WABISA MUTUAL INSURANCE COMPANY

Financial Statements

For the year ended December 31, 2016

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Independent Auditor's Report

To the Policyholders of Wabisa Mutual Insurance Company

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

Woodstock, Ontario
February 9, 2017

Wabisa Mutual Insurance Company
Statement of Financial Position

As at December 31	2016	2015
Assets		
Cash	$ 1,006,198	$ 1,082,379
Investments (Note 4)	14,138,673	13,383,913
Investment income accrued	64,504	78,470
Income taxes recoverable	-	73,154
Premiums outstanding	1,568,933	1,541,716
Due from reinsurer (Note 3)	193,895	263,710
Due from facility association	163,206	165,241
Prepaid expenses	14,610	12,937
Reinsurer's share of provision for unpaid claims (Note 3)	7,756,202	6,293,131
Deferred policy acquisition expenses (Note 3)	356,000	356,000
Property, plant & equipment (Note 12)	231,058	322,180
Deferred income taxes	47,100	37,600
	$ 25,540,379	$ 23,610,431
Liabilities		
Accounts payable and accrued liabilities	$ 397,226	$ 423,249
Income taxes payable	9,717	-
Unearned premiums (Note 3)	2,629,380	2,510,685
Unearned commissions	206,532	264,969
Provision for unpaid claims (Note 3)	12,660,736	10,866,161
Due to facility association	146,058	145,984
Due to reinsurer (Note 3)	307,322	356,560
	16,356,971	14,567,608
Members' Surplus		
Unappropriated members' surplus	9,183,408	9,042,823
	$ 25,540,379	$ 23,610,431

Signed on behalf of the Board by:

Signed by: Michelle Spoelstra, Director

Signed by: Ian McMillan, Director

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

Wabisa Mutual Insurance Company
Statement of Comprehensive Income

For the year ended December 31	2016	2015
Underwriting income		
Gross premiums written	$ 6,717,469	$ 6,650,023
Less reinsurance ceded	(2,367,521)	(2,406,294)
Net premiums written	4,349,948	4,243,729
Change in unearned premiums	(36,275)	69,918
Net premiums earned	4,313,673	4,313,647
Service charge income	68,697	97,561
	4,382,370	4,411,208
Direct losses incurred		
Gross claims and adjustment expenses	4,998,527	4,739,683
Less reinsurer's share of claims and adjustment expenses	(2,593,292)	(1,949,223)
	2,405,235	2,790,460
	1,977,135	1,620,748
Expenses		
Fees, commissions and inspection of risks (Note 7)	646,565	516,389
Other operating and administrative expenses (Note 8)	1,400,832	1,431,458
	2,047,397	1,947,847
Net underwriting loss	(70,262)	(327,099)
Investment and other income (Note 5)	229,082	357,792
Income before taxes	158,820	30,693
Provision for income taxes (Note 10)	18,235	(9,580)
Comprehensive income for the year	$ 140,585	$ 40,273

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

Wabisa Mutual Insurance Company
Statement of Members' Surplus

For the year ended December 31		2016		2015
Unappropriated members' surplus				
Balance, beginning of year	**$**	**9,042,823**	$	9,002,550
Comprehensive income for the year		**140,585**		40,273
Balance, end of year	**$**	**9,183,408**	$	9,042,823

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

Wabisa Mutual Insurance Company
Statement of Cash Flows

For the year ended December 31	2016	2015
Operating activities		
Comprehensive income for the year	$ 140,585	$ 40,273
Adjustments for:		
Depreciation	92,114	53,369
Interest and dividend income	(359,961)	(383,233)
Provision for income taxes	18,235	(9,580)
Realized loss (gain) on disposal of investments	224,937	(279,633)
Unrealized (gains) losses on investments	(174,383)	231,998
	(58,473)	(346,806)
Changes in working capital		
Change in premiums outstanding and other operating assets	(26,855)	(49,775)
Change in accounts payable and other liabilities	(25,949)	25,982
	(52,804)	(23,793)
Changes in insurance contract related balances, provisions		
Change in amounts due from/to reinsurer	20,577	(123,166)
Change in reinsurer's share of provision for unpaid claims	(1,463,071)	523,590
Change in deferred policy acquisition expenses	-	16,900
Change in unearned commissions	(58,437)	60,859
Change in unearned premiums	118,695	41,231
Change in provision for unpaid claims	1,794,575	(194,681)
	412,339	324,733
Cash flows related to interest, dividends and income taxes		
Interest and dividends received	373,927	392,835
Income taxes received (paid)	55,136	(39,140)
	429,063	353,695
Total cash inflows from operating activities	730,125	307,829
Investing activities		
Sale of investments	11,855,760	9,749,390
Purchase of investments	(12,661,073)	(10,291,996)
Purchase of property, plant & equipment	(993)	(5,753)
Total cash outflows from investing activities	(806,306)	(548,359)
Net decrease in cash and cash equivalents	(76,181)	(240,530)
Cash and cash equivalents, beginning of year	1,082,379	1,322,909
Cash and cash equivalents, end of year	$ 1,006,198	$ 1,082,379

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

1. CORPORATE INFORMATION

Wabisa Mutual Insurance Company (the Company) is incorporated under the laws of Ontario and is subject to the Ontario Insurance Act. It is licensed to write property, liability, automobile and farmers' accident insurance in Ontario. The Company's head office is located at 35 Talbot Street East, Jarvis, Ontario.

The Company is subject to rate regulation in the automobile business that it writes. Before automobile insurance rates can be changed, a rate filing is prepared as a combined filing for most Ontario Farm Mutuals by the Farm Mutual Reinsurance Plan Inc. The rate filing must include actuarial justification for rate increases 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 9, 2017.

2. BASIS OF PREPARATION

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

These financial statements were prepared under the historical cost convention, as modified by the revaluation of financial instruments designated as fair value through profit and loss.

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

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

- The calculation of unpaid claims and the related reinsurer's share, including the determination of the initial claim liability, the development of claims and the estimate of time until ultimate settlement (Note 3).
- The determination of the recoverability of deferred policy acquisition expenses (Note 3).

The notes to the 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 financial statements. The determination of the relevance and materiality of disclosures involves significant judgment.

3. INSURANCE CONTRACTS

In accordance with IFRS 4, Insurance Contracts, the Company has continued to apply the accounting policies it applied in accordance with pre-changeover Canadian generally accepted accounting principles.

Balances arising from insurance contracts primarily include the following:

(a) Premiums and unearned premiums

Premiums written consist of 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 earns premium income evenly over the term of the insurance policy generally using the pro rata method. The portion of the premium related to the unexpired portion of the policy at the end of the fiscal year is reflected in unearned premiums. Changes in unearned premiums recorded in the statement of financial position and their impact on net premiums earned are as follows:

Unearned premiums	**2016**	2015
Balance, beginning of the year	**$ 3,237,553**	$ 3,339,199
Premiums written	**6,717,469**	6,650,023
Premiums earned during year	**(6,690,159)**	(6,751,669)
Balance, end of the year	**3,264,863**	3,237,553
Reinsurer's share of unearned premiums (UEP)		
Balance, beginning of the year	**726,868**	869,745
Premiums written ceded on quota share contracts	**1,382,526**	1,554,879
Ceded premiums expensed on quota share contracts	**(1,391,491)**	(1,586,607)
Changes in UEP - quota share adjustment	**(82,420)**	(111,149)
Balance, end of the year	**635,483**	726,868
	$ 2,629,380	$ 2,510,685

3. INSURANCE CONTRACTS (CONTINUED)

Pricing of property and liability policies are based on assumptions in regard to trends and past experience, in an attempt to correctly match policy revenue with the 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, 2016 and 2015.

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

(b) Deferred policy acquisition expenses

Acquisition costs consist of agents' and brokers' commissions and premium taxes. These costs are deferred and amortized over the terms of the related policies to the extent that they are considered to be recoverable from unearned premiums, after considering the related anticipated claims and expenses. Changes in deferred policy acquisition expenses recorded in the statement of financial position and their impact on fees, commissions and other acquisition expenses are as follows:

Deferred policy acquisition expense	**2016**	2015
Balance, beginning of the year	**$ 356,000**	$ 372,900
Acquisition costs incurred	**727,211**	726,623
Expensed during the year	**(727,211)**	(743,523)
Balance, end of the year	**$ 356,000**	$ 356,000

(c) Provisions for unpaid claims and adjustment expenses

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

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 by the actuaries of the pools.

3. INSURANCE CONTRACTS (CONTINUED)

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

	December 31, 2016		
Outstanding claims provision	**Gross**	**Reinsurance**	**Net**
Long-term	**$ 6,225,671**	**$ 4,355,928**	**$ 1,869,743**
Short-term	**2,792,278**	**1,328,274**	**1,464,004**
Facility Association and other residual pools	**172,787**	**-**	**172,787**
	9,190,736	**5,684,202**	**3,506,534**
Provision for claims incurred but not reported	**3,470,000**	**2,072,000**	**1,398,000**
	$ 12,660,736	**$ 7,756,202**	**$ 4,904,534**

	December 31, 2015		
	Gross	Reinsurance	Net
Outstanding claims provision			
Long-term	$ 6,351,925	$ 3,838,104	$ 2,513,821
Short-term	857,086	383,027	474,059
Facility Association and other residual pools	187,150	-	187,150
	7,396,161	4,221,131	3,175,030
Provision for claims incurred but not reported	3,470,000	2,072,000	1,398,000
	$ 10,866,161	$ 6,293,131	$ 4,573,030

3. INSURANCE CONTRACTS (CONTINUED)

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

Claims and adjustment expenses	**2016**	2015
Unpaid claim liabilities, beginning of year - net of reinsurance	**$ 4,573,030**	$ 4,244,121
(Decrease) increase in estimated losses and expenses, for losses occurring in prior years	**(75,161)**	111,971
Provision for losses and expenses on claims occurring in the current year	**2,231,721**	2,487,291
Payment on claims:		
Current year	**(959,985)**	(1,177,575)
Prior years	**(865,071)**	(1,092,778)
Unpaid claims, end of year - net	**4,904,534**	4,573,030
Reinsurer's share	**7,756,202**	6,293,131
	$ 12,660,736	$ 10,866,161

3. INSURANCE CONTRACTS (CONTINUED)

Claim development

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

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

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

The estimation of claim development involves assessing the future behaviour of claims, taking into consideration the consistency of the Company's claim handling procedures, the amount of information available, the characteristics of the line of business from which the claim arises and 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 2008 to 2016. 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.

3. INSURANCE CONTRACTS (CONTINUED)

Gross claims	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**Total**
Gross estimate of cumulative claims cost										
At the end year of claim	$ 2,867,534	$ 2,362,301	$ 3,211,542	$ 4,687,977	$ 4,227,719	$ 3,673,436	$ 5,048,717	$ 4,418,221	$ 3,820,159	
One year later	2,280,395	3,219,112	3,276,551	5,193,234	3,704,864	3,131,238	5,400,502	4,409,346		
Two years later	2,271,590	4,332,254	2,916,352	5,871,208	3,693,892	3,790,530	6,572,204			
Three years later	2,281,828	3,703,459	2,765,421	6,644,129	3,693,163	3,750,000				
Four years later	2,281,828	3,479,581	2,472,841	5,792,359	3,663,382					
Five years later	2,281,828	3,376,818	2,466,670	5,815,223						
Six years later	2,243,273	3,443,079	2,466,670							
Seven years later	2,182,489	3,443,079								
Eight years later	2,181,212									
Current estimate of cumulative claims cost	2,181,212	3,443,079	2,466,670	5,815,223	3,663,382	3,750,000	6,572,204	4,409,346	3,820,159	36,121,275
Cumulative payments	2,152,357	3,443,079	2,466,670	5,351,005	3,575,159	2,706,832	3,583,616	2,583,384	1,241,224	27,103,326
Outstanding claims	$ 28,855	$ -	$ -	$ 464,218	$ 88,223	$ 1,043,168	$ 2,988,588	$ 1,825,962	$ 2,578,935	9,017,949
Facility association and other residual pools										172,787
IBNR										3,470,000
Total gross outstanding claims including claims handling expense										**$ 12,660,736**

Net of Reinsurance	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**Total**
Net estimate of cumulative claims cost										
At the end year of claim	$ 2,627,774	$ 2,261,806	$ 1,822,833	$ 2,307,574	$ 2,356,673	$ 2,364,964	$ 2,858,227	$ 2,477,497	$ 2,166,488	
One year later	2,088,412	2,525,411	1,769,451	2,358,333	2,104,204	1,953,791	2,860,682	2,362,229		
Two years later	2,079,607	2,642,049	1,669,324	2,542,645	2,081,956	2,231,259	2,951,034			
Three years later	2,058,345	2,504,087	1,553,412	2,629,324	2,066,975	2,215,178				
Four years later	2,058,345	2,478,887	1,367,151	2,513,667	2,056,628					
Five years later	2,058,345	2,395,984	1,365,609	2,526,114						
Six years later	2,051,290	2,402,610	1,365,609							
Seven years later	1,990,506	2,402,610								
Eight years later	1,989,229									
Current estimate of cumulative claims cost	1,989,229	2,402,610	1,365,609	2,526,114	2,056,628	2,215,178	2,951,034	2,362,229	2,166,488	20,035,119
Cumulative payments	1,960,374	2,402,610	1,365,609	2,294,002	2,028,394	1,785,004	2,221,361	1,711,193	932,825	16,701,372
Outstanding claims	$ 28,855	$ -	$ -	$ 232,112	$ 28,234	$ 430,174	$ 729,673	$ 651,036	$ 1,233,663	3,333,747
Facility association and other residual pools										172,787
IBNR										1,398,000
Total net outstanding claims including claims handling expense										**$ 4,904,534**

3. INSURANCE CONTRACTS (CONTINUED)

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

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

	Property claims		Auto claims		Liability claims	
	2016	2015	**2016**	2015	**2016**	2015
5% change in loss ratios would result in the following increase/decrease:						
Gross	**$ 159,335**	$ 159,126	**$ 141,516**	$ 144,973	**$ 32,548**	$ 33,281
Net	**$ 134,779**	$ 132,808	**$ 58,071**	$ 64,511	**$ 22,833**	$ 13,052

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

(d) Liability adequacy test

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

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

The Company enters into reinsurance contracts in the normal course of business in order to limit potential losses arising from certain exposures. Reinsurance premiums are accounted for in the same period as the related premiums for the direct insurance business being reinsured. Reinsurance liabilities, consist 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.

Amounts recoverable from reinsurer's 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.

3. INSURANCE CONTRACTS (CONTINUED)

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 $200,000 (2015 - $210,000) in the event of a property claim, an amount of $300,000 (2015 - $420,000) in the event of an automobile claim and $200,000 (2015 - $315,000) in the event of a liability claim. The Company also obtained reinsurance which limits the Company's liability to $600,000 (2015 - $630,000) 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% (2015 - 70%) of gross net earned premiums incurred.

The Company cedes 50% (2015 - 50%) of auto premiums and recovers 50% (2015 - 50%) of auto losses from its reinsurer under a quota share treaty. The Company also receives commission revenue on the premiums paid to its reinsurance company under the same quota share treaty.

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 recorded as follows:

Due from reinsurer	**2016**	2015
Balance, beginning of the year	**$ 263,710**	$ 184,093
Submitted to reinsurer for claims	**1,117,668**	2,470,390
Commission charged on premiums ceded to reinsurer	**454,375**	566,190
Received from reinsurer	**(1,641,858)**	(2,956,963)
Balance, end of the year	**$ 193,895**	$ 263,710

Due to reinsurer	**2016**	2015
Balance, beginning of the year	**$ 356,560**	$ 400,109
Premiums written ceded to reinsurer	**1,382,526**	1,554,879
Payments to reinsurer	**(1,349,344)**	(1,487,279)
Changes in unearned premiums ceded - quota share adjustment	**(82,420)**	(111,149)
Balance, end of the year	**$ 307,322**	$ 356,560

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.

3. INSURANCE CONTRACTS (CONTINUED)

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

Reinsurer's share of provision for unpaid claims	**2016**	2015
Balance, beginning of the year	**$ 6,293,131**	$ 6,816,721
New claims reserve	**1,643,622**	1,930,930
Change in prior years reserve	**937,117**	15,870
Submitted to reinsurer	**(1,117,668)**	(2,470,390)
Balance, end of the year	**$ 7,756,202**	$ 6,293,131

(f) Refund from premium

Under the discretion of the board of directors, the Company may declare a refund to qualifying property policy holders based on the premiums paid in the fiscal period. This refund is recognized as a reduction of underwriting income in the period for which it is declared.

(g) Salvage and subrogation recoverable

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

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

4. INVESTMENTS

The Company does not have any instruments that are held for trading purposes. However, management has designated to voluntarily classify its investments at fair value through profit and loss. These instruments are carried at fair value with changes in fair value recognized in comprehensive income. Transaction costs on these instruments are expensed as incurred.

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

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

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

	December 31, 2016		December 31, 2015	
	Cost	**Fair Value**	Cost	Fair Value
GICs	**$ 2,400,000**	**$ 2,400,000**	$ 2,300,000	$ 2,300,000
Bonds issued by:				
Federal	**3,108,650**	**3,093,443**	3,727,930	3,786,509
Provincial	**2,873,024**	**2,904,711**	296,589	324,052
Municipal	**203,789**	**202,731**	132,064	129,251
Corporate				
A or better	**2,152,982**	**2,118,472**	3,942,653	3,956,803
B to BBB	**1,046,275**	**1,044,951**	1,271,400	1,259,879
	9,384,720	**9,364,308**	9,370,636	9,456,494
Equity investments				
Canadian	**1,730,081**	**2,327,753**	1,264,963	1,579,238
Other investments				
Fire mutuals guarantee fund	**12,723**	**12,723**	12,519	12,519
Other	**33,889**	**33,889**	35,662	35,662
	46,612	**46,612**	48,181	48,181
Total investments	**$ 13,561,413**	**$ 14,138,673**	$ 12,983,780	$ 13,383,913

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

4. INVESTMENTS (CONTINUED)

The Company's investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits, corporate sector limits and general guidelines for geographic exposure. The bond portfolio remains a very high quality with includes 87% (2015 – 85%) of bonds rated A or better. The Company's investment policy limits investment in bonds and debentures of the various ratings to limits ranging from 75% to 95% of the Company's portfolio. Funds should be invested in bonds and debentures of Federal, Provincial or Municipal Government and corporations rated BBB 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 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 also maintains a minimum of 5% of its investable assets in cash and money market investments to manage short-term liquidity issues.

Maturity profile of bonds and GICs held is as follows:

	Within 1 year	2 to 5 years	6 to 10 years	Over 10 years	Fair value
December 31, 2016	**$ 1,356,934**	**$ 6,759,063**	**$ 3,648,311**	**$ -**	**$11,764,308**
Percent of Total	**11.53 %**	**57.45 %**	**31.01 %**	**- %**	
December 31, 2015	$ 2,027,601	$ 3,395,769	$ 5,832,443	$ 500,681	$ 11,756,494
Percent of Total	17.25 %	28.88 %	49.61 %	4.26 %	

The effective interest rate of the bond and GIC portfolio held is 1.76% at December 31, 2016 (2015 - 1.77%).

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.

4. INVESTMENTS (CONTINUED)

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. The Policy limits the investment in any one corporate issuer to a maximum of 10% of the Company's total assets.

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 limits its holdings in foreign equity to 2% of the total investment portfolio in accordance with its investment policy.

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

At December 31, 2016, a 1% move in interest rates, with all other variables held constant, could impact the market value of interest bearing investments by $407,158 (2015 - $434,100). 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, 2016, 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 investments of $173,000 (2015 - $157,900). This change would be recognized in comprehensive income.

The Company's investment policy limits investment in preferred and common shares to a maximum of 17% 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.

4. INVESTMENTS (CONTINUED)

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

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

	Level 1	Level 2	Level 3	Total
December 31, 2016				
GICs	**$ 2,400,000**	**$ -**	**$ -**	**$ 2,400,000**
Bonds	**9,364,308**	**-**	**-**	**9,364,308**
Equity investments	**2,327,753**	**-**	**-**	**2,327,753**
Other investments	**-**	**46,612**	**-**	**46,612**
Total	**$14,092,061**	**$ 46,612**	**$ -**	**$14,138,673**
December 31, 2015				
GICs	$ 2,300,000	$ -	$ -	$ 2,300,000
Bonds	9,456,494	-	-	9,456,494
Equity investments	1,579,238	-	-	1,579,238
Other investments	-	48,181	-	48,181
Total	$ 13,335,732	$ 48,181	$ -	$ 13,383,913

There were no transfers between any of the levels of the fair value hierarchy for the years ended December 31, 2016 and 2015.

5. INVESTMENT AND OTHER INCOME

	2016	2015
Interest income	$ 308,105	$ 338,823
Dividend income	51,856	44,410
Realized (loss) gain on disposal of investments	(224,937)	279,633
Unrealized gains (losses) on investments	174,383	(231,998)
Other income (expense)	(73)	4,500
Investment fees	(80,252)	(77,576)
	$ 229,082	$ 357,792

6. 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.

7. FEES, COMMISSIONS AND INSPECTION OF RISKS

	2016	2015
Commission expense	$ 1,005,326	$ 1,006,630
Commission income	(458,825)	(583,381)
Inspection of risks	100,064	93,140
	$ 646,565	$ 516,389

8. OTHER OPERATING AND ADMINISTRATIVE EXPENSES

	2016	2015
Advertising	**$ 16,110**	$ 15,273
Association fees	**87,923**	75,888
Bad debt expense	**3,060**	1,582
Building expenses	**45,057**	57,308
Computer expenses	**230,613**	199,391
Corporation premium tax	**16,109**	15,972
Depreciation	**85,405**	46,661
Directors' fees and benefits	**102,199**	101,018
Other administrative expenses	**133,039**	144,245
Postage and telephone	**21,962**	32,573
Printing, stationery and office supplies	**29,739**	27,994
Professional fees	**64,128**	58,220
Salaries and benefits	**554,548**	644,205
Travelling expenses	**10,940**	11,128
	$ 1,400,832	$ 1,431,458

9. SALARIES, BENEFITS AND DIRECTORS FEES

	2016	2015
Salaries and benefits	**$ 554,548**	$ 644,205
Directors' fees and benefits	**102,199**	101,018
Salaries and benefits included in gross claims and adjustment expenses	**169,025**	153,620
Salaries and benefits included in fees, commissions and inspection	**596,816**	564,631
Total salaries, benefits and directors fees	**$ 1,422,588**	$ 1,463,474

10. 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 comprehensive income are composed of:

	2016	2015
Current tax expense		
Based on current year taxable income	**$ 27,832**	$ 2,067
Adjustments for over provision in prior periods	**(97)**	(47)
	27,735	2,020
Deferred tax expense		
Origination and reversal of temporary differences	**(11,057)**	(1,813)
Change in tax rate	**1,557**	(9,787)
	(9,500)	(11,600)
Provision for income taxes	**$ 18,235**	$ (9,580)

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

	2016	2015
Income before taxes	**$ 158,820**	$ 30,693
Expected taxes based on the statutory rate of 26.5%	**42,087**	8,134
Small business deduction	**(21,339)**	(1,467)
Other non deductible expenses	**1,239**	1,939
Amortization/Capital cost allowance and claims reserve	**7,964**	1,977
Change in tax rates	**1,200**	(9,152)
Over provision in prior years	**(97)**	(47)
Canadian dividend income not subject to tax	**(12,819)**	(10,964)
Provision for income taxes	**$ 18,235**	$ (9,580)

11. 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 in the form of subordinated debt should the Plan's capital fall below a prescribed minimum.

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

12. PROPERTY, PLANT & EQUIPMENT

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 over the extended useful life of the asset.

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

		2016		
	Useful life	**Cost**	**Accumulated Depreciation**	**Net Book Value**
Land	**N/A**	**$ 52,185**	**$ -**	**$ 52,185**
Buildings & parking lot	**10 to 40 years**	**342,601**	**216,885**	**125,716**
Automotive equipment	**5 years**	**67,088**	**33,544**	**33,544**
Furniture and equipment	**5 years**	**89,088**	**82,133**	**6,955**
Computer equipment	**4 years**	**70,991**	**58,333**	**12,658**
		$ 621,953	**$ 390,895**	**$ 231,058**

		2015		
	Useful life	Cost	Accumulated Depreciation	Net Book Value
Land	N/A	$ 52,185	$ -	$ 52,185
Buildings & parking lot	10 to 40 years	423,486	248,549	174,937
Automotive equipment	5 years	67,088	20,126	46,962
Furniture and equipment	5 years	89,088	69,140	19,948
Computer equipment	4 years	70,337	42,189	28,148
		$ 702,184	$ 380,004	$ 322,180

13. GROUP RETIREMENT SAVINGS PLAN

The Company makes contributions to a group retirement program.

The Company matches employee contributions to a maximum of 5% for salaried employees and 3% for commissioned employees respectively based on the employees annual earnings. For the year ended December 31, 2016, the Company recognized an expense of $50,383 (2015 - $49,059) for current contributions.

14. RELATED PARTY TRANSACTIONS

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

	2016	2015
Compensation		
Short-term employee benefits and directors fees	$ 323,720	$ 316,348
Premiums	$ 49,832	$ 54,329
Claims paid	$ 9,454	$ 37,864

Amounts owing to and from key management personnel at December 31, 2016 are $3,425 (2015 - $5,382) and $3,229 (2015 - $6,431) respectively. These amounts are included in accounts payable and accrued liabilities and premiums outstanding on the statement of financial position, respectively.

15. NEW 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, 2017 or later.

The Company applied judgements related to the order and exclusion of immaterial disclosures, consistent with the amendment to IAS 1, Presentation of Financial Statements.

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

- *IFRS 9 Financial Instruments* amends the requirements for classification and measurement of financial assets, impairment and hedge accounting. IFRS 9 introduces an expected loss model of impairment and retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through profit or loss, and fair value through other comprehensive income (loss). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The effective date for IFRS 9 is January 1, 2018.

- *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.