Bertie and Clinton Mutual Insurance Company
Financial Statements
For the year ended December 31, 2019

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Independent Auditor's Report

To the Board of Directors of Bertie and Clinton Mutual Insurance Company

Opinion

We have audited the financial statements of Bertie and Clinton Mutual Insurance Company (the Company), which comprise the statement of financial position as at December 31, 2019, and the statement of operations and unappropriated members surplus and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

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

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

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

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

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

Other Matter

The financial statements for the year ended December 31, 2018 were audited by another auditor who expressed an unmodified opinion on those financial statements on February 21, 2019.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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Independent Auditor's Report (continued)

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

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

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

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

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

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

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

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

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants
Mississauga, Ontario
February 28, 2020

Bertie and Clinton Mutual Insurance Company
Statement of Financial Position

December 31	2019	2018
Assets		
Cash	**$ 1,801,917**	$ 3,894,276
Investments (Note 5)	**52,332,463**	51,133,925
Accounts receivable and prepaid expenses	**278,337**	178,842
Income taxes recoverable	**-**	224,281
Due from policyholders (Note 4)	**4,788,959**	4,287,049
Reinsurer's share of unpaid claims and adjustment expenses (Note 4)	**975,700**	2,849,318
Deferred policy acquisition expenditures (Note 4)	**1,202,566**	1,051,026
Mortgage receivable	**1,368,380**	657,501
Property and equipment (Note 12)	**9,825,190**	7,363,083
Deferred tax asset (Note 10)	**45,980**	111,980
	$ 72,619,492	$ 71,751,281
Liabilities		
Accounts payable and accrued liabilities	**$ 980,100**	$ 115,292
Income taxes payable	**353,296**	-
Unearned premiums (Note 4)	**8,641,899**	8,182,649
Unpaid claims and adjustment expenses (Note 4)	**8,472,140**	12,684,591
Provision for policyholder refunds (Note 4)	**2,005,718**	2,239,238
	20,453,153	23,221,770
Members' surplus		
Unappropriated members' surplus	**52,166,339**	48,529,511
	$ 72,619,492	$ 71,751,281

On behalf of the Board:

David Gell Director

Director

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

Bertie and Clinton Mutual Insurance Company
Statement of Operations and Unappropriated Members' Surplus

For the year ended December 31	2019	2018
Revenue		
Gross premiums written	$ 17,038,552	$ 15,949,548
Less reinsurance ceded	(1,512,547)	(1,406,808)
Net premiums written	15,526,005	14,542,740
Increase in unearned premiums	(587,048)	(604,556)
Net premiums earned	14,938,957	13,938,184
Direct losses incurred		
Gross claims incurred	3,286,609	4,479,861
Gross adjustment expenses	1,244,190	940,597
Less reinsurer's share of claims and adjustment expenses	1,710,630	(1,170,117)
	6,241,429	4,250,341
Underwriting income before operating expenses	8,697,528	9,687,843
Operating expenses		
Commissions	1,496,882	1,382,908
Salaries	1,548,560	1,503,523
Loss prevention expense	164,247	170,361
Depreciation of property and equipment	215,540	268,357
Amortization of intangible assets	23,702	38,770
Operating expenses (Note 8)	1,678,320	1,259,203
	5,127,251	4,623,122
Underwriting income before refunds	3,570,277	5,064,721
Provision for policyholder refunds	(1,972,855)	(2,220,730)
Net underwriting income	1,597,422	2,843,991
Investment income (loss) (Note 6)	2,438,780	(131,727)
Miscellaneous	18,017	102,343
Gain on sale of land	420,200	-
	2,876,997	(29,384)
Income before income taxes	4,474,419	2,814,607
Income tax expense (recovery)		
Current (Note 10)	771,591	590,392
Deferred (Note 10)	66,000	-
	837,591	590,392
Net income and comprehensive income for the year	3,636,828	2,224,215
Unappropriated members' surplus, beginning of year	48,529,511	46,305,296
Unappropriated members' surplus, end of year	$ 52,166,339	$ 48,529,511

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

Bertie and Clinton Mutual Insurance Company
Statement of Cash Flows

For the year ended December 31	2019	2018
Cash provided by (used in)		
Operating activities		
Net income for the year	$ 3,636,828	$ 2,224,215
Adjustments for:		
Depreciation of property and equipment	268,357	268,357
Depreciation of intangible assets	30,744	38,770
Amortization of investments	-	31,691
Investment income	(2,438,780)	131,727
Provision for income taxes	837,591	590,392
Gain on sale of property	(420,200)	-
	1,914,540	3,285,152
Changes in working capital and insurance contract related balances		
Change in accounts receivable	(99,495)	(157,967)
Change in due from policy holders	(501,910)	(426,800)
Change in due from reinsurer	-	62,230
Change in accounts payable and other liabilities	864,808	36,639
Change in income tax recoverable	(194,014)	(869,307)
Change in reinsurer's share of unpaid claims and adjustment expenses	1,873,618	1,071,991
Change in deferred policy acquisition expenditures	(151,540)	(72,688)
Change in unpaid claims and adjustment expenses	(4,212,451)	(3,966,457)
Change in unearned premiums	459,250	604,556
Change in provision for policy holder refunds	(233,520)	515,537
	(280,714)	82,886
Cash flows related to interest and dividends		
Interest and dividends received	1,971,793	2,173,421
Total cash (outflows) inflows from operating activities	1,691,079	2,256,307
Investing activities		
Sale of investments	9,340,548	3,377,485
Purchase of investments	(10,072,099)	(4,587,801)
Purchase of property and equipment	(3,291,604)	(42,946)
Repayment of mortgage receivable	1,621	226
Proceeds on sale of land	238,096	-
Total cash outflows from investing activities	(3,783,438)	(1,253,036)
Decrease in cash during the year	(2,092,359)	1,003,271
Cash, beginning of year	3,894,276	2,891,005
Cash, end of year	$ 1,801,917	$ 3,894,276

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

1. Corporate Information

Bertie and Clinton Mutual Insurance Company (the "Company") is incorporated under the laws of Ontario and is subject to the Ontario Insurance Act. The Company is licensed to write property, liability, automobile and farmers' accident insurance in Ontario. The Company's registered office is located in Welland, 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 Ontario Mutual Insurance Association ("OMIA"). The rate filing includes actuarial justification for rate increases or decreases. All rate filings are approved or denied by the Financial Services Regulatory Authority of Ontario ("FSRA"). 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 28, 2020.

2. Basis of Presentation

(a) Statement of Compliance

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

(b) Basis of Measurement

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

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

(c) Judgment and Estimates

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise 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:

2. Basis of Presentation *(continued)*

(c) Judgment and Estimates (continued)

- The calculation of unpaid claims, including the determination of the initial claim liability, discount rates, the estimate of time until ultimate settlement and the performance of a liability adequacy test (Note 4);
- The determination of the recoverability of deferred policy acquisition expenditures (Note 4); and
- The classification of financial assets at FVTPL, which includes assessing the business model within which the assets are held and whether the contractual terms of the assets are solely payments of principal and interest on the principal amount outstanding (Note 5).

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

3. Adoption of New Accounting Standards

Accounting standards, interpretations and amendments effective for accounting years beginning on or after January 1, 2019 did not materially affect the Company's financial statements other than those described below.

IFRS 16 *Leases* (IFRS 16)

On January 1, 2019, the Company adopted IFRS 16 Leases (IFRS 16). IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less, or the underlying asset is of low value. IFRS 16 substantially carries forward the lessor accounting in IAS 17 - Leases ("IAS 17"), with the distinction between operating leases and finance leases being retained.

There was no impact of adopting IFRS 16 as company does not have any leases as at December 31, 2019.

3. Adoption of New Accounting Standards *(continued)*

IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments* (IFRIC 23)

IFRIC 23 provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Interpretation requires:

- A company to contemplate whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution;
- A company to determine if it is probable that the tax authorities will accept the uncertain tax treatment; and
- If it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty.

The adoption of IFRIC 23 did not have a material impact on the Company's financial statements.

4. Insurance Contracts

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

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

(a) Premiums and unearned premiums

Premiums written comprise the premiums on contracts incepting in the financial year. Premiums written are stated gross of commissions payable to agents and exclusive of taxes levied on premiums.

The Company recognizes premium income evenly over the term of the insurance policy using the pro rata method. The portion of the premium related to the unexpired portion of the policy at the end of the fiscal year is reflected in unearned premiums (UEP). Changes in unearned premiums recorded in the statement of financial position for the years ended December 31, 2019 and 2018 and their impact on net premiums earned for the two years follow:

	2019	2018
Balance, beginning of the year	**$ 8,182,649**	$ 7,454,114
Premiums written	**17,038,552**	15,949,548
Changes in UEP recognized in income	**587,048**	604,556
Premiums earned during year	**(17,166,350)**	(15,825,569)
Balance, end of the year	**$ 8,641,899**	$ 8,182,649

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 FSRA 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, 2019 and 2018.

Amounts due from policyholders are short-term in nature consisting of a large number of policyholders, and are not subject to material credit risk. Regular review of amounts outstanding is performed to ensure credit worthiness.

4. **Insurance Contracts** (continued)

(b) Deferred policy acquisition expenditures

Acquisition costs are comprised of agents' commissions, premium taxes, salaries and certain identified business development costs considered to be directly related to the premiums written and therefore are allowed to be deferred. 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 expenditures recorded in the statement of financial position for the years ended December 31, 2019 and 2018 and their impact on fees, commissions and other acquisition expenses for the two years follow:

	2019	2018
Balance, beginning of the year	**$ 1,051,026**	$ 978,338
Acquisition expenses incurred	**2,366,838**	1,051,026
Expensed during the year	**(2,215,298)**	(978,338)
Balance, end of the year	**$ 1,202,566**	$ 1,051,026

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

(c) Unpaid claims and adjustment expenses

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

Claim liabilities are carried on a discounted basis to reflect the time value of money. As required by actuarial standards in Canada, claims liabilities also include a provision for adverse deviation (PFAD), which represents an additional margin on valuation variable factors, which are claims development, reinsurance recoveries and interest rates used in discounting claims liabilities.

4. Insurance Contracts (continued)

(c) Unpaid claims and adjustment expenses *(continued)*

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

	December 31, 2019			December 31, 2018		
	Gross	Re-insurance	Net	Gross	Re-insurance	Net
Outstanding claims provision						
Long settlement term	$ 2,326,698	$ 719,700	$ 1,606,998	$ 3,415,798	$ 719,700	$ 2,696,098
Short settlement term	2,623,722	-	2,623,722	3,851,966	-	3,851,966
Facility Association and other residual pools	495,720	-	495,720	457,501	-	457,501
	5,446,140	719,700	4,726,440	7,725,265	719,700	7,005,565
Provision for claims incurred but not reported	3,026,000	256,000	2,770,000	4,959,326	2,129,618	2,829,708
	$ 8,472,140	$ 975,700	$ 7,496,440	$ 12,684,591	$ 2,849,318	$ 9,835,273

4. Insurance Contracts (continued

(c) Unpaid claims and adjustment expenses *(continued)*

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 can create 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.

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 assets, liabilities, revenue and expenses provided by the actuaries of the pools.

Changes in claim liabilities recorded in the statement of financial position for the years-ended December 31, 2019 and 2018 and their impact on claims and adjustment expenses for the two years follow:

	2019	2018
Unpaid claims liabilities - beginning of year – net of reinsurance	**$ 9,835,273**	$ 12,729,739
Increase in estimated losses and expenses, for losses occurring in prior years	**(3,693,000)**	(601,634)
Provision for losses and expenses on claims occurring in the current year	**7,386,120**	4,395,288
Payment on claims:		
Current year	**(4,447,534)**	(2,313,559)
Prior years	**(1,584,419)**	(4,374,561)
Unpaid claims – end of year - net of reinsurance	**7,496,440**	9,835,273
Reinsurer's share	**975,700**	2,849,318
	$ 8,472,140	$ 12,684,591

4. Insurance Contracts (continued)

(c) Unpaid claims and adjustment expenses *(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, and the characteristics of the claim. In general, the longer the term required for the settlement the more variable the estimates. Short settlement term claims are those which are expected to be substantially paid within a year of being reported.

The tables below show how the Company's estimate of cumulative incurred claim cost for each accident year has changed at successive year ends and reconcile the cumulative claims to the amount appearing in the statement of financial position. An accident-year basis is considered to be the most appropriate for the business written by the Company.

4. Insurance Contracts (continued)

***(c) Unpaid claims and adjustment expenses** (continued)*

Gross claims

	Accident Year										
Reporting Date	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
At end of accident year	$ 7,874	$ 9,357	$ 8,105	$ 7,612	$ 6,474	$ 6,982	$ 8,911	$ 8,211	$ 7,833	$ 7,487	
1 year later	7,382	9,161	8,741	6,476	8,279	6,086	8,502	7,873	6,382		
2 years later	6,586	7,624	7,307	5,482	7,115	5,678	7,123	5,535			
3 years later	6,327	6,681	6,280	5,554	6,430	5,225	5,605				
4 years later	6,466	5,465	6,701	5,522	6,123	4,278					
5 years later	6,068	6,394	5,884	5,371	5,310						
6 years later	6,241	6,126	5,687	4,822							
7 years later	6,186	5,567	5,149								
8 years later	6,223	5,235									
9 years later	5,476										
Current estimate of ultimate cost	5,476	5,235	5,149	4,822	5,310	4,278	5,605	5,535	6,382	7,487	$ 55,279
Cumulative payments	5,448	4,112	5,105	4,822	4,966	4,060	5,240	4,727	4,600	4,448	47,528
Outstanding claims	$ 28	$ 1,123	$ 44	$	$ 344	$ 218	$ 365	$ 808	$ 1,782	$ 3,039	7,751
Unallocated loss adjustment expenses											225
Facility Association and risk sharing pool											496
Total gross outstanding claims											$ 8,472

4. Insurance Contracts (continued)

(c) Unpaid claims and adjustment expenses *(continued)*

Net of reinsurance

	Accident Year										
Reporting Date	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
At end of accident year	$ 5,816	$ 7,797	$ 7,433	$ 6,671	$ 8,020	$ 5,962	$ 7,443	$ 7,273	$ 6,888	$ 7,385	
1 year later	5,680	7,657	7,566	4,849	6,778	4,540	7,331	6,463	6,312		
2 years later	5,698	6,888	6,435	4,696	6,002	5,001	6,402	5,504			
3 years later	5,740	6,134	5,753	4,957	5,678	4,753	5,437				
4 years later	5,891	5,986	6,192	5,008	5,396	4,278					
5 years later	5,464	5,842	5,421	4,929	5,310						
6 years later	5,701	5,683	5,258	4,822							
7 years later	5,672	5,122	5,149								
8 years later	5,575	4,463									
9 years later	5,476										
Current estimate of ultimate cost	5,476	4,463	5,149	4,822	5,310	4,278	5,437	5,504	6,312	7,385	$ 54,136
Cumulative payments	5,448	4,112	5,105	4,822	4,966	4,060	5,073	4,727	4,600	4,448	47,361
Outstanding claims	$ 28	$ 351	$ 44	$ -	$ 344	$ 218	$ 364	$ 777	$ 1,712	$ 2,937	6,775
Unallocated loss adjustment expenses											225
Facility Association and risk sharing pool											495
Total net outstanding claims											$ 7,495

4. **Insurance Contracts** (continued)

***(c) Unpaid claims and adjustment expenses** (continued)*

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

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

	Property claims		Auto claims		Liability claims	
	2019	2018	**2019**	2018	**2019**	2018
5% increase in loss ratios						
Gross	**$ 334,035**	$ 308,382	**$ 449,483**	$ 434,581	**$ 56,341**	$ 54,514
Net	**299,728**	276,106	**412,724**	392,060	**52,629**	49,775
5% decrease in loss ratios						
Gross	**$(334,035)**	$(308,382)	**$(449,483)**	$(434,581)	**$ (56,341)**	$ (54,514)
Net	**(299,728)**	(276,106)	**(412,724)**	(392,060)	**(52,629)**	(49,775)

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

(d) Liability adequacy test

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

4. Insurance Contracts (continued)

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

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

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 $750,000 (2018 - $750,000) in the event of an automobile claim, an amount of $700,000 (2018 - $700,000) in the event of a liability claim and $600,000 (2018 - $400,000) in the event of a property claim. The Company also obtained catastrophe reinsurance which limits the Company's liability to $870,000 (2018 - $1,200,000) 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% (2018 - 80%) of gross net earned premiums for lines of insurance.

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

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

Changes in reinsurer's share of unpaid claims and adjustment expenses recorded in the statement of financial position for the years ended December 31, 2019 and 2018 is as follows:

	2019	2018
Balance, beginning of the year	**$ 2,849,318**	$ 3,921,309
New claims reserve	**-**	-
Change in prior years' reserve	**(1,710,630)**	142,091
Submitted to reinsurer	**(162,988)**	(1,214,082)
Balance, end of the year	**$ 975,700**	$ 2,849,318

4. Insurance Contracts (continued)

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

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

(f) Refund of premium

At the discretion of the board of directors, the Company may declare a refund to its policyholders based on the premiums paid. This refund is recognized as a reduction of revenue in the period for which it is declared.

	2019	2018
Balance, beginning of year	**$ 2,239,238**	$ 1,723,701
Payments to policyholders	**(2,206,375)**	(1,705,193)
Current year allocation to refund	**1,972,855**	2,220,730
Balance, end of the year	**$ 2,005,718**	$ 2,239,238

5. Investments

(a) Recognition and initial measurement

The Company recognizes debt instruments on the date on which they are originated. Equity instruments including pooled funds are recognized on the trade date, which is the date that the asset is received by the Company. The instruments are initially measured at fair value.

(b) Classification and subsequent measurement

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

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

The Company classifies its equity instruments in listed and unlisted companies, as FVTPL.

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

5. Investments (continued)

(c) Derecognition

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

(d) Risks

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

	2019 Fair Value	2018 Fair Value
Cash and money market	$ 9,165,346	$ 4,706,106
Bonds:		
Provincial	4,225,205	4,618,956
Municipal	205,892	612,562
Corporate	14,178,631	18,529,271
	18,609,728	23,760,789
Pooled funds:		
Fixed income	11,798,951	10,992,572
Global	669,473	1,438,178
Real estate	130,965	-
Alternative investments	945,848	558,027
	13,545,237	12,988,777
Equity investments:		
Canadian common shares	357,541	322,594
Canadian preferred shares	10,519,943	9,320,991
Canadian private company	100,000	-
Fire Mutuals Guarantee Fund	34,668	34,668
	11,012,152	9,678,253
	$ 52,332,463	$ 51,133,925

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 Company's investment policy limits investments in bonds of the various ratings to limits ranging from 50% to 90%. The Company's policy requires that funds be invested in fixed income of Federal, Provincial or Municipal Government and corporations rated BBB or better with non-investment grade bonds to a maximum of 10% of the Company's portfolio. All portfolios are measured for performance on a quarterly basis and monitored by the board of directors on a monthly basis.

The Company's investment policy limits investments in equity funds to limits ranging from 0% to 35%, and investments in alternative investments to limits ranging from 0% to 15% of the Company's portfolio.

5. Investments (continued)

***(d) Risks** (continued)*

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 risk or polices, procedures and methods used to measure credit risk.

Liquidity risk is the risk that the Company will not be able to meet all cash outflow obligations as they come due. The Company mitigates this risk by monitoring cash activities and expected outflows. The Company's current liabilities arise as claims are made. The Company does not have material liabilities that can be called unexpectedly at the demand of a lender or client. The Company has no 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's investment policy limits a maximum investment of 30% of the Company's portfolio be held in cash and short-term investments and 15% in other alternative investments.

The maturity profile of bonds held is as follows:

	Within 1 year	2 to 5 years	6 to 10 years	Over 10 years	Fair Value
December 31, 2019	**$ 2,474,075**	**$16,135,653**	**$ -**	**$ -**	**$18,609,728**
Percent of Total	**13%**	**87%**	**0%**	**0%**	**100%**
December 31, 2018	$ 3,736,919	$17,925,090	$ 2,098,780	$ -	$23,760,789
Percent of Total	16%	75%	9%	0%	100%

The effective interest rate of the bonds portfolio held at December 31, 2019 is 2.11% (2018 - 2.91%).

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

Market factors that will impact the fair value of investments include three types of risk: currency risk, interest rate risk and equity risk.

The Company is not exposed to significant currency risk on its investment in the global pooled fund.

The Company's investment policy operates within the guidelines of the Insurance Act. An investment policy is in place and its application is monitored by the Board of Directors. Diversification techniques are utilized to minimize risk. The policy limits the investment in international equities (including pooled funds) to 17.5% of the Company's total portfolio.

5. Investments (continued)

***(d) Risks** (continued)*

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.

The Company is exposed to interest rate risk through its investment in money market funds, bonds and fixed income pooled funds.

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

At December 31, 2019 a 1% move in interest rates, with all other variables held constant, could impact the market value of bonds by $393,000 (2018 - $633,000).

The Company is exposed to equity risk through its equity portfolio including pooled funds. At December 31, 2019, a 10% movement in the stock markets with all other variables held constant would have an estimated effect on the fair values of the Company's equity investments of $2,455,700 (2018 - $2,282,200). This change would be recognized in net income.

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

The fair value of the investment in the Canadian private company fluctuates based on the value of the underlying net assets held by the private company. At December 31, 2019, the change in measurement inputs would not result in a material adjustment to the Company's investment.

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

5. Investments (continued)

(e) Fair value measurement

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1	Level 2	Level 3	Total
December 31, 2019				
Cash and money market	$ 9,165,346	$ -	$ -	$ 9,165,346
Bonds				
Provincial	-	4,225,205	-	4,225,205
Municipal	-	205,892	-	205,892
Corporate	-	14,178,631	-	14,178,631
Pooled funds				
Fixed income	-	11,798,951	-	11,798,951
Global	-	669,473	-	669,473
Real estate	-	-	130,965	130,965
Alternative investments	-	-	945,848	945,848
Equity				
Canadian common shares	357,541	-	-	357,541
Canadian preferred shares	-	10,519,943	-	10,519,943
Canadian private company	-	-	100,000	100,000
Fire Mutuals Guarantee Fund	-	-	34,668	34,668
Total	$ 9,522,887	$ 41,598,095	$ 1,211,481	$ 52,332,463

5. **Investments** (continued)

	Level 1	Level 2	Level 3	Total
December 31, 2018				
Cash and money market	$ 4,706,106	$ -	$ -	$ 4,706,106
Bonds				
Provincial	-	4,618,956	-	4,618,956
Municipal	-	612,562	-	612,562
Corporate	-	18,529,271	-	18,529,271
Pooled funds				
Fixed income	-	10,992,572	-	10,992,572
Global	-	1,438,178	-	1,438,178
Real estate	-	-	-	-
Alternative investments	-	-	558,027	558,027
Equity				
Canadian common shares	322,594	-	-	322,594
Canadian preferred shares	-	9,320,991	-	9,320,991
Canadian private company	-	-	-	-
Fire Mutuals Guarantee Fund	-	-	34,668	34,668
Total	$ 5,028,700	$ 45,512,530	$ 592,695	$ 51,133,925

There were no transfers between any levels of the fair value hierarchy for the years ended December 31, 2019 and 2018.

The investment in the Canadian private company is recorded at fair value and is not traded on an open market. The fair value of this investment is based on valuation techniques that include inputs that are not based on observable market data (unobservable inputs). Therefore, it is classified as Level 3.

6. Investment Income

Investment and other income for the year ended December 31, consists of the following:

	2019	2018
Dividend income	$ 1,163,631	$ 765,349
Interest income	993,798	1,261,916
Realized gain (loss) on disposal of investments	(634,238)	(399,838)
Unrealized gain (loss) on investments	928,337	(1,759,154)
Other	(12,747)	-
	$ 2,438,781	$ (131,727)

7. Capital Management

For the purpose of capital management, the Company has defined capital as unappropriated 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 regulators indicate that the Company should produce a minimum MCT of 150%. During the year, the Company has consistently exceeded this minimum in its quarterly filings. 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 deemed necessary.

8. Operating Expenses

	2019	2018
Advertising	$ 74,656	$ 109,716
Bank charges	65,527	64,763
Computer expense	446,513	244,617
Insurance	53,980	48,606
License fee and dues	124,566	120,099
Meeting and events	25,477	17,331
Mileage and meals	25,638	15,140
Motor vehicle reports	39,991	53,609
Occupancy	230,622	300,425
Office	53,585	46,583
Other expense	287,579	53,334
Postage	48,894	53,029
Professional development	56,477	61,110
Professional service	129,950	52,297
Telephone	14,865	18,544
	$ 1,678,320	$ 1,259,203

9. Salaries, Benefits and Directors' Fees

	2019	2018
Underwriter salaries and benefits	$ 562,938	$ 465,888
Sales salaries and commissions	1,530,365	1,382,908
Other salaries, benefits and directors fees	1,286,255	1,147,422
	$ 3,379,558	$ 2,996,218

Included in gross claims incurred are salary costs of $334,116 (2018 - 109,787).

10. Income Taxes

Income tax expense is comprised of current and deferred tax. Current and deferred tax are recognized in net income.

The significant components of the tax effect of the amounts recognized in net income are as follows:

	2019	2018
Deferred tax		
Temporary differences	**10,504**	-
Non-deductible claims	**30,990**	-
Other	**24,506**	-
Total tax effect of amounts recorded in net loss	**$ 66,000**	$ -

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 26.50% (2018 – 26.50%) are as follows:

	2019	2018
Income before income taxes	**$ 4,474,419**	$ 2,814,607
Expected taxes based on the statutory rate	**$ 1,185,721**	$ 745,871
Other non deductible expenses	**235**	-
Non taxable dividend income	**(308,362)**	(120,347)
Effect of gain on sale	**(55,677)**	-
Other	**15,674**	(35,132)
Total income tax expense	**$ 837,591**	$ 590,392

11. Fire Mutuals Guarantee Fund and Financial Guarantee Contracts

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.

This exposure represents a financial guarantee contract. The Company accounts for financial guarantee contracts in accordance with IFRS 4, *Insurance Contracts*.

12. Property, Equipment and Intangibles

Property 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 on a straight-line basis over the estimated useful lives of the assets as follows. Amortization on additions in provided at half the yearly rate.

Building	40 years
Sign (included in building)	10 years
Roof (included in building)	15 years
HVAC (included in building)	15 years
Parking lot and sidewalks (included in building)	15 years
Office equipment	5 years
Computer equipment	3 years

Intangible assets

Intangile assets consist of computer software which is not integral to the computer hardware owned by the Company and client list. Intangible assets are initially recordd at cost and subsequently measured at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized in net income and is provided on a straight-line basis over the estimated useful life of the assets as follows. Amortization on additions is provided at half the yearly rate.

Computer software	10 years

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

Inlcuded in gross adjustment expenses is $59,859 of depreciation and amortization relating to property, equipment and intangibles.

12. Property, Equipment and Intangibles (continued)

	Land	Building	Office equipment	Computer equipment	Computer software	Total
Cost						
Balance at January 1, 2018	$ 1,626,077	$ 5,722,670	$ 175,979	$ 294,987	417,361	$ 8,237,074
Additions	-	29,791	9,856	3,299	-	42,946
Balance at December 31, 2018	1,626,077	5,752,461	185,835	298,286	417,361	8,280,020
Additions	26,876	791	13,629	51,146	3,199,162	3,291,604
Disposals	(530,396)	-	-	-	-	(530,396)
Balance at December 31, 2019	**$ 1,122,557**	**$ 5,753,252**	**$ 199,464**	**$ 349,432**	**3,616,523**	**$ 11,041,228**
Accumulated Depreciation						
Balance at January 1, 2018	$ -	$ 88,064	$ 55,053	$ 118,620	348,073	$ 609,810
Depreciation	-	164,506	32,815	71,036	38,770	307,127
Balance at December 31, 2018	-	252,570	87,868	189,656	386,843	916,937
Depreciation	-	164,506	32,815	71,036	30,744	299,101
					-	
Balance at December 31, 2019	**$ -**	**$ 417,076**	**$ 120,683**	**$ 260,692**	**417,587**	**$ 1,216,038**
Net book value:					-	
December 31, 2018	$ 1,626,077	$ 5,499,891	$ 97,967	$ 108,630	30,518	$ 7,363,083
December 31, 2019	**$ 1,122,557**	**$ 5,336,176**	**$ 78,781**	**$ 88,740**	**3,198,936**	**$ 9,825,190**

December 31, 2019

13. 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:

	2019	2018
Compensation		
Short term employee benefits and directors' fees	$ 494,399	$ 604,712
Total pension and other post-employment benefits	49,640	58,983
	$ 544,039	$ 663,695
Premiums	$ 82,246	$ 71,219
Claims paid	$ 13,025	$ 78,445

14. Commitments

The Company is commited to payment of a Community Program Grant and also an agreement pertaining to implementation and operation of its new operating system. The minimum annual payments on these commitments for the next five years are as follows:

2020	$ 2,245,844
2021	262,475
2022	262,475
2023	262,475
Thereafter	262,475
	$ 3,295,744

15. Comparative Figures

Certain comparative figures have been reclassified to conform with current year presentation.

16. Standards, Amendments and Interpretations Not Yet Effective

Certain new standards, amendments to standards, and interpretations were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting years beginning after January 1, 2020 or later that the Company has decided not to adopt early.

Of those new standards, interpretations and amendments that are not yet effective, IFRS 17 *Insurance Contracts* is expected to have a material impact on the Company's financial statements in the period of initial application.

- *IFRS 17 Insurance Contracts* supersedes IFRS 4 Insurance Contracts. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts. IFRS 17 requires entities to measure insurance contract liabilities using updated estimates and assumptions that reflect the timing of cash flows and any uncertainty relating to insurance contracts. Additionally, IFRS 17 requires entities to recognize profits as it delivers insurance services. The effective date for IFRS 17 is January 1, 2021, however the IASB has proposed to delay the effective date to January 1, 2022. The Company has not yet determined the impact of adoption, however is expected to significantly impact the overall financial statements.