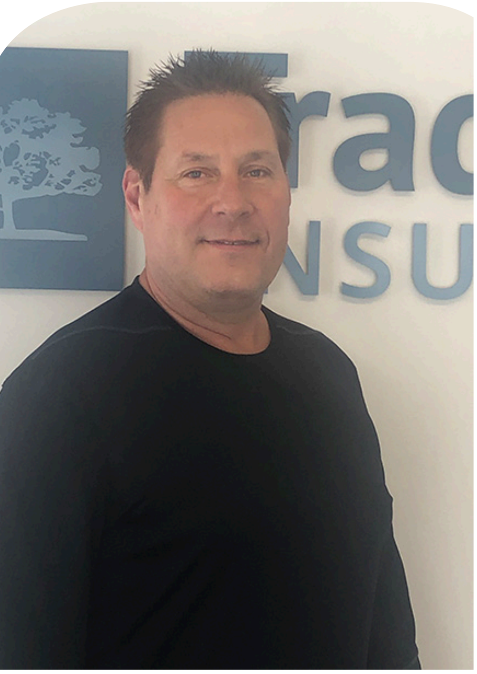
Tradition Mutual

INSURANCE COMPANY

IF ITS IMPORTANT TO YOU, IT IS IMPORTANT TO US

A MESSAGE FROM OUR CHAIR



It has been a privilege and a pleasure to serve as your Chair for the past two years. On behalf of the Board of Directors, we wish to thank you for your interest in Tradition Mutual.

At Tradition, 2018 was a busy year; we oversaw the seamless transition from former CEO Harry Bryant who retired, to our current CEO Paul Burns. As our Financial Results indicate, 2018 turned out to be a challenging year for us. The weather event of May 4th, coupled with an increase in overall claim numbers affected us from a direct cost perspective. Similarly, we were challenged by a very poor investment market. With all things considered, Tradition was fortunate enough to end the year at basically a breakeven point.

While we did have a challenging year in those aspects, we remain happy with the fact that we accomplished our most important goal, which is that we took care of our policyholders during their time of need, and at the same time, continued our overall commitment to be a part of and give back to the incredible community in which we live and work. Tradition continues to be a financial strong, community based, local insurance provider and for that, I am confident that our predecessors would be proud.

I would like to personally thank my fellow board members, staff, agents and policyholders both for their loyalty and for allowing me to serve you.

Best Regards,

Dave Leyser
Chair, Board of Directors
Tradition Mutual Insurance Company

A MESSAGE FROM OUR PRESIDENT

It has been a pleasure to serve as your President and CEO. My term started on April 2, 2018 and I have appreciated the support of the staff, board and policyholders during my first year.

2018 has been a year of change for Tradition Mutual. We said goodbye to our past President and CEO, Harry Bryant. Harry had served in that position for over 6 years and brought financial stability to our surplus in his time here. We celebrated his retirement and wished him well moving forward.

We continued to renovate our building in Sebringville. The interior renovations are almost complete with some accessibility items left to be finished. We purchased the property beside us and will use that for possible expansion and parking. The exterior had some minor siding upgrades, and we will continue to focus on the outside of the building in the spring. These improvements will include necessary upgrades to our entrance, parking lot and landscaping, as well as the installation of a new sign. We look forward to having these changes completed and to be able to share the finished product with you. Stay tuned for news about an Open House

From a financial standpoint, 2018 was not a stellar year for Tradition Mutual, however we were not alone. Investment income is a critical component to the overall income and surplus of our company, and over 2018, especially in the last quarter, the bond and equity markets took an aggressive hit.

Our overall claims payments in 2018 were higher than we have had in recent years. The number of fire losses held constant, but we experienced a higher than normal severity for those particular losses. In addition, the May 4 windstorm impacted a large number of our clients. Approximately 30% of our 2018 claims were as a result of this one incident, which in our world means this was classified as a "catastrophic event". While the impact of these events on our bottom line was undesirable, I must say that I am proud at how our staff handled the large number of claims that were reported. All of our staff worked extremely hard to make sure that people were looked after. We leaned heavily on contractors to do emergency work and then to complete repairs. The impact of this windstorm had a significant impact across a lot of area, which meant that contractors were backlogged which further impacted our ability to get the claims finalized. Our claims staff spent numerous hours circling back with clients and following up on the status of repairs.

One of the highlights of what we do is being able to support the community through our charitable contributions and donations. On an annual basis, we receive many requests from great local charities and organizations, and while we wish we could support them all, here are a number of recipients that we had the privilege of supporting in 2018; Stratford Perth Rotary Hospice, Evan's Touch the Truck, Kirkton-Woodham Optimist Club Spelling Bee, Main Street United Church, One Care, St Marys Heritage Festival, Thames River Cleanup, Thorndale Agricultural Society, Optimist Club of Sebringville, Farm Mutual Foundation, Downie Optimist Bike Rodeo, Southwestern Fiddle & Step, Mitchell Fall Fair, Optimism Place, St Marys Mobility Service, Kirkton Fall Fair, and St Marys Winter Light Display.

In addition to our charitable donations, we were out in the community attending several events over 2018 including the Stratford Home Show, the Ontario Pork Congress, the Perth Community Foundations Job Fair, and Canada's Outdoor Farm Show. We also participated in the Dragon boat festival and the Hog Jog. *CONTINUED*

A MESSAGE FROM OUR PRESIDENT

Our staff initiated a giving campaign this year, with a focus on the House of Blessing and we were able to make a significant donation of over 1,000 pounds of food. We expanded our digital advertising focusing on sharing content and information through our website, Facebook, LinkedIn and Twitter. We also used local radio, newspapers and billboards to bolster our advertising within the community.

Operationally, our plans for 2019 are to keep on moving forward and progressing, we have put forth the following initiatives:

OUR PRODUCTS. We have hired a Product Development Assistant, which will help us review all of our products to make determinations about coverage changes or offerings going forward. We will be completing an internal review and then we plan to move to an external review, including holding focus groups for our Farm and Commercial Products. We want to ensure that we are getting the insights of our valued policyholders and what matters most to them as we move into the future. If you are interested in participating, please let me know by email pburns@traditionmutual.com

OUR RATING. Prices are rising in the marketplace for insurance. Our automobile rates are set to change in June. The overall change for this rating will be down slightly, but we will see some policies increase and some decrease as the number of rating items that are used increases. Changes to our other lines of business will be reviewed as we review each of the product wordings.

In reflection, our numbers were not as strong as we would have liked from a financial standpoint, but we did accomplish what we set out to do. We looked after our policyholders, who are also our owners, when they needed us. We supported the local community. We continue to hold our mission of providing financial stability to our policyholders and acting with compassion when it is needed most.

It is our privilege at Tradition Mutual to protect what matters to you. To remain your trusted source and to serve the local community. We look forward to proving that each and every day.

Paul Burns
President and CEO
Tradition Mutual Insurance Company

TRADITION MUTUAL
INSURANCE COMPANY

FINANCIAL STATEMENTS

DECEMBER 31, 2018

Famme & Co.
Professional Corporation

CHARTERED PROFESSIONAL ACCOUNTANTS

JEFFREY R. SKUBOWIUS, BA, CPA, CA
FRANKLIN H. FAMME, BBA, CMgr, CPA, CA
BRADLEY J. W. McNEIL, BA, MAcc, CPA, CA
STEPHEN VAN DEN HENGEL, BAcc, CPA, CA
PETER D. BRICKMAN, BA, CPA, CA
STEPHEN J. WARD, BA, MAcc, CPA, CA
LYNN EIDT, BBA, CPA, CA
MICHAEL P. B. JAREMCHENKO, BA, CFP, CPA, CA
PHILLIP W. HART, BMath, MAcc, CPA, CA
JUDD R. ATTRIDGE, BAcc, CPA, CA

125 ONTARIO STREET
STRATFORD, ONTARIO N5A 3H1

STRATFORD 519-271-7581
FAX 519-271-2737
LONDON 519-432-1663
FAX 519-432-7662
ST. MARYS 519-284-1030
FAX 519-284-4393

E-MAIL: office@fammeandco.on.ca
WEBSITE: www.fammeandco.on.ca

INDEPENDENT AUDITORS' REPORT

To the Policyholders of
Tradition Mutual Insurance Company
Sebringville, Ontario

Opinion

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of **Tradition Mutual Insurance Company** as at **December 31, 2018** and the results of its operations and its cash flows for the year ended in accordance with Canadian generally accepted accounting principles.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of **Tradition Mutual Insurance 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 those 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 Canadian generally accepted accounting principles 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 entity'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 entity or to cease operations or has no realistic alternative but to do so.

Those charged with governance are responsible for over seeing the entity's financial reporting process.

INDEPENDENT AUDITORS' REPORT - continued

Auditors' Responsibilities for the Audit of the Financial Statements

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

(a) 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.

(b) 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 entity's internal control.

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

(d) Conclude on the appropriateness of the entity'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 entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the entity to cease to continue as a going concern.

(e) 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.

INDEPENDENT AUDITORS' REPORT - continued

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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

Famme & Co.
Professional Corporation
Chartered Professional Accountants
Authorized to practise public accounting by
the Chartered Professional Accountants of Ontario

Stratford, Ontario
February 8, 2019

Tradition Mutual Insurance Company
Statement of Financial Position
As at December 31, 2018

ASSETS

		2018	2017
Assets			
Cash	$ **5,208,414**		$ 5,281,813
Investments (Note 7 and 8)	**26,446,398**		29,930,377
Outstanding premiums receivable	**5,180,168**		4,831,484
Due from reinsurer - ceded claims (Note 10)	**3,203,000**		3,276,828
- other	**960,488**		44,112
Other receivables	**184,620**		204,775
Income taxes receivable	**657,366**		-
Deferred policy acquisition expenses (Note 10)	**847,098**		731,113
Property, plant and equipment - net of depreciation (Note 9)	**1,619,632**		1,106,667
		$ 44,307,184	$ 45,407,169

LIABILITIES AND MEMBERS' SURPLUS

Liabilities			
Accounts payable and accrued liabilities	**546,639**		1,450,787
Income taxes payable (Note 12)	**-**		195,926
Unearned premiums (Note 10)	**7,122,646**		6,699,755
Provision for unpaid claims (Note 10)	**8,968,001**		9,434,596
Deferred income taxes (Note 12)	**44,851**		3,951
		16,682,137	17,785,015
Members' Surplus		**27,625,047**	27,622,154
		$ 44,307,184	$ 45,407,169

Approved on Behalf of the Board:

Director

Director

(See Accompanying Notes to the Financial Statements)

Tradition Mutual Insurance Company
Statement of Members' Surplus
For the year ended December 31, 2018

		2018	2017
Balance - beginning of year	$ 27,622,154		$ 25,440,343
Net income for the year	2,893		2,181,811
Balance - end of year		$ 27,625,047	$ 27,622,154

(See Accompanying Notes to the Financial Statements)

Tradition Mutual Insurance Company
Statement of Comprehensive Income
For the year ended December 31, 2018

		2018	2017
Gross Premiums Written		$ **14,618,696**	$ 13,859,669
Less:			
Increase in reserve for unearned premiums	$ **419,096**		74,865
Reinsurance premiums	**1,947,256**		1,859,237
Reinsurance assumed	-		(27,408)
		2,366,352	1,906,694
Net premium income		**12,252,344**	11,952,975
Claims and Expenses			
Gross claims incurred	**10,432,921**		6,025,113
Reinsurance plan recoveries	**2,860,975**		505,816
Net claims incurred	**7,571,946**		5,519,297
Commissions	**1,709,846**		1,844,514
Salaries and directors' fees	**879,323**		829,331
Benefits and education	**516,292**		473,022
OMIA final defined benefit contribution (Note 11)	**384,665**		-
Audit and legal fees	**156,265**		41,671
Travel, convention and meetings	**66,372**		102,384
Corporation premium tax	**32,716**		28,170
Printing supplies	**25,632**		30,165
Office and general	**36,677**		23,664
MVA's and claim reports	**24,671**		29,065
Telephone and mailing	**38,316**		53,764
Insurance	**44,951**		41,303
Association fees	**107,424**		109,569
Office premises	**122,886**		71,771
Data processing	**344,375**		295,525
Bank charges	**43,605**		35,803
Advertising, promotion and donations	**228,787**		95,239
Loss prevention	**42,742**		39,151
		12,377,491	9,663,408
Underwriting gain (loss)		**(125,147)**	2,289,567

(See Accompanying Notes to the Financial Statements)

Tradition Mutual Insurance Company
Statement of Comprehensive Income
For the year ended December 31, 2018

		2018	2017
Balance carried forward		$ (125,147)	$ 2,289,567
Other Revenue (Loss) (Note 8)			
Investment	$ 267,316		814,054
Market value appreciation (depreciation) of investments	(313,632)		267,369
Other	14,865		12,248
Gain (loss) on disposal of property, plant and equipment	250		(65,073)
		(31,201)	1,028,598
		(156,348)	3,318,165
Refund from Premium		-	717,322
Income (loss) before income taxes		(156,348)	2,600,843
Provision for (recovery of) income taxes			
- current (Note 12)	(200,141)		507,580
- deferred (Note 12)	40,900		(88,548)
		(159,241)	419,032
Net income for the year		$ 2,893	$ 2,181,811

(See Accompanying Notes to the Financial Statements)

Tradition Mutual Insurance Company
Statement of Cash Flows
For the year ended December 31, 2018

		2018	2017
Cash Provided By (Used In):			
Operating Activities			
Comprehensive income for the year	$ 2,893		$ 2,181,811
Deferred income taxes	40,900		(88,548)
Provision for income taxes	(200,141)		507,580
Depreciation of property, plant and equipment	139,886		90,399
(Gain) loss on disposal of property, plant and equipment	(250)		65,073
Investment income	(267,316)		(814,054)
	(284,028)		1,942,261
Adjustments to convert income to cash basis:			
Increase (decrease) in unearned premiums	422,891		77,219
Increase (decrease) in unpaid claims	(466,595)		(795,015)
Increase (decrease) in accounts payable and accrued liabilities	(904,148)		(12,602)
Increase (decrease) in premium taxes payable	11,990		(1,241)
(Gain) loss on sale of investments	558,483		931
Decrease (increase) in receivables	(1,171,077)		54,988
Decrease (increase) in deferred policy acquisition expenses	(115,985)		61,708
Market value (appreciation) depreciation on investments	313,632		(267,369)
		$ (1,634,837)	1,060,880
Investing Activities			
Proceeds from sale of investments	11,267,081		41,924
Purchase of investments	(8,655,217)		(1,541,683)
Investment income received	267,316		814,054
Income taxes paid (recovered)	(665,141)		(103,804)
Purchase of property, plant and equipment	(652,851)		(681,653)
Proceeds from sale of property, plant and equipment	250		2,990
		1,561,438	(1,468,172)
(Shortage) of cash provided over cash applied		(73,399)	(407,292)
Cash - beginning of year		5,281,813	5,689,105
Cash - end of year		$ 5,208,414	$ 5,281,813

Cash consists of cash on hand and balances with banks.

(See Accompanying Notes to the Financial Statements)

Tradition Mutual Insurance Company
Notes to the Financial Statements
For the year ended December 31, 2018

1. Nature of Operations of Reporting Entity

Tradition Mutual Insurance Company (the Company) is incorporated under the laws of Ontario and is subject to the Ontario Insurance Act. It is licensed to write property, liability, automobile and farmers' accident insurance in Ontario. The Company's head office is located in Sebringville, Ontario.

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

These financial statements have been authorized for issue by the Board of Directors on February 8, 2019.

2. Basis of Presentation

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

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

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

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment of complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

3. Significant Accounting Policies

(a) Insurance Contracts

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

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

3. Significant Accounting Policies (continued)

(a) Insurance Contracts (continued)

(i) Premiums and unearned premiums

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

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

(ii) Reinsurers' share of unearned premiums

The reinsurers' share of unearned premiums is recognized as an asset using principles consistent with the Company's method for determining the unearned premium liability.

(iii) Deferred policy acquisition expenses

Acquisition costs are comprised of agent and brokers' commissions and premium taxes. These costs are deferred and amortized over the terms of the related policies to the extent that they are considered to be recoverable from unearned premiums, after considering the related anticipated claims and expenses.

(iv) Provisions for unpaid claims and adjustment expenses

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

Claim liabilities are carried on an undiscounted basis.

(v) 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 the income statement initially by writing off the deferred policy acquisition expense and subsequently by recognizing an additional claims liability for claims provisions.

(vi) 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. 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.

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.

3. Significant Accounting Policies (continued)

(a) Insurance Contracts (continued)

(vii) Salvage and subrogation recoverable

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

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

(viii) Refund from premium

Under the discretion of the Board of Directors, the Company may declare a refund to its policyholders based on the premiums paid on the fiscal period. This refund is recognized in the statement of comprehensive income for the period in which it is declared.

(b) 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 should 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 insolvent. As a result, the Company may be required to contribute assets to their proportionate share in meeting this objective.

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

(c) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits at call with banks and other short-term highly liquid investments with original maturities of three months or less. For cash flow statement presentation purposes, cash and cash equivalents include bank overdrafts.

(d) Financial Instruments

The Company classifies its financial instruments into one of the following categories based on the purpose for which the asset was acquired or liability incurred. All transactions related to financial instruments are recorded on a trade date basis. The Company's accounting policy for each category is as follows:

3. Significant Accounting Policies (continued)

(d) Financial Instruments (continued)

(i) Fair value through profit and loss financial assets (FVTPL)

Financial assets at fair value through profit and loss investments are financial assets that are quoted in an active market and are being actively traded. Any increase or decrease in the market value is shown in the current year on the Statement of Comprehensive Income as market value appreciation (depreciation) of investments. Term deposits, publically traded shares and pooled funds principally comprise these investments. The quoted market price was used to determine the fair value of these investments. Transaction costs on these investments are expensed as incurred. Interest on debt securities classified as fair value through profit and loss is calculated using the effective interest method.

(ii) Amortized cost

This category includes outstanding premiums receivable and accounts payable and accrued liabilities. They are initially recognized at cost and subsequently carried at amortized cost using the effective interest method, less any impairment losses on financial assets.

Transaction costs related to financial instruments in the amortized cost category are added to the carrying value of the instrument.

Writedowns on financial assets in the amortized cost category are recognized when the amount of a loss is known with sufficient precision and there is no realistic prospect of recovery. Financial assets are then written down to net recoverable value with the writedown being recognized in the statement of operations.

(e) Property, Plant and Equipment

Property, plant and equipment are 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 at the following annual rates:

Buildings	5% declining balance
Office equipment	10% declining balance
Computers	33 1/3% straight-line

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

3. Significant Accounting Policies (continued)

(f) Impairment of Non-Financial Assets

Non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly.

For the purpose of assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows. Impairment charges are included in net income.

(g) Facility Association

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

(h) Income Taxes

Income tax expense includes current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to items recognized directly in equity.

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

Under Section 149(1) of the Canadian Income Tax Act, the Company is exempt from income taxes if it receives at least 90% of its gross premium income in respect of insurance of farm property or residences of farmers. If more than 10% of its gross premium income is from non-farm sources, then the non-farm percentage of the Company's net income is subject to income tax.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit or loss.

3. Significant Accounting Policies (continued)

(h) Income Taxes (continued)

Recognition of deferred tax assets or unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The amount of deferred tax asset or liability is measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the year end date and are expected to apply when the liabilities/(assets) are settled/(recovered).

(i) Pension Plan

The Company participates in a defined contribution pension plan. The Company accounts for the plan by recognizing contributions as an expense in the year to which they relate.

(j) Provisions

Provisions are recognized for liabilities of uncertain timing or amount that have arisen as a result of past transactions, including legal, equitable or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

(k) Foreign Currency Translation

Foreign currency accounts are translated into Canadian dollars as follows:

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year end date, unsettled monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at the year end date and the related translation differences are recognized in net income. Exchange rate gains and losses arising on the retranslation of monetary financial assets are treated as a separate component of the change in fair value and recognized in net income. Exchange rate gains and losses on non-monetary financial assets form part of the overall gain or loss recognized in respect of that financial instrument.

Non-monetary assets and liabilities that are measured at historical cost are translated into Canadian dollars by using the exchange rate in effect at the date of the initial transaction and are not subsequently restated. Non-monetary assets and liabilities that are measured at fair value or a revalued amount translated into Canadian dollars by using the exchange rate in effect at the date the value is determined and the related translation differences are recognized in net income consistent with where the gain or loss on the underlying non-monetary asset or liability has been recognized.

3. Significant Accounting Policies (continued)

(l) Leased Assets

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

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

(m) Standards, Amendments and Interpretations Not Yet Effective

Certain new standards, amendments and interpretations have been published that are mandatory for the Company's accounting periods beginning on or after January 1, 2019 or later periods that the Company has decided not to early adopt. The company applied judgements related to the order and exclusion of immaterial disclosures, consistent with the amendment to IAS 1, Presentation of Financial Statements. The standards, amendments and interpretations that will be relevant to the Company are:

IFRS 16 Leases supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions involving the Legal Form of a Lease. It eliminates the distinction between operating and finance leases from the perspective of the lessee. All contracts that meet the definition of a lease will be recorded in the statement of financial position with a 'right of use' asset and a corresponding liability, with limited exception for certain short-term and low value leases. The asset is subsequently accounted for as property, plant and equipment or investment property and the liability is reduced as payments are made with interest accruing over the lease term. The accounting requirements from the perspective of the lessor remains largely in line with previous IAS 17 requirements. The effective date for IFRS 16 is January 1, 2019. The Company does not expect to have leases. The Company is currently assessing the impact of IFRS 16.

3. Significant Accounting Policies (continued)

(m) Standards, Amendments and Interpretations Not Yet Effective (continued)

IFRS 17 Insurance Contracts supersedes IFRS 4 Insurance Contracts. IFRS 17 fundamentally changes how entities account for insurance contracts, introducing a default "building block approach", which disaggregates the cash flows in an insurance contract and provides a different measurement basis for each component and a simplified "premium allocation approach" for certain short-term contracts. Assumptions used in measuring insurance assets and liabilities such as cash flows, discount rates and risk adjustment will be updated at each reporting period. The discount rate will reflect the characteristics of the insurance liabilities and the estimated future cash flows to settle claims incurred will be discounted unless the period of time between claim occurrence and settlement is less than one year. Presentation changes include 'insurance revenue' replacing the current reporting of 'written premiums' and 'earned premiums' and insurance contract assets and liabilities will not be netted. Under this standard, premiums receivable, unearned premiums and claims payable may no longer be presented separately from other insurance assets and liabilities. The effective date for IFRS 17 is January 1, 2021 with mandatory restatement of comparative periods. The Company is currently assessing the impact of IFRS 17.

IFRIC 23 Uncertainty Over Income Tax Treatments provides guidance on recognition and measurement of uncertain income tax treatments. The effective date for IFRIC 23 is January 1, 2019. The company is in the process of evaluating the impact of this interpretation.

None of the other new standards, interpretations and amendments, which are effective for the Company's accounting periods beginning after January 1, 2019 and which have not been adopted early, are expected to have a material effect on the Company's future financial statements.

4. Adoption of New Accounting Standards

IFRS 9 Financial Instruments (IFRS 9)

On January 1, 2018, the Company adopted IFRS 9 Financial Instruments (IFRS 9) which supersedes IAS 39 Financial Instruments: Recognition and Measurement (IAS 39). IFRS 9 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 Company had previously adopted fair value through profit or loss (FVTPL) as its basis of measurement of financial instruments for cash and investments (shares, mutual funds, pooled funds and Fire Mutuals Guarantee fund). Outstanding premiums receivable that were previously allocated to loan and receivables are now allocated to the amortized cost category. Accounts payable and accrued liabilities previously allocated to other financial liabilities are now allocated to the amortized cost category.

The adoption of IFRS 9 had no impact on the Company's financial statements on the date of adoption. There was no change in the carrying amounts on the basis of allocation from original measurement categories under IAS 39 to the new measurement under IFRS 9.

5. Critical Accounting Estimates and Judgments

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only; or in the period of change and future periods, if the change affects both.

5. Critical Accounting Estimates and Judgments (continued)

The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Provision for Unpaid Claims

The estimation of the provision for unpaid claims and the related reinsurers' share are the Company's most critical accounting estimates. There are several sources of uncertainty that need to be considered by the Company in estimating the amount that will ultimately be paid on these claims. The uncertainty arises because all events affecting the ultimate settlement of claims have not taken place and may not take place for some time. Changes in estimate of the provision can be caused by receipt of additional claim information, changes in judicial interpretation of contracts or significant changes in severity or frequency of claims from historical trends. The estimates are based on the Company's historical experience and industry experience. More details are included in Note 10.

(b) Impairment of Investments

The Company determines that its investments are impaired when there has been a significant or prolonged decline in fair value below its cost. The determination of what is significant or prolonged requires judgment. In making this judgment, the Company considers, among other factors, the normal volatility in market price, the financial health of the investee and industry and sector performance.

(c) Income Taxes

The Company periodically assesses its liabilities and contingencies related to income taxes for all years open to audit based on the latest information available. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

6. Financial Instrument Classification

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

	FVTPL	**Assets at amortized cost**	**Liabilities at amortized cost**	**Total**
December 31, 2018				
Cash	$ 5,208,414	$ -	$ -	$ 5,208,414
Investments (Note 7)	26,446,398	-	-	26,446,398
Outstanding premiums receivable	-	5,180,168	-	5,180,168
Accounts payable and accrued liabilities	-	-	(546,639)	(546,639)
	$31,654,812	$ 5,180,168	$ (546,639)	$36,288,341
December 31, 2017				
Cash	5,281,813	-	-	5,281,813
Investments (Note 7)	29,930,377	-	-	29,930,377
Outstanding premiums receivable	-	4,831,484	-	4,831,484
Accounts payable and accrued liabilities	-	-	(1,450,787)	(1,450,787)
	$35,212,190	$ 4,831,484	$ (1,450,787)	$38,592,887

7. Investments

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, 2018		December 31, 2017	
	Cost	**Fair Value**	Cost	Fair Value
Equity investments				
Shares	**$ 1**	**$ 1**	$ 1,324	$ 1,088
Mutual funds	**6,326,475**	**6,699,688**	5,956,550	6,982,652
Pooled funds	**14,049,135**	**13,787,006**	23,516,090	22,914,737
GICs	**5,928,739**	**5,928,739**	-	-
Fire Mutuals Guarantee fund	**32,159**	**30,964**	32,892	31,900
Total investments	**$ 26,336,509**	**$ 26,446,398**	$ 29,506,856	$ 29,930,377

7. 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 that the entity can access at measurement date;

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

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

	Level 1	Level 2	Level 3	Total
December 31, 2018				
Equity investments				
Canadian	$ 1	$ -	$ -	$ 1
U.S.	-	-	-	-
Mutual funds	6,699,688	-	-	6,699,688
Pooled funds				
Cdn. fixed income	-	13,787,006	-	13,787,006
GICs	-	5,928,739	-	5,928,739
Fire Mutuals Guarantee fund	-	-	30,964	30,964
	$ 6,699,689	$ 19,715,745	$ 30,964	$ 26,446,398

	Level 1	Level 2	Level 3	Total
December 31, 2017				
Equity investments				
Canadian	$ 1	$ -	$ -	$ 1
U.S.	-	-	1,087	1,087
Mutual funds	6,982,652	-	-	6,982,652
Pooled funds				
Cdn. fixed income	-	22,914,737	-	22,914,737
Fire Mutuals Guarantee fund	-	-	31,900	31,900
	$ 6,982,653	$ 22,914,737	$ 32,987	$ 29,930,377

7. Investments (continued)

There were no transfers between Level 1 and Level 2 for the years ended December 31, 2017 and 2018. The following table presents a reconciliation of the other investments which are only the Level 3 investments:

	2018	2017
Balance - beginning of year	**$ 32,987**	$ 33,113
Gains (losses) recognized in net income	**(2,023)**	(126)
Purchases	-	-
Sales	-	-
Transfers out of Level 3	-	-
Balance - end of year	**$ 30,964**	$ 32,987

For the Level 3 investments in unquoted equities, fair value is estimated using a discounted cash flow model, which includes some assumptions that are not supportable by observable market prices or rates. In determining the fair value, an earnings growth factor of 2.1% and a risk adjusted discount factor of 1.9% are used. If these inputs to the valuation model were 1.0% higher or lower, while all the other variables were held constant, the carrying amount of the shares would be affected by $ 1,000.

The company has determined that no investments have incurred a significant or prolonged decline in their fair value, which constitutes objective evidence of impairment. As a result, an impairment loss of $ nil and $ nil has been recognized in net income for the years ended December 31, 2018 and 2017, respectively. Interest income on the impaired financial assets was $ nil (2017 - $ nil).

Shares, mutual funds and the Fire Mutuals Guarantee fund have no specific maturity.

8. Investments and Other Income

2018	FVTPL	HTM	Loans	Other	Total
Interest income	$ 392,247	$ -	$ -	$ -	$ 392,247
Dividend and other income	569,470	-	-	-	569,470
Investment expense	(135,918)	-	-	-	(135,918)
Net realized gains (losses)	(558,483)	-	-	-	(558,483)
Change in unrealized gains (losses)	(313,632)	-	-	-	(313,632)
Refund from reinsurer	-	-	-	-	-
Other income	-	-	-	14,865	14,865
	$ (46,316)	$ -	$ -	$ 14,865	$ (31,451)

2017	FVTPL	HTM	Loans	Other	Total
Interest income	$ 418,201	$ -	$ -	$ -	$ 418,201
Dividend and other income	536,326	-	-	-	536,326
Investment expense	(139,542)	-	-	-	(139,542)
Net realized gains (losses)	(931)	-	-	-	(931)
Change in unrealized gains (losses)	267,369	-	-	-	267,369
Refund from reinsurer	-	-	-	-	-
Other income	-	-	-	12,248	12,248
	$ 1,081,423	$ -	$ -	$ 12,248	$ 1,093,671

9. Property, Plant and Equipment

	Land	Building	Office Equipment	Computers	Total
Cost					
Balance at January 1, 2017	$ 45,890	$ 942,712	$ 289,579	$ 383,354	$ 1,661,535
Additions	-	385,857	277,108	18,688	681,653
Disposals	-	-	(289,580)	(88,420)	(378,000)
Balance at December 31, 2017	45,890	1,328,569	277,107	313,622	1,965,188
Additions	316,123	188,468	26,164	122,096	652,851
Disposals	-	-	-	-	-
Balance at December 31, 2018	$ 362,013	$ 1,517,037	$ 303,271	$ 435,718	$ 2,618,039
Accumulated Depreciation					
Balance at January 1, 2017	$ -	$ 561,012	$ 215,667	$ 301,380	$ 1,078,059
Depreciation expense	-	23,456	12,658	54,285	90,399
Disposals	-	-	(221,517)	(88,420)	(309,937)
Balance at December 31, 2017	-	584,468	6,808	267,245	858,521
Depreciation expense	-	40,972	27,757	71,157	139,886
Disposals	-	-	-	-	-
Balance at December 31, 2018	$ -	$ 625,440	$ 34,565	$ 338,402	$ 998,407
Net book value					
December 31, 2017	$ 45,890	$ 744,101	$ 270,299	$ 46,377	$ 1,106,667
December 31, 2018	$ 362,013	$ 891,597	$ 268,706	$ 97,316	$ 1,619,632

On January 5, 2018, the company purchased the adjoining property at 268 Huron Road, Sebringville, Ontario for $ 316,123, including closing and demolition costs.

10. Insurance Contracts

(i) Due from reinsurers

		2018		2017
Balance - beginning of year	$	**17,708**	$	13,855
Submitted to reinsurer		**3,937,118**		632,376
Received from reinsurer		**(2,998,205)**		(628,523)
Balance - end of year	$	**956,621**	$	17,708
Expected settlement within one year		**956,621**		17,708
More than one year		**-**		-
	$	**956,621**	$	17,708

At year end, the Company reviewed the amounts owing from (due to) its reinsurer and determined that no allowance was necessary.

(ii) Due from reinsurer - ceded claims

		2018		2017
Balance - beginning of year	$	**3,276,828**	$	3,399,535
New claims reserve		**2,930,351**		1,288,376
Change in prior year's reserve		**(5,974)**		(782,560)
Submitted to reinsurer		**(2,998,205)**		(628,523)
Balance - end of year	$	**3,203,000**	$	3,276,828
Expected settlement within one year		**589,465**		373,376
More than one year		**2,613,535**		2,903,452
	$	**3,203,000**	$	3,276,828

(iii) Deferred policy acquisition expenses

		2018		2017
Balance - beginning of year	$	**731,113**	$	792,821
Acquisition costs incurred		**1,706,819**		1,513,364
Expensed during the year		**(1,590,834)**		(1,575,072)
Balance - end of year	$	**847,098**	$	731,113

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

(iv) Unearned premiums (UEP)

		2018		2017
Balance - beginning of year	$	**6,699,755**	$	6,622,536
Premiums written		**14,618,696**		13,859,669
Premiums earned during year		**(14,195,805)**		(13,782,450)
Changes in UEP recognized in income		**422,891**		77,219
Balance - end of year	$	**7,122,646**	$	6,699,755

10. Insurance Contracts (continued)

(v) The following is a summary of the insurance contract provisions and related reinsurance assets at December 31.

	December 31, 2018			December 31, 2017		
Outstanding Claims Provision	Gross	Re-Insurance	Net	Gross	Re-Insurance	Net
Long settlement term	$ 3,407,374	$ 1,354,518	$ 2,052,856	$ 3,531,002	$ 1,241,452	$ 2,289,550
Short settlement term	2,188,712	589,465	1,599,247	1,945,566	373,376	1,572,190
Facility Association and other residual pools	388,195	-	388,195	378,278	-	378,278
	5,984,281	1,943,983	4,040,298	5,854,846	1,614,828	4,240,018
Provision for claims incurred but not reported	2,983,720	1,259,017	1,724,703	3,579,750	1,662,000	1,917,750
	$ 8,968,001	$ 3,203,000	$ 5,765,001	$ 9,434,596	$ 3,276,828	$ 6,157,768

10. Insurance Contracts (continued)

(vi) Comments and assumptions for specific claims categories

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

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 liabilities provided by the actuaries of the pools.

(vii) Claims and adjustment expenses

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

	2018	2017
Unpaid claim liabilities - beginning of year - net of reinsurance	**$ 6,157,768**	$ 6,830,076
Increase (decrease) in estimated losses and expenses, for losses occurring in prior years	**421,198**	(1,876,668)
Provision for losses and expenses on claims occurring in the current year	**6,534,210**	6,797,011
Payment on claims:		
Current year	**(5,178,702)**	(3,460,547)
Prior years	**(2,169,473)**	(2,132,104)
Unpaid claims liabilities - end of year - net of reinsurance	**5,765,001**	6,157,768
Reinsurer's share and subrogation recoverable	**3,203,000**	3,276,828
Unpaid Claim Liabilities - end of year - Gross	**$ 8,968,001**	$ 9,434,596

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

(viii) Provision for unpaid claims and adjustment expenses

The determination of the provisions for unpaid claims and adjustment expenses and the related reinsurers' share requires the estimation of three major variables which are development of claims, reinsurance recoveries and future investment income.

The Superintendent of the Financial Services Commission of Ontario has required that consideration of future investment income be disregarded except in the evaluation of automobile accident benefit claims.

10. Insurance Contracts (continued)

(ix) Claim development

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

The tables that follow present the development of claims payments and the estimated ultimate cost of claims for the claim years 2009 to 2018. The upper half of the tables show the cumulative amounts paid or estimated to be paid during successive years related to each claim year. The original estimates will be increased or decreased as more information becomes known about the original claims and overall claim frequency and severity.

Gross Claims

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
Gross estimate of cumulative claims cost											
At the end year of claim	$10,017,412	$ 8,276,430	$13,195,252	$ 6,443,510	$ 9,326,980	$ 7,814,359	$ 6,614,391	$ 8,099,968	$ 8,085,387	$ 9,333,540	$ -
One year later	8,806,238	7,383,030	12,384,537	5,911,319	7,564,214	6,637,283	5,107,866	6,609,459	8,398,487	-	-
Two years later	6,567,054	6,835,557	11,255,905	4,878,118	8,699,009	6,731,002	4,501,770	6,508,260	-	-	-
Three years later	6,258,539	6,453,169	10,376,817	4,441,662	8,750,572	6,661,761	4,672,957	-	-	-	-
Four years later	5,944,910	6,402,657	10,455,060	4,298,867	8,565,142	6,712,632	-	-	-	-	-
Five years later	6,028,595	6,263,911	10,389,380	4,251,628	8,566,384	-	-	-	-	-	-
Six years later	6,218,774	6,278,785	10,410,136	4,251,628	-	-	-	-	-	-	-
Seven years later	6,355,196	6,252,526	10,418,586	-	-	-	-	-	-	-	-
Eight years later	6,445,541	6,252,256	-	-	-	-	-	-	-	-	-
Nine years later	6,405,427	-	-	-	-	-	-	-	-	-	-
Current estimate of cumulative claims cost	6,405,427	6,252,256	10,418,586	4,251,628	8,566,384	6,712,632	4,672,957	6,508,260	8,398,487	9,333,540	71,520,157
Cumulative payments	5,839,815	6,252,256	10,185,233	4,206,964	8,485,363	6,031,315	4,268,850	5,148,029	5,342,305	7,397,978	63,158,108
Outstanding claims	565,612	-	233,353	44,664	81,021	681,317	404,107	1,360,231	3,056,182	1,935,562	8,362,049
Outstanding claims 2008 and prior	-	-	-	-	-	-	-	-	-	-	605,952
Provision for unpaid claims											8,968,001
Claims handling expense	-	-	-	-	-	-	-	-	-	-	715,382
Total gross outstanding claims net of claims handling expense	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 8,252,619

10. Insurance Contracts (continued)

(ix) Claim development (continued)

Net of reinsurance

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
Net estimate of cumulative claims cost											
At the end year of claim	$ 6,865,811	$ 5,762,947	$10,748,565	$ 5,567,633	$ 8,210,402	$ 6,369,359	$ 6,287,460	$ 6,859,417	$ 6,797,011	$ 6,534,210	$ -
One year later	6,374,032	4,946,682	10,203,847	5,108,214	7,049,879	5,781,940	5,588,843	6,132,992	6,926,433	-	-
Two years later	5,569,397	4,446,281	9,377,552	4,627,867	6,423,198	5,271,339	5,172,747	6,058,451	-	-	-
Three years later	5,410,882	4,244,814	9,000,776	4,232,865	6,466,092	5,108,035	5,343,934	-	-	-	-
Four years later	5,276,336	4,394,301	8,695,538	4,090,070	6,280,662	5,179,245	-	-	-	-	-
Five years later	5,476,226	4,255,555	8,799,929	4,042,831	6,281,904	-	-	-	-	-	-
Six years later	5,446,405	4,228,596	8,768,935	4,042,831	-	-	-	-	-	-	-
Seven years later	5,365,857	4,202,338	8,697,804	-	-	-	-	-	-	-	-
Eight years later	5,430,492	4,202,338	-	-	-	-	-	-	-	-	-
Nine years later	5,423,304	-	-	-	-	-	-	-	-	-	-
Current estimate of cumulative claims cost	5,423,304	4,202,338	8,697,804	4,042,831	6,281,904	5,179,245	5,343,934	6,058,451	6,926,433	6,534,210	58,690,454
Cumulative payments	5,204,124	4,203,536	8,541,451	3,998,343	6,200,883	5,011,173	4,939,827	4,946,562	4,964,056	5,178,702	53,188,657
Outstanding claims	219,180	(1,198)	156,353	44,488	81,021	168,072	404,107	1,111,889	1,962,377	1,355,508	5,501,797
Outstanding claims 2008 and prior	-	-	-	-	-	-	-	-	-	-	263,204
Unpaid claims liabilities - net of reinsurance											5,765,001
Claims handling expense	-	-	-	-	-	-	-	-	-	-	546,018
Total net outstanding claims net of claims handling expense	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 5,218,983

11. Pension Plan

As of January 1, 2015, all employees previously enrolled in the defined benefit pension plan were transferred to a defined contribution pension plan. Previously, only employees not eligible for the defined benefit plan and sales agents participated in the defined contribution plan. The amount contributed to the plan for 2018 was $ 127,927 (2017 - $ 109,659). The contributions were made for current service and have been recognized in comprehensive income.

In prior years, the Company participated in a multi-employer defined benefit plan based on the Company's percentage of pensionable earnings as calculated by the pension plan's actuaries. The actuarial valuation was completed in September 2018 and the final conversion cost to the Company was $ 384,665. In addition, the Company incurred $ 57,486 of administration costs related to the conversion. The above payments are included in expenses on the statement of income.

The Company also contributed $ 45,901 (2017 - $ 42,086) to a deferred profit sharing plan. These payments are included in expenses on the statement of income.

12. Income Taxes

The Company is subject to income taxes on that portion of its income derived from insuring other than farm related risks.

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

	2018	2017
Current tax expense		
Based on current year taxable income	**$ (200,141)**	$ 507,580
Adjustments for over/under provision in prior periods	**-**	-
	$ (200,141)	$ 507,580
Deferred tax expense		
Origination and reversal of temporary differences	**$ 40,900**	$ (88,548)
Reduction in tax rate	**-**	-
	$ 40,900	$ (88,548)

Reasons for the difference between current tax expense for the year and the expected income taxes based on a statutory tax rate of 26.50% (2017 - 26.50%) are as follows:

	2018	2017
Net income for the year before income taxes	**$ (156,348)**	$ 2,600,843
Expected taxes based on the statutory rate of 26.50% (2017 - 26.50%)	**(41,432)**	689,223
Income from insuring farm related risks	**23,231**	(66,566)
Non-deductible portion of claims liabilities	**(13,527)**	11,537
Other non-deductible expenses	**1,941**	2,132
Market to market and other adjustments related to investments	**(150,855)**	(142,126)
Depreciation in excess of capital cost allowance (capital cost allowance in excess of depreciation)	**(19,432)**	(3,419)
Other	**(67)**	16,799
Total income tax expense	**$ (200,141)**	$ 507,580

12. Income Taxes (continued)

The movement in the 2018 deferred tax liabilities and assets are:

	Opening balance at January 1, 2018	Recognized in net income	Recognized in OCI	Recognized directly in equity	Reclassify from equity to net income	Closing balance at December 31, 2018
Deferred tax liabilities						
Tax losses and credits	$ -	$ -	$ -	$ -	$ -	$ -
Property, plant and equipment	8,742	19,432	-	-	-	28,174
Claims liabilities	-	16,677	-	-	-	16,677
Deferred tax liability	$ 8,742	$ 36,109	$ -	$ -	$ -	$ 44,851
Deferred tax assets						
Tax losses and credits	$ -	$ -	$ -	$ -	$ -	$ -
Claims liabilities	4,791	(4,791)	-	-	-	-
Property, plant and equipment	-	-	-	-	-	-
Deferred tax asset	$ 4,791	$ (4,791)	$ -	$ -	$ -	$ -
2018 net deferred tax asset (liability) movement	$ (3,951)	$ (40,900)	$ -	$ -	$ -	$ (44,851)

12. Income Taxes (continued)

The movement in the 2017 deferred tax liabilities and assets are:

	Opening balance at January 1, 2017	Recognized in net income	Recognized in OCI	Recognized directly in equity	Reclassify from equity to net income	Closing balance at December 31, 2017
Deferred tax liabilities						
Property, plant and equipment	$ -	$ -	$ -	$ -	$ -	$ -
Investment property	-	8,742	-	-	-	8,742
Claims liabilities	100,044	(100,044)	-	-	-	-
Deferred tax liability	$ 100,044	$ (91,302)	$ -	$ -	$ -	$ 8,742
Deferred tax assets						
Tax losses and credits	$ -	$ -	$ -	$ -	$ -	$ -
Claims liabilities	5,762	(971)	-	-	-	4,791
Property, plant and equipment	1,783	(1,783)	-	-	-	-
Deferred tax asset	$ 7,545	$ (2,754)	$ -	$ -	$ -	$ 4,791
2017 net deferred tax asset (liability) movement	$ (92,499)	$ 88,548	$ -	$ -	$ -	$ (3,951)

	2018	2017
Deferred tax liabilities		
Deferred tax liabilities to be settled within 12 months	**$ 16,677**	$ -
Deferred tax liabilities to be settled after more than 12 months	**28,174**	8,742
	$ 44,851	$ 8,742
Deferred tax assets		
Deferred tax assets to be recovered within 12 months	**$ -**	$ 4,791
Deferred tax assets to be recovered after more than 12 months	**-**	-
	$ -	$ 4,791
Net deferred tax asset (liability)	**$ (44,851)**	$ (3,951)

13. Gross Claims and Adjustment Expenses

Included in claims expenses were wage and benefits costs and overhead costs of $ 561,710 (2017 - $ 487,846).

14. Related Party Transactions

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

		2018		2017
Compensation				
Short-term employee benefits, wages and directors' fees	$	**675,345**	$	568,257
Total pension and other post-employment benefits		**61,339**		35,106
Premiums		**125,645**		110,704
Claims paid		**42,812**		44,941

Amounts owing to and from key management personnel at December 31, 2018 are $ 9,500 (2017 - $ 62,534) and $ 22,353 (2017 - $ 20,866), respectively.

Amounts purchased from key management personnel during the 2018 year was $ nil (2017 - $ nil).

15. Capital Management

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

The regulators measure the financial strength of property and casualty insurers using a minimum capital test (MCT). The regulators generally expect property and casualty companies to comply with capital adequacy requirements. This test compares a company's capital against the risk profile of the organization. The risk-based capital adequacy framework assesses the risk of assets, policy liabilities and other exposures by applying various factors. The regulator indicates that the Company should produce a minimum MCT of 150%. During the year, the Company has consistently exceeded this minimum. The regulator has the authority to request more extensive reporting and can place restrictions on the Company's operations if the Company falls below this requirement as deemed necessary.

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

16. Insurance Risk Management

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

16. Insurance Risk Management (continued)

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

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

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

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

The Company manages the risk via its underwriting and reinsurance strategy within an overall risk management framework. Exposures are limited by having documented underwriting limits and criteria. Pricing of property and liability policies are based on assumptions in regard to trends and past experience, in an attempt to correctly match policy revenue with exposed risk. Automobile premiums are subject to approval by the Financial Services Commission of Ontario and, therefore, may result in a delay in adjusting the pricing to exposed risk; in this case the Company has policies regarding renewal and new business accepted. Reinsurance is purchased to mitigate the effect of the potential loss to the Company. Reinsurance is placed with Farm Mutual Reinsurance Plan Inc. (FMRe), a Canadian registered reinsurer.

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 $ 290,000 (2017 - $ 290,000) in the event of a property claim, an amount of $ 330,000 (2017 - $ 310,000) in the event of an auto claim, an amount of $ 320,000 (2017 - $ 320,000) in the event of a liability claim and an amount of $ 20,000 (2017 - $ 20,000) in the event of a farmer's accident claim. The Company also obtained reinsurance which limits the Company's liability to $ 870,000 (2017 - $ 870,000) in the event of a series of claims arising out of a single occurrence. In addition, the Company has obtained stop loss reinsurance which limits the liability of all claims in a specific year to 80% of gross net earned premiums for property, automobile and liability combined.

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

The risk associated with insurance contracts is complex and subject to a number of variables which complicate quantitative sensitivity analysis. The Company's various techniques, based on past claims development experience, quantify these sensitivities. This includes indicators such as average claim costs, amount of claims occurrence, expected loss ratios and claims development as described in Note 10.

16. Insurance Risk Management (continued)

The provision for unpaid claims and accounts receivable from the company's reinsurer are categorized as follows:

Type of Unpaid Claim	**2018** Gross	**2018** Ceded	2017 Gross	2017 Ceded
Property	**$ 1,543,297**	**$ 711,075**	$ 1,455,482	$ 504,376
Liability	**2,139,093**	**805,745**	2,342,730	821,677
Automobile	**4,869,416**	**1,686,180**	5,230,106	1,950,775
Facility Association and risk sharing pool	**416,195**	**-**	406,278	-
	$ 8,968,001	**$ 3,203,000**	$ 9,434,596	$ 3,276,828

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

	Property Claims **2018**	Property Claims 2017	**Auto Claims** **2018**	Auto Claims 2017	**Liability Claims** **2018**	Liability Claims 2017
5% Increase in Loss Ratios						
Gross	**$ 325,183**	$ 312,681	**$ 333,206**	$ 318,994	**$ 51,591**	$ 51,243
Net	**291,612**	285,347	**278,438**	264,754	**42,568**	42,014
5% Decrease in Loss Ratios						
Gross	**(325,183)**	(312,681)	**(333,206)**	(318,994)	**(51,591)**	(51,243)
Net	**(291,612)**	(285,347)	**(278,438)**	(264,754)	**(42,568)**	(42,014)

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.

17. Credit Risk

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

The Company's investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits, corporate sector limits and general guidelines for geographic exposure. All fixed income portfolios are measured for performance on a quarterly basis and monitored by management on a monthly basis.

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

Accounts receivable are short-term in nature, consisting of a large number of policy-holders, and are not subject to material credit risk. Regular review of outstanding receivables is performed to ensure creditworthiness.

The maximum exposure to credit risk and concentration of this risk is outlined in Note 7.

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.

18. Market Risk

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

The Company's investment policy operates within the guidelines of the Ontario Insurance Act. An investment policy is in place and its application is monitored by the Investment Committee and the Board of Directors. Diversification techniques are utilized to minimize risk.

(a) Currency Risk

Currency risk relates to the Company operating in different currencies and converting non-Canadian earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur.

The Company's foreign exchange risk is related to its bond, stock and mutual fund holdings. Foreign currency changes are monitored by the Board of Directors. A 1% change in the value of the United States dollar would affect the fair value of bonds, stocks and mutual funds by approximately \$ 4,400 (2017 - \$ 3,500) which would be reflected in net income.

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.

18. Market Risk (continued)

(b) Interest Rate Risk

Interest rate risk is the potential for financial loss caused by fluctuations in fair value or future cash flows of financial instruments because of changes in market interest rates. The Company is exposed to this risk through its interest-bearing investments.

Historical data and current information are 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, as recognized on the statement of comprehensive income, will move with interest rates over the medium to long-term. There are no occurrences where interest would be charged on liabilities. Therefore, little protection is needed to ensure the fair market value of assets will be offset by a similar change in liabilities due to an interest rate change.

The objective and policies and procedures for managing interest rate risk is to manage the bond portfolio in such a way that the bonds are a portfolio laddered over 10 years. One tenth of the bond portfolio would come due each year and be reinvested. This protects the Company from fluctuations in the interest rates.

At December 31, 2018, a 1% move in interest rates, with all other variables held constant, could impact the market value of the fixed income pooled fund by $ 465,000 (2017 - $ 930,000). These changes would be recognized in comprehensive income.

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.

(c) Equity Risk

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

The Company's portfolio includes Canadian stocks with fair values that move with the Toronto Stock Exchange Composite Index, United States stocks with fair values that move with the S&P 500 Index and international stocks that move with financial markets in Europe, Australia and Asia. A 10% movement in the stock markets, with all other variables held constant, would have an estimated effect on the fair value of the company's Canadian common stocks and United States common stocks of approximately $ 670,000 (2017 - $ 699,000). For stocks that the Company did not sell during the period, the change would be recognized in the asset value and the statement of comprehensive income. For stocks that the Company did sell during the period, the change during the period and changes prior to the period would be recognized as net realized gains in income during the period.

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.

19. Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet all cash outflow obligations as they come due. The Company mitigates this risk by monitoring cash activities and expected outflows. Current liabilities arise as claims are made. There are no material liabilities that can be called unexpectedly at the demand of a lender or client. There are 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.

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.

20. Comparative Figures

Certain of the 2017 figures on the statement of comprehensive income have been reclassified to conform to the 2018 financial statement presentation.

Tradition Mutual
INSURANCE COMPANY