Tradition Mutual

INSURANCE COMPANY

IF ITS IMPORTANT TO YOU, IT IS IMPORTANT TO US

A MESSAGE FROM OUR CHAIR

It has been my pleasure to serve as your Chair for the past year. On behalf of the Board of Directors, I thank you for choosing to become a policy holder, member and owner of Tradition Mutual. Together, we support each other in times of need, and we share the successes in good times.

Tradition Mutual enters 2020 with a focus on stability, trust and operational excellence. We were fortunate to have avoided significant weather events this year, resulting in 2019 being a very profitable year, with net income of $2,832,668. However, some of us did experience losses and Tradition was able to provide trusted, financial support to those members in their time of need. With claim payments to our policyholders totalling, $8,296,670.

Improved returns on investment during the year enabled Tradition to surpass 30 million in surplus for the first time in Tradition's history! We were very pleased with the results of 2019, and as a result of our financial performance, the Board of Directors have made the decision to declare a 5% refund of premium to property policyholders. During 2019, the Board identified the need to be transparent with donation allocations. Therefore, moving forward, each year, up to 10% of underwriting profit will be allocated to supporting community initiatives. This initiative further reinforces our commitment to be a financially stable, community based, local insurance provider we can all be a proud to be part of.

Targeting operational excellence, Tradition will be updating the residential and farm products available for 2020, we will now be able to provide more options to better suit members specific needs. Updating the policies has been a huge project for everyone in the Tradition office and I would like to thank the staff, agents and managers for all their hard work! Our CEO, Paul Burns, and his management team, will continue to meet the needs of our members as they navigate Tradition through the ever changing insurance industry.

Thank you to my fellow board members for their continued leadership and oversight, and to the policy holders for your loyalty and trust.

Best Regards,

MaryJane Littlejohn
Chair, Board of Directors
Tradition Mutual Insurance Company

A MESSAGE FROM OUR PRESIDENT

2019 was a good year for Tradition. It is my pleasure to lead off my summary in this way. Financial results, sales and internal work from staff, managers, agents, brokers, and directors have all aligned to allow us a great year.

We were able to attain both an underwriting profit and an overall profit. Losses in 2019 were back to a normal state as were our investment yields. We grew our business by 8.7% in 2019 which was mainly due to new policyholders joining Tradition. Our staff and managers were diligent in their duties and it showed with our service standards. Our board is focused and aligned allowing Tradition to make changes that will safeguard you or your company for the future.

One of our major projects in 2019 was to review our products and rates. With insurance rates rising in the marketplace, we needed to review areas of our business where losses have hit hard and trends have deteriorated. We identified that residential and farm packages and rates required the most attention. We have launched changes effective February 2020. Our goal is to provide more options when it comes to your coverage purchase, while providing increases on our rates only where we need them. Our focus is to remain fair to all of our members, so we can protect everyone in an equitable manner.

Another initiative that was requested from our members was the need to offer more payment options. We have now updated our payment plan options to include the use of credit cards.

We completed our new parking lot construction at our office so we are now fully accessible. New curbs, sidewalks and pavement were added. A new sign was installed allowing more visibility on the main street, with the added ability to display announcements for the company and community. Landscaping work is scheduled and will start in the spring.

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 2019; Mitchell Optimist – Let's Play Together Project, St. Marys Curling Club, Kinkora Athletic Association, Hike for Hospice, Perth County Transition Home for Women, Perth East Fire Department, Royal Canadian Legion, Downie Optimist, Thorndale Agricultural Society, Children's Make A Wish, Perth County 4H Dairy Classic Team, Kirkton Ag Society, St. Marys Winter Light Display, and Farm Mutual Foundation. We also saw previous donations to the Stratford Perth Rotary Hospice and the hospital in St Marys come to fruition with the opening of their location or wing. It makes us proud to have supported them. We again supported scholarships for the 5 local high schools.

In addition to our charitable donations, we were out in the community attending several events over 2019 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 Hog Jog. We changed course with our advertising to be more digital in our approach.

A MESSAGE FROM OUR PRESIDENT

In reflection, our year was as good as what we could have hoped for. With our growth, we have more people that depend on us for protection of their assets. With our profits, we continue to be a stable trusted resource for the future. With our improved products, we have options to serve your needs.

We want to continue to do things properly. Look after our policyholders, who are also our owners, when they need us. Support the local community. 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 of insurance 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

Overview

As noted in our Message from the Chair and Message from the President, 2019 was an excellent year for Tradition Mutual Insurance from a financial perspective. Eight years of consecutive profits and realizing an underwriting profit seven years of the last eight are not small achievements, and we can be justly proud.

As a mutual, our first duty is to you, our policyholders, who collectively own the Company. It is our job to ensure that we have the financial strength and stability to be there for you when you need us. By earning a profit in a good year, it enables us to put money aside so that when adverse years hit, as inevitably they will, we can be sure we will meet our obligations.

Financial Highlights for 2019:

(numbers rounded to $000’s)

- Net Income of $2,833
- Underwriting Profit of $1,843
- Surplus of $30,458, exceeding $30 million for the first time in Company history
- Gross Written Premiums of $15,886, exceeding $15 million for the first time
- New Sales of $1,565, exceeding $1 million for the first time
- Declared a Refund of Premium to property policyholders of 5% of property premiums

The intent of this Management Discussion and Analysis (MD&A) is to inform you of the key factors that drove our financial success in 2019, and how those factors position us for the future. We will focus on four topics:

1. Key Ratios – Combined Operating Ratio (COR) which is made up of the Claims Ratio and Expense Ratio
2. “Top-Line” Growth – How our Premiums are doing
3. Investment Income
4. Our Surplus Position

Key Ratios

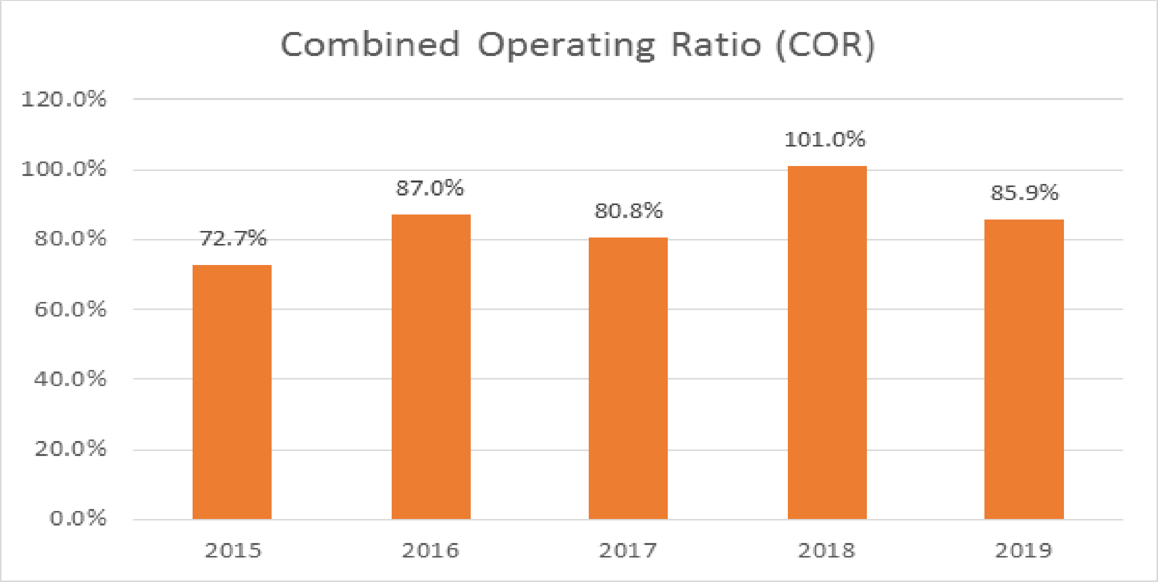
Combined Operating Ratio (COR)

This is THE key measure for any property and casualty insurance company. It measures whether or not your underwriting costs (claims, commissions, and operating expenses) are less than or greater than your earned premiums net of reinsurance. If the ratio is less than 100%, you have made an underwriting profit; greater than 100%, a loss. Since all property and casualty insurance companies calculate their COR in the same manner, the ratio can be used to compare us to other companies regardless of size.

Our COR over the last five years:

The COR is made up of our claims ratio of 51.7% of net earned premiums and our expense ratio of 34.2% of net earned premiums, both of which will be analyzed below.
2019 saw a return to the profit levels we saw through 2015-2017 after a challenging 2018. 2018's COR was negatively impacted by several events: (1) a major windstorm in May 2018; (2) several very large property losses, and (3) two unusual expense items – a $150,000 donation to the Stratford Hospice and $432,000 in one-time costs to convert our employee pension plan to a defined contribution plan.

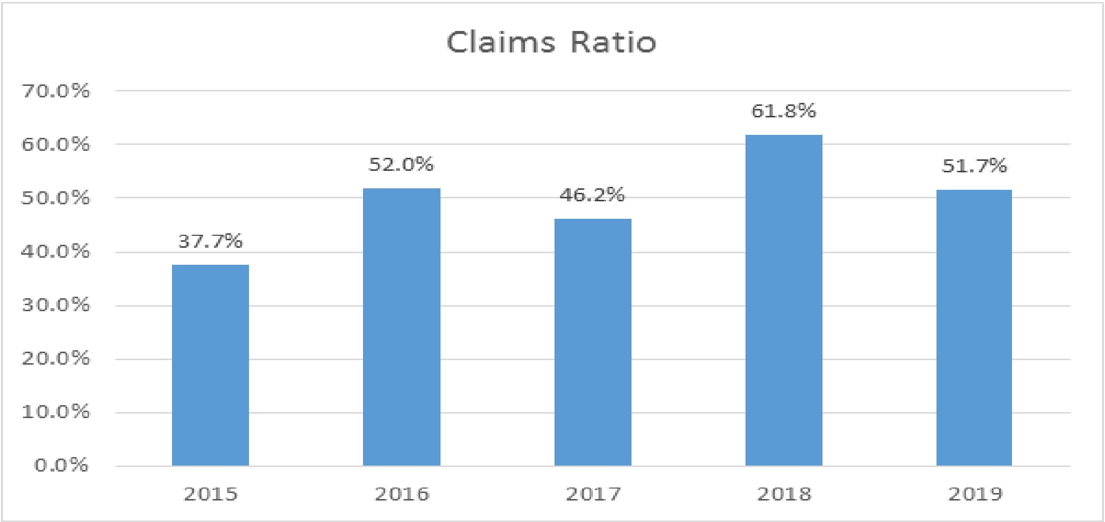
By doing "the little things well" - being disciplined in our underwriting, continued excellence in our claims service, and controlling our expenses – we have established a pattern of positive financial results. It is one thing to have one good year, quite another to repeat those good years consistently.



Claims Ratio

For any property and casualty company, the largest driver of your performance in a given year will be your claims ratio, which is the percentage that your claims cost net of reinsurance is of your net earned premiums. The general rule is, as your claims go, so goes your year.

Our claims ratio for the last 5 years:



Our claims experience in 2019 returned to the levels we saw in 2016 and 2017 after a difficult 2018 (2015 was an exceptionally good year, and those will happen occasionally but should not be expected). 2018 was negatively impacted by: (1) a major windstorm on May 4, 2018 that caused just under $1 million worth of claims and (2) several large property losses, in particular two large fire losses.

Good claims experience is a function of both good claims management and disciplined underwriting in ensuring that quality risks are brought onto the books, and that the risks we accept are priced appropriately. Positive experience in terms of weather and unusual events (or lack of them) plays a role from year to year, however that experience evens out over time. Over a 10-year period, our average claims ratio has been 54%.

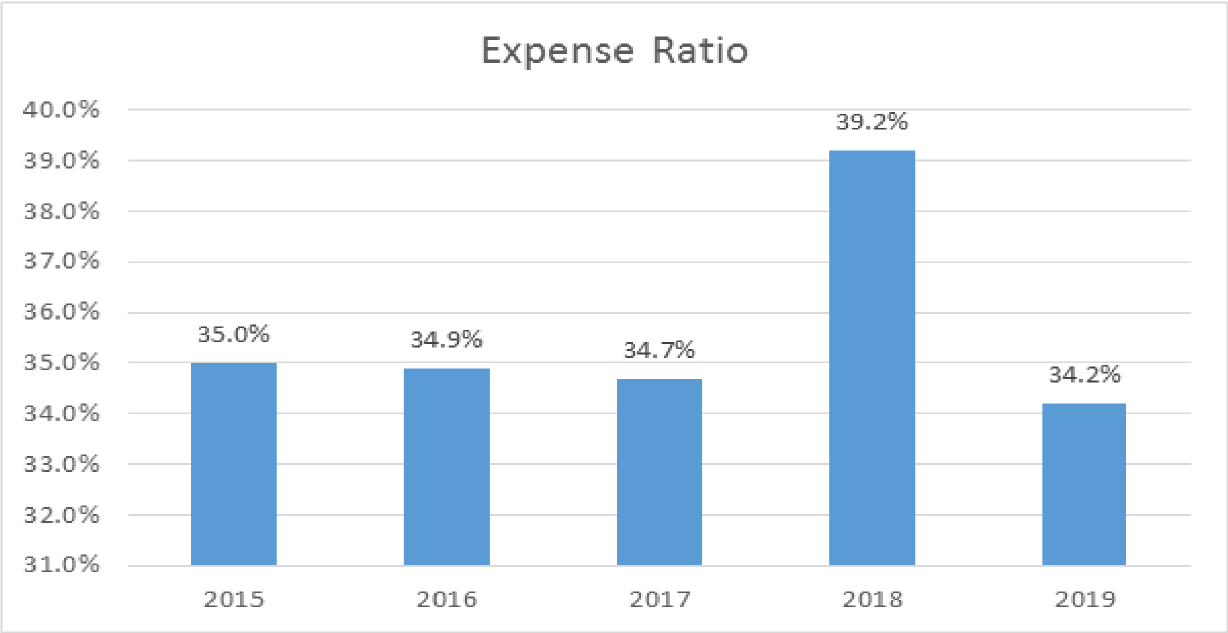
While our overall claims performance has been good, we, along with the rest of the insurance industry, continue to struggle with residential losses. We will be taking rate increases on residential business in 2020 to help ameliorate the situation.

Expense Ratio

Expense ratio is the percentage of expenses (defined as commissions plus operating expenses) to your net earned premiums.

This measures what you have most control over on a year-to-year basis – how much you spend on your operations. This does not mean that you do not spend money, but that you spend it wisely in order to serve your policyholders and allow the company to grow. As a rule for an insurance company, the majority of expenses will be people-related: commissions, salaries, benefits, training. In an industry such as ours, where you sell your ability to fulfill a promise when needed, people are truly your core asset.

Our expense ratio over the last 5 years:



As with claims, 2019 saw us return to the levels experienced in 2016 and 2017 after poorer results in 2018. The high ratio in 2018 was driven by two exceptional items: (1) a $150,000 donation to the Stratford Perth Rotary Hospice, and (2) $432,000 of one-time costs to convert our employee pension plan to a defined contribution basis. The fact that our premium base continues to grow allows us to add staff as needed and make investments in systems in order to further improve our efficiency and position ourselves for future growth, while keeping our expense ratio at acceptable levels.

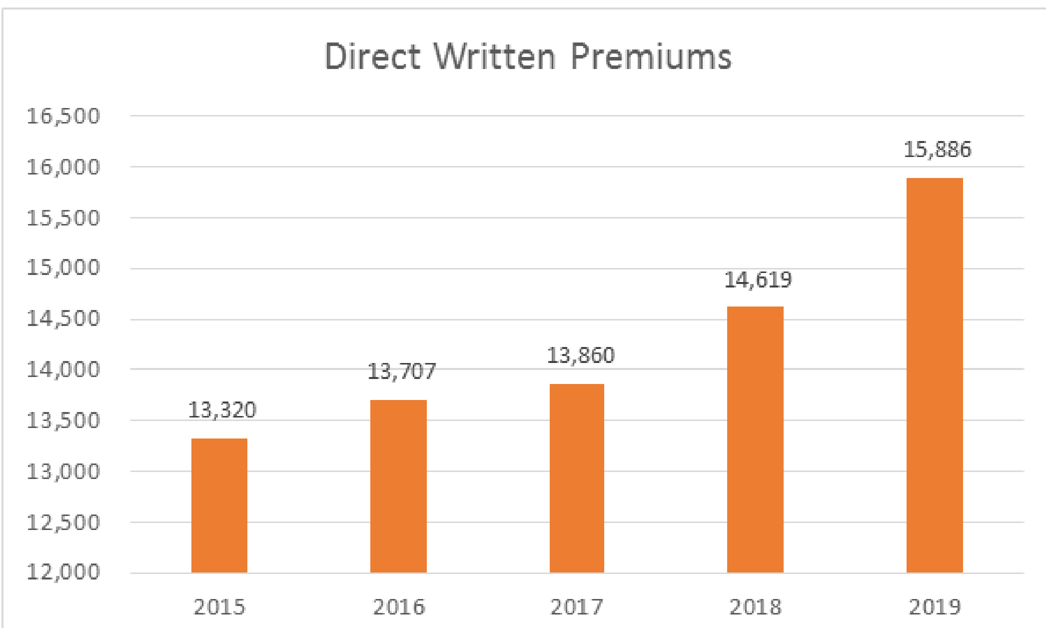
“Top-Line” Growth – Our Premiums

In 2019, Tradition Mutual experienced our best sales and premium revenue year in the history of the Company:

New Sales of $1,565,000, a 57% increase over 2018 and breaking the $1 million in sales barrier for the first time in Company history; Gross Written Premiums of $15,866,268, an 8.7% increase over 2018 and exceeding $15 million in a year for the first time.

In 2019, the insurance industry experienced a “hard market” where demand for insurance exceeded supply. A significant number of companies either exited from certain insurance markets and/or substantially raised their rates. As a result, we found that our rates and terms were very competitive, particularly in the automobile market in Southwestern Ontario. This, coupled with the hard work and dedication of our agents and broker partners, drove the considerable increase in sales.

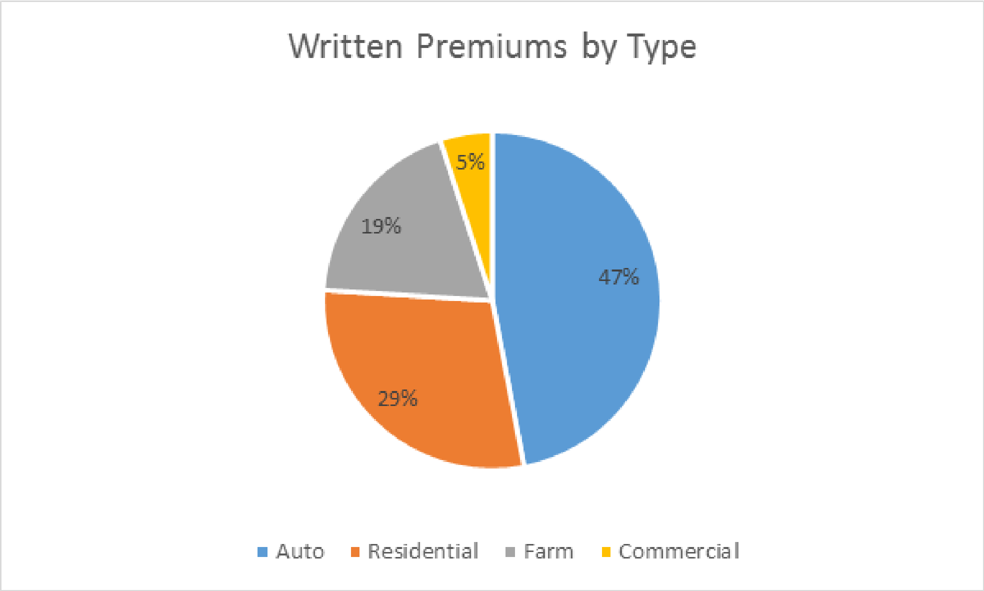
Our premium growth the last 5 years:



As indicated by the above graph, we have experienced solid growth in premium income the last two years after several years of minimal growth. We expect that our premium base will continue to grow at an approximate rate of 6% per year for the next several years as the effects of the hard market begin to lessen. We also want to keep our rate of growth to levels that we can process and maintain the quality of our book of business.

Gross Written Premiums - By Category

By type of product, our 2019 premiums broke down as follows:

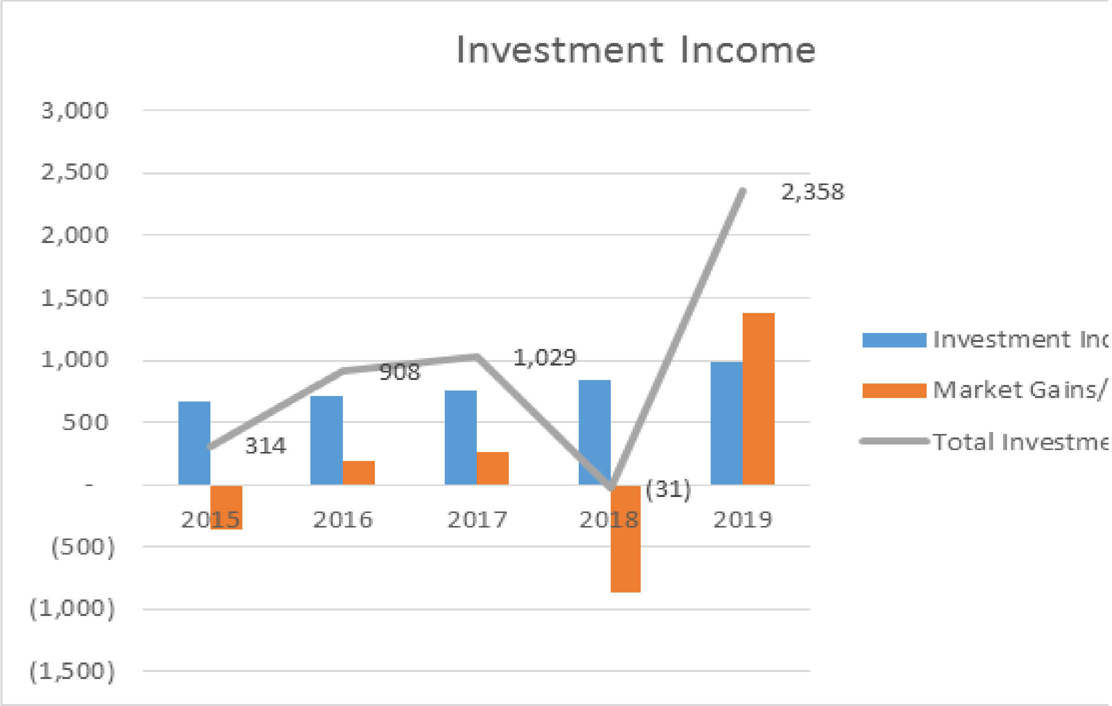


Auto insurance currently accounts for approximately half our business (47%). Residential homeowners account for 29%, farms for 19%, and 5% small to medium sized commercial business. Our primary policyholder base is Perth County –Stratford, St. Mary's, Mitchell, and surrounding areas.

Investment Income

Our investment income has two main components:

1. Interest and dividend income received from our investments;
2. Market value gains and losses, which under International Financial Reporting Standards (IFRS) we report as part of our investment income



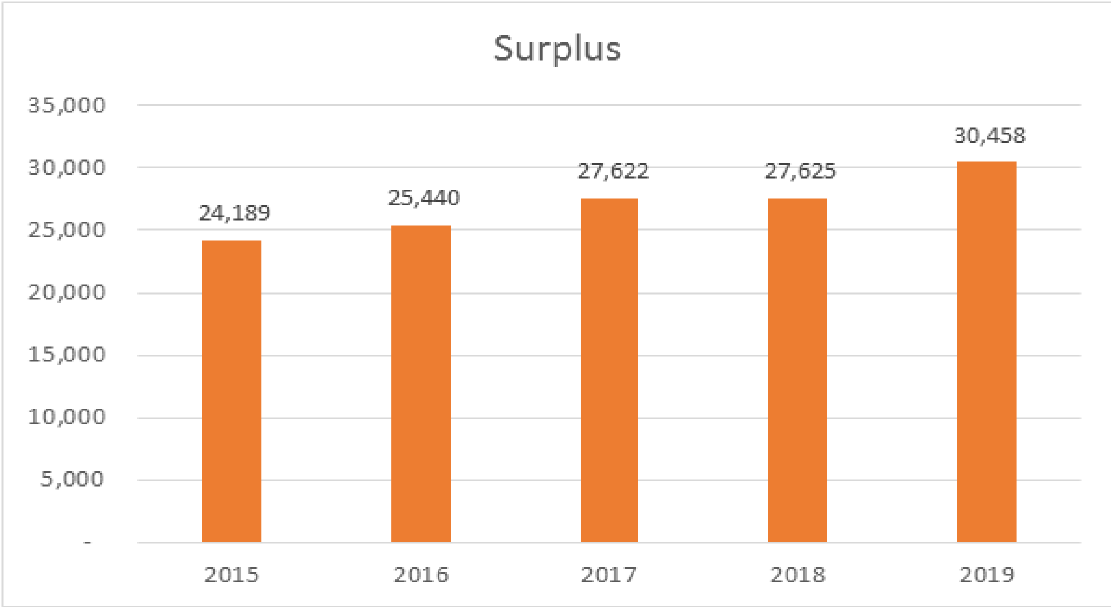
Investment income (interest and dividends) over the last five years has seen steady growth from $672,000 to $968,000 as our funds under investment have grown. Market values, however, saw significant fluctuations in 2018 and 2019. The last three months of 2018 saw a very large drop in North American stock markets, only to see all those losses recovered and further gains made in 2019.

We focus our investments on high-quality securities with steady interest and dividend income, as our overriding priority is to preserve capital against adverse years in the future. It is our policy to invest no more than 25% of our invested assets in equities. Our remaining investments are fixed - income securities of varying maturities, from 6-month GIC's to longer-term bonds. We invest only in securities with credit ratings of BBB or higher.

Surplus

Our surplus position as a company is very strong. At the close of 2019, our surplus was $30,457,715 which exceeded $30 million for the first time in the Company's history. Our ratio of surplus to gross written premiums is 1.92 to 1, which is very strong indeed.

Our surplus position the last 5 years:



A strong and growing surplus position is what gives us the ultimate assurance that we will be there for you, our policyholders, when you need us. It allows us to withstand one or even several years of poor claims experience and still be very safe.

TRADITION MUTUAL INSURANCE COMPANY

FINANCIAL STATEMENTS

DECEMBER 31, 2019

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, 2019** 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, 2019** and the results of its operations and its cash flows for the year then 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 overseeing 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 12, 2020

Tradition Mutual Insurance Company
Statement of Financial Position
As at December 31, 2019

ASSETS

		2019	2018
Assets			
Cash	**$ 3,367,295**		$ 5,208,414
Investments (Note 6 and 7)	**34,538,570**		26,446,398
Outstanding premiums receivable	**5,787,479**		5,180,168
Due from reinsurer - ceded claims (Note 9)	**2,477,208**		3,203,000
- other	**107,153**		960,488
Other receivables	**192,544**		184,620
Income taxes receivable	**-**		657,366
Deferred policy acquisition expenses (Note 9)	**912,998**		847,098
Property, plant and equipment - net of depreciation (Note 8)	**1,739,533**		1,619,632
		$ 49,122,780	$ 44,307,184

LIABILITIES AND MEMBERS' SURPLUS

Liabilities			
Accounts payable and accrued liabilities	**1,315,599**		546,639
Income taxes payable (Note 11)	**836,902**		-
Unearned premiums (Note 9)	**7,819,316**		7,122,646
Provision for unpaid claims (Note 9)	**8,596,731**		8,968,001
Deferred income taxes (Note 11)	**96,517**		44,851
		18,665,065	16,682,137
Members' Surplus		**30,457,715**	27,625,047
		$ 49,122,780	$ 44,307,184

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, 2019

		2019	2018
Balance - beginning of year	**$ 27,625,047**		$ 27,622,154
Net income for the year	**2,832,668**		2,893
Balance - end of year		**$ 30,457,715**	$ 27,625,047

(See Accompanying Notes to the Financial Statements)

Tradition Mutual Insurance Company
Statement of Comprehensive Income
For the year ended December 31, 2019

		2019	2018
Gross Premiums Written		$ 15,886,268	$ 14,618,696
Less:			
Increase in reserve for unearned premiums	$ 691,131		419,096
Reinsurance premiums	2,115,557		1,947,256
Reinsurance assumed	(31,739)		-
		2,774,949	2,366,352
Net premium income		13,111,319	12,252,344
Claims and Expenses			
Gross claims incurred	8,296,670		10,494,636
Reinsurance plan recoveries	1,523,466		2,922,690
Net claims incurred	6,773,204		7,571,946
Commissions	1,997,418		1,709,846
Salaries and directors' fees	864,377		879,323
Benefits and education	533,939		516,292
OMIA final defined benefit contribution (Note 10)	-		384,665
Audit and legal fees	59,141		156,265
Travel, convention and meetings	86,140		66,372
Corporation premium tax	35,241		32,716
Printing supplies	19,767		25,632
Office and general	37,469		36,677
MVA's and claim reports	37,128		24,671
Telephone and mailing	29,987		38,316
Insurance	44,487		44,951
Association fees	108,246		107,424
Office premises	118,273		122,886
Data processing	355,700		344,375
Bank charges	31,954		43,605
Advertising, promotion and donations	110,161		228,787
Loss prevention	26,178		42,742
		11,268,810	12,377,491
Underwriting gain (loss)		1,842,509	(125,147)

(See Accompanying Notes to the Financial Statements)

Tradition Mutual Insurance Company
Statement of Comprehensive Income
For the year ended December 31, 2019

		2019	2018
Balance carried forward		**$ 1,842,509**	$ (125,147)
Other Revenue (Loss) (Note 7)			
Investment	**$ 1,182,939**		267,316
Market value appreciation (depreciation) of investments	**1,158,734**		(313,632)
Other	**15,715**		14,865
Gain on disposal of property, plant and equipment	**-**		250
		2,357,388	(31,201)
		4,199,897	(156,348)
Refund from Premium	**417,505**		-
Agent and staff profit sharing	**124,197**		-
		541,702	-
Income (loss) before income taxes		**3,658,195**	(156,348)
Provision for (recovery of) income taxes			
- current (Note 11)	**773,861**		(200,141)
- deferred (Note 11)	**51,666**		40,900
		825,527	(159,241)
Net income for the year		**$ 2,832,668**	$ 2,893

(See Accompanying Notes to the Financial Statements)

Tradition Mutual Insurance Company
Statement of Cash Flows
For the year ended December 31, 2019

		2019	2018
Cash Provided By (Used In):			
Operating Activities			
Comprehensive income for the year	$ 2,832,668		$ 2,893
Deferred income taxes	51,666		40,900
Provision for income taxes	773,861		(200,141)
Depreciation of property, plant and equipment	133,064		139,886
Gain on disposal of property, plant and equipment	-		(250)
Investment income	(1,182,939)		(267,316)
	2,608,320		(284,028)
Adjustments to convert income to cash basis:			
Increase (decrease) in unearned premiums	696,670		422,891
Increase (decrease) in unpaid claims	(371,270)		(466,595)
Increase (decrease) in accounts payable and accrued liabilities	768,960		(904,148)
Increase (decrease) in premium taxes payable	32,030		11,990
(Gain) loss on sale of investments	(214,596)		558,483
Decrease (increase) in receivables	963,892		(1,171,077)
Decrease (increase) in deferred policy acquisition expenses	(65,900)		(115,985)
Market value (appreciation) depreciation on investments	(1,158,734)		313,632
		$ 3,259,372	(1,634,837)
Investing Activities			
Proceeds from sale of investments	3,570,004		11,267,081
Purchase of investments	(10,288,846)		(8,655,217)
Investment income received	1,182,939		267,316
Income taxes recovered (paid)	688,377		(665,141)
Purchase of property, plant and equipment	(252,965)		(652,851)
Proceeds from sale of property, plant and equipment	-		250
		(5,100,491)	1,561,438
(Shortage) of cash provided over cash applied		(1,841,119)	(73,399)
Cash - beginning of year		5,208,414	5,281,813
Cash - end of year		$ 3,367,295	$ 5,208,414

Cash consists of cash on hand and balances with banks.

(See Accompanying Notes to the Financial Statements)

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 Regulatory Authority 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 12, 2020.

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 4.

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, publicly 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.

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, 2020 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 17 Insurance Contracts supersedes IFRS 4 Insurance Contracts. IFRS 17 fundamentally changes how entities account for insurance contracts, introducing a default “building block approach”, which disaggregates the cash flows in an insurance contract and provides a different measurement basis for each component and a simplified “premium allocation approach” for certain short-term contracts. Assumptions used in measuring insurance assets and liabilities such as cash flows, discount rates and risk adjustment will be updated at each reporting period. The discount rate will reflect the characteristics of the insurance liabilities and the estimated future cash flows to settle claims incurred will be discounted unless the period of time between claim occurrence and settlement is less than one year. Presentation changes include ‘insurance revenue’ replacing the current reporting of ‘written premiums’ and ‘earned premiums’ and insurance contract assets and liabilities will not be netted. Under this standard, premiums receivable, unearned premiums and claims payable may no longer be presented separately from other insurance assets and liabilities. The effective date for IFRS 17 is January 1, 2022 with mandatory restatement of comparative periods. The Company is currently assessing the impact of IFRS 17.

None of the other new standards, interpretations and amendments, which are effective for the Company's accounting periods beginning after January 1, 2020 and which have not been adopted early, are expected to have a material effect on the Company's future financial statements.

4. 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.

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 9.

(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.

5. 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, 2019				
Cash	$ 3,367,295	$ -	$ -	$ 3,367,295
Investments (Note 6)	34,538,570	-	-	34,538,570
Outstanding premiums receivable	-	5,787,479	-	5,787,479
Accounts payable and accrued liabilities	-	-	(1,315,599)	(1,315,599)
	$ 37,905,865	$ 5,787,479	$ (1,315,599)	$ 42,377,745
December 31, 2018				
Cash	5,208,414	-	-	5,208,414
Investments (Note 6)	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

6. 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, 2019		December 31, 2018	
	Cost	**Fair Value**	Cost	Fair Value
Equity investments				
Shares	**$ 1**	**$ 1**	$ 1	$ 1
Mutual funds	**6,940,658**	**8,293,208**	6,326,475	6,699,688
Pooled funds	**13,851,194**	**13,767,232**	14,049,135	13,787,006
GICs	**12,445,940**	**12,445,940**	5,928,739	5,928,739
Fire Mutuals Guarantee fund	**32,154**	**32,189**	32,159	30,964
Total investments	**$ 33,269,947**	**$ 34,538,570**	$ 26,336,509	$ 26,446,398

6. 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, 2019				
Equity investments				
Canadian	$ -	$ -	$ 1	$ 1
U.S.	-	-	-	-
Mutual funds	8,293,208	-	-	8,293,208
Pooled funds				
Cdn. fixed income	-	13,767,232	-	13,767,232
GICs	-	12,445,940	-	12,445,940
Fire Mutuals Guarantee fund	-	-	32,189	32,189
	$ 8,293,208	$ 26,213,172	$ 32,190	$ 34,538,570

	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
	$ 6,699,688	$ 19,715,745	$ 30,965	$ 26,446,398

6. Investments (continued)

There were no transfers between Level 1 and Level 2 for the years ended December 31, 2018 and 2019. The following table presents a reconciliation of the other investments which are only the Level 3 investments:

		2019		2018
Balance - beginning of year	**$**	**30,965**	$	32,988
Gains (losses) recognized in net income		**1,225**		(2,023)
Purchases		**-**		-
Sales		**-**		-
Transfers into Level 3		**-**		-
Balance - end of year	**$**	**32,190**	$	30,965

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, 2019 and 2018, respectively. Interest income on the impaired financial assets was $ nil (2018 - $ nil).

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

7. Investments and Other Income

2019	FVTPL	Other	Total
Interest income	$ 458,812	$ -	$ 458,812
Dividend and other income	633,476	-	633,476
Investment expense	(123,945)	-	(123,945)
Net realized gains (losses)	214,596	-	214,596
Change in unrealized gains (losses)	1,158,734	-	1,158,734
Other income	-	15,715	15,715
Gain on disposal of property, plant and equipment	-	-	-
	$ 2,341,673	$ 15,715	$ 2,357,388

2018	FVTPL	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)
Other income	-	14,865	14,865
Gain on disposal of property, plant and equipment	-	250	250
	$ (46,316)	$ 15,115	$ (31,201)

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8. Property, Plant and Equipment

	Land	Building	Office Equipment	Computers	Total
Cost					
Balance at January 1, 2018	$ 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
Additions	-	109,132	-	143,833	252,965
Disposals	-	-	-	-	-
Balance at December 31, 2019	$ 362,013	$ 1,626,169	$ 303,271	$ 579,551	$ 2,871,004
Accumulated Depreciation					
Balance at January 1, 2018	$ -	$ 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
Depreciation expense	-	45,087	25,673	62,304	133,064
Disposals	-	-	-	-	-
Balance at December 31, 2019	$ -	$ 670,527	$ 60,238	$ 400,706	$ 1,131,471
Net book value					
December 31, 2018	$ 362,013	$ 891,597	$ 268,706	$ 97,316	$ 1,619,632
December 31, 2019	$ 362,013	$ 955,642	$ 243,033	$ 178,845	$ 1,739,533

9. Insurance Contracts

(i) Due from reinsurers

		2019		2018
Balance - beginning of year	$	**956,621**	$	17,708
Submitted to reinsurer		**1,298,582**		3,937,118
Received from reinsurer		**(2,153,247)**		(2,998,205)
Balance - end of year	$	**101,956**	$	956,621
Expected settlement within one year		**101,956**		956,621
More than one year		**-**		-
	$	**101,956**	$	956,621

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

		2019		2018
Balance - beginning of year	$	**3,203,000**	$	3,276,828
New claims reserve		**803,409**		2,930,351
Change in prior year's reserve		**719,962**		(5,974)
Submitted to reinsurer		**(2,249,163)**		(2,998,205)
Balance - end of year	$	**2,477,208**	$	3,203,000
Expected settlement within one year		**351,474**		589,465
More than one year		**2,125,734**		2,613,535
	$	**2,477,208**	$	3,203,000

(iii) Deferred policy acquisition expenses

		2019		2018
Balance - beginning of year	$	**847,098**	$	731,113
Acquisition costs incurred		**1,828,576**		1,706,819
Expensed during the year		**(1,762,676)**		(1,590,834)
Balance - end of year	$	**912,998**	$	847,098

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

(iv) Unearned premiums (UEP)

		2019		2018
Balance - beginning of year	$	**7,122,646**	$	6,699,755
Premiums written		**15,886,268**		14,618,696
Premiums earned during year		**(15,189,598)**		(14,195,805)
Changes in UEP recognized in income		**696,670**		422,891
Balance - end of year	$	**7,819,316**	$	7,122,646

9. Insurance Contracts (continued)

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

	December 31, 2019			December 31, 2018		
Outstanding Claims Provision	**Gross**	**Re-Insurance**	**Net**	Gross	Re-Insurance	Net
Long settlement term	**$ 2,526,051**	**$ 866,717**	**$ 1,659,334**	$ 3,407,374	$ 1,354,518	$ 2,052,856
Short settlement term	**2,692,703**	**351,474**	**2,341,229**	2,188,712	589,465	1,599,247
Facility Association and other residual pools	**394,257**	**-**	**394,257**	388,195	-	388,195
	5,613,011	**1,218,191**	**4,394,820**	5,984,281	1,943,983	4,040,298
Provision for claims incurred but not reported	**2,983,720**	**1,259,017**	**1,724,703**	2,983,720	1,259,017	1,724,703
	$ 8,596,731	**$ 2,477,208**	**$ 6,119,523**	$ 8,968,001	$ 3,203,000	$ 5,765,001

9. 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, 2019 and 2018 and their impact on claims and adjustment expenses for the two years are as follows:

	2019	2018
Unpaid claim liabilities - beginning of year - net of reinsurance	**$ 5,765,001**	$ 6,157,768
Increase (decrease) in estimated losses and expenses, for losses occurring in prior years	**(519,489)**	421,198
Provision for losses and expenses on claims occurring in the current year	**6,683,583**	6,534,210
Payment on claims:		
Current year	**(3,426,062)**	(5,178,702)
Prior years	**(2,383,510)**	(2,169,473)
Unpaid claims liabilities - end of year - net of reinsurance	**6,119,523**	5,765,001
Reinsurer's share and subrogation recoverable	**2,477,208**	3,203,000
Unpaid Claim Liabilities - end of year - Gross	**$ 8,596,731**	$ 8,968,001

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 Regulatory Authority of Ontario has required that consideration of future investment income be disregarded except in the evaluation of automobile accident benefit claims.

9. 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 2010 to 2019. 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

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Gross estimate of cumulative claims cost											
At the end year of claim	$ 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	$ 7,996,597	$ -
One year later	7,383,030	12,384,537	5,911,319	7,564,214	6,637,283	5,107,866	6,609,459	8,398,487	10,141,033	-	-
Two years later	6,835,557	11,255,905	4,878,118	8,699,009	6,731,002	4,501,770	6,508,260	8,155,627	-	-	-
Three years later	6,453,169	10,376,817	4,441,662	8,750,572	6,661,761	4,672,957	6,014,092	-	-	-	-
Four years later	6,402,657	10,455,060	4,298,867	8,565,142	6,712,632	4,691,446	-	-	-	-	-
Five years later	6,263,911	10,389,380	4,251,628	8,566,384	6,950,180	-	-	-	-	-	-
Six years later	6,278,785	10,410,136	4,251,628	8,519,371	-	-	-	-	-	-	-
Seven years later	6,252,526	10,418,586	4,204,998	-	-	-	-	-	-	-	-
Eight years later	6,252,256	10,303,203	-	-	-	-	-	-	-	-	-
Nine years later	6,252,256	-	-	-	-	-	-	-	-	-	-
Current estimate of cumulative claims cost	6,252,256	10,303,203	4,204,998	8,519,371	6,950,180	4,691,446	6,014,092	8,155,627	10,141,033	7,996,597	73,228,803
Cumulative payments	6,252,256	10,185,233	4,204,998	8,491,084	6,223,091	4,358,395	5,383,578	7,305,356	9,004,020	3,877,998	65,286,009
Outstanding claims	-	117,970	-	28,287	727,089	333,051	630,514	850,271	1,137,013	4,118,599	7,942,794
Outstanding claims 2009 and prior	-	-	-	-	-	-	-	-	-	-	653,937
Provision for unpaid claims											8,596,731
Claims handling expense	-	-	-	-	-	-	-	-	-	-	836,711
Total gross outstanding claims net of claims handling expense	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 7,760,020

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9. Insurance Contracts (continued)

(ix) Claim development (continued)

Net of reinsurance

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Net estimate of cumulative claims cost											
At the end year of claim	$ 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	$ 6,683,583	$ -
One year later	4,946,682	10,203,847	5,108,214	7,049,879	5,781,940	5,588,843	6,132,992	6,926,433	7,085,460	-	-
Two years later	4,446,281	9,377,552	4,627,867	6,423,198	5,271,339	5,172,747	6,058,451	6,447,588	-	-	-
Three years later	4,244,814	9,000,776	4,232,865	6,466,092	5,108,035	5,343,934	5,759,544	-	-	-	-
Four years later	4,394,301	8,695,358	4,090,070	6,280,662	5,179,245	5,335,154	-	-	-	-	-
Five years later	4,255,555	8,799,929	4,042,831	6,281,904	5,397,757	-	-	-	-	-	-
Six years later	4,228,596	8,768,935	4,042,831	6,233,943	-	-	-	-	-	-	-
Seven years later	4,202,338	8,697,804	3,996,377	-	-	-	-	-	-	-	-
Eight years later	4,202,338	8,648,703	-	-	-	-	-	-	-	-	-
Nine years later	4,202,158	-	-	-	-	-	-	-	-	-	-
Current estimate of cumulative claims cost	4,202,158	8,648,703	3,996,377	6,233,943	5,397,757	5,335,154	5,759,544	6,447,588	7,085,460	6,683,583	59,790,267
Cumulative payments	4,203,356	8,541,451	3,996,377	6,206,604	5,133,929	5,029,372	5,182,111	5,703,590	6,307,443	3,426,062	53,730,295
Outstanding claims	(1,198)	107,252	-	27,339	263,828	305,782	577,433	743,998	778,017	3,257,521	6,059,972
Outstanding claims 2009 and prior	-	-	-	-	-	-	-	-	-	-	59,551
Unpaid claims liabilities - net of reinsurance											6,119,523
Claims handling expense	-	-	-	-	-	-	-	-	-	-	740,302
Total net outstanding claims net of claims handling expense	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 5,379,221

10. 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 2019 was $ 167,629 (2018 - $ 127,927). 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 $ 15,837 (2018 - $ 45,901) to a deferred profit sharing plan. These payments are included in expenses on the statement of income.

11. 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:

	2019	2018
Current tax expense		
Based on current year taxable income	**$ 799,896**	$ (200,141)
Adjustments for over/under provision in prior periods	**(26,035)**	-
	$ 773,861	$ (200,141)
Deferred tax expense		
Origination and reversal of temporary differences	**$ 51,666**	$ 40,900
Reduction in tax rate	**-**	-
	$ 51,666	$ 40,900

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% (2018 - 26.50%) are as follows:

	2019	2018
Net income for the year before income taxes	**$ 3,658,195**	$ (156,348)
Expected taxes based on the statutory rate of 26.50% (2018 - 26.50%)	**969,422**	(41,432)
Income from insuring farm related risks	**-**	23,231
Non-deductible portion of claims liabilities	**24,157**	(13,527)
Other non-deductible expenses	**916**	1,941
Market to market and other adjustments related to investments	**(167,876)**	(150,855)
Depreciation in excess of capital cost allowance (capital cost allowance in excess of depreciation)	**(26,723)**	(19,432)
Other	**-**	(67)
Total income tax expense	**$ 799,896**	$ (200,141)

11. Income Taxes (continued)

The movement in the 2019 deferred tax liabilities and assets are:

	Opening balance at January 1, 2019	Recognized in net income	Recognized in OCI	Recognized directly in equity	Reclassify from equity to net income	Closing balance at December 31, 2019
Deferred tax liabilities						
Tax losses and credits	$ -	$ -	$ -	$ -	$ -	$ -
Property, plant and equipment	28,174	26,724	-	-	-	54,898
Claims liabilities	16,677	24,942	-	-	-	41,619
Deferred tax liability	$ 44,851	$ 51,666	$ -	$ -	$ -	$ 96,517
Deferred tax assets						
Tax losses and credits	$ -	$ -	$ -	$ -	$ -	$ -
Claims liabilities	-	-	-	-	-	-
Property, plant and equipment	-	-	-	-	-	-
Deferred tax asset	$ -	$ -	$ -	$ -	$ -	$ -
2019 net deferred tax asset (liability) movement	$ (44,851)	$ (51,666)	$ -	$ -	$ -	$ (96,517)

11. 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						
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)

	2019	2018
Deferred tax liabilities		
Deferred tax liabilities to be settled within 12 months	**$ 41,619**	$ 16,677
Deferred tax liabilities to be settled after more than 12 months	**54,898**	28,174
	$ 96,517	$ 44,851
Deferred tax assets		
Deferred tax assets to be recovered within 12 months	**$ -**	$ -
Deferred tax assets to be recovered after more than 12 months	**-**	-
	$ -	$ -
Net deferred tax asset (liability)	**$ (96,517)**	$ (44,851)

12. Gross Claims and Adjustment Expenses

Included in claims expenses were wage and benefits costs and overhead costs of $ 534,703 (2018 - $ 561,710).

13. Related Party Transactions

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

	2019	2018
Compensation		
Short-term employee benefits, wages and directors' fees	**$ 539,739**	$ 675,345
Total pension and other post-employment benefits	**43,590**	61,339
Premiums	**128,925**	125,645
Claims paid	**11,094**	42,812

Amounts owing to and from key management personnel at December 31, 2019 are $ 2,000 (2018 - $ 9,500) and $ 18,360 (2018 - $ 22,353), respectively.

Amounts purchased from key management personnel during the 2019 year was $ nil (2018 - $ nil).

14. 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.

15. 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.

15. 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 Regulatory Authority 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 (2018 - $ 290,000) in the event of a property claim, an amount of $ 340,000 (2018 - $ 330,000) in the event of an auto claim, an amount of $ 320,000 (2018 - $ 320,000) in the event of a liability claim and an amount of $ 20,000 (2018 - $ 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 (2018 - $ 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, 2019 and 2018, 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 9.

15. Insurance Risk Management (continued)

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

	2019		2018	
Type of Unpaid Claim	**Gross**	**Ceded**	Gross	Ceded
Property	**$ 1,802,698**	**$ 473,084**	$ 1,543,297	$ 711,075
Liability	**1,885,357**	**622,367**	2,139,093	805,745
Automobile	**4,486,419**	**1,381,757**	4,869,416	1,686,180
Facility Association and risk sharing pool	**422,257**	**-**	416,195	-
	$ 8,596,731	**$ 2,477,208**	$ 8,968,001	$ 3,203,000

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

	Property Claims		**Auto Claims**		**Liability Claims**	
	2019	2018	**2019**	2018	**2019**	2018
5% Increase in Loss Ratios						
Gross	**$ 348,847**	$ 325,183	**$ 373,436**	$ 333,206	**$ 39,473**	$ 51,591
Net	**309,412**	291,612	**315,265**	278,438	**30,297**	42,568
5% Decrease in Loss Ratios						
Gross	**(348,847)**	(325,183)	**(373,436)**	(333,206)	**(39,473)**	(51,591)
Net	**(309,412)**	(291,612)	**(315,265)**	(278,438)	**(30,297)**	(42,568)

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.

16. 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 6.

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. 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 $ 9,900 (2018 - $ 4,400) 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.

17. 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, 2019, a 1% move in interest rates, with all other variables held constant, could impact the market value of the fixed income pooled fund by $ 500,500 (2018 - $ 465,000). 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 $ 829,400 (2018 - $ 670,000). 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.

18. 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.

19. Comparative Figures

Certain of the 2018 figures on the statement of comprehensive income have been reclassified to conform to the 2019 financial statement presentation.