Middlesex Mutual Insurance Co.

Financial Statements

For the year ended December 31, 2018

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For the year ended December 31, 2018

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Independent Auditor's Report

To the Members of Middlesex Mutual Insurance Co.

Opinion

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

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

Basis for Opinion

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

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

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

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

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

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 Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

Strathroy, Ontario
Feburary 5, 2019

Middlesex Mutual Insurance Co.
Statement of Financial Position

December 31 (in thousands of dollars)	**2018**	2017
Assets		
Cash	**$ 5,546**	$ 4,674
Investments (Note 5)	**24,204**	27,277
Income taxes recoverable	**-**	405
Due from Facility Association	**156**	154
Due from members	**3,097**	2,966
Due from reinsurer (Note 4)	**45**	39
Reinsurer's share of unpaid claims (Note 4)	**3,976**	5,051
Prepaid expenses	**79**	30
Deferred policy acquisition expenses (Note 4)	**673**	651
Investment property (Note 7)	**1,101**	757
Property, plant & equipment and intangible assets (Note 14)	**3,303**	2,227
Deferred income taxes (Note 12)	**1,508**	-
	$ 43,688	$ 44,231
Liabilities		
Accounts payable and accrued liabilities	**$ 780**	$ 641
Income taxes payable	**590**	-
Unearned premiums (Note 4)	**5,297**	5,096
Unpaid claims and adjustment expenses (Note 4)	**9,926**	10,436
	16,593	16,173
Members' Surplus		
Unappropriated members' surplus	**27,095**	28,058
	$ 43,688	$ 44,231

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)	**2018**	2017
Underwriting income		
Gross premiums written	**$ 11,030**	$ 10,670
Less reinsurance ceded	**(1,548)**	(1,700)
Net premiums written	**9,482**	8,970
Less increase in unearned premiums	**(201)**	(42)
Net premiums earned	**9,281**	8,928
Service charge income	**8**	8
	9,289	8,936
Direct loss incurred		
Gross claims and adjustment expense	**7,664**	9,322
Less reinsurer's share of claims and adjustment expense	**(105)**	(3,085)
	7,559	6,237
	1,730	2,699
Expenses		
Fees, commissions and other acquisition expenses (Note 9)	**1,458**	1,435
Other operating and administrative expenses (Note 10)	**1,874**	1,744
	3,332	3,179
Net underwriting loss	**(1,602)**	(480)
Investment and other income (Note 6)	**(131)**	806
(Loss) income before taxes	**(1,733)**	326
Provision for income taxes (Note 12)	**(770)**	16
Total comprehensive (loss) income for the year	**$ (963)**	$ 310

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

Middlesex Mutual Insurance Co.
Statement of Members' Surplus

For the year ended December 31 (in thousands of dollars)	**2018**	2017
Unappropriated Members' Surplus		
Balance, beginning of year	**$ 28,058**	$ 27,748
Total comprehensive (loss) income for the year	**(963)**	310
Balance, end of year	**$ 27,095**	$ 28,058

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)	**2018**	2017
Cash provided by (used in)		
Operating activities		
Comprehensive (loss) income for the year	**$ (963)**	$ 310
Adjustments to convert income to a cash basis:		
Depreciation of property, plant & equipment, and intangible assets	**159**	68
Depreciation of investment property	**9**	-
Depreciation of discounts on bonds	**-**	(67)
Loss on disposal of investments	**206**	174
Change in unrealized loss (gain) on investments classified as fair value through profit and loss	**617**	(177)
(Increase) decrease in due from Facility Association	**(2)**	9
Increase in due from members	**(131)**	(65)
(Increase) decrease in due from reinsurer	**(6)**	24
Decrease in investment income due and accrued	**-**	9
Decrease in reinsurer's share of unpaid claims	**1,075**	627
Increase in prepaid expenses	**(49)**	(12)
Increase (decrease) in income taxes payable/receivable	**995**	(646)
Increase in deferred policy acquisition expenses	**(22)**	(7)
Increase in accounts payable and accrued liabilities	**139**	128
Increase in deferred income taxes	**(1,508)**	-
Decrease in unpaid claims and adjustment expenses	**(510)**	(53)
Increase in unearned premiums	**201**	42
Loss on disposal of property, plant & equipment	**58**	1
	268	365
Investing activities		
Proceeds on sale and maturity of investments	**14,646**	7,125
Purchase of investments	**(12,396)**	(4,399)
Sale (purchase) of investment property	**(356)**	501
Purchase of property, plant & equipment	**(1,290)**	(1,668)
	604	1,559
Increase in cash and equivalents during the year	**872**	1,924
Cash and equivalents, beginning of year	**4,674**	2,750
Cash and equivalents, end of year	**$ 5,546**	$ 4,674

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 15 Meredith Drive, 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 5, 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 instruments designated as fair value through profit and loss (FVTPL).

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

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

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 including 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.

(i) Classification and measurement of financial instruments

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

There has been no change to the classification and carrying amounts, due to the transition from IAS 39 to IFRS 9, for each class of the Company's financial assets and financial liabilities as at January 1, 2018.

(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 as FVTOCI. Under IFRS 9, credit losses are recognized earlier than under IAS 39. This change did not impact 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 provision for unpaid claims and adjustment expenses and deferred policy acquisition expenses.

4. Insurance Contracts (continued)

(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, 2018 and 2017 and their impact on net premiums earned for the two years follows:

	2018	2017
Balance, beginning of the year	**$ 5,096**	$ 5,054
Premiums written	**11,030**	10,670
Reinsurance ceded	**(1,548)**	(1,700)
Premiums earned during the year	**(9,281)**	(8,928)
Balance, end of the year	**$ 5,297**	$ 5,096

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, 2018 and 2017.

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

4. 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, 2018 and 2017 and their impact on commissions and other acquisition expenses for the two years follows:

	2018	2017
Balance, beginning of the year	**$ 651**	$ 644
Acquisition costs incurred	**1,350**	1,330
Expensed during the year	**(1,328)**	(1,323)
Balance, end of the year	**$ 673**	$ 651

(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, 2018			December 31, 2017		
	Gross	**Reinsurance**	**Net**	Gross	Reinsurance	Net
Outstanding claims provision						
Long settlement term	**$ 5,441**	**$ 1,801**	**$ 3,640**	$ 5,223	$ 1,756	$ 3,467
Short settlement term	**1,420**	**275**	**1,145**	1,841	975	866
Facility Association and other residual pools	**275**	**-**	**275**	272	-	272
	7,136	**2,076**	**5,060**	7,336	2,731	4,605
Provision for claims incurred but not reported	**2,790**	**1,900**	**890**	3,100	2,320	780
	$ 9,926	**$ 3,976**	**$ 5,950**	$ 10,436	$ 5,051	$ 5,385

4. 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, 2018 and 2017 and their impact on claims and adjustment expenses for the two years follows:

	2018	2017
Unpaid claim liabilities - beginning of year - net of reinsurance	**$ 5,385**	$ 4,811
Increase in estimated losses and expenses, for losses occurring in prior years	**315**	1,238
Provision for losses and expenses on claims occurring in the current year	**6,972**	4,736
Payment on claims:		
Current year	**(5,066)**	(3,678)
Prior years	**(1,656)**	(1,722)
Unpaid claims - end of year - net	**5,950**	5,385
Reinsurer's share	**3,976**	5,051
Unpaid claims liabilities - end of year - gross	**$ 9,926**	**$ 10,436**

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.

4. 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	2018	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	$ 7,657	
One year later	5,147	7,304	10,506	6,000	4,590	4,937	5,564	5,545	5,795		
Two years later	5,126	7,669	10,769	6,084	5,337	4,870	5,805	5,688			
Three years later	5,076	5,994	10,736	5,832	6,016	5,092	5,669				
Four years later	5,073	6,748	10,228	5,647	6,601	5,099					
Five years later	5,099	5,653	10,885	5,959	6,403						
Six years later	5,035	5,557	11,437	5,939							
Seven years later	5,079	5,537	11,362								
Eight years later	5,210	5,515									
Nine years later	5,220										
Current estimate of cumulative claims	5,220	5,515	11,362	5,939	6,403	5,099	5,669	5,688	5,795	7,657	$ 64,347
Cumulative	(4,864)	(5,515)	(11,059)	(5,921)	(6,372)	(4,653)	(5,364)	(3,177)	(4,949)	(5,342)	$ (57,216)
Outstanding claims	356	-	303	18	31	446	305	2,511	846	2,315	7,131
Outstanding claims 2008 and prior											5
IBNR											2,790
Total gross unpaid claims and adjustment expenses											$ 9,926

4. Insurance Contracts (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	$ 4,945	$ 4,393	$ 7,643	$ 5,005	$ 5,227	$ 5,005	$ 4,662	$ 3,571	$ 4,736	$ 6,972	
One year later	4,626	4,216	7,343	5,029	4,572	4,937	4,823	4,474	5,072		
Two years later	4,304	4,318	7,054	4,935	5,002	4,870	5,064	4,614			
Three years later	4,069	3,908	6,552	4,935	4,837	5,092	4,928				
Four years later	4,029	3,911	5,834	4,748	4,833	5,099					
Five years later	4,054	3,689	5,883	4,763	4,821						
Six years later	3,973	3,593	5,899	4,749							
Seven years later	3,959	3,572	5,804								
Eight years later	3,972	3,550									
Nine years later	3,973										
Current estimate of cumulative claims	3,973	3,550	5,804	4,749	4,821	5,099	4,928	4,614	5,072	6,972	$ 49,582
Cumulative	(3,938)	(3,550)	(5,774)	(4,731)	(4,790)	(4,653)	(4,623)	(3,176)	(4,226)	(5,066)	$ (44,527)
Outstanding claims	35	-	30	18	31	446	305	1,438	846	1,906	5,055
Outstanding claims 2008 and prior											5
IBNR											890
Total net unpaid claims and adjustment expenses											$ 5,950

4. 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	
	2018	2017	**2018**	2017	**2018**	2017
10% increase in loss ratios						
Gross	**$ (511)**	$ (507)	**$ (473)**	$ (458)	**$ (89)**	$ (90)
Net	**$ (458)**	$ (458)	**$ (399)**	$ (372)	**$ (71)**	$ (63)
10% decrease in loss ratios						
Gross	**$ 511**	$ 507	**$ 473**	$ 458	**$ 89**	$ 90
Net	**$ 458**	$ 458	**$ 399**	$ 372	**$ 71**	$ 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 (2017 - $350) in the event of a property claim, an amount of $415 (2017 - $415) in the event of an automobile claim and $425 (2017 - $395) in the event of a liability claim.

4. 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 (2017 - $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% (2017 – 80%) of gross net earned premiums for property, liability and automobile.

The Company participates in a program to provide reinsurance coverage for crop insurance through Farm Mutual Re. The maximum retained liability for the company is $500 (2017 - $450) for Manitoba Crop, an amount of $850 (2017 - $750) for Saskatchewan Crop and $300 (2017 - $150) for Agriculture Financial Services Corporation Crop Insurance.

Amounts recoverable from reinsurer are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its members 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, 2018 and 2017 follows:

	2018	2017
Balance, beginning of the year	**$ 39**	$ 63
Submitted to reinsurer	**(1,180)**	(3,711)
Received from reinsurer	**1,186**	3,687
Balance, end of the year	**$ 45**	$ 39

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.

4. Insurance Contracts (continued)

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 follows:

	2018	2017
Balance, beginning of the year	**$ 5,051**	$ 5,678
New claims reserve	**685**	723
Change in prior years reserve	**(580)**	2,361
Submitted to reinsurer	**(1,180)**	(3,711)
Balance, end of the year	**$ 3,976**	$ 5,051

5. Investments

(a) Recognition and initial measurement

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

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

The Company classifies its equity pooled funds as FVTPL.

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

(c) Derecognition

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

5. Investments (continued)

(d) Risks

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

	2018	2017
GIC's	**$ 5,158**	$ -
Equity investments		
Canadian	**-**	1,786
Canadian fixed income pooled funds	**7,037**	15,277
Equity pooled funds	**5,880**	4,214
Mortgage pooled fund	**6,105**	5,974
Other investments		
Fire Mutuals Guarantee Fund	**24**	26
Total investments	**$ 24,204**	$ 27,277

The Company is exposed to credit risk relating to its debt 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 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 GICs treasury bills, commercial paper and term deposits with an original maturity of less than one year.

5. Investments (continued)

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.

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 (GICs, fixed income pooled investments, and mortgage pooled funds).

Historical data and current information is used to profile the ultimate claims settlement pattern by class of insurance, which is then used in a broad sense to develop an investment policy and strategy. However, because a significant portion of the Company's assets relate to its capital rather than liabilities, the value of its interest rate based assets exceeds its interest rate based liabilities. As a result, generally, the Company's investment income will move with interest rates over the medium to long-term with short-term interest rate fluctuations creating unrealized gains or losses in comprehensive income.

At December 31, 2018, a 1% move in interest rates, with all other variables held constant, could impact the market value of the fixed income pooled funds by $430 (2017 - $873). 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, 2018, 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 $0 (2017 - $179) and the equity pooled fund of $412 (2017 - $295). 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.

5. Investments (continued)

(e) Fair value measurement

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

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

	Level 1	Level 2	Level 3	Total
December 31, 2018				
GIC's	**$ 5,158**	**$ -**	**$ -**	**$ 5,158**
Fixed income pooled funds	**-**	**7,037**	**-**	**$ 7,037**
Equity pooled funds	**-**	**5,880**	**-**	**$ 5,880**
Mortgage pooled fund	**-**	**-**	**6,105**	**$ 6,105**
Other investments	**-**	**24**	**-**	**$ 24**
Total investments	**$ 5,158**	**$ 12,941**	**$ 6,105**	**$ 24,204**
December 31, 2017				
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

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

6. Investment and Other Income

	2018	2017
Interest income	**$ 681**	$ 796
Dividend and other income	**189**	158
Realized losses on disposal of investments	**(206)**	(174)
Investment expenses	**(192)**	(150)
Change in unrealized (losses) gains	**(617)**	176
Rental Income	**14**	-
	$ (131)	$ 806

7. Investment Property

Investment property 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 furniture and fixtures which is provided on a declining-balance basis, over their estimated useful life as follows:

	Useful Life
Land	N/A
Building	40 years
Furniture & Fixtures	20% declining balance

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

Investment properties were subject to external valuation performed by a real estate appraisal and consulting firm. 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, 2018 approximates the cost.

7. Investment Property (continued)

	Land	Building	Furniture & Fixtures	Total
Cost				
Balance - January 1, 2017	$ 1,258	$ -	$ -	$ 1,258
Disposals	501	-	-	$ 501
Balance - December 31, 2017	$ 757	$ -	$ -	$ 757
Additions on transfer from property, plant & equipment	**132**	**435**	**9**	**$ 576**
Balance - December 31, 2018	**$ 889**	**$ 435**	**$ 9**	**$ 1,333**
Accumulated depreciation				
Balance - December 31, 2017	$ -	$ -	$ -	$ -
Additions on transfer from property, plant & equipment	**-**	**218**	**5**	**$ 223**
Depreciation expense	**-**	**8**	**1**	**$ 9**
Balance - December 31, 2018	**$ -**	**$ 226**	**$ 6**	**$ 232**
Net book value				
January 1, 2017	$ 1,258	$ -	$ -	$ 1,258
December 31, 2017	$ 757	$ -	$ -	$ 757
December 31, 2018	**$ 889**	**$ 209**	**$ 3**	**$ 1,101**

8. Capital Management

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

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

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

9. Fees, Commissions and Other Acquisition Expenses

	2018	2017
Commissions	**$ 1,324**	$ 1,305
Sales benefits	**108**	105
Premium tax	**26**	25
	$ 1,458	$ 1,435

10. Other Operating and Administrative Expenses

	2018	2017
Amortization of intangible assets	**$ 6**	$ 8
Computer costs	**350**	321
Depreciation	**109**	23
Licenses, fees and dues	**109**	109
Loss prevention and inspection	**48**	45
Postage and office supplies	**58**	53
Professional fees	**63**	46
Repairs and maintenance	**41**	34
Salaries, benefits and directors fees	**796**	863
Staff education and training	**81**	77
Other	**213**	165
	$ 1,874	$ 1,744

11. Commissions, Salaries, Benefits and Directors Fees

	2018	2017
Sales commissions (Note 9)	**$ 1,324**	$ 1,305
Sales benefits (Note 9)	**108**	105
Other salaries, benefits and directors fees (Note 10)	**796**	863
	$ 2,228	$ 2,273

Included in claims expenses were salary and benefits costs of $221 (2017 - $206).

12. Income Taxes

Income tax expense is comprised of current and deferred tax. Current tax and deferred tax are recognized in comprehensive income except to the extent that they relate to items recognized directly in equity.

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

	2018	2017
Current tax expense		
Based on current year taxable income	**$ (773)**	$ 34
Adjustments for over/under provision in prior period	**3**	(18)
Total income tax expense (recovery)	**$ (770)**	**$ 16**

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
(Loss) income before taxes	**$ (1,733)**	$ 326
Expected taxes based on the statutory rate of 26.5%	**(459)**	86
Income from insuring farm related risks	**(313)**	(15)
Changes in non-deductible portion of claims liabilities	**(3)**	8
Other non-deductible expenses	**3**	1
Canadian dividend income	**-**	(42)
Other	**2**	(22)
Total income tax expense (recovery)	**$ (770)**	$ 16

	2018	2017
Deferred income tax asset		
Claims liabilities	**$ (1,505)**	$ -
Property, plant and equipment	**(3)**	-
Total tax effect of amounts recorded in comprehensive income	**$ (1,508)**	**$ -**

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 members' 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.

14. 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 as follows:

	Useful Life
Land	N/A
Building	12 - 40 years
Office equipment	20% declining balance
Computer equipment	5 years

During the year, the company transferred $567 from its property, plant and equipment to investment property on the completion of a new office facility.

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 as follows:

	Useful Life
Computer software	3 - 6 years
Website	5 years

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

	Land	Building	Parking Area	Office Equipment	Computer Equipment	Intangibles	Total
Cost							
Balance - January 1, 2017	$ 141	$ 496	$ 21	$ 174	$ 554	$ 57	$ 1,443
Additions	509	1,116	-	5	27	11	$ 1,668
Disposals	-	-	-	5	288	-	$ 293
Balance - December 31, 2017	$ 650	$ 1,612	$ 21	$ 174	$ 293	$ 68	$ 2,818
Additions	**59**	**1,212**	**-**	**335**	**47**	**27**	**$ 1,680**
Disposals	**141**	**501**	**21**	**163**	**-**	**24**	**$ 850**
Balance - December 31, 2018	**$ 568**	**$ 2,323**	**$ -**	**$ 346**	**$ 340**	**$ 71**	**$ 3,648**
Accumulated depreciation							
Balance - January 1, 2017	$ -	$ 214	$ 21	$ 126	$ 431	$ 23	$ 815
Depreciation expense	-	13	-	11	36	8	$ 68
Disposals	-	-	-	6	286	-	$ 292
Balance - December 31, 2017	$ -	$ 227	$ 21	$ 131	$ 181	$ 31	$ 591
Depreciation expense	**-**	**56**	**-**	**54**	**43**	**6**	**$ 159**
Disposals	**-**	**230**	**21**	**130**	**-**	**24**	**$ 405**
Balance - December 31, 2018	**$ -**	**$ 53**	**$ -**	**$ 55**	**$ 224**	**$ 13**	**$ 345**
Net book value							
January 1, 2017	$ 141	$ 282	$ -	$ 48	$ 123	$ 34	$ 628
December 31, 2017	$ 650	$ 1,385	$ -	$ 43	$ 112	$ 37	$ 2,227
December 31, 2018	**$ 568**	**$ 2,270**	**$ -**	**$ 291**	**$ 116**	**$ 58**	**$ 3,303**

15. 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 current service in 2018 was $68 (2017 - $61) and the amount reversed and recovered in 2018 for the prior year solvency funded status deficit was $48. These amounts have been recognized in comprehensive income. The Company had a 1.25% share of the total contributions made to the plan by all participating entities during the current fiscal year.

An actuarial valuation of the Pension Plan as of January 1, 2018 showed both a going-concern surplus and solvency surplus position. The next required actuarial valuation will be January 1, 2021.

Expected contributions to the plan for the next annual reporting period amount to $63, which is based on payments made to the multi-employer plan during the current fiscal year.

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 2018 was $22 (2017 - $17).

Expected contributions to the plan for the next annual reporting period amount to $38, 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 2018 was $24 (2017 - $23).

16. Related Party Transactions

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

	2018	2017
Compensation		
Short term employee benefits and director's fees	**$ 308**	$ 290
Total pension and other post-employment benefits	**34**	29
	$ 342	$ 319
Premiums	**$ 48**	$ 63
Claims Paid	**$ 22**	$ -

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

17. Commitments

The Company has entered into a financing lease for office equipment. The future lease payments are as follows:

	December 31, 2018
No later than 1 year	**$ 121**
Later than 1 year and not later than 2 years	**71**
	$ 192

18. Standards, Amendments and Interpretations Not Yet Effective

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

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

- *IFRS 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 unwound using the interest rate inherent in the lease. 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 the adoption of IFRS 16 to have a material impact on the financial statements.

- *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, 2022. The Company has not yet determined the impact of adoption, however is expected to significantly impact the overall Financial Statements.

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