EDGE MUTUAL INSURANCE COMPANY

FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

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edgemutual
INSURANCE COMPANY

MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING
DECEMBER 31, 2018

The accompanying financial statements and all other information contained in this annual report are the responsibility of the management of Edge Mutual Insurance Company. The financial statements have been prepared by management in accordance with International Financial Reporting Standards including the accounting requirements of the Financial Services Commission of Ontario and have been approved by the Board of Directors.

Preparation of financial information is an integral part of management's broader responsibilities for the ongoing operations of Edge Mutual Insurance Company, which includes adherence by all employees to the company's Code of Conduct. Management maintains a system of internal accounting controls to provide reasonable assurance that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial information. Such information also includes data based on management's best estimates and judgements.

The annual financial statements are reviewed and approved by the Audit Committee and the Board of Directors. In addition, the Audit Committee meets periodically with financial officers of Edge Mutual Insurance Company and the external auditors, and reports to the Board of Directors thereon.

The accompanying financial statements have been audited by Graham Mathew Professional Corporation, authorized to practise public accounting by the Chartered Professional Accountants of Ontario, who are engaged by the Board of Directors and whose appointment was ratified at the annual meeting of the policyholders. The auditors have access to the Audit Committee, without management present, to discuss the results of their work. Their report dated January 28, 2019 expresses their unqualified opinion on the Company's 2018 financial statements.

Carlos Rodrigues, MBA, CPA, CMA, FCIP
President/CEO

Mike Fortuna
Treasurer/CFO

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Graham Mathew

INDEPENDENT AUDITORS' REPORT

To the Policyholders of
Edge Mutual Insurance Company

Opinion

We have audited the accompanying financial statements of **Edge Mutual Insurance Company** (the Company), which comprise the statement of financial position as at December 31, 2018, and the statements of comprehensive income, policyholders' equity and 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 Auditors' 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 the Board of Directors 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.

Auditors’ 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 auditors' 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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgement 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 uncertainity exists, we are required to draw attention in our auditors' 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 auditors' 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.

Graham Mathew Professional Corporation

Cambridge, Ontario
January 28, 2019

Chartered Professional Accountants, authorized to practise public accounting by the Chartered Professional Accountants of Ontario

FINANCIAL POSITION
DECEMBER 31, 2018

	2018 $	2017 $
ASSETS		
Cash	**4,133,079**	4,492,566
Investments (notes 3 and 4)	**29,089,900**	31,346,383
Due from policyholders	**8,071,626**	6,993,486
Due from Facility Association	**342,003**	333,258
Investment income accrued (note 3)	**100,973**	119,464
Due from reinsurer (note 7)	**315,604**	156,698
Reinsurer's share of provision for unpaid claims (note 7)	**6,332,172**	5,546,883
Income taxes recoverable	**541,259**	181,071
Deferred policy acquisition expenses (note 7)	**2,564,814**	2,306,931
Deferred income taxes	**787,000**	91,800
Property, plant and equipment and intangible assets (note 5)	**3,593,778**	3,739,956
	55,872,208	55,308,496
LIABILITIES		
Provision for unpaid claims (note 7)	**19,342,763**	16,270,624
Unearned premiums (note 7)	**14,291,451**	12,859,761
Accounts payable and accrued liabilities	**480,146**	884,209
Payable to Facility Association	**217,604**	217,658
	34,331,964	30,232,252
POLICYHOLDERS' EQUITY		
Policyholders' equity (page 5)	**21,540,244**	25,076,244
	55,872,208	55,308,496

APPROVED BY THE BOARD:

Arnold Rumph

Arnold Rumph, Chair

Derek Moore

Derek Moore , First Vice-Chair

The explanatory financial notes form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED DECEMBER 31, 2018

	2018 $	2017 $
Gross premiums written	**27,953,724**	25,621,456
Deduct		
Reinsurance premiums	**4,496,916**	4,730,888
Increase in reserve for unearned premiums	**1,431,690**	699,932
	5,928,606	5,430,820
Net premiums earned	**22,025,118**	20,190,636
Service charge revenue	**221,337**	207,075
Net underwriting revenue	**22,246,455**	20,397,711
Direct losses incurred		
Gross claims and adjusting expenses (note 9)	**25,643,417**	9,603,629
Reinsurer's share of claims and adjusting expenses	**(6,788,622)**	2,547,263
	18,854,795	12,150,892
Expenses		
Fees, commissions and other acquisition expenses	**5,035,838**	4,963,468
Other operating and administrative expenses (note 10)	**3,193,868**	3,770,200
	8,229,706	8,733,668
Underwriting loss	**(4,838,046)**	(486,849)
Investment income (note 11)	**145,189**	1,150,562
Income (loss) before income taxes	**(4,692,857)**	663,713
Income tax recovery (expense) (note 8)		
Current	**461,657**	(108,243)
Deferred	**695,200**	(1,100)
	1,156,857	(109,343)
Net income (loss), being total comprehensive income (loss) for year	**(3,536,000)**	554,370

STATEMENT OF POLICYHOLDERS' EQUITY
YEAR ENDED DECEMBER 31, 2018

	2018 $	2017 $
Balance at beginning of year	**25,076,244**	24,521,874
Net income (loss), being total comprehensive income (loss) for year	**(3,536,000)**	554,370
Balance at end of year	**21,540,244**	25,076,244

The explanatory financial notes form an integral part of these financial statements.

STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2018

	2018	2017
	$	$
Cash flows from operating activities:		
Net income (loss), being total comprehensive income (loss) for year	**(3,536,000)**	554,370
Items not involving cash:		
Amortization of bond discounts	**79,818**	136,175
Depreciation and amortization	**320,149**	328,996
Deferred income taxes	**(695,200)**	1,100
Gain on disposal of investments	**(317,216)**	(281,015)
Unrealized losses (gains) on investments	**942,666**	(43,737)
	(3,205,783)	695,889
Net change in non-cash working capital balances relating to operations:		
Amounts receivable	**(1,227,300)**	(622,790)
Reinsurer's share of provision for unpaid claims	**(785,289)**	7,061,467
Deferred policy acquisition expenses	**(257,883)**	(139,914)
Accounts payable and accrued liabilities	**(404,063)**	370,297
Payable to Facility Association	**(54)**	(3,327)
Income taxes recoverable	**(360,188)**	(405,584)
Provision for unpaid claims	**3,072,139**	(8,122,225)
Unearned premiums	**1,431,690**	699,932
	(1,736,731)	(466,255)
Cash flows from investment activities:		
Sale of investments	**7,175,710**	5,715,410
Purchase of investments	**(5,624,493)**	(4,916,317)
Net additions to property plant and equipment and intangible assets	**(173,973)**	(14,626)
	1,377,244	784,467
Net increase (decrease) in cash	**(359,487)**	318,212
Cash position, beginning of year	**4,492,566**	4,174,354
Cash position, end of year (note 3)	**4,133,079**	4,492,566

The explanatory financial notes form an integral part of these financial statements.

1. Nature of Operations and Summary of Significant Accounting Policies

(a) Reporting entity

Edge 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 103 Wellington Street South, Drayton, Ontario.

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

These financial statements have been authorized for issue by the Board of Directors on January 25, 2019.

(b) Basis of presentation

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 on a historical cost basis except for those financial assets and financial liabilities that have been measured at fair value.

The Company's functional and presentation currency is the Canadian dollar. The financial statements are presented in Canadian dollars.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

(c) 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 GAAP.

Balances arising from insurance contracts primarily include unearned premiums, provisions for unpaid claims and adjustment expenses, the reinsurer's share of unpaid claims and adjustment expenses, deferred policy acquisition expenses, and salvage and subrogation recoverable.

(i) Premiums and unearned premiums

Premiums written comprise the premiums on contracts incepting in the financial year. Premiums written are stated gross of commissions payable to 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.

1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

(c) Insurance contracts (continued)

(ii) Deferred policy acquisition expenses

Acquisition costs are comprised primarily of brokers' commissions. 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.

(iii) 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.

Claim liabilities are carried on an undiscounted basis.

(iv) Liability adequacy test

As required, 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 the statement of comprehensive income initially by writing off the deferred policy acquisition expense and subsequently by recognizing an additional claims liability for claims provisions.

(v) 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 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 when due.

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.

Reinsurance premiums ceded and reinsurance recoveries on losses incurred are recorded as reductions of the respective income and expense accounts. A contingent liability exists with respect to reinsurance ceded which could become a liability of the Company in the event that the reinsurer might be unable to meet its obligation under the reinsurance agreements. The Company ascertained that no loss allowance is necessary at December 31 for expected credit losses on reinsurance receivables.

1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

(c) Insurance contracts (continued)

(vi) 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.

(vii) Refund from premium

Under the discretion of the Board of Directors, the Company may declare a refund to its policyholders based on the premiums paid in the fiscal period. This refund is recognized as a reduction of revenue in the period for which it is declared. No refund was declared in fiscal 2018 or 2017.

(d) Structured settlements, Fire Mutual Guarantee Fund and financial guarantee contracts

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

The Company is a member of the Fire Mutual Guarantee Fund ("the Fund"). The Fund was established to provide payment of outstanding policyholders' claims if a member company becomes insolvent. As a result, the Company may be required to contribute assets to their proportionate share in meeting this objective.

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

(e) Financial instruments

Beginning January 1, 2018, the Company follows IFRS 9 and measures its financial assets at either fair value through profit or loss (FVTPL) or amortized cost.

A financial asset is measured at amortized cost if it is held within a business model whose objective is to hold assets to collect contractual cash flows, and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Financial assets measured at amortized cost include certain amounts receivable and bonds, and are measured initially at fair value plus directly attributable transaction costs.

All other financial assets not meeting the criteria described above to be measured at amortized cost are measured at FVTPL. Financial assets measured at FVTPL are initially measured at fair value with directly attributable transaction costs recognized in profit or loss.

The Company has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Company's previous accounting policy.

1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

(e) Financial instruments (continued)

Until December 31, 2017, the Company classified its financial assets in the following categories as based on management's assessment:

- Held-to-maturity investments;
- Financial assets at fair value through profit or loss; and
- Loans and receivables.

Held-to-maturity investments and loans and receivables were initially recognized at fair value plus any directly attributable transaction costs, and were subsequently carried at amortized cost using the effective interest method, less any impairment losses.

Financial assets at fair value through profit or loss were initially recognized at fair value with attributable transaction costs recognized in profit or loss, and were subsequently carried at fair value, with gains or losses being recognized in profit or loss.

Financial liabilities are initially measured at fair value net of any transaction costs directly attributable to the issuance of the instrument, and are subsequently carried at amortized cost using the effective interest rate method.

(f) Impairment of financial instruments

The Company is required to recognize loss allowances for expected credit losses (ECLs) on financial assets measured at amortized cost.

The credit risk for amounts receivable and investments is determined to be low, therefore the Company measures the loss allowance as the portion of ECLs that result from default events that are possible within the twelve months after the reporting date.

The Company has determined that there are no material twelve-month ECLs on its amortized cost bonds, therefore no loss allowance is recorded for these investments.

(g) Facility Association

As a member of the Facility Association, the Company records its proportionate share of the Association's revenue, expenses, unearned premiums and provision for unpaid claims.

(h) Income taxes

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

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base. The amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date and are expected to apply when the liabilities / (assets) are settled / (recovered).

1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

(i) Pension plan

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

(j) Leased assets

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the Company (a "finance lease"), the asset is treated as if it had been purchased outright. The amount initially recognized as an asset is the lower of the fair value of the leased property and the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analyzed between capital and interest. The interest element is charged to the statement of comprehensive income over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Company (an "operating lease"), the total rentals payable under the lease are charged to the statement of comprehensive income on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognized as a reduction of the rental expense over the lease term on a straight-line basis.

(k) Standards, amendments and interpretations not yet effective

Certain new standards, amendments and interpretations have been published that are mandatory for the Company's accounting periods beginning on or after January 1, 2019 or later periods that the Company has decided not to early adopt.

- IFRS 16 Leases supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases - Incentives and SIC-27 Evaluating the Substance of Transactions involving the Legal Form of a Lease. IFRS 16 eliminates the distinction between operating and finance leases from the perspective of the lessee. All contracts that meet the definition of a lease will be recorded in the statement of financial position with a "right of use" asset and a corresponding liability, with limited exception for certain short-term and low value leases. The asset is subsequently accounted for as property, plant and equipment and the liability is reduced as payments are made with interest accruing over the lease term. The effective date for IFRS 16 is January 1, 2019. The Company is currently assessing the impact of IFRS 16.

- IFRS 17 Insurance Contracts supersedes IFRS 4 Insurance Contracts. IFRS 17 fundamentally changes how entities account for insurance contracts, introducing a default "building block approach", which disaggregates the cash flows in an insurance contract and provides a different measurement basis for each component, and a simplified "premium allocation approach" for certain short-term contracts. Assumptions used in measuring insurance assets and liabilities such as cash flows, discount rates and risk adjustment will be updated at each reporting period. The discount rate will reflect the characteristics of the insurance liabilities and the estimated future cash flows to settle claims incurred will be discounted unless the period of time between claim occurrence and settlement is less than one year. Presentation changes include 'insurance revenue' replacing the current reporting of 'written premiums' and 'earned premiums' and insurance contract assets and liabilities will not be netted. Under this standard, premiums receivable, unearned premiums and claims payable may no longer be presented separately from other insurance assets and liabilities. The effective date for IFRS 17 is January 1, 2022 with mandatory restatement of comparative periods. The Company is currently assessing the impact of IFRS 17.

2. Critical Accounting Estimates and Judgements

The preparation of these financial statements in conformity with IFRS requires management to make certain critical estimates. It also requires management to exercise judgement in applying the Company's accounting policies. The areas involving critical judgements and estimates in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year include primarily the calculation and determination of unpaid claims and the related reinsurer's share (note 7).

3. Financial Instrument Classification

The carrying amount of the Company’s financial instruments by classification is as follows:

December 31, 2018	Fair value through profit and loss $	Amortized cost $	Financial liabilities $	Total
Cash	4,133,079			**4,133,079**
Investments (note 4)	15,685,833	13,404,067		**29,089,900**
Amounts receivable		8,729,233		**8,729,233**
Investment income accrued		100,973		**100,973**
Amounts payable		(697,750)		**(697,750)**
	19,818,912	21,536,523		**41,355,435**

December 31, 2017	Loans and receivable $	Fair value through profit and loss $	Held to Maturity $	Financial liabilities $	Total
Cash		4,492,566			4,492,566
Investments (note 4)		17,352,402	13,993,981		31,346,383
Amounts receivable	7,483,442				7,483,442
Investment income accrued	119,464				119,464
Amounts payable				(1,101,867)	(1,101,867)
	7,602,906	21,844,968	13,993,981	(1,101,867)	42,339,988

4. Investment Information

The carrying value of investments as at December 31 is as follows:

	2018	2017
	$	$
Bonds (at cost)	**13,404,067**	13,993,981
Guaranteed investment certificates and Fire Mutual guarantee fund	**4,185,561**	4,521,524
Equities	**3,019,579**	3,402,917
Mutual funds	**8,480,693**	9,427,961
	29,089,900	31,346,383

The following table provides cost and fair value information of investments by type of security and issuer. The maximum exposure to credit risk would be the fair value as shown below.

	2018		2017	
	Cost	**Fair Value**	Cost	Fair Value
Guaranteed Investment Certificates	**4,130,516**	**4,130,516**	4,465,276	4,465,276
Bonds issued by				
Provincial	**5,331,561**	**5,317,278**	4,200,581	4,181,853
Municipal	**1,918,388**	**1,894,238**	2,745,804	2,736,418
Corporate A or better	**6,154,118**	**6,215,733**	7,047,596	7,114,326
	13,404,067	**13,427,249**	13,993,981	14,032,597
Equity investments				
Canadian	**2,156,645**	**2,398,522**	2,139,008	2,663,720
United States	**482,508**	**621,057**	492,615	739,197
	2,639,153	**3,019,579**	2,631,623	3,402,917
Industrial Alliance Investments				
Canadian fixed income	**6,357,106**	**6,181,193**	6,151,757	6,053,811
Canadian and United States equity	**2,464,505**	**2,299,500**	3,046,755	3,374,150
	8,821,611	**8,480,693**	9,198,512	9,427,961
Other investments				
Fire Mutual guarantee fund	**55,043**	**55,043**	56,248	56,248
	29,050,390	**29,113,080**	30,345,640	31,384,999

The Company has determined that there are no material twelve-month expected credit losses on investments measured at amortized cost, therefore no loss allowance has been recorded.

4. Investment Information (Continued)

Maturity profile of bonds, debentures and guaranteed investment certificates held is as follows:

	Within 1 year	2 to 5 years	6 to 10 years	Over 10 years	Fair value
December 31, 2018	**4,031,202**	**13,558,426**	**NIL**	**NIL**	**17,589,628**
Percent of Total	**23 %**	**77 %**	**0 %**	**0 %**	
December 31, 2017	5,196,571	13,318,934	NIL	NIL	18,515,505
Percent of Total	28 %	72 %	0 %	0 %	

The effective investment yield for the year is 0.51% (3.67% for 2017).

The following table provides an analysis of the 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 that the entity can access at the measurement date;
- 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).

On December 31, 2018 the company held only Level 1 and 2 investments.

December 31, 2018	Level 1 $	Level 2 $	Level 3 $	**Total** **$**
Guaranteed investment certificates	4,130,516			**4,130,516**
Equities	3,019,579			**3,019,579**
Mutual funds	8,480,693			**8,480,693**
Other investments		55,043		**55,043**
Total assets measured at fair value	15,630,788	55,043	NIL	**15,685,831**

December 31, 2017	Level 1 $	Level 2 $	Level 3 $	Total $
Guaranteed investment certificates	4,465,276			4,465,276
Equities	3,402,917			3,402,917
Mutual funds	9,427,961			9,427,961
Other investments		56,248		56,248
Total assets measured at fair value	17,296,154	56,248	NIL	17,352,402

There were no transfers between Level 1 and Level 2 for the years ended December 31, 2018 and 2017.

5. Property, Plant and Equipment and Intangible Assets

Property, plant and equipment is initially recorded at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses, with the exception of land which is not depreciated. Depreciation is recognized in net income and is provided over the estimated useful lives of the assets using the straight-line method (years) or declining-balance method (percentage).

Intangible assets consist of computer software which are not integral to the computer hardware owned by the company. Software is initially recorded at cost and subsequently measured at cost less accumulated amortization and accumulated impairment losses. The amortization expense is included within the other operating and administrative expenses in the statement of comprehensive income and is provided over the estimated useful life of the asset.

		2018		
	Depreciation rate	**Cost**	**Accumulated Depreciation**	**Net Book Value**
Land		**110,000**		**110,000**
Buildings	**5%**	**4,181,277**	**1,017,843**	**3,163,434**
Sign	**20%**	**53,020**	**41,901**	**11,119**
Computer hardware	**3 years**	**191,659**	**142,846**	**48,813**
Furniture and fixtures	**20%**	**492,244**	**335,939**	**156,305**
Vehicles	**40-50%**	**32,186**	**8,047**	**24,139**
Computer software	**5 years**	**1,100,293**	**1,020,325**	**79,968**
		6,160,679	**2,566,901**	**3,593,778**

		2017		
	Depreciation rate	Cost	Accumulated Depreciation	Net Book Value
Land		110,000		110,000
Buildings	5%	4,181,277	851,346	3,329,931
Sign	20%	53,020	39,121	13,899
Computer hardware	3 years	120,413	112,685	7,728
Furniture and fixtures	20%	491,171	296,863	194,308
Vehicles	40-50%	32,186	26,151	6,035
Computer software	5 years	1,028,864	950,809	78,055
		6,016,931	2,276,975	3,739,956

The unamortized cost of capital assets available to reduce net income for income tax purposes amounts to approximately $3,350,000 ($3,488,000 in 2017).

6. Operating Lease Commitment

The Company has entered into an operating lease agreement whereby it is obligated to rent computer hardware equipment for 48 months at a monthly cost of $9,344 beginning December 2015.

7. Insurance Contracts

Due From Reinsurer

	2018 $	2017 $
Balance, beginning of year	**156,698**	8,449
Submitted to reinsurer	**4,080,572**	2,909,361
Received from reinsurer	**(3,921,666)**	(2,761,112)
Balance, end of year	**315,604**	156,698

All of the above amounts are expected to be settled within one year. At year-end, the company reviewed the amounts owing from its reinsurer and determined that no loss allowance is necessary.

Reinsurer's Share of Provision For Unpaid Claims

	2018 $	2017 $
Balance, beginning of year	**5,546,883**	12,608,350
New claims reserve	**2,523,485**	1,832,110
Change in prior years reserve	**(5,818,768)**	(11,802,938)
Submitted to reinsurer	**4,080,572**	2,909,361
Balance, end of year	**6,332,172**	5,546,883
Expected settlement		
Within one year	**2,331,569**	575,761
More than one year	**4,000,603**	4,971,122
	6,332,172	5,546,883

Deferred Policy Acquisition Expenses

	2018 $	2017 $
Balance, beginning of year	**2,306,931**	2,167,017
Acquisition costs incurred	**4,982,491**	4,635,988
Expense recognized as a result of liability adequacy tests	**NIL**	NIL
Expensed during the year	**(4,724,608)**	(4,496,074)
Balance, end of year	**2,564,814**	2,306,931

Deferred policy acquisition expenses will be recognized as an expense within one year.

7. **Insurance Contracts (Continued)**	**2018** **$**	2017 $
Unearned Premiums (UEP)		
Balance, beginning of year	**12,859,761**	12,159,828
Premiums written	**27,953,724**	25,621,456
Premiums earned during year	**(26,522,034)**	(24,921,524)
Changes in UEP recognized in income	**1,431,690**	699,932
Balance, end of year	**14,291,451**	12,859,761

Insurance Contract Provisions and Related Reinsurance Assets

The following is a summary of the insurance contract provisions and related reinsurance assets:

December 31, 2018	Gross $	Re-insurance $	**Net** **$**
Outstanding claims provision			
Long settlement term	8,971,997	2,484,026	**6,487,971**
Short settlement term	5,075,447	2,331,570	**2,743,877**
Facility Association and other residual pools	418,743		**418,743**
	14,466,187	4,815,596	**9,650,591**
Provisions for claims incurred but not reported	4,876,576	1,516,576	**3,360,000**
Balance, end of year	19,342,763	6,332,172	**13,010,591**
December 31, 2017			
Outstanding claims provision			
Long settlement term	8,171,957	3,644,122	4,527,835
Short settlement term	3,431,072	575,761	2,855,311
Facility Association and other residual pools	400,595		400,595
	12,003,624	4,219,883	7,783,741
Provisions for claims incurred but not reported, net	4,267,000	1,327,000	2,940,000
Balance, end of year	16,270,624	5,546,883	10,723,741

Comments and Assumptions For Specific Claims Categories

The ultimate cost of long settlement general liability claims are difficult to predict for several reasons. Claims may not be reported until many years after a policy expires. Changes in the legal environment have created further complications. Court decisions and federal and provincial legislation may dramatically increase the liability between the time a policy is written and associated claims are ultimately resolved. For example, liability for exposure to toxic substances and environmental impairment, which did not appear likely or even exist when the policies were written, has been imposed by legislators and judicial interpretation. Tort liability has been expanded by some jurisdictions to cover defective workmanship. Provisions for such difficult-to-estimate liabilities are established by examining the facts of tendered claims and adjusted in the aggregate for ultimate loss expectations based upon historical experience patterns and current socioeconomic trends.

7. **Insurance Contracts (Continued)**

Comments and Assumptions For Specific Claims Categories (Continued)

The Company must participate in industry automobile residual pools of business, and recognize 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.

Claims and Adjustment Expenses

Changes in claim liabilities recorded in the statement of financial position for the years ended December 31, 2018 and 2017 and their impact on claims and adjustment expenses for the two years are as follows:

	2018 **$**	2017 $
Unpaid claim liabilities, beginning of year, net of reinsurance	**10,723,741**	11,784,499
Increase (decrease) in estimated losses and expenses, for losses occurring in prior years	**1,866,850**	(2,258,998)
Provision for losses and expenses on claims occurring in the current year	**17,055,795**	14,409,892
Payment on claims:		
Current year	**(12,118,025)**	(9,508,640)
Prior years	**(4,517,770)**	(3,703,012)
Unpaid claim liabilities, end of year, net of reinsurance	**13,010,591**	10,723,741
Reinsurer's share and subrogation recoverable	**6,332,172**	5,546,883
Unpaid gross claims, end of year	**19,342,763**	16,270,624

The change in estimate of losses occurring in prior years is due to changes arising from new information received.

Claim Development

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 years 2009 to 2018. The upper half of 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 and overall claim frequency and severity.

7. Insurance Contracts (Continued)

Gross Claims	2009 $	2010 $	2011 $	2012 $	2013 $	2014 $	2015 $	2016 $	2017 $	2018 $	Total $
Gross estimate of cumulative claims cost											
At the end year of claim	7,892,233	8,908,469	12,672,107	10,831,491	13,744,615	21,747,867	15,701,144	15,953,391	17,069,682	22,869,218	
One year later	7,947,679	8,331,383	10,456,314	9,348,586	12,856,032	20,797,274	14,917,550	13,238,642	17,167,493		
Two years later	7,603,007	8,675,240	9,749,761	8,628,472	12,809,359	21,030,698	11,368,062	14,740,166			
Three years later	8,219,141	8,362,040	10,009,052	8,156,808	11,978,422	20,081,614	10,169,503				
Four years later	8,282,214	7,875,041	9,960,423	7,886,193	10,837,789	21,662,927					
Five years later	8,728,974	7,883,291	10,093,312	7,857,821	10,804,363						
Six years later	7,517,898	7,799,914	10,063,067	7,852,037							
Seven years later	7,398,211	7,797,628	10,042,582								
Eight years later	7,316,817	7,419,501									
Nine years later	7,249,259										
Current estimate of cumulative claims cost	7,249,259	7,419,501	10,042,582	7,852,037	10,804,363	21,662,927	10,169,503	14,740,166	17,167,493	22,869,218	
Cumulative payments	7,249,259	7,414,500	9,915,023	7,659,343	10,739,799	21,138,985	9,824,690	10,612,122	13,716,425	13,907,826	
Outstanding claims		5,001	127,559	192,694	64,564	523,942	344,813	4,128,044	3,451,068	8,961,392	17,799,077
Outstanding claims 2008 and prior											1,543,686
Total gross outstanding claims and claims handling expenses											19,342,763

7. Insurance Contracts (Continued)

Net Claims	2009 $	2010 $	2011 $	2012 $	2013 $	2014 $	2015 $	2016 $	2017 $	2018 $	Total $
Net estimate of cumulative claims cost											
At the end year of claim	6,825,150	7,819,135	9,000,645	8,384,421	10,107,411	13,508,628	11,495,793	12,117,479	14,316,448	17,905,612	
One year later	6,583,839	7,426,478	8,274,415	7,544,315	9,245,621	13,773,983	11,323,685	11,579,756	14,561,431		
Two years later	6,490,637	7,318,178	7,988,297	7,114,708	9,276,502	14,031,847	10,205,497	12,782,602			
Three years later	6,501,963	7,173,682	7,756,368	6,998,021	8,774,155	13,930,443	9,350,670				
Four years later	6,602,062	6,915,752	7,741,073	7,072,878	8,471,562	14,294,858					
Five years later	6,616,100	6,901,941	7,723,476	7,075,212	8,436,472						
Six years later	6,581,844	6,792,043	7,716,888	7,055,053							
Seven years later	6,124,343	6,785,455	7,690,795								
Eight years later	6,058,270	6,543,538									
Nine years later	5,990,712										
Current estimate of cumulative claims cost	5,990,712	6,543,538	7,690,795	7,055,053	8,436,472	14,294,858	9,350,670	12,782,602	14,561,431	17,905,612	
Cumulative payments	5,990,712	6,538,537	7,563,236	6,884,526	8,371,908	14,040,384	9,005,857	9,649,217	11,851,482	11,753,505	
Outstanding claims		5,001	127,559	170,527	64,564	254,474	344,813	3,133,385	2,709,949	6,152,107	12,962,379
Outstanding claims 2008 and prior											48,212
Total net outstanding claims and claims handling expenses											13,010,591

8. Income Taxes

The Company is subject to income taxes on the portion of its income derived from insuring non-farm related risks.

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 26.5% (26.5% in 2017) are as follows:

	2018 **$**	2017 $
Income (loss) before income taxes	**(4,692,857)**	663,713
Expected taxes based on the statutory rate of 26.5% (26.5% in 2017)		175,884
Income from insuring farm related risks	**153,726**	(36,081)
Claims reserves timing differences	**30,306**	(13,748)
Other non deductible expenses	**1,820**	1,785
Depreciation in excess of capital cost allowance	**2,324**	12,530
Other non taxable income	**(56,401)**	(32,127)
Effect of losses carried back to prior years	**(593,432)**	
Total income tax expense (recovery)	**(461,657)**	108,243

The Company has an unused loss carry-forward for income tax purposes in the amount of approximately $2,450,000 available to reduce taxable income in future years. This loss will expire in 2038.

9. Gross Claims and Adjustment Expense

Included in claims expenses were wage costs of $307,540 ($276,686 in 2017).

10. Other Operating and Administrative Expenses

Salaries and employee benefits (note 12)	**1,534,762**	2,103,548
Directors' remuneration	**47,256**	67,600
Professional fees	**44,970**	103,977
Occupancy	**217,699**	263,123
Information technology (note 6)	**607,465**	558,512
Inspections and investigations	**67,824**	39,673
Membership fees	**69,881**	61,295
Office overhead	**156,976**	155,967
Regulatory assessments	**104,679**	108,224
Advertising and promotion	**121,431**	121,065
Travel and education	**123,338**	88,418
Premium tax	**82,834**	76,111
Other	**14,753**	22,687
	3,193,868	3,770,200

Depreciation and amortization expense of $320,149 ($328,996 in 2017) is included in the above amounts.

11. Investment Income

	Fair value through profit and loss $	Amortized cost $	Other $	**2018 Total $**
Interest income		441,177	1,500	**442,677**
Dividend and other income	388,166			**388,166**
Investment expense	(60,204)			**(60,204)**
Net realized gains	317,216			**317,216**
Unrealized losses	(942,666)			**(942,666)**
	(297,488)	441,177	1,500	**145,189**

	Loans and receivable $	Fair value through profit and loss $	Held to maturity $	Other $	2017 Total $
Interest income			399,170	1,500	400,670
Dividend and other income		487,930			487,930
Investment expense		(62,790)			(62,790)
Net realized gains		281,015			281,015
Unrealized gains		43,737			43,737
	NIL	749,892	399,170	1,500	1,150,562

12. 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		
Salaries, benefits and director's fees	**382,879**	380,128
Total pension and other post-employment benefits	**42,921**	34,422
	425,800	414,550
Premiums	**91,837**	84,549
Claims paid	**38,717**	246

13. 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 generally expect 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. The regulator indicates that the Company should produce a minimum MCT of 150%. During the year, the Company has consistently exceeded this minimum. The regulator has the authority to request more extensive reporting and can place restrictions on the Company's operations if the Company falls below this requirement and if deemed necessary. The MCT for the company at December 31, 2018 was 451% (528% at December 31, 2017).

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

14. Financial Instrument and Insurance Risk Management

Insurance risk management

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 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 Company purchases reinsurance as part of its risk mitigation program. Retention limits for the excess-of-loss reinsurance vary by product line.

Amounts recoverable from the 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.

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 Company manages this risk via its underwriting and reinsurance strategy within an overall risk management framework. Exposures are limited by having documented underwriting limits and criteria. 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; in this case the Company has policies regarding renewal and new business accepted. Reinsurance is purchased to mitigate the effect of the potential loss to the Company.

14. Financial Instrument and Insurance Risk Management (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 $350,000 in the event of a property claim, an amount of $500,000 in the event of an automobile claim, and an amount of $400,000 in the event of a liability claim. The Company also obtained reinsurance which limits the Company's liability to $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 80% of net earned premiums.

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

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 as described in note 7.

The table below sets out the concentration of unpaid claims and adjustment expenses by class of insurance:

	December 31, 2018			December 31, 2017		
	Gross Claims	**Reinsurance Of Claims**	**Net Claims**	Gross Claims	Reinsurance Of Claims	Net Claims
	$	**$**	**$**	$	$	$
Property	**4,780,618**	**2,417,132**	**2,363,486**	3,064,607	656,844	2,407,763
Liability	**2,724,825**	**514,179**	**2,210,646**	3,442,118	1,132,588	2,309,530
Automobile	**11,837,320**	**3,400,861**	**8,436,459**	9,763,899	3,757,451	6,006,448
	19,342,763	**6,332,172**	**13,010,591**	16,270,624	5,546,883	10,723,741

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

	Property claims		Auto claims		Liability claims	
	2018	2017	**2018**	2017	**2018**	2017
	$	$	**$**	$	**$**	$
5% increase in loss ratios						
Gross	**(871,500)**	(792,500)	**(405,500)**	(381,000)	**(120,500)**	(107,400)
Net	**(762,350)**	(702,650)	**(317,200)**	(262,700)	**(93,100)**	(79,150)
5% decrease in loss ratios						
Gross	**871,500**	792,500	**405,500**	381,000	**120,500**	107,400
Net	**762,350**	702,650	**317,200**	262,700	**93,100**	79,150

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

14. Financial Instrument and Insurance Risk Management (Continued)

Credit risk

Credit risk is the risk of financial loss to the Company if a debtor fails to make payments of interest and principal when due. The Company is exposed to this risk relating to its debt holdings in its investment portfolio and the reliance on reinsurers to make payment when certain loss conditions are met.

The Company's investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits and corporate sector limits. The bond portfolio remains very high quality with 100% of the bonds rated A or better. All fixed income portfolios are measured for performance on a quarterly basis and monitored by management on a monthly basis.

Reinsurance is placed with Farm Mutual Re, a Canadian registered reinsurer. Management monitors the credit-worthiness of Farm Mutual Re by reviewing their annual financial statements and through ongoing communications. Reinsurance treaties are reviewed annually by management prior to renewal of the reinsurance contract.

Amounts receivable are short-term in nature and are not subject to material credit risk.

The maximum exposure to credit risk and concentration of this risk is outlined in note 4.

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

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate as a result of market factors. Market factors include three types of risk: currency risk, interest rate risk and equity risk.

The Company's investment policy operates within the guidelines of the Ontario Insurance Act. An investment policy is in place and its application is monitored by management 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 5% of the company's total assets.

a) Currency risk

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's foreign exchange risk is related to its stock holdings. The Company limits its holdings in foreign equity to 20% of the equity portfolio in accordance with its investment policy. A 1% change in the value of the United States dollar would affect the fair value of these equities by approximately $6,200, which would be reflected in the statement of comprehensive income.

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

b) Interest rate risk

Interest rate risk is the potential for financial loss caused by fluctuations in fair value or future cash flows of financial instruments because of changes in market interest rates.

14. Financial Instrument and Insurance Risk Management (Continued)

Market risk (continued)

b) Interest rate risk (continued)

The Company is exposed to this risk through its interest bearing investments, which include treasury bills, guaranteed investment certificates and bonds.

Historical data and current information is used to profile the ultimate claims settlement pattern by class of insurance, which is then used in a broad sense to develop an investment policy and strategy. However, because a significant portion of the Company's assets relate to its capital rather than liabilities, the value of its interest rate based assets exceeds its interest rate based liabilities. As a result, generally, the Company's investment income will move with interest rates over the medium to long-term with short-term interest rate fluctuations creating unrealized gains or losses in net income. There are no occurrences where interest would be charged on liabilities; therefore, little protection is needed to ensure the fair market value of assets will be offset by a similar change in liabilities due to an interest rate change.

The objective, policies and procedures for managing interest rate risk is to diversify the bond and guaranteed investment portfolio in such a way that this portfolio is laddered over a period of five years. This protects the Company from fluctuations in interest rates.

Had prevailing interest rates of the Greystone Fixed Income Fund increased or decreased by 1.0%, assuming a parallel shift in the yield curve and all other variables held constant, the market value of the Fund's fixed income holdings would have decreased or increased by approximately 7.4%. The fixed income holdings' sensitivity to interest rate fluctuations was estimated using the weighted average duration of the fixed income holdings. In practice, actual results may differ from this sensitivity analysis and the difference could be material.

There have been no significant changes from the previous period in the exposure to risk, nor any significant changes to policies, procedures and methods used to measure the risk.

c) Equity risk

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Company is exposed to this risk through its equity holdings within its investment portfolio.

The company's portfolio includes Canadian stocks with fair values that move with the Toronto Stock Exchange Composite Index and U.S. stocks, with fair values that move with the S&P 500 Index. A 10% movement in the Canadian stock markets, with all other variables held constant, would have an estimated effect on the fair values of the company's Canadian common stocks of approximately $470,000. A 10% movement in the U.S. stock markets, with all other variables held constant, would have an estimated effect on the fair values of the company's U.S. stocks of approximately $62,000. These changes would be recognized in other comprehensive income or net income depending on the classification of the instruments.

There have been no significant changes from the previous period in the exposure to risk, nor any changes to the investment policies, procedures and processes for managing equity risk.

14. Financial Instrument and Insurance Risk Management (Continued)

Liquidity 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, nor does it have material commitments for capital expenditures and there is no need for such expenditures in the normal course of business. Claim payments are funded by current operating cash flow including investment income.

The company is a participating member of Farm Mutual Re and, as such, may become obligated to fund a capital call request from Farm Mutual Re which would be recorded as a subordinated loan in the company's accounts. Policies and procedures are in place to measure and control the risk to the company should this capital call occur.

There have been no significant changes from the previous period in the exposure to risk, nor significant changes in policies, procedures and methods used to measure the risk.

15. Retirement Benefits

The Company makes contributions on behalf of its employees to "the Retirement Annuity Plan for Employees of the Ontario Mutual Insurance Association and Member Companies", which is a multi-employer plan. Eligible employees participate in the defined benefit plan. The defined benefit plan specifies the amount of the retirement benefit to be received by the employee based on the number of years the employee has contributed and his/her final average earnings.

The Company matches the employee contributions and funds the excess defined benefit based on the Company's percentage of pensionable earnings as calculated by the Pension Plan actuaries. The Pension Plan agreement states that the Company is responsible for its share of any deficit as a result of any actuarial valuation or cost certificate. In the event of a wind-up, voluntary withdrawal or bankruptcy, either by the Company or the group as a whole, the Company is responsible for its portion of all expenses and deficit related to such.

During 2018, the amount contributed to the plan for current service was $239,299 ($209,886 in 2017) and the amount recovered that was paid last year for the solvency funded status deficit was $171,371 ($257,058 paid in 2017). These amounts have been recognized in comprehensive income. The Company had a 5.14% share of the total contributions to the Plan in 2018. The expected normal contribution to the Plan for 2019 is $270,000.

An actuarial valuation of the Pension Plan as of December 31, 2016 determined that the Plan was in a going-concern surplus position on that date. The next actuarial valuation to be filed under the Pension Benefit Act will be as of December 31, 2019.

16. Comparative Figures

Comparative figures have, in some instances, been restated in order to present them in a form comparable to those for the current year.

17. Change in Accounting Policy

This note explains the impact of the adoption of IFRS 9 Financial Instruments on the Company's financial statements.

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 Financial Instruments on January 1, 2018 resulted in changes in accounting policies but no changes to the financial statements. The new accounting policies are described in note 1(e). In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated.

Classification and measurement:

On January 1, 2018 (the date of initial application of IFRS 9), the Company's management has assessed which business models apply to the financial assets held by the Company and has classified its financial instruments into the appropriate IFRS 9 categories. The main reclassifications are as follows:

	Measurement Category		Carrying Amount		
	Original (IAS 39)	New (IFRS 9)	Original $	New $	Difference **$**
Cash	FVTPL	FVTPL	4,492,566	4,492,566	
Guaranteed investments, equities and mutual funds	FVTPL	FVTPL	17,352,402	17,352,402	
Bonds	Held-to-maturity	Amortized cost	13,993,981	13,993,981	
Amounts receivable	Loans and receivables	Amortized cost	7,483,442	7,483,442	
Amounts payable	Amortized cost	Amortized cost	1,101,867	1,101,867	

Bonds that were previously classified as held-to-maturity are now classified at amortized cost. The Company intends to hold the assets to maturity and collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding. There was no adjustment on these investments on transition to IFRS 9.

Amounts receivable that were classified as loans and receivables under IAS 39 are now classified as amortized cost. There was no adjustment to receivables on transition to IFRS 9.