**	**$ 3,467**	$ 5,728	$ 3,036	$ 2,692
Short settlement term	**1,841**	**975**	**866**	1,061	152	909
Facility Association and other residual pools	**272**	**-**	**272**	280	-	280
	7,336	**2,731**	**4,605**	7,069	3,188	3,881
Provision for claims incurred but not reported	**3,100**	**2,320**	**780**	3,420	2,490	930
	$ 10,436	**$ 5,051**	**$ 5,385**	$ 10,489	$ 5,678	$ 4,811

3. Insurance Contracts (continued)

The Company must participate in automobile residual pools of business, and recognizes a share of this business based on its automobile market share. The Company records its share of the assets, liabilities, revenue and expenses provided by the actuaries of the pools.

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

	2017	2016
Unpaid claim liabilities - beginning of year - net of reinsurance	**$ 4,811**	$ 5,709
Increase (decrease) in estimated losses and expenses, for losses occurring in prior years	**1,238**	(177)
Provision for losses and expenses on claims occurring in the current year	**4,736**	3,571
Payment on claims:		
Current year	**(3,678)**	(2,388)
Prior years	**(1,722)**	(1,904)
Unpaid claims - end of year - net	**5,385**	4,811
Reinsurer's share	**5,051**	5,678
Unpaid cliams liabilities - end of year - gross	**$ 10,436**	**$ 10,489**

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.

3. Insurance Contracts (continued)

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. The claims development information disclosed will be increased by one year each year until it reaches ten years of disclosed development information.

Gross Claims

	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
Gross estimate of cumulative claims cost										
At the end of accident year	$ 5,086	$ 5,829	$ 9,314	$ 5,407	$ 5,391	$ 5,005	$ 5,479	$ 3,652	$ 5,459	
One year later	5,147	7,304	10,506	6,000	4,590	4,937	5,564	5,545		
Two years later	5,126	7,669	10,769	6,084	5,337	4,870	5,805			
Three years later	5,076	5,994	10,736	5,832	6,016	5,092				
Four years later	5,073	6,748	10,228	5,647	6,601					
Five years later	5,099	5,653	10,885	5,959						
Six years later	5,035	5,557	11,437							
Seven years later	5,079	5,537								
Eight years later	5,210									
Current estimate of cumulative claims	5,210	5,537	11,437	5,959	6,601	5,092	5,805	5,545	5,459	$ 56,645
Cumulative	(4,756)	(5,515)	(10,881)	(5,913)	(5,318)	(4,503)	(5,173)	(2,854)	(4,401)	$ (49,314)
Outstanding claims	454	22	556	46	1,283	589	632	2,691	1,058	7,331
Outstanding claims 2008 and prior										5
IBNR										3,100
Total gross unpaid claims and adjustment expenses										$ 10,436

3. Insurance Contracts (continued)

Net of reinsurance

	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
Net estimate of cumulative claims cost										
At the end of accident year	$ 4,945	$ 4,393	$ 7,643	$ 5,005	$ 5,227	$ 5,005	$ 4,662	$ 3,571	$ 4,736	
One year later	4,626	4,216	7,343	5,029	4,572	4,937	4,823	4,474		
Two years later	4,304	4,318	7,054	4,935	5,002	4,870	5,064			
Three years later	4,069	3,908	6,552	4,935	4,837	5,092				
Four years later	4,029	3,911	5,834	4,748	4,833					
Five years later	4,054	3,689	5,883	4,763						
Six years later	3,973	3,593	5,899							
Seven years later	3,959	3,572								
Eight years later	3,972									
Current estimate of cumulative claims	3,972	3,572	5,899	4,763	4,833	5,092	5,064	4,474	4,736	$ 42,405
Cumulative	(3,891)	(3,551)	(5,654)	(4,726)	(4,516)	(4,503)	(4,432)	(2,854)	(3,678)	$ (37,805)
Outstanding claims	81	21	245	37	317	589	632	1,620	1,058	4,600
Outstanding claims 2008 and prior										5
IBNR										780
Total net unpaid claims and adjustment expenses										$ 5,385

3. Insurance Contracts (continued)

The risks associated with insurance contracts are complex and subject to a number of variables which complicate quantitative sensitivity analysis. The Company uses various techniques based on past claims development experience to quantify these sensitivities. This includes indicators such as average claim cost, amount of claims frequency, expected loss ratios and claims development.

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

	Property Claims		Auto Claims		Liability Claims	
	2017	2016	**2017**	2016	**2017**	2016
10% increase in loss ratios						
Gross	**$ (507)**	$ (498)	**$ (458)**	$ (455)	**$ (90)**	$ (89)
Net	**$ (458)**	$ (453)	**$ (372)**	$ (353)	**$ (63)**	$ (63)
10% decrease in loss ratios						
Gross	**$ 507**	$ 498	**$ 458**	$ 455	**$ 90**	$ 89
Net	**$ 458**	$ 453	**$ 372**	$ 353	**$ 63**	$ 63

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

(d) Liability adequacy test

At each reporting date, the Company performs a liability adequacy test on its insurance liabilities less deferred policy acquisition expenses to ensure the carrying value is adequate, any deficiency is recognized as an expense in the statement of comprehensive income, initially by writing down the deferred policy acquisition expense and subsequently by recognizing additional unearned premiums.

(e) Reinsurer's share of provision 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 $350 (2016 - $350) in the event of a property claim, an amount of $415 (2016 - $415) in the event of an automobile claim and $395 (2016 - $245) in the event of a liability claim.

3. Insurance Contracts (continued)

In the event of a claim over the respective limits, reinsuring contracts retain 100% of the liability to a specified maximum. The Company also obtained reinsurance which limits the Company's liability to $1,050 (2016 - $1,050) 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% (2016 – 80%) of gross net earned premiums for property, liability and automobile.

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

Expected reinsurance recoveries on unpaid claims and adjustment expenses are recognized as assets at the same time and using principles consistent with the Company's method for establishing the related liability. Changes in due to reinsurer recorded in the statement of financial position for the years-ended December 31, 2017 and 2016 follows:

	2017	2016
Balance, beginning of the year	**$ 63**	$ 77
Submitted to reinsurer	**(3,711)**	(1,308)
Received from reinsurer	**3,687**	1,294
Balance, end of the year	**$ 39**	$ 63

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, 2017 and 2016 and their impact on net premiums earned for the two years follows:

	2017	2016
Balance, beginning of the year	**$ 5,678**	$ 6,016
New claims reserve	**723**	81
Change in prior years reserve	**2,361**	889
Submitted to reinsurer	**(3,711)**	(1,308)
Balance, end of the year	**$ 5,051**	$ 5,678

4. Investments

The Company classifies its investments as fair value through profit and loss, which includes both debt and equity instruments. These instruments are carried at fair value with changes in fair value recognized in comprehensive income. Transaction costs on these instruments are expensed as incurred.

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

Interest on debt securities classified as fair value through profit and loss is calculated using the effective interest method and is included in comprehensive income.

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

	December 31, 2017		December 31, 2016	
	Cost	**Fair Value**	Cost	Fair Value
Bonds issued by				
Federal	**$ -**	**$ -**	$ 1,425	$ 1,443
Provincial	**-**	**-**	1,632	1,689
	-	**-**	3,057	3,132
Equity investments				
Canadian	**1,488**	**1,786**	1,613	1,813
Canadian fixed income pooled funds	**15,593**	**15,277**	15,528	15,396
Equity pooled funds	**3,294**	**4,214**	3,203	3,740
Mortgage pooled fund	**6,023**	**5,974**	5,831	5,827
Other investments				
Fire Mutuals Guarantee Fund	**26**	**26**	25	25
Total investments	**$ 26,424**	**$ 27,277**	$ 29,257	$ 29,933

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

4. Investments (continued)

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 nil (2016 – 100%) of bonds rated A or better. The Company's investment policy limits investment in bonds and debentures of the various ratings to limits ranging from 71% to 96% of the Company's portfolio. The Company's policy requires that funds be invested in bonds and debentures of Federal, Provincial or Municipal Government and corporations where the portfolio maintains an average 'A' rating or better. All fixed income portfolios are measured for performance on a quarterly basis and monitored by management on a monthly basis.

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

There have been no significant changes from the previous year in 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 a material commitment for capital expenditures, which is funded by current operating cash flow including investment income. Claim payments are funded by current operating cash flow including investment income.

The Company's investment policy requires that 4% (or a minimum of $1,250) to 20% 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.

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 Policy limits the investment in corporate bonds rated 'AAA' or 'AA' to 10%, corporate bonds rated 'A' to 5%, and corporate bonds rated 'BBB' to 3% per issuer of their total fixed income portfolio. Furthermore, the Policy limits the investment in 'BBB' corporate bonds to a maximum of 20% of the total fixed income portfolio.

4. Investments (continued)

The Company's currency risk is related to stock holdings which are limited to United States equities in sectors which are not readily available in Canada. The Company is not significantly exposed to this risk. Any such risk is in compliance with the Company's investment policy.

The Company is exposed to interest rate risk through its interest bearing investments (short-term investments, fixed income pooled investments, bonds and mortgage loans).

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 in comprehensive income.

At December 31, 2017, a 1% move in interest rates, with all other variables held constant, could impact the market value of the fixed income pooled funds by $873 (2016 - $899). These changes would be recognized in comprehensive income.

The Company is exposed to equity risk through its equity holdings within its investment portfolio. At December 31, 2017, a 10% movement in stock markets with all other variables held constant would have an estimated effect on the fair values of the Company's Canadian common equities of $179 (2016 - $181) and the equity pooled fund of $295 (2016 - $328). This change would be recognized in comprehensive income.

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

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

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

4. Investments (continued)

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).

	Level 1	Level 2	Level 3	Total
December 31, 2017				
Bonds	**$ -**	**$ -**	**$ -**	**$ -**
Equities	**1,786**	**-**	**-**	**$ 1,786**
Fixed income pooled funds	**-**	**15,277**	**-**	**$ 15,277**
Equity pooled funds	**-**	**4,214**	**-**	**$ 4,214**
Mortgage pooled fund	**-**	**-**	**5,974**	**$ 5,974**
Other investments	**-**	**26**	**-**	**$ 26**
Total investments	**$ 1,786**	**$ 19,517**	**$ 5,974**	**$ 27,277**
December 31, 2016				
Bonds	$ -	$ 3,132	$ -	$ 3,132
Equities	1,813	-	-	$ 1,813
Fixed income pooled funds	-	15,396	-	$ 15,396
Equity pooled funds	-	3,740	-	$ 3,740
Mortgage pooled fund	-	-	5,827	$ 5,827
Other investments	-	25	-	$ 25
Total investments	$ 1,813	$ 22,293	$ 5,827	$ 29,933

There were no transfers between any levels of the fair value hierarchy for the years-ended December 31, 2017 and 2016.

5. Investment and Other Income

	2017	2016
Interest income	**$ 796**	$ 735
Dividend and other income	**158**	169
Realized gains on disposal of investments	**(174)**	40
Investment expenses	**(150)**	(142)
Change in unrealized gains (losses)	**176**	537
	$ 806	$ 1,339

6. Investment Property

Investment property is initially recorded at cost, and since land is not subject to depreciation, it is subsequently measure at cost less accumulated impairment losses.

In the year, construction commenced on the building of a new facility. As a result, a portion of the investment property related to the Company's own use was transferred to property, plant and equipment.

	2017	2016
Balance, beginning of the year	**$ 1,258**	$ 1,240
Additions		18
Disposals	**(501)**	-
Balance, end of the year	**$ 757**	$ 1,258

The investment property was subject to an opinion of market value prepared by a local licensed realtor having knowledge of the Real Estate Market value of the area. The fair value of the investment property is determined by market value which is defined as the highest price estimated to be received should the property be exposed for sale in the open market. The fair value of the property at December 31, 2017 approximates the cost.

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.

7. Capital Management (continued)

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 or deemed necessary.

8. Fees, Commissions and Other Acquisition Expenses

	2017	2016
Commissions	**$ 1,305**	$ 1,280
Sales benefits	**105**	105
Premium tax	**25**	25
	$ 1,435	$ 1,410

9. Other Operating and Administrative Expenses

	2017	2016
Amortization of intangible assets	**$ 8**	$ 7
Computer costs	**321**	270
Depreciation	**23**	23
Licenses, fees and dues	**109**	114
Loss prevention and inspection	**45**	37
Postage and office supplies	**53**	52
Professional fees	**46**	73
Repairs and maintenance	**34**	38
Salaries, benefits and directors fees	**863**	817
Staff education and training	**77**	69
Other	**165**	144
	$ 1,744	$ 1,644

10. Commissions, Salaries, Benefits and Directors Fees

	2017	2016
Sales commissions (Note 8)	**$ 1,305**	$ 1,280
Sales benefits (Note 8)	**105**	105
Other salaries, benefits and directors fees (Note 9)	**863**	817
	$ 2,273	$ 2,202

Included in claims expenses were salary and benefits costs of $206 (2016 - $226).

11. Income Taxes

Income tax expense is comprised of current tax. Current tax is recognized in comprehensive income except to the extent that it relates to items recognized directly in equity.

The significant components of the tax effect of the amounts recognized in comprehensive income is comprised of:

	2017	2016
Current tax expense		
Based on current year taxable income	**$ 34**	$ 579
Adjustments for over/under provision in prior period	**(18)**	-
Total income tax expense	**$ 16**	**$ 579**

11. Income Taxes (continued)

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

	2017	2016
Income before taxes	**$ 326**	$ 3,308
Expected taxes based on the statutory rate of 26.5%	**86**	877
Income from insuring farm related risks	**(15)**	(266)
Changes in non-deductible portion of claims liabilities	**8**	(12)
Other non-deductible expenses	**1**	1
Canadian dividend income	**(42)**	(17)
Other	**(22)**	(4)
Total income tax expense (recovery)	**$ 16**	$ 579

12. 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 should FMRe's capital fall below a prescribed minimum. The additional capital would be provided by purchasing subordinated debt obligations issued by FMRe.

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

13. Property, Plant & Equipment and Intangible Assets

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 comprehensive income and is provided on a straight-line basis, with the exception of office equipment which is provided on a declining-balance basis, over the estimated useful lives of the assets.

During the year, the company transferred $501 from its investment property, and allocated additional incurred costs of $1,111 towards land and building of a new facility. As the building is still under construction at year-end, no depreciation has been recorded on these asset purchases. The Company has a commitment to the contractor for $1,043 as at December 31, 2017, for the new facility, all of which is expected to be incurred in 2018.

Intangible assets

Intangible assets consist of computer software, which is not integral to the computer hardware owned by the Company, and a website. Intangible assets are initially recorded at cost and subsequently measured at cost less accumulated amortization and accumulated impairment losses. Intangible assets are amortized on a straight-line basis over the estimated useful lives of the assets.

13. Property, Plant & Equipment and Intangible Assets (continued)

	Useful Life	2017 Cost	2017 Accumulated Depreciation	2017 Net Book Value
Land	N/A	$ 650	$ -	$ 650
Building	40 years	1,612	227	1,385
Parking Area	10 years	21	21	-
Office equipment	20% declining balance	174	131	43
Computer equipment	5 years	293	181	112
Computer software	3 years	$ 3	$ 2	$ 1
Computer software	5 years	33	2	31
Computer software	6 years	8	3	5
Website	5 years	24	24	-
		$ 2,818	$ 591	$ 2,227

	Useful Life	2016 Cost	2016 Accumulated Depreciation	2016 Net Book Value
Land	N/A	$ 141	$ -	$ 141
Building	40 years	496	214	282
Parking Area	10 years	21	21	-
Office equipment	20% declining balance	174	126	48
Computer equipment	5 years	554	431	123
Computer software	3 years	$ 3	$ 2	$ 1
Computer software	5 years	22	-	22
Computer software	6 years	8	1	7
Website	5 years	24	20	4
		$ 1,443	$ 815	$ 628

14. Pension Plans & Agents' RRSP Plan

Defined Benefit Pension Plan

The Company participates in a multi-employer defined benefit pension plan (the Ontario Mutual Insurance Association Pension Plan, "the plan"), however, sufficient information is not available to use defined benefit accounting. Therefore, the Company accounts for the plan as if it were a defined contribution plan, recognizing contributions as an expense in the year to which they relate.

The Company makes contributions to the plan on behalf of members of its staff. The plan is a money purchase plan, with a defined benefit option at retirement available to some employees, which specifies the amount of the retirement benefit plan to be received by the employees based on length of service and rates of pay.

The amount contributed to the plan for 2017 was $61 (2016 - $58). The contributions were made for current service and these have been recognized in comprehensive income. These contributions amount to 1.00% of the total contributions made to the plan by all participating entities during the current fiscal year.

Expected contributions to the plan for the next annual reporting period amount to $62, which is based on payments made to the multi-employer plan during the current fiscal year.

Based on the 2016 Pension Valuation filed with the Financial Services Commission of Ontario, the plan was in a deficit position. The company's share of the plan's deficit was $72, to be paid over 3 years. The company made a lump sum payment of $24 to cover its current share of the deficit and accrued the remaining balance. The total expense was included in employee benefits on the statement of comprehensive income.

The defined benefit plan was closed to future employees effective July 1, 2013.

Defined Contribution Pension Plan

Effective July 1, 2013 new hires are enrolled in the defined contribution plan.

The Company makes, on behalf of members of its staff, matching contributions up to 7.5% of staff salaries. The plan is a money purchase plan.

The amount contributed to the plan for 2017 was $17 (2016 - $12).

Expected contributions to the plan for the next annual reporting period amount to $25, which is based on payments made to the plan during the current fiscal year.

Agents' RRSP Plan

The Company also makes, on behalf of its agents, matching contributions up to 3% of agents' commissions to the agents' respective Registered Retirement Savings Plan (RRSP). The total amount contributed to the respective RRSPs for 2017 was $23 (2016 - $23).

15. Related Party Transactions

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

	2017	2016
Compensation		
Short term employee benefits and director's fees	**$ 290**	$ 282
Total pension and other post-employment benefits	**29**	27
	$ 319	$ 309
Premiums	**$ 63**	$ 59
Claims Paid	**$ -**	$ 6

Amounts owing to and from key management personnel at December 31, 2017 are $Nil (2016 - $Nil). The amounts are included in due from policyholders and accounts payable and accrued liabilities on the statement of financial position.

16. 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, 2018 or later.

- *IFRS 9 Financial Instruments,* amends the requirements for classification and measurement of financial assets, impairment, and hedge accounting. IFRS 9 introduces an expected loss model of impairment and retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through profit or loss, and fair value through other comprehensive income (loss). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The effective date for IFRS 9 is January 1, 2018; however, insurance entities have been provided the option of deferring the adoption of IFRS 9 until January 1, 2021, which is the effective date of IFRS 17, *Insurance Contracts*. The Company does not plan to defer the effective date of IFRS 9 and therefore expects to adopt IFRS 9 on January 1, 2018.

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

- *IFRS 15 Revenue from Contracts with Customers* provides accounting requirements for revenue arising from contracts with customers. It affects all entities that enter into contracts to provide goods and services to their customers, unless the contract or a portion of the contract is in the scope of other IFRSs, such as IFRS 4 *Insurance Contracts*. Insurance entities will continue to apply IFRS 4 to their insurance contracts. However, entities will need to apply IFRS 15 to non-insurance contracts. The Company will implement the new standard January 1, 2018 and has determined that revenue from non-insurance contracts is not material.

16. Standards, Amendments and Interpretations Not Yet Effective (continued)

- *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, with limited exception for certain short-term and low value leases. The asset is subsequently accounted for as property, plant and equipment or investment property and the liability is reduced as payments are made with interest accruing over the lease term. The accounting requirement 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 expect to recognize leases in its statement of financial position due to the adoption of IFRS 16.

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