Erie Mutual Fire Insurance Company
Consolidated Financial Statements
For the year ended December 31, 2018

Erie Mutual Fire Insurance Company
Consolidated Financial Statements
For the year ended December 31, 2018

Table of Contents **Page**

Independent Auditor's Report	**2**
Consolidated Statement of Financial Position	**4**
Consolidated Statement of Comprehensive Income	**5**
Consolidated Statement of Members' Surplus	**6**
Consolidated Statement of Cash Flows	**7**
Notes to the Consolidated Financial Statements	
1. Corporate information	8
2. Basis of presentation	8
3. Adoption of New Accounting Standards	9
4. Insurance contracts	11
5. Investments	19
6. Investment properties	22
7. Investment and other income	23
8. Capital management	24
9. Fees, commissions and other acquisition expenses	24
10. Other operating and administrative expenses	25
11. Salaries, benefits and directors fees	25
12. Income taxes	26
13. Structured settlements, fire mutuals guarantee fund and financial guarantee contracts	27
14. Property, plant and equipment & intangible assets	27
15. Pension plans	29
16. Related party transactions	29
17. New standards, interpretations and amendments not yet effective	30

Tel: 519 539 2081
Fax: 519 539 2571
www.bdo.ca

BDO Canada LLP
94 Graham Street
Woodstock Ontario N4S 6J7 Canada

Independent Auditor's Report

To the policyholders of Erie Mutual Fire Insurance Company

Opinion

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

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

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

Tel: 519 539 2081
Fax: 519 539 2571
www.bdo.ca

BDO Canada LLP
94 Graham Street
Woodstock Ontario N4S 6J7 Canada

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

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

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

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

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

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

Woodstock, Ontario
February 26, 2019

Erie Mutual Fire Insurance Company
Consolidated Statement of Financial Position

As at December 31		2018		2017
Assets				
Cash	$	**1,266,210**	$	971,109
Investments (Note 5)		**20,259,270**		19,920,310
Income taxes recoverable		**-**		351,117
Due from reinsurer (Note 4)		**76,026**		169,551
Due from policyholders		**2,147,889**		2,021,587
Reinsurer's share of provision for unpaid claims (Note 4)		**1,798,683**		2,680,022
Due from facility		**137,189**		132,672
Prepaid expenses		**15,796**		2,579
Investment properties (Note 6)		**405,980**		403,750
Property, plant & equipment (Note 14)		**690,518**		750,459
Intangible assets (Note 14)		**94,396**		102,152
Deferred income taxes		**38,810**		39,210
	$	**26,930,767**	$	27,544,518
Liabilities				
Accounts payable and accrued liabilities	$	**415,432**	$	446,835
Income taxes payable		**902**		-
Premium taxes owing		**984**		-
Unearned premiums (Note 4)		**3,606,131**		3,429,754
Provision for unpaid claims (Note 4)		**4,813,440**		5,826,195
		8,836,889		9,702,784
Members' Surplus				
Unappropriated members' surplus		**18,093,878**		16,982,723
Accumulated other comprehensive income		**-**		859,011
		18,093,878		17,841,734
	$	**26,930,767**	$	27,544,518

Signed on behalf of the Board by:

______________________________, Director

______________________________, Director

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

Erie Mutual Fire Insurance Company
Consolidated Statement of Comprehensive Income

For the year ended December 31	2018	2017
Underwriting income		
Gross premiums written	$ 7,540,115	$ 7,184,736
Less reinsurance ceded	1,423,956	1,227,660
Net premiums written	6,116,159	5,957,076
Less change in unearned premiums	179,629	183,173
Net premiums earned	5,936,530	5,773,903
Direct losses incurred		
Gross claims and adjustment expenses	4,239,624	5,962,819
Less reinsurer's share of claims and adjustment expenses	1,137,551	1,513,296
	3,102,073	4,449,523
	2,834,457	1,324,380
Expenses		
Fees, commissions and other acquisition (Note 9)	103,701	99,182
Other operating and administrative expenses (Note 10)	2,457,668	2,575,683
	2,561,369	2,674,865
Net underwriting income (loss)	273,088	(1,350,485)
Investment and other income (loss) (Note 7)	(19,642)	339,404
Income (loss) before taxes	253,446	(1,011,081)
Provision for income taxes (Note 12)	1,302	(298,732)
Net income (loss)	252,144	(712,349)
Other comprehensive income (net of tax)		
Change in unrealized gain on available-for-sale investments	-	72,724
Reclassification of realized loss on available-for-sale investments	-	123,657
Total other comprehensive income (net of tax)	-	196,381
Total comprehensive income (loss) for the year	$ 252,144	$ (515,968)

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

Erie Mutual Fire Insurance Company
Consolidated Statement of Members' Surplus

	Unappropriated Members' Surplus	Accumulated Other Comprehensive Income	Total
Balance at January 1, 2017	$ 17,695,072	$ 662,630	$ 18,357,702
Net loss	(712,349)	-	(712,349)
Change in unrealized gain on available-for-sale investments	-	72,724	72,724
Reclassification of realized loss on available-for-sale investments	-	123,657	123,657
Balance at December 31, 2017	$ 16,982,723	$ 859,011	$ 17,841,734
Effect of adoption of IFRS 9 on January 1, 2018 (Note 3)	**859,011**	**(859,011)**	**-**
Net income	**252,144**	**-**	**252,144**
Balance at December 31, 2018	**$18,093,878**	**$ -**	**$18,093,878**

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

Erie Mutual Fire Insurance Company
Consolidated Statement of Cash Flows

For the year ended December 31	2018	2017
Operating activities		
Net income (loss)	$ 252,144	$ (712,349)
Adjustments for:		
Depreciation	71,826	85,508
Unrealized loss on investments	744,451	-
Interest and dividend income	(794,614)	(588,065)
Provision for income taxes	1,302	(298,732)
Realized (gain) loss on disposal of investments	(8,412)	168,241
Realized loss on disposal of property, plant & equipment	947	4,418
	267,644	(1,340,979)
Changes in working capital		
Change in due from policyholders and facility	(37,294)	(252,541)
Change in prepaid expenses	(13,217)	(955)
Change in accounts payable and accrued liabilities	(31,403)	83,694
	(81,914)	(169,802)
Changes in insurance contract related balances, provisions		
Change in reinsurer's share of provision for unpaid claims	881,339	(71,640)
Change in unearned premiums	176,377	186,426
Change in provision for unpaid claims	(1,012,755)	262,410
	44,961	377,196
Cash flows related to interest, dividends and income taxes		
Interest and dividends received	794,614	588,065
Income taxes received (paid)	352,096	(331,165)
	1,146,710	256,900
Total cash inflows (outflows) from operating activities	1,377,401	(876,685)
Investing activities		
Proceeds on sale of investments	1,250,000	7,334,350
Purchase of investments	(2,324,998)	(6,871,507)
Proceeds on disposal of property, plant & equipment	600	2,000
Purchase of property, plant & equipment	(3,602)	(64,943)
Purchase of investment property	(4,300)	(4,065)
Total cash (outflows) inflows from investing activities	(1,082,300)	395,835
Net increase (decrease) in cash and cash equivalents	295,101	(480,850)
Cash and cash equivalents, beginning of year	971,109	1,451,959
Cash and cash equivalents, end of year	$ 1,266,210	$ 971,109

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

1. CORPORATE INFORMATION

Erie Mutual Fire Insurance Company (the Company) is incorporated under the laws of Ontario and is subject to the Ontario Insurance Act. It is licensed to write property, liability, automobile and farmers' accident insurance in Ontario. The Company's head office is located at 711 Main Street East, Dunnville, Ontario.

The Company is subject to rate regulation in the automobile business that it writes. Before automobile insurance rates can be changed, a rate filing is prepared as a combined filing for most Ontario Farm Mutual Insurance Companies. 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 consolidated financial statements have been authorized for issue by the Board of Directors on February 26, 2019.

2. BASIS OF PRESENTATION

These consolidated financial statements include the financial statements of Erie Mutual Fire Insurance Company and those of its subsidiary, 2135671 Ontario Ltd.

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

These consolidated financial statements were prepared under the historical cost convention, except for financial assets classified as fair value through profit or loss ("FVTPL").

The consolidated financial statements are presented in Canadian dollars ("CDN"), which is also the Company’s functional currency.

The preparation of these consolidated financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company’s accounting policies. The areas involving critical judgments and estimates in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the consolidated financial statements within the next financial year are:

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

2. BASIS OF PRESENTATION (CONT'D)

The notes to the consolidated financial statements were prepared and ordered in such a way that the most relevant information was presented earlier in the notes and disclosures that management deemed to be immaterial were excluded from the notes to the consolidated financial statements. The determination of the relevance and materiality of disclosures involves significant judgment.

3. ADOPTION OF NEW ACCOUNTING STANDARDS

Account standards, interpretations and amendments effective for accounting years beginning on or after January 1, 2018 did not materially affect the Company's consolidated financial statements other than those described below.

IFRS 9 Financial Instruments (IFRS 9)

On January 1, 2018, the Company adopted IFRS 9, *Financial Instruments* (IFRS 9), which supersedes IAS 39, *Financial Instruments: Recognition and Measurement* (IAS 39). IFRS 9 includes revised guidance on the classification and measurement of financial assets and liabilities; new guidance for measuring impairment on financial assets; and new hedge accounting guidance.

On adoption of IFRS 9, in accordance with its transitional provisions, the Company has not restated prior periods but has reclassified the financial assets held at January 1, 2018, retrospectively, based on the new classification requirements and the characteristics of each financial instrument as at the transition date. For financial liabilities, IFRS 9 retains most of the IAS 39 requirements. The Company did not choose the option of designating any financial liabilities at FVTPL as such, the adoption of IFRS 9 did not impact the Company's accounting policies for financial liabilities.

(a) Classification and measurement of financial instruments

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

The following table shows the original classification and carrying amount under IAS 39 and the new classification and carrying amount under IFRS 9 for each class of the Company's financial assets and financial liabilities as at January 1, 2018.

Financial Instrument	Note	IAS 39		IFRS 9	
Financial assets					
Cash	5	Loans and receivables	$ 971,109	Amortized cost	$ 971,109
Investments - pooled funds	5	FVOCI	$ 19,904,203	FVTPL	$ 19,904,203
Financial liabilities					
Accounts payable and accrued liabilities	5	Other financial liabilities	$ 446,835	Amortized cost	$ 446,835

(b) Impairment of financial assets

IFRS 9 replaces the incurred loss model in IAS 39 with an expected credit loss ("ECL") model. This applies to financial assets classified at amortized cost and debt instruments classified at FVTOCI. Under IFRS 9, credit losses are recognized earlier than under IAS 39. This change did not have a material impact to the Company's consolidated financial statements.

(c) Hedge accounting

The new hedge accounting model which replaces hedge accounting guidance in IAS 39 did not impact the Company's consolidated financial statements.

(d) 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.

Impacts of adoption of IFRS 9

The following table presents the impact of adopting IFRS 9 on members' surplus as at January 1, 2018:

	Unappropriated Members' Surplus	Accumulated Other Comprehensive Income	Total
Balance at December 31, 2017	**$ 16,982,723**	**$ 859,011**	**$ 17,841,734**
Impact of adopting IFRS 9 - change in classification (i)	**859,011**	**(859,011)**	**-**
Adjusted balance at January 1 2018	**$ 17,841,734**	**$ -**	**$ 17,841,734**

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 the following:

(a) Premiums and unearned premiums

Premiums written consist of premiums on contracts incepting in the financial year. Premiums written are stated exclusive of taxes levied on premiums.

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

Changes in unearned premiums recorded in the consolidated statement of financial position and their impact on net premiums earned are as follows:

Unearned Premiums

	2018	2017
Balance, beginning of the year	**$ 3,429,754**	$ 3,243,328
Premiums written	**7,540,115**	7,184,736
Premiums earned during year	**(7,363,738)**	(6,998,310)
Balance, end of the year	**$ 3,606,131**	$ 3,429,754

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

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

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

(b) 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 comprehensive income.

4. INSURANCE CONTRACTS (CONT'D)

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

	December 31, 2018		
	Gross	**Reinsurance**	**Net**
Outstanding claims provision			
Long term settlement	**$ 1,748,825**	**$ 1,035,820**	**$ 713,005**
Short term settlement	**1,197,416**	**262,863**	**934,553**
Facility Association and other residual pools	**207,199**	**-**	**207,199**
	3,153,440	**1,298,683**	**1,854,757**
Provision for claims incurred but not reported	**1,660,000**	**500,000**	**1,160,000**
	$ 4,813,440	**$ 1,798,683**	**$ 3,014,757**

	December 31, 2017		
	Gross	Reinsurance	Net
Outstanding claims provision			
Long term settlement	$ 2,860,135	$ 1,693,149	$ 1,166,986
Short term settlement	1,109,559	486,873	622,686
Facility Association and other residual pools	196,501	-	196,501
	4,166,195	2,180,022	1,986,173
Provision for claims incurred but not reported	1,660,000	500,000	1,160,000
	$ 5,826,195	$ 2,680,022	$ 3,146,173

4. INSURANCE CONTRACTS (CONT'D)

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

Changes in claim liabilities recorded in the consolidated statement of financial position and their impact on claims and adjustment expenses are as follows:

	2018	2017
Unpaid claim liabilities - beginning of year – net of reinsurance	**$ 3,146,173**	$ 2,955,403
(Decrease) increase in estimated losses and expenses for losses occurring in prior years	**(241,163)**	252,459
Provision for losses and expenses on claims occurring in the current year	**3,199,510**	3,992,243
Payment on claims:		
Current year	**(2,417,886)**	(2,975,053)
Prior years	**(671,877)**	(1,078,879)
Unpaid claims liabilities – end of year - net of reinsurance	**3,014,757**	3,146,173
Reinsurer’s share	**1,798,683**	2,680,022
	$ 4,813,440	$ 5,826,195

4. INSURANCE CONTRACTS (CONT'D)

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 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 agreements.

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

The tables that follow present the development of claims payments and the estimated ultimate cost of claims for the claim year 2011 to 2018. The tables show the cumulative amounts paid or estimated to be paid during successive years related to each claim year. The original estimates will be increased or decreased as more information becomes known about the original claims.

4. INSURANCE CONTRACTS (CONT'D)

Gross claims	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**Total**
Gross estimate of cumulative claims cost									
At the end year of claim	$ 2,704,955	$ 1,642,762	$ 2,650,761	$ 4,903,264	$ 2,614,835	$ 3,065,654	$ 5,378,043	$ 4,144,620	
One year later	2,796,856	1,569,578	2,734,856	5,059,946	2,773,430	3,399,936	5,373,652		
Two years later	2,900,256	1,616,925	3,129,900	5,100,663	2,814,106	3,440,726			
Three years later	2,920,308	1,633,341	2,937,393	5,044,795	2,580,621				
Four years later	3,691,808	1,734,020	3,095,493	5,015,823					
Five years later	3,727,307	1,773,095	3,137,937						
Six years later	3,486,547	1,773,216							
Seven years later	3,486,547								
Current estimate of cumulative claims cost	3,486,547	1,773,216	3,137,937	5,015,823	2,580,621	3,440,726	5,373,652	4,144,620	$ 28,953,142
Cumulative payments	3,467,865	1,773,216	3,106,233	4,899,267	2,553,398	3,328,328	3,803,489	3,075,105	$ 26,006,901
Outstanding claims	$ 18,682	$ -	$ 31,704	$ 116,556	$ 27,223	$ 112,398	$ 1,570,163	$ 1,069,515	$ 2,946,241
Facility association and other residual pools									207,199
Incurred but not reported (IBNR)									1,660,000
Total gross outstanding claims including claims handling expense									**$ 4,813,440**

Net claims	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**Total**
Net estimate of cumulative claims cost									
At the end year of claim	$ 2,097,730	$ 1,642,762	$ 2,588,261	$ 2,650,764	$ 2,568,084	$ 2,478,154	$ 3,992,243	$ 3,199,510	
One year later	2,307,119	1,569,578	2,672,356	2,764,566	2,729,472	2,490,456	3,928,352		
Two years later	2,323,958	1,616,925	2,827,849	2,711,566	2,770,148	2,410,844			
Three years later	2,311,162	1,633,341	2,811,382	2,655,697	2,536,663				
Four years later	2,388,312	1,734,020	2,947,282	2,652,670					
Five years later	2,394,054	1,773,095	2,971,262						
Six years later	2,369,978	1,773,216							
Seven years later	2,369,978								
Current estimate of cumulative claims cost	2,369,978	1,773,216	2,971,262	2,652,670	2,536,663	2,410,844	3,928,352	3,199,510	$ 21,842,495
Cumulative payments	2,368,109	1,773,216	2,939,951	2,635,904	2,509,440	2,306,125	3,244,306	2,417,886	$ 20,194,937
Outstanding claims	$ 1,869	$ -	$ 31,311	$ 16,766	$ 27,223	$ 104,719	$ 684,046	$ 781,624	$ 1,647,558
Facility association and other residual pools									207,199
Incurred but not reported (IBNR)									1,160,000
Total net outstanding claims including claims handling expense									**$ 3,014,757**

4. INSURANCE CONTRACTS (CONT'D)

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

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

	Property claims		**Auto claims**		**Liability claims**	
	2018	2017	**2018**	2017	**2018**	2017
5% change in the loss ratios would result in the following increase/decrease:						
Gross	**$ 173,964**	$ 163,466	**$ 164,384**	$ 159,690	**$ 25,612**	$ 22,793
Net	**$ 155,725**	$ 142,505	**$ 124,492**	$ 124,255	**$ 22,033**	$ 18,851

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

(c) Liability adequacy test

At each reporting date the Company performs a liability adequacy test on its insurance liabilities to ensure the carrying value is adequate, using current estimates of future cash flows, taking into account the relevant investment return. If that assessment shows that the carrying amount of the liabilities is inadequate, any deficiency is recognized as an expense to the consolidated statement of comprehensive income initially by recognizing additional unearned premiums.

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

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

4. INSURANCE CONTRACTS (CONT'D)

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 $350,000 (2017 - 350,000) in the event of a property claim, an amount of $275,000 (2017 - 275,000) in the event of an automobile claim and $385,000 (2017 - 385,000) in the event of a liability claim. The Company also obtained reinsurance which limits the Company's liability to $1,050,000 (2017 - 1,050,000) in the event of a series of claims arising out of a single occurrence. In addition, the Company has obtained stop loss reinsurance which limits the liability of all claims in a specific year to 70% (2017 - 70%) of gross net earned premiums.

Amounts recoverable from the Company's 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 any reinsurer is unable to meet its obligations assumed under such reinsurance agreements.

Expected reinsurance recoveries on unpaid claims and adjustment expenses are recognized as assets at the same time and using principles consistent with the Company's method for establishing the related liability.

Changes in due from reinsurer recorded in the statement of financial position are as follows:

Due from Reinsurers

	2018	2017
Balance, beginning of the year	**$ 169,551**	$ 45,666
Submitted to reinsurer	**2,092,394**	1,317,771
Received from reinsurer	**(2,185,919)**	(1,193,886)
Balance, end of the year	**$ 76,026**	$ 169,551

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

4. INSURANCE CONTRACTS (CONT'D)

Changes in reinsurers share of provision for unpaid claims recorded in the consolidated statement of financial position and their impact on net premiums earned are as follows:

Reinsurer's share of provision for unpaid claims

	2018	2017
Balance, beginning of the year	**$ 2,680,022**	$ 2,608,382
New claims reserves	**945,110**	1,385,800
Change in prior years reserves	**265,945**	3,611
Submitted to reinsurer	**(2,092,394)**	(1,317,771)
Balance, end of the year	**$ 1,798,683**	$ 2,680,022

(e) Salvage and subrogation recoverable

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

Where the Company indemnifies policyholders against a liability claim, it acquires rights to subrogate its claim against other parties.

5. INVESTMENTS

(a) Recognition and initial measurement

The Company recognizes debt instruments on the date on which they are originated. The instruments are initially measured at fair value.

(b) Classification and subsequent measurement

The Company classifies its debt instruments 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 mutual funds are redeemable at the option of the holder and therefore considered debt instruments under IFRS 9 that do not give rise to cash flows that are solely payments of principal and interest and therefore are classified as FVTPL.

The debt 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 comprehensive income.

(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 comprehensive income.

(d) Risks

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

	December 31, 2018		December 31, 2017	
	Cost	**Fair Value**	Cost	Fair Value
GICs	**$ 300,000**	**$ 300,000**	$ -	$ -
Pooled Funds				
Canadian equity	**3,188,690**	**3,885,887**	2,939,198	4,095,057
Fixed income	**16,330,385**	**16,057,456**	15,796,286	15,809,146
	19,519,075	**19,943,343**	18,735,484	19,904,203
Other Investments				
Fire mutuals guarantee fund	**15,927**	**15,927**	16,107	16,107
Total investments	**$19,835,002**	**$20,259,270**	$ 18,751,591	$ 19,920,310

5. INVESTMENTS (CONT'D)

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 investment portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits, corporate sector limits and general guidelines for geographic exposure. The majority of fixed income investments are held within pooled funds that report the holdings of their funds to ensure that the investments are in compliance with the mandated constraints. Pooled funds are invested in bonds and debentures of Federal, Provincial, Corporate and non-Canadian issuers with a minimum rating of 'BBB' or better. The policy for fixed income pooled funds limits the investment in any one corporate name rated 'A' or better to a maximum of 5% of the total fixed income portfolio. The policy also includes limits on the Provincial 'BBB' rated investments to a maximum of 5% of the total fixed income portfolio and holdings in non-Canadian investments require a rating of 'A' or better. All fixed income portfolios are measured for performance on a quarterly basis and monitored by the Company's Investment Committee which reports to the board of Directors.

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

There have been no significant changes from the previous year in the exposure to this 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. Claim payments are funded by current operating cash flow including investment income.

The Company's investment policy requires that 5% to 15% of the Company's portfolio be held in cash and short-term investments. Short-term investments can include treasury bills, GICs, 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 risks 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 of Ontario. 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. Each of the Company's advisors are provided with an investment mandate which restricts the types of investments that funds can be invested in.

Currency risk relates to the Company operating in different currencies and converting non-Canadian earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur. The Company has no significant exposure to this risk.

The Company is exposed to interest rate risk through its interest bearing investments (GICs and fixed income funds).

5. INVESTMENTS (CONT'D)

At December 31, 2018, a 1% move in interest rates, with all other variables held constant, could impact the market value of interest bearing investments by $1,188,251 (2017 - $1,106,640). These changes would be recognized in comprehensive income.

The Company is exposed to equity risk through its equity holdings through equity funds within its investment portfolio. At December 31, 2018, a 10% movement in the stock markets with all other variables held constant would have an estimated effect on the fair values of the equity holdings of $388,589 (2017 - $409,506). 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 holdings are adjusted following each quarter when the investments are offside of the investment policy.

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

(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				
GICs	**300,000**	**-**	**-**	**300,000**
Pooled funds	**-**	**19,943,343**	**-**	**19,943,343**
Farm mutuals guaranteed fund	**-**	**15,927**	**-**	**15,927**
Total	**$ 300,000**	**$ 19,959,270**	**$ -**	**$ 20,259,270**
December 31, 2017				
Pooled funds	-	19,904,203	-	19,904,203
Farm mutuals guaranteed fund	-	16,107	-	16,107
Total	$ -	$ 19,920,310	$ -	$ 19,920,310

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

6. INVESTMENT PROPERTIES

The Company's investment properties consist of land and buildings held to earn rental income or for capital appreciation. 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. Buildings are depreciated on a declining balance basis using a rate of 5%. The depreciation expense is netted against rental income.

Investment properties were subject to external valuation performed by a local real estate broker. The fair value of investment property is determined using assumptions for comparable properties, recent purchase prices and adjustments comparable to MPAC fair market value adjustments.

Rental income is included in investment and other income in the consolidated statement of comprehensive income.

	Land	Buildings	Total
Cost			
Balance at January 1, 2017	$ 358,288	$ 154,165	$ 512,453
Additions	4,065	-	4,065
Balance on December 31, 2017	362,353	154,165	516,518
Additions	4,300	-	4,300
Balance on December 31, 2018	**$ 366,653**	**$ 154,165**	**$ 520,818**
Accumulated depreciation			
Balance at January 1, 2017	$ -	$ 110,589	$ 110,589
Depreciation expense	-	2,179	2,179
Balance on December 31, 2017	-	112,768	112,768
Depreciation expense	-	2,070	2,070
Balance on December 31, 2018	**$ -**	**$ 114,838**	**$ 114,838**
Net book value			
December 31, 2017	$ 362,353	$ 41,397	$ 403,750
December 31, 2018	**$ 366,653**	**$ 39,327**	**$ 405,980**

6. INVESTMENT PROPERTIES (CONT'D)

		2018		2017
Rental revenue from investment property	**$**	**7,566**	$	7,566
Direct operating costs of investment property:				
Generating rental income		**5,813**		2,460
Not generating rental income		**3,941**		4,064
Net income (loss) from rental	**$**	**(2,188)**	$	1,042

The fair value of the investment properties is $519,000 (2017 - $519,000).

7. INVESTMENT AND OTHER INCOME

		2018		2017
Interest income	**$**	**545,122**	$	487,009
Dividend income		**249,492**		101,056
Realized gains (losses) on disposal of investments		**8,412**		(168,241)
Investment expenses		**(75,082)**		(77,044)
Unrealized losses on investments		**(744,451)**		-
Income (loss) on rental		**(2,188)**		1,042
Loss on disposal of property, plant & equipment		**(947)**		(4,418)
	$	**(19,642)**	$	339,404

8. CAPITAL MANAGEMENT

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

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 if deemed necessary.

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

9. FEES, COMMISSIONS AND OTHER ACQUISITION EXPENSES

	2018	2017
Bad debts (recovery)	**$ 1,666**	$ (407)
Commissions (recovery)	**(9,856)**	(9,470)
Inspection and investigations	**35,423**	42,522
Sales and marketing	**76,468**	66,537
	$ 103,701	$ 99,182

10. OTHER OPERATING AND ADMINISTRATIVE EXPENSES

	2018	2017
Association fees	**$ 49,197**	$ 46,105
Computer costs	**404,441**	469,561
Donations	**20,053**	14,663
Insurance	**37,273**	34,679
Occupancy	**113,504**	106,844
Postage	**15,332**	12,847
Premium tax	**17,829**	16,845
Printing, stationary and office supplies	**16,442**	18,069
Professional fees	**68,533**	72,140
Salaries, benefits and directors fees	**1,627,073**	1,672,307
Telephone	**12,031**	17,963
Travel	**73,485**	71,765
Other	**2,475**	21,895
	$ 2,457,668	$ 2,575,683

11. SALARIES, BENEFITS AND DIRECTORS FEES

	2018	2017
Total salaries and benefits paid to employees, and directors fees	**$ 1,712,486**	$ 1,760,751

12. INCOME TAXES

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

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

		2018		2017
Current tax (recovery) expense				
Based on current year taxable income	**$**	**902**	$	(204,482)
Deferred tax expense				
Origination and reversal of temporary differences		**400**		(94,250)
Total income tax (recovery) expense	**$**	**1,302**	$	(298,732)

The significant components of the tax affect of the amounts recognized in other comprehensive income in the prior year are composed of:

		2018		2017
Deferred tax				
Change in unrealized gain (loss) on available-for-sale investments	**$**	**-**	$	(44,251)
Reclassification of realized gain on available-for-sale investments		**-**		(44,584)
Total tax affect of amounts recorded in other comprehensive income	**$**	**-**	$	(88,835)

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 26.50% are as follows:

		2018		2017
Income (loss) before taxes	**$**	**253,446**	$	(1,011,081)
Expected taxes based on the statutory rate of 26.50%		**67,163**		(267,936)
Dividend income not subject to tax		**(66,115)**		(26,780)
Other non deductible expenses		**3,453**		3,562
Mark to market and other adjustments related to investments		**-**		(16,932)
Rate adjustment related to temporary differences		**-**		5,420
Amortization/Capital cost allowance and claims reserve		**-**		3,934
Other tax credits		**(3,199)**		-
Provision for income taxes	**$**	**1,302**	$	(298,732)

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 fulfil 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 Reinsurance Plan Inc. ("the Plan"), which is a general reinsurer that shares in the insurance risks originally accepted by member insurance companies. As a member of the Plan, the company may be required to contribute additional capital to the Plan should the Plan's capital fall below a prescribed minimum. The additional capital would be provided by purchasing subordinated debt obligations issued by the Plan.

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. The depreciation expense is included in other operating and administrative expenses in the consolidated statement of comprehensive income, and is provided on a declining balance basis over the estimated useful life of the asset.

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

Intangible assets

Intangible assets consist of computer software which is not integral to the computer hardware owned by the Company. Software is initially recorded at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses. Software is amortized on a straight-line basis over its estimated useful life of 20 years. The depreciation expense is included in other operating and administrative expenses in the consolidated statement of comprehensive income.

14. PROPERTY, PLANT & EQUIPMENT & INTANGIBLE ASSETS (CONT'D)

Property, plant & equipment

			2018	
	Declining Balance rate	**Cost**	**Accumulated Depreciation**	**Net Book Value**
Land	**N/A**	**$ 91,281**	**$ -**	**$ 91,281**
Buildings	**5-8%**	**963,328**	**493,765**	**469,563**
Computer equipment	**30%**	**120,878**	**95,022**	**25,856**
Telephone system	**8%**	**46,968**	**16,292**	**30,676**
Furniture and fixtures	**20%**	**229,753**	**177,509**	**52,244**
Vehicles	**30%**	**52,757**	**31,859**	**20,898**
		$ 1,504,965	**$ 814,447**	**$ 690,518**

			2017	
	Declining Balance Rate	Cost	Accumulated Depreciation	Net Book Value
Land	N/A	$ 89,276	$ -	$ 89,276
Buildings	5-8%	963,328	467,532	495,796
Computer equipment	30%	124,806	88,650	36,156
Telephone system	8%	46,968	13,624	33,344
Furniture and fixtures	20%	229,753	164,448	65,305
Vehicles	30%	76,994	46,412	30,582
		$ 1,531,125	$ 780,666	$ 750,459

Intangible assets

			2018	
	Useful Life	**Cost**	**Accumulated Depreciation**	**Net Book Value**
Computer software	**20 years**	**$ 155,120**	**$ 60,724**	**$ 94,396**

			2017	
	Useful Life	Cost	Accumulated Depreciation	Net Book Value
Computer software	20 years	$ 155,120	$ 52,968	$ 102,152

15. PENSION PLANS

The Company makes contributions to a defined contribution group retirement program registered with Manulife. The program consists of a Defined Contribution Registered Pension Plan.

Participation by employees and the Company is compulsory for all employees who have completed a successful probationary period. Employee contributions must be a minimum of 4% of the employees annual earnings, while the Company's contribution is 100% of employee contributions to a maximum of 7.25% of the employee's annual earnings.

Contributions made during the year by the Company to the program were $86,020 (2017 - $85,713).

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 fees	**$ 720,601**	$ 714,142
Total pension and other post-employment benefits	**51,966**	50,157
	$ 772,567	$ 764,299
Premiums	**$ 61,885**	$ 57,919
Claims paid	**$ 19,870**	$ 27,450

Amounts owing to and from key management personnel at December 31, 2018 are $361 (2017 - $209) and $8,087 (2017 - $6,429) respectively. These amounts are included in accounts payable and accrued liabilities and due from policyholders on the consolidated statement of financial position.

17. NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS 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 16 Leases* eliminates the distinction between operating and finance leases from the perspective of the lessee. All contracts that meet the definition of a lease will be recorded in the statement of financial position with a “right of use” asset and a corresponding liability. The asset is subsequently accounted for as property, plant and equipment or investment property and the liability is unwound using the interest rate inherent in the lease. The accounting requirements from the perspective of the lessor remains largely in line with previous IAS 17 requirements. The effective date for IFRS 16 is January 1, 2019. The Company expects this to have minimal impact.
- 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 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.