Lambton Mutual Insurance Company
Financial Statements
For the year ended December 31, 2016

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Independent Auditor's Report

To the Directors and Policyholders of
Lambton Mutual Insurance Company

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

Sarnia, Ontario
January 24, 2017

Lambton Mutual Insurance Company
Statement of Financial Position
As at December 31, 2016

	2016	2015
Assets		
Cash	**$ 4,207,302**	$ 1,588,455
Investments (Note 4)	**50,952,762**	49,423,332
Investment income accrued	**132,151**	150,621
Income taxes recoverable	**157,825**	386,901
Due from reinsurers (Note 3)	**4,682**	11,500
Due from agents, brokers and policyholders	**4,114,441**	3,799,182
Reinsurers' share of provision for unpaid claims (Note 3)	**9,909,383**	7,856,676
Deferred policy acquisition expenses (Note 3)	**1,506,860**	1,456,853
Property, plant & equipment (Note 13)	**1,021,554**	1,026,721
Intangible assets (Note 13)	**390,174**	244,704
Other assets	**139,859**	149,540
Deferred income taxes	**79,000**	52,000
	$72,615,993	$ 66,146,485
Liabilities		
Accounts payable and accrued liabilities	**$ 595,997**	$ 1,187,882
Unearned premiums (Note 3)	**9,745,374**	9,464,586
Provision for unpaid claims (Note 3)	**28,736,932**	22,334,855
	39,078,303	32,987,323
Policyholders' Surplus		
Unappropriated policyholders' surplus	**33,537,690**	33,159,162
	$72,615,993	$ 66,146,485

Signed on behalf of the Board by:

______________________________ Director

______________________________ Director

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

Lambton Mutual Insurance Company
Statement of Comprehensive Income
For the Year Ended December 31, 2016

	2016	2015
Underwriting income		
Gross premiums written	**$19,760,775**	$ 19,155,358
Less reinsurance ceded	**2,817,205**	2,716,046
Net premiums written	**16,943,570**	16,439,312
Less increase in unearned premiums	**280,789**	170,356
Net premiums earned	**16,662,781**	16,268,956
Service charges	**113,344**	231,058
	16,776,125	16,500,014
Direct losses incurred		
Gross claims and adjustment expenses (Note 10)	**14,239,960**	10,970,428
Less reinsurers' share of claims and adjustment expenses	**1,868,120**	1,849,907
	12,371,840	9,120,521
	4,404,285	7,379,493
Expenses		
Fees, commissions and other acquisition expenses (Note 7)	**3,403,762**	3,323,700
Other operating and administrative expenses (Note 8)	**3,062,384**	2,575,793
	6,466,146	5,899,493
Net underwriting income (loss) before premium refund	**(2,061,861)**	1,480,000
Refund of premiums to policyholders	**-**	(743,087)
Net underwriting income (loss)	**(2,061,861)**	736,913
Investment and other income (Note 5)	**2,504,355**	793,630
Income before income taxes	**442,494**	1,530,543
Provision for income taxes (Note 11)	**63,966**	244,885
Net income and total comprehensive income for the year	**$ 378,528**	$ 1,285,658

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

Lambton Mutual Insurance Company
Statement of Policyholders' Surplus
For the Year Ended December 31, 2016

	Total
Balance at January 1, 2015	**$31,873,504**
Net income and total comprehensive income for the year	1,285,658
Balance on December 31, 2015	**33,159,162**
Net income and total comprehensive income for the year	378,528
Balance on December 31, 2016	**$33,537,690**

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

Lambton Mutual Insurance Company
Statement of Cash Flows
For the Year Ended December 31, 2016

	2016	2015
Operating activities		
Net income	**$ 378,528**	$ 1,285,658
Adjustments for:		
Depreciation (Note 8 and Note 10)	**169,315**	189,427
Unrealized loss (gain) on investments	**(816,965)**	631,118
Amortization of investments	**116,319**	139,290
Interest and dividend income	**(1,543,487)**	(1,748,860)
Provision for income taxes	**63,966**	244,885
Realized loss (gain) from disposal of investments	**(287,982)**	201,211
Loss on disposal of property, plant & equipment	**(3,157)**	-
	(2,301,991)	(342,929)
Changes in working capital		
Change in due from policyholders and reinsurers	**(2,361,148)**	(213,181)
Change in other assets	**9,681**	3,913
Change in accounts payable and accrued liabilities	**(591,885)**	803,671
	(2,943,352)	594,403
Changes in insurance contract related balances, provisions		
Change in deferred policy acquisition expenses	**(50,007)**	(21,843)
Change in unearned premiums	**280,788**	170,356
Change in provision for unpaid claims	**6,402,077**	(793,587)
	6,632,858	(645,074)
Cash flows related to interest, dividends and income taxes		
Interest and dividends received	**1,561,957**	1,765,481
Income taxes received (paid)	**138,110**	(1,219,547)
	1,700,067	545,934
Total cash inflows from operating activities	**3,466,110**	1,437,992
Investing activities		
Sale of investments	**10,826,744**	13,683,610
Purchase of investments	**(11,367,546)**	(15,544,115)
Proceeds from sale of property, plant & equipment	**6,619**	-
Purchase of property, plant & equipment and intangible assets	**(313,080)**	(162,416)
Total cash outflows from investing activities	**(847,263)**	(2,022,921)
Net increase (decrease) in cash	**2,618,847**	(584,929)
Cash, beginning of year	**1,588,455**	2,173,384
Cash, end of year	**$ 4,207,302**	$ 1,588,455

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

1. Corporate Information

Lambton Mutual Insurance Company (the Company) is incorporated under the laws of Ontario, Canada and is subject to the Ontario Insurance Act. It is licensed to write property, liability, automobile, farmers' accident and aviation insurance (limited to unmanned air vehicles for use in farming) and commercial activities in Ontario. The Company's head office is located at 7873 Confederation Line, Watford, Ontario.

The Company is subject to rate regulation in the automobile business that it writes. Before automobile insurance rates can be changed, a rate filing is prepared as a combined filing for most Ontario farm mutual insurance companies by the Ontario Mutuals' Auto Rate Filing Committee. 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 24, 2017.

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, as modified by the revaluation of fair value through profit and loss of financial assets.

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:

- 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 3); and
- The determination of the recoverability of deferred policy acquisition expenses (Note 3).

2. Basis of presentation (continued)

The notes to the financial statements were ordered so that the most relevant information was presented earlier in the notes and the disclosures that were 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. Insurance Contracts

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

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

(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, 2016 and 2015 and their impact on net premiums earned for the two years follow:

	2016	2015
Balance, beginning of the year	**$ 9,464,586**	$ 9,294,230
Premiums written	**19,760,775**	19,155,358
Premiums earned during year	**(19,479,987)**	(18,985,002)
Balance, end of the year	**$ 9,745,374**	$ 9,464,586

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

The Company is exposed to a pricing risk to the extent that unearned premiums are insufficient to meet the related future policy costs. Evaluations are performed regularly to estimate future claims costs, related expenses, and expected profit in relation to unearned premiums. There was no premium deficiency at December 31, 2016 and 2015.

3. Insurance Contracts (continued)

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

(b) Deferred policy acquisition expenses

Acquisition costs are comprised of agents and broker 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. Changes in deferred policy acquisition expenses recorded in the statement of financial position for the years-ended December 31, 2016 and 2015 and their impact on fees, commissions and other acquisition expenses for the two years follow:

	2016	2015
Balance, beginning of the year	**$ 1,456,853**	$ 1,435,010
Acquisition costs incurred	**3,453,769**	3,316,694
Expensed during the year	**(3,403,762)**	(3,294,851)
Balance, end of the year	**$ 1,506,860**	$ 1,456,853

(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.

3. Insurance Contracts (continued)

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

	December 31, 2016			December 31, 2015		
	Gross	**Re-insurance**	**Net**	Gross	Re-insurance	Net
Outstanding claims provision						
Long term	**$19,993,084**	**$ 6,276,764**	**$13,716,320**	$ 14,596,274	$ 4,811,328	$ 9,784,946
Short term	**1,598,521**	**115,750**	**1,482,771**	1,818,240	339,616	1,478,624
Facility Association and other residual pools	**349,645**	**-**	**349,645**	357,885	-	357,885
	21,941,250	**6,392,514**	**15,548,736**	16,772,399	5,150,944	11,621,455
Provision for claims incurred but not reported	**6,795,682**	**3,516,869**	**3,278,813**	5,562,456	2,705,732	2,856,724
	$28,736,932	**$ 9,909,383**	**$18,827,549**	$ 22,334,855	$ 7,856,676	$ 14,478,179

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.

3. Insurance Contracts (continued)

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, 2016 and 2015 and their impact on claims and adjustment expenses for the two years follow:

	2016	2015
Unpaid claim liabilities - beginning of year – net of reinsurance	**$14,478,179**	$ 15,321,844
Decrease in estimated losses and expenses, for losses occurring in prior years	**(2,287,616)**	(4,789,120)
Provision for losses and expenses on claims occurring in the current year	**14,659,456**	13,909,641
Payment on claims:		
Current year	**(5,805,546)**	(7,125,806)
Prior years	**(2,216,924)**	(2,838,380)
Unpaid claims – end of year - net	**18,827,549**	14,478,179
Reinsurers' share and subrogation recoverable	**9,909,383**	7,856,676
Provision for unpaid claims, end of year	**$28,736,932**	$ 22,334,855

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.

3. Insurance Contracts (continued)

The estimation of claim development involves assessing the future behaviour of claims, review of previous legal settlements, 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 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.

3. Insurance Contracts (continued)

Gross claims	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
Gross estimate of cumulative claims cost											
End year of claim	$ 13,027,825	$ 10,928,908	$ 12,004,842	$ 15,709,070	$ 14,359,963	$ 16,256,300	$ 17,888,427	$ 17,166,979	$ 14,795,702	$ 16,540,379	
One year later	13,072,908	11,466,349	10,288,967	13,363,489	12,557,183	14,148,115	13,437,360	14,687,640	13,372,327		
Two years later	13,826,870	11,847,720	10,139,036	12,329,693	12,957,338	12,596,327	12,753,264	14,581,289			
Three years later	14,100,101	12,071,914	9,488,599	12,229,445	12,513,395	12,869,413	12,514,702				
Four years later	14,110,265	11,866,950	9,484,060	11,518,159	12,080,667	13,133,956					
Five years later	14,198,456	11,192,311	8,914,484	11,418,554	12,147,577						
Six years later	13,920,018	10,349,673	8,764,719	10,462,823							
Seven years later	13,478,498	10,326,207	8,764,591								
Eight years later	13,513,674	10,322,250									
Nine years later	13,625,307										
Current estimate of cumulative claims cost	13,625,307	10,322,250	8,764,591	10,462,823	12,147,577	13,133,956	12,514,702	14,581,289	13,372,327	16,540,379	125,465,201
Cumulative payments	12,886,967	10,205,322	8,737,256	10,372,596	10,415,656	10,011,352	10,300,542	8,989,723	9,003,312	5,805,543	96,728,269
Total outstanding claims	$ 738,340	$ 116,928	$ 27,335	$ 90,227	$ 1,731,921	$ 3,122,604	$ 2,214,160	$ 5,591,566	$ 4,369,015	$ 10,734,836	$ 28,736,932

3. Insurance Contracts (continued)

Net of Reinsurance	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
Net estimate of cumulative claims cost											
End year of claim	$ 9,105,768	$ 9,792,297	$ 10,449,117	$ 11,892,869	$ 12,463,116	$ 12,212,971	$ 13,602,427	$ 15,476,266	$ 13,721,990	$ 14,834,452	
One year later	8,730,734	9,208,699	8,339,267	10,258,937	10,237,307	9,977,459	10,809,137	12,536,215	12,042,142		
Two years later	8,752,074	8,955,635	8,183,921	9,825,672	9,961,824	8,999,933	10,137,849	12,510,364			
Three years later	8,462,727	8,703,022	7,809,538	9,767,038	9,561,403	8,577,799	9,731,215				
Four years later	8,366,344	8,661,496	7,741,922	9,564,301	9,216,252	8,555,836					
Five years later	8,283,151	8,387,574	7,567,551	9,472,666	9,036,884						
Six years later	8,214,752	8,186,022	7,532,144	9,366,512							
Seven years later	8,132,821	8,153,374	7,532,016								
Eight years later	8,098,774	8,154,417									
Nine years later	8,070,466										
Current estimate of cumulative claims cost	8,070,466	8,154,417	7,532,016	9,366,512	9,036,884	8,555,836	9,731,215	12,510,364	12,042,142	14,834,452	99,834,304
Cumulative payments	7,962,700	8,070,489	7,504,681	9,348,285	8,613,723	7,894,933	8,767,999	8,823,975	8,214,427	5,805,543	81,006,755
Total outstanding claims	$ 107,766	$ 83,928	$ 27,335	$ 18,227	$ 423,161	$ 660,903	$ 963,216	$ 3,686,389	3,827,715	$ 9,028,909	$ 18,827,549

3. Insurance Contracts (continued)

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

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

	Property claims		Auto claims		Liability claims	
	2016	2015	**2016**	2015	**2016**	2015
5% increase in loss ratios						
Gross	**$ 429,417**	$ 418,813	**$ 462,260**	$ 452,079	**$ 79,874**	$ 76,018
Net	**$ 374,437**	$ 360,415	**$ 395,220**	$ 393,488	**$ 63,484**	$ 59,545
5% decrease in loss ratios						
Gross	**$ (429,417)**	$ (418,813)	**$ (462,260)**	$ (452,079)	**$ (79,874)**	$ (76,018)
Net	**$ (374,437)**	$ (360,415)	**$ (395,220)**	$ (393,488)	**$ (63,484)**	$ (59,545)

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

(d) Liability adequacy test

At each reporting date the Company performs a liability adequacy test on its insurance liabilities less deferred policy acquisition expenses to ensure the carrying value is adequate, 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 comprehensive income initially by writing down the deferred policy acquisition expense and subsequently by recognizing an additional claims liability for claims provisions.

(e) Reinsurers' 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. Retention limits for the excess-of-loss reinsurance are set by product line. Reinsurance premiums are accounted for in the same period as the related premiums for the direct insurance business being reinsured. Reinsurance liabilities, comprised of premiums payable for the purchase of reinsurance contracts, are included in accounts payable and accrued liabilities and are recognized as an expense when due.

3. Insurance Contracts (continued)

The company follows the policy of underwriting and reinsuring contracts of insurance which, for 2016 claims, limited the liability of the company to a maximum amount on any one property claim to $300,000 (2015 - $300,000). The maximum liability to the company for each auto claim is limited to the amount of $550,000 (2015 - $550,000), and for each liability claim to the amount of $500,000 (2015 - $450,000).

Additionally the company carries reinsurance with an upper limit of $900,000 (2015 - $900,000) to protect itself against certain catastrophic losses. In addition, the company has obtained stop loss reinsurance which limits the liability of all claims in a specific year to 74% of gross net earned premiums for all lines of business combined.

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 due from reinsurer recorded in the statement of financial position for the years-ended December 31, 2016 and 2015 follow:

Due from reinsurers	**2016**	2015
Balance, beginning of the year	**$ 11,500**	$ -
Submitted to reinsurer	**(184,587)**	1,811,329
Paid to (received from) reinsurer	**177,769**	(1,799,829)
Balance, end of the year	**$ 4,682**	$ 11,500

Reinsurance is placed with the Farm Mutual Reinsurance Plan Inc. (FMRP), a Canadian registered reinsurer. Management monitors the creditworthiness of FMRP by reviewing their annual financial statements, monitoring their A.M. Best rating 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.

3. Insurance Contracts (continued)

Changes in reinsurer's share of provision for unpaid claims recorded in the statement of financial position for the years-ended December 31, 2016 and 2015 and their impact on net premiums earned for the two years follow:

Reinsurers' share of provision for unpaid claims	2016	2015
Balance, beginning of the year	$ 7,856,676	$ 7,806,598
New claims reserve	1,705,927	1,073,712
Change in prior years' reserve	162,193	776,195
Submitted to reinsurer	184,587	(1,799,829)
Balance, end of the year	$ 9,909,383	$ 7,856,676

(f) Refund from premium

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

4. Investments

The Company does not have any instruments that are held-for-trading purposes; however, management has designated to voluntarily classify its investments as fair value through profit and loss. These instruments are carried at fair value with changes in fair value recognized in comprehensive income. Transaction costs on these instruments are expensed as incurred. Interest on debt securities classified as fair value through profit and loss is calculated using the effective interest rate method.

4. Investments (continued)

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.

	December 31, 2016		December 31,2015	
	Cost	**Fair value**	Cost	Fair value
Treasury bills and bankers acceptance	**$ 728,263**	**$ 728,263**	$ 1,453,952	$ 1,453,952
Bonds issued by				
Provincial	**10,107,974**	**10,134,514**	9,903,526	10,278,470
Corporate (A or better)	**7,169,345**	**7,314,465**	9,178,449	9,352,966
Corporate (BBB)	**399,072**	**414,227**	398,943	408,080
	17,676,391	**17,863,206**	19,480,918	20,039,516
Equity investments				
Canadian	**4,159,630**	**6,028,004**	4,268,859	5,062,115
Pooled funds				
ACM Mortgage fund	**542,196**	**533,815**	521,949	525,302
Lincluden Canadian equity	**2,096,310**	**2,325,842**	1,980,127	1,872,104
Lincluden fixed income	**14,514,800**	**14,467,537**	10,484,571	10,654,183
Scotia Trust fixed income	**2,556,258**	**2,539,825**	-	-
Addenda mortgage fund	**2,595,372**	**2,583,142**	2,514,567	2,513,825
Greystone fixed income fund	**4,002,559**	**3,834,765**	7,455,386	7,254,547
	26,307,495	**26,284,926**	22,956,600	22,819,961
Other investments				
Fire Mutuals guarantee fund	**48,416**	**48,363**	47,402	47,788
Total investments	**$48,920,195**	**$50,952,762**	$ 48,207,731	$ 49,423,332

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

The Company's bond investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits, corporate sector limits and general guidelines for geographic exposure. The bond portfolio includes 98% (December 31, 2015 - 98%) of bonds rated A or better which are invested in bonds and debentures of Provincial Governments and corporations. The Company's bond investment policy limits investment in bonds and debentures of the various ratings to limits ranging from 65% to 100% of the Company's portfolio. All fixed income portfolios are measured for performance on a monthly basis.

4. Investments (continued)

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure 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 includes holdings in cash and short-term investments to a maximum of 20%, which mitigates liquidity risk. Short-term investments include treasury bills, commercial paper and term deposits with an original maturity of less than one year.

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, 2016	$ -	$ 5,210,028	$10,097,568	$ 2,555,610	$17,863,206
Percent of Total	- %	29 %	57 %	14 %	
December 31, 2015	$ 152,026	$ 8,356,627	$10,924,828	$ 606,035	$20,039,516
Percent of Total	1 %	42 %	55 %	2 %	

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

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

The Company's investment policy operates within the guidelines of the Insurance Act. The Company's portfolio includes Canadian stocks with fair values that move with the Toronto Stock Exchange Composite Index. At December 31, 2016, a 10% movement in the stock markets with all other variables held constant would have an estimated effect on the fair values of the Company's Canadian common equities of $602,800 (2015 - $506,212) and the equity pooled fund of $232,584 (2015 - $187,210). This change would be recognized in comprehensive income.

4. Investments (continued)

The Company is exposed to interest rate risk through its interest bearing investments (Bankers Acceptance, T-Bills 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 comprehensive income.

At December 31, 2016, a 1% move in interest rates, with all other variables held constant, could impact the market value of bonds by $1,049,338 (2015 - $1,035,642). Also, a 1% move in interest rates, with all other variables held constant, could impact the market value of the fixed income pooled fund by $1,123,122 (2015 – $988,627). These changes would be recognized in comprehensive income.

The Company's equity investment policy limits investment in preferred and common shares to a maximum of 25% of the market value of the portfolio.

Equities are monitored by the Investment Committee and the board of directors and holdings are adjusted following each quarter to ensure the investments portfolio remains in compliance with the investment policy.

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.

4. Investments (continued)

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

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

	Level 1	Level 2	Level 3	Total
December 31, 2016				
Bankers acceptance	**$ 728,263**	**$ -**	**$ -**	**$ 728,263**
Bonds	**17,863,206**	**-**	**-**	**17,863,206**
Equity investments	**6,028,004**	**-**	**-**	**6,028,004**
Pooled funds	**-**	**26,284,926**	**-**	**26,284,926**
Other investments	-	**48,363**	**-**	**48,363**
Total	**$24,619,473**	**$26,333,289**	**$ -**	**$50,952,762**
December 31, 2015				
Treasury bills	$ 1,453,952	$ -	$ -	$ 1,453,952
Bonds	20,039,516	-	-	20,039,516
Equity investments	5,062,115	-	-	5,062,115
Pooled funds	-	22,819,961	-	22,819,961
Other investments	-	47,788	-	47,788
Total	$ 26,555,583	$ 22,867,749	$ -	$ 49,423,332

There were no transfers between Level 1 and Level 2 for the years ended December 31, 2015 and 2016.

5. Investment and other income

	2016	2015
Interest income	**$ 1,233,436**	$ 1,469,992
Dividend income	**310,051**	278,868
Realized gains (losses) on disposal of investments	**287,982**	(201,211)
Investment expenses	**(152,676)**	(128,438)
Unrealized gains (losses) on investments	**816,965**	(631,118)
Miscellaneous	**8,597**	5,537
	$ 2,504,355	$ 793,630

6. Capital management

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

7. Fees, commissions and other acquisition expenses

	2016	2015
Commissions	**$ 3,403,762**	$ 3,323,700

8. Other operating and administrative expenses

	2016	2015
Computer costs	$ 388,067	$ 386,855
Licenses, fees and dues	154,934	126,640
Depreciation	134,242	145,850
Education, travel and meals	94,979	97,717
Office premises	83,566	60,497
Postage and office supplies	110,451	88,156
Professional fees	61,616	43,992
Salaries, benefits and directors fees	1,736,805	1,316,290
Other	297,724	309,796
	$ 3,062,384	$ 2,575,793

9. Salaries, benefits, commissions and directors fees

	2016	2015
Claims salaries and benefits (Note 10)	$ 911,835	$ 910,890
Commissions and other acquisition expenses (Note 7)	3,403,762	3,323,700
Other salaries, benefits and directors fees (Note 8)	1,736,805	1,316,290
	$ 6,052,402	$ 5,550,880

10. Gross claims and adjustment expenses

Included in claims expenses were wage costs of $911,835 (2015 - $910,890) and depreciation of $35,073 (2015 - $43,577).

11. 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 tax expense included in net income are composed of:

	2016	2015
Current tax provision		
Based on current year taxable income	$ 90,966	$ 247,991
Adjustments for over / under provision in prior periods	-	(106)
	90,966	247,885
Deferred tax expense		
Origination and reversal of temporary differences	(27,000)	(3,000)
Total income tax expense	$ 63,966	$ 244,885

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

	2016	2015
Income before income taxes	$ 442,494	$ 1,530,543
Expected taxes based on the statutory rate of 26.5%	117,261	405,594
Income from insuring farm-related risks	(41,173)	(115,419)
Non-deductible portion of claims liabilities	57,669	(11,181)
Other non-deductible expenses	271	502
Adjustments related to investments	(68,283)	(63,243)
Difference between amortization and CCA	25,221	31,632
Total current income tax expense	$ 90,966	$ 247,885

12. Structured Settlements, Fire Mutuals Guarantee Fund and Financial Guarantee Contracts

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

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

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

13. Property, Plant & Equipment and Intangible Assets

Property, plant & equipment

Property, plant & equipment is initially recorded at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses, with the exception of land which is not depreciated. Depreciation is taken in the year of acquisition using the half year rule. Depreciation is recognized in comprehensive income and is provided on a diminishing balance basis and straight line basis.

Intangible assets

Intangible assets consist of computer software which are not integral to the computer hardware owned by the Company. Computer software is initially recorded at cost and subsequently measured at cost less accumulated depreciation. Computer software is depreciated on a straight-line basis over its estimated useful life of 4 years. Depreciation is taken in the year of acquisition using the half year rule. The depreciation expense is included in other operating and administrative expenses and gross claims and adjustment expenses in the statement of comprehensive income.

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

Property, plant and equipment

2016

	Depreciation Rate	Cost	Accumulated Depreciation	Net Book Value
Land	N/A	**$ 280,734**	**$ -**	**$ 280,734**
Buildings	2.5% declining balance	**1,068,667**	**505,222**	**563,445**
Computer Hardware	4 years straight line	**210,475**	**180,509**	**29,966**
Equipment	10-20% declining balance	**484,669**	**388,378**	**96,291**
Vehicles	30% declining balance	**124,279**	**73,161**	**51,118**
		$ 2,168,824	**$ 1,147,270**	**$ 1,021,554**

2015

	Depreciation Rate	Cost	Accumulated Depreciation	Net Book Value
Land	N/A	$ 280,734	$ -	$ 280,734
Buildings	2.5% declining balance	1,068,667	490,774	577,893
Computer Hardware	4 years straight line	312,792	251,844	60,948
Equipment	10-20% declining balance	443,729	372,657	71,072
Vehicles	30% declining balance	118,896	82,822	36,074
		$ 2,224,818	$ 1,198,097	$ 1,026,721

Intangible assets

2016

	Useful Life	Cost	Accumulated Depreciation	Net Book Value
Computer software	4 years	**$ 904,899**	**$ 514,725**	**$ 390,174**

2015

	Useful Life	Cost	Accumulated Depreciation	Net Book Value
Computer software	4 years	$ 669,362	$ 424,658	$ 244,704

14. Pension Plan

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". This pension plan is being accounted for as a multi-employer pension plan as defined by IAS 19 Employee Benefits. Each member company has signed an Ontario Mutual Insurance Association Pension Plan Agreement. 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 plan is accounted for as a defined contribution plan as insufficient information is available to account for the plan as a defined benefit plan. The Company is one of a number of employers that participates in the plans and the financial information provided to the Company on the basis of the contractual agreements is insufficient to reliably measure the Company's proportionate share in the plan assets and liabilities on defined benefit accounting requirements.

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. The minimum funding requirement is the solvency valuation amount determined by the Pension Plan actuary on the valuation dates prescribed by the Pension Benefit Act. 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. According to the most recent actuarial valuation dated December 31, 2013, the going concern valuation for the defined benefit plan shows a surplus. The next pension valuation is scheduled for December 31, 2016.

The defined benefit plan has been closed to future eligible employees effective September 1, 2013. The Company and all current employees who are accruing benefits under the defined benefit plan continue to contribute to the defined benefit plan according to the existing terms of the agreement. Future eligible employees will be enrolled in the defined contribution plan. The Company's obligation with respect to this plan is to make specified monthly contributions based on a percentage of the employee's eligible earnings.

The amount contributed to the plans for 2016 was $210,626 (2015 - $199,506). The contributions were made for current service and these have been recognized in comprehensive income. Additional lump sum payments for 2016 were $433,183 (2015 - $Nil).

The Company had a 3.50% (2015 - 3.51%) share of the total contributions to the defined benefit plan in 2016.

The expected contributions to the plans by the Company for 2017 are $220,913.

15. Related party transactions

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

	2016	2015
Compensation		
Salaries, short term employee benefits and director's fees	**$ 588,644**	$ 557,276
Pension	**59,122**	55,082
	$ 647,766	$ 612,358
Premiums	**$ 83,566**	$ 82,378
Claims paid	**$ 14,631**	$ 990

Amounts owing to key management personnel at December 31, 2016 are $nil (2015 - $nil).

16. Standards, Amendments and Interpretations not yet Effective

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting years beginning after January 1, 2017 or later.

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

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