Trillium Mutual Insurance Company

Consolidated Financial Statements

For the year ended December 31, 2016

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INDEPENDENT AUDITOR'S REPORT

To the Policyholders of Trillium Mutual Insurance Company

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

Walkerton, Ontario
February 15, 2017

Trillium Mutual Insurance Company
Consolidated Statement of Financial Position

December 31	2016	2015
Assets		
Cash	$ 6,511,499	$ 4,468,333
Investments (Note 4)	76,155,906	72,941,591
Investment income accrued	21,364	25,390
Income taxes recoverable	1,001,587	-
Due from reinsurers (Note 3)	179,444	134,425
Due from policyholders	13,084,955	12,043,432
Due from Auto Facility Association	1,401,069	1,398,755
Reinsurers' share of provision for unpaid claims (Note 3)	6,618,680	8,043,621
Other receivables	2,053	546
Prepaid expenses	232,307	321,978
Deferred policy acquisition expenses (Note 3)	5,204,322	4,811,803
Property, plant and equipment (Note 12)	7,820,374	7,369,048
Intangible assets (Note 12)	2,193,643	2,430,682
Deferred income taxes	128,000	212,000
	$120,555,203	$ 114,201,604
Liabilities		
Accounts payable and accrued liabilities	$ 3,797,027	$ 3,862,607
Due to Auto Facility Association	1,462,088	1,460,607
Income taxes payable	-	432,523
Unearned premiums (Note 3)	24,250,161	22,141,116
Provision for unpaid claims (Note 3)	34,320,732	30,863,803
	63,830,008	58,760,656
Members' Surplus		
Members' surplus	56,725,195	55,440,948
	$120,555,203	$ 114,201,604

Signed on behalf of the Board by:

______________________________ Director

______________________________ Director

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

Trillium Mutual Insurance Company
Consolidated Statement of Comprehensive Income

For the year ended December 31	2016	2015
Underwriting income		
Gross premiums written	**$49,398,268**	$ 44,997,537
Less reinsurance ceded	**4,364,337**	3,703,647
Net premiums written	**45,033,931**	41,293,890
Less increase in unearned premiums	**2,109,045**	2,296,724
Net premiums earned	**42,924,886**	38,997,166
Service charges	**634,697**	551,859
	43,559,583	39,549,025
Direct losses incurred		
Gross claims and adjustment expenses	**33,138,668**	20,608,851
Less reinsurers' share of claims and adjustment expenses	**5,682,923**	2,559,841
	27,455,745	18,049,010
	16,103,838	21,500,015
Expenses		
Fees, commissions and other acquisition expenses (Note 7)	**10,616,819**	9,667,409
Other operating and administrative expenses (Note 8)	**7,189,621**	7,135,069
	17,806,440	16,802,478
Net underwriting income (loss)	**(1,702,602)**	4,697,537
Investment and other income (Note 5)	**3,437,741**	778,075
Comprehensive income before taxes and donations from ROOTS	**1,735,139**	5,475,612
Donations paid from ROOTS (Note 15)	**361,526**	253,226
Comprehensive income before taxes	**1,373,613**	5,222,386
Provision for income taxes (Note 10)	**66,866**	741,519
Comprehensive income for the year	**$ 1,306,747**	$ 4,480,867

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

Trillium Mutual Insurance Company
Consolidated Statement of Members' Surplus

December 31, 2016

	(Note 15) Appropriated Surplus	Unappropriated Surplus	Non-controlling Interest	Total Surplus
December 31, 2016				
Balance, beginning of year	**$ 342,345**	**$54,472,104**	**$ 626,499**	**$55,440,948**
Designated funds transferred to ROOTS	254,466	(254,466)	-	-
Comprehensive income for the year	(361,526)	1,622,193	46,080	1,306,747
Dividends paid	-	(11,250)	(11,250)	(22,500)
Balance, end of year	**$ 235,285**	**$55,828,581**	**$ 661,329**	**$56,725,195**
December 31, 2015				
Balance, beginning of year	**$ 295,571**	**$50,079,277**	**$ 615,233**	**$50,990,081**
Designated funds transferred to ROOTS	300,000	(300,000)	-	-
Comprehensive income for the year	(253,226)	4,707,827	26,266	4,480,867
Dividends declared	-	(15,000)	(15,000)	(30,000)
Balance, end of year	**$ 342,345**	**$54,472,104**	**$ 626,499**	**$55,440,948**

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

Trillium Mutual Insurance Company
Consolidated Statement of Cash Flows

For the year ended December 31	2016	2015
Operating activities		
Comprehensive income for the year	**$ 1,306,747**	$ 4,480,867
Adjustments for:		
Depreciation	**328,589**	390,645
Amortization of intangible assets	**499,654**	514,186
Interest income and pooled fund distributions	**(3,091,932)**	(3,796,791)
Provision for income taxes	**66,866**	741,519
(Increase) decrease in market value of investments	**(634,144)**	3,800,513
Realized gain from disposal of investments	**128,364**	(823,150)
Realized (gain) loss from disposal of capital and intangible assets	**(26,965)**	(49,050)
	(2,729,568)	777,872
Changes in working capital		
Change in due from policyholders, reinsurers, and other receivables	**336,892**	(2,709,305)
Change in prepaids	**89,671**	(96,482)
Change in accounts payable and other liabilities	**(65,580)**	1,297,056
	360,983	(1,508,731)
Changes in insurance contract related balances, provisions		
Change in deferred policy acquisition expenses	**(392,519)**	(549,881)
Change in unearned premiums	**2,109,045**	2,296,724
Change in provision for unpaid claims	**3,456,929**	(843,489)
Change in due to/from auto facility association	**(833)**	1,899
	5,172,622	905,253
Cash flows related to interest, dividends and income taxes		
Interest and pooled fund distributions received	**3,095,959**	3,798,160
Income taxes paid	**(1,416,976)**	(190,709)
	1,678,983	3,607,451
Total cash inflows from operating activities	**$ 5,789,767**	$ 8,262,712
Investing activities		
Sale of investments	**$ 7,710,973**	$ 41,975,270
Purchase of investments	**(10,704,859)**	(47,709,836)
Mortgage and note receivable payments received	**285,350**	30,884
Mortgage and note receivable issued	**-**	(700,000)
Sale of property plant and equipment and intangibles	**34,361**	117,944
Purchase of property plant and equipment and intangibles	**(1,049,926)**	(853,883)
Total cash outflows from investing activities	**$ (3,724,101)**	$ (7,139,621)
Financing activities		
Dividends declared	**$ (22,500)**	$ (30,000)
Total cash outflows from financing activities	**$ (22,500)**	$ (30,000)
Net increase in cash	**$ 2,043,166**	$ 1,093,091
Cash, beginning of year	**4,468,333**	3,375,242
Cash, end of year	**$ 6,511,499**	$ 4,468,333

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

1. Corporate information

Trillium 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 accident and sickness, aircraft, automobile, boiler and machinery, fidelity, hail, liability and property insurance in Ontario. The Company's head office is located in Listowel, 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 consolidated financial statements have been authorized for issue by the Board of Directors on February 15, 2017.

2. Basis of preparation

These consolidated financial statements include the results of operations and financial position of the company and its subsidiaries, a wholly-owned subsidiary and a controlled subsidiary. All intercompany transactions and balances have been eliminated and non-controlling interests recognized.

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

These consolidated financial statements were prepared under the historical cost convention, as modified by the revaluation of financial instruments designated as being held at fair value through profit and loss.

These consolidated financial statements are presented in Canadian dollars, which is also the Company's functional and presentation currency.

The preparation of consolidated financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving critical judgements and estimates in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the consolidated financial statements within the next financial year are:

- The calculation of unpaid claims and related reinsurer's share, including the determination of the initial claim liability, discount rates, the estimate of time until ultimate settlement and the performance of a liability adequacy test (Note 3); and
- The determination of the recoverability of deferred policy acquisition expenses (Note 3).

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

3. Insurance contracts

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

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

(a) Premiums and unearned premiums

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

The Company recognizes premium income evenly over the term of the insurance policy 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. Changes in unearned premiums recorded in the statement of financial position and their impact on net premiums earned are as follows:

Unearned premiums (UEP)	**2016**	2015
Balance, beginning of year	**$22,141,116**	$ 19,844,392
Premiums written	**49,398,268**	44,997,537
Premiums earned during year	**(47,289,223)**	(42,700,813)
Balance, end of year	**$24,250,161**	$ 22,141,116

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

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

Amounts due from policyholders are measured at amortized cost using the effective interest method, less any impairment. Accounts receivable are short-term in nature consisting of a large number of policyholders, and are not subject to material credit risk. Regular review of outstanding receivables is performed to ensure credit worthiness.

3. Insurance contracts (cont'd)

(b) Deferred policy acquisition expenses

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

Changes in deferred policy acquisition expenses recorded in the statement of financial position and their impact on fees, commissions and other acquisition expenses are as follows:

Deferred policy acquisition expenses	**2016**	2015
Balance, beginning of year	**$ 4,811,803**	$ 4,261,922
Acquisition costs incurred	**11,009,338**	10,217,290
Expensed during year	**(10,616,819)**	(9,667,409)
Balance, end of year	**$ 5,204,322**	$ 4,811,803

(c) Provision for unpaid claims and adjustment expenses

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

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

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

3. Insurance contracts (cont'd)

	December 31, 2016			December 31, 2015		
	Gross	**Re-insurance**	**Net**	Gross	Re-insurance	Net
Outstanding claims provision						
Long term settlement (more than one year)	**$ 9,245,105**	**$ 723,605**	**$ 8,521,500**	$ 7,566,383	$ 1,716,289	$ 5,850,094
Short settlement (within one year)	**14,274,650**	**2,894,075**	**11,380,575**	10,840,566	1,588,332	9,252,234
Facility Association and other pools	**867,977**	**-**	**867,977**	886,854	-	886,854
	24,387,732	**3,617,680**	**20,770,052**	19,293,803	3,304,621	15,989,182
Provision for claims incurred but not reported	**9,933,000**	**3,001,000**	**6,932,000**	11,570,000	4,739,000	6,831,000
	$34,320,732	**$ 6,618,680**	**$27,702,052**	$ 30,863,803	$ 8,043,621	$ 22,820,182

3. Insurance contracts (cont'd)

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

Claims and adjustment expenses

Changes in claim liabilities recorded in the statement of financial position and their impact on claims and adjustment expenses are as follows:

	2016	2015
Unpaid claim liabilities - beginning of year – net of reinsurance	**$22,820,182**	$ 24,797,604
(Decrease) in estimated losses and expenses, for losses occurring in prior years	**(3,474,080)**	(6,718,541)
Provision for losses and expenses on claims occurring in the current year	**30,929,779**	24,769,017
Payment on claims:		
Current year	**(17,043,553)**	(13,018,347)
Prior years	**(5,530,276)**	(7,009,551)
Unpaid claims – end of year - net	**27,702,052**	22,820,182
Reinsurer's share and subrogation recoverable	**6,618,680**	8,043,621
	$34,320,732	$ 30,863,803

Claim development

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

3. Insurance contracts (cont'd)

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

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

The estimation of claim development involves assessing the future behaviour of claims, taking into consideration the consistency of the Company's claim handling procedures, the amount of information available, 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-term settlement claims are those which are expected to be substantially paid within a year of being reported.

The tables below show how the Company's estimate of cumulative incurred claim cost for each accident year has changed at successive year ends and reconciles the cumulative claims to the amount appearing in the statement of financial position. An accident-year basis is considered to be the most appropriate for the business written by the Company. The Company elected to utilize the transitional relief provided by IFRS 4 that permitted only five years of information to be disclosed upon adoption of IFRS. The claims development information disclosed has increased by one year each year until it has reached ten years of disclosed development information.

3. Insurance contracts (cont'd)

Gross claims	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**Total**
Gross estimate of cumulative claims cost											
At the end year of claim	$ 21,235,636	$ 23,857,114	$ 23,374,597	$ 24,806,746	$ 28,624,678	$ 18,592,672	$ 26,406,226	$ 28,749,702	$ 28,023,075	$ 37,725,752	
One year later	24,336,098	24,929,640	21,902,572	21,712,349	25,833,374	15,793,198	24,208,499	24,603,131	25,680,169		
Two years later	22,070,602	23,743,059	20,209,181	21,033,654	22,625,835	16,815,441	23,851,614	22,917,049			
Three years later	20,714,688	21,173,680	19,685,688	18,097,717	22,260,038	15,708,845	22,943,527				
Four years later	18,767,568	20,427,223	18,033,597	17,387,871	21,817,057	15,713,300					
Five years later	19,065,529	20,130,265	17,259,651	17,246,461	21,203,164						
Six years later	18,803,645	19,990,261	17,256,835	16,852,192							
Seven years later	18,741,577	19,903,225	17,077,636								
Eight years later	18,663,248	19,916,473									
Nine years later	18,620,748										
Current estimate of cumulative claims cost	18,620,748	19,916,473	17,077,636	16,852,192	21,203,164	15,713,300	22,943,527	22,917,049	25,680,169	37,725,752	218,650,010
Cumulative payments	18,620,748	19,904,973	17,067,636	16,502,706	20,462,693	14,564,458	20,315,546	18,929,541	17,835,679	20,125,298	184,329,278
Outstanding claims	$ -	$ 11,500	$ 10,000	$ 349,486	$ 740,471	$ 1,148,842	2,627,981	3,987,508	7,844,490	17,600,454	34,320,732
Outstanding claims 2006 and prior											-
Total gross outstanding claims and claims handling expense											$ 34,320,732

Net of Reinsurance	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**Total**
Net estimate of cumulative claims cost											
At the end year of claim	$ 17,417,866	$ 17,157,453	$ 19,719,572	$ 17,998,740	$ 22,591,379	$ 15,965,173	$ 23,371,819	$ 25,792,505	$ 24,769,018	$ 30,929,779	
One year later	17,935,449	18,333,834	18,165,618	15,608,088	20,775,766	14,048,424	22,163,232	21,585,983	23,487,763		
Two years later	16,430,706	17,380,136	16,700,739	15,317,756	18,754,018	14,670,627	21,388,485	20,294,498			
Three years later	15,618,836	16,347,745	16,377,301	13,797,319	18,792,843	13,910,991	21,165,398				
Four years later	15,255,628	16,063,780	15,779,927	13,180,473	18,406,044	14,010,248					
Five years later	15,317,134	15,912,487	15,480,191	12,982,063	18,029,151						
Six years later	15,178,283	15,807,483	15,420,375	12,747,794							
Seven years later	15,148,215	15,691,447	15,332,176								
Eight years later	15,073,886	15,782,695									
Nine years later	15,070,386										
Current estimate of cumulative claims cost	15,070,386	15,782,695	15,332,176	12,747,794	18,029,151	14,010,248	21,165,398	20,294,498	23,487,763	30,929,779	186,849,888
Cumulative payments	15,070,386	15,771,195	15,327,176	12,417,308	17,341,680	12,935,406	18,759,842	17,580,550	16,900,740	17,043,553	159,147,836
Outstanding claims	$ -	$ 11,500	$ 5,000	$ 330,486	$ 687,471	$ 1,074,842	2,405,556	2,713,948	6,587,023	13,886,226	27,702,052
Outstanding claims 2006 and prior											-
Total net outstanding claims and claims handing expense											$ 27,702,052

3. Insurance contracts (cont'd)

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

Results of sensitivity testing based on expected loss ratios are as follows, shown gross and net of reinsurance as impact on comprehensive income before taxes:

	Property claims		Auto claims		Liability claims	
	2016	2015	**2016**	2015	**2016**	2015
5% increase in loss ratios						
Gross	**$ 1,309,140**	$ 1,180,460	**$ 772,193**	$ 706,000	**$ 228,092**	$ 210,781
Net	**$ 934,236**	$ 1,026,583	**$ 748,516**	$ 607,985	**$ 229,544**	$ 248,618
5% decrease in loss ratios						
Gross	**$ (1,309,140)**	$(1,180,460)	**$ (772,193)**	$ (706,000)	**$ (228,092)**	$ (210,781)
Net	**$ (934,236)**	$(1,026,583)	**$ (748,516)**	$ (607,985)	**$ (229,544)**	$ (248,618)

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

(d) Liability adequacy test

At each reporting date the Company performs a liability adequacy test on its insurance liabilities less deferred policy acquisition expenses to ensure the carrying value is adequate, using current estimates of future cash flows, taking into account the relevant discount rate. If that assessment shows that the carrying amount of the liabilities is inadequate, any deficiency is recognized as an expense in profit and loss initially by writing down the deferred policy acquisition expense and subsequently by recognizing an additional claims liability for claims provisions.

(e) Reinsurers' share of provisions for unpaid claims and adjustment expenses

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

The Company follows a policy of underwriting and reinsuring contracts of insurance which, in the main, limit the liability of the Company to an amount on any one claim of $500,000 (2015 - $500,000) in the event of a property claim, an amount of $700,000 (2015 - $700,000) in the event of an automobile claim and $1,000,000 (2015 - $700,000) in the event of a liability claim. The Company also obtained reinsurance which limits the Company's liability to $1,500,000 (2015 - $1,500,000) 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 100% (2015 -$100%) of gross net earned premiums for property, liability and automobile.

3. Insurance contracts (cont'd)

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

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

Changes in due from reinsurer recorded in the statement of financial position are as follows:

Due from reinsurer	**2016**	2015
Balance, beginning of year	**$ 134,425**	$ 4,183
Submitted to reinsurer	**5,369,864**	2,230,908
Received from reinsurer	**(5,324,845)**	(2,100,666)
Balance, end of year	**$ 179,444**	$ 134,425
Expected settlement		
Within one year	**$ 179,444**	$ 134,425
More than one year	**$ -**	$ -

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

Changes in reinsurer's share of provision for unpaid claims are recorded in the statement of financial position and their impact on net premiums earned are as follows:

3. Insurance contracts (cont'd)

Reinsurer's share of provision for unpaid claims	2016	2015
Balance, beginning of year	$ 8,043,621	$ 6,909,688
New claims reserve	6,795,974	3,254,058
Change in prior years reserve	(2,851,051)	110,783
Submitted to reinsurer	(5,369,864)	(2,230,908)
Balance, end of year	$ 6,618,680	$ 8,043,621
Expected settlement		
Within one year	$ 2,894,075	$ 1,588,332
More than one year	$ 3,724,605	$ 6,455,289

(f) Salvage and subrogation recoverable

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

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

(g) Refund from premium

At the discretion of the Board of Directors the Company may declare a refund to its policy holders based on the premiums paid in the fiscal period. Any refund would be recognized as a reduction of revenue in the period for which it is declared.

4. Investments

The Company does not have any investments that are held for trading purposes, however, management has designated to voluntarily classify its investments at fair value through profit and loss. These instruments are carried at fair value with changes in fair value recognized in profit and loss. Transaction costs on these instruments are expensed as incurred.

Purchases and sales of equity instruments are recognized on a settlement date basis.

Interest on debt securities classified as fair value through profit and loss is calculated using the effective interest method and is included in net income.

4. Investments (cont'd)

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

	December 31, 2016		December 31, 2015	
	Cost	**Fair value**	Cost	Fair value
Short term deposits	**$ 4,491,636**	**$ 4,491,636**	$ 4,464,040	$ 4,464,040
Pooled funds				
Canadian fixed income	**57,658,966**	**55,590,411**	53,749,829	52,866,451
Canadian equity	**15,071,880**	**15,270,202**	16,144,898	14,523,898
	72,730,846	**70,860,613**	69,894,727	67,390,349
Other investments				
Fire Mutuals guarantee fund	**112,830**	**112,830**	111,024	111,024
Notes receivable	**639,570**	**639,570**	786,801	786,801
Mortgage receivable	**-**	**-**	120,881	120,881
Other investments	**51,257**	**51,257**	68,496	68,496
	803,657	**803,657**	1,087,202	1,087,202
Total investments	**$78,026,139**	**$76,155,906**	$ 75,445,969	$ 72,941,591

Credit risk

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

The Company's investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits, 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.

4. Investments (cont'd)

The maximum exposure to investment credit risk is the carrying value of investments.

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

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet all cash outflow obligations as they come due. The Company mitigates this risk by monitoring cash activities and expected outflows. The Company's current liabilities arise as claims are made. The Company does not have material liabilities that can be called unexpectedly at the demand of a lender or client. The Company has no material commitments for capital expenditures and there is no need for such expenditures in the normal course of business. Claim payments are funded by current operating cash flow including investment income.

The Company's investment policy requires a minimum of 2.5% up to a maximum of 5% of the Company's portfolio be held in cash and short-term investments, which mitigates liquidity risk. Short-term investments include treasury bills, commercial paper and term deposits with an original maturity of less than one year.

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.

Market risk

Market risk is the risk that the fair value or 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 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.

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 currency exchange risk is related to stock holdings which are limited to United States equities in sectors which are not readily available in Canada. The Company limits its holdings in foreign equity to 5% of the total investment portfolio in accordance with its investment policy. Foreign currency changes are monitored by the Investment Committee and the Board of Directors and holdings are adjusted when offside of the investment policy.

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 (Bankers Acceptance, T-Bills, GICs, and Bonds).

4. Investments (cont'd)

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

At December 31, 2016, a 1% move in interest rates, with all other variables held constant, could impact the market value of the fixed income pooled funds by $4,065,597 (2015 – $3,566,978). These changes would be recognized in comprehensive income.

Equity risk

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

The Company's portfolio includes Canadian stocks with fair values that move with the Toronto Stock Exchange Composite Index. At December 31, 2016, a 10% movement in the stock markets with all other variables held constant would have an estimated effect on the fair value of the equity pooled fund of $1,463,832 (2015 - $1,357,695). This change would be recognized in comprehensive income for the year.

The Company's investment policy limits investment in preferred shares to a maximum of 5% and common shares to a maximum of 25% of the market value of the portfolio.

Equities are monitored by the Investment Committee and the Board of Directors and holdings are adjusted following each quarter when the investments are offside of the investment policy.

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

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 using the last bid price;
- 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).

4. Investments (cont'd)

	Level 1	Level 2	Level 3	Total
December 31, 2016				
Short term deposits	**$ 4,491,636**	**$ -**	**$ -**	**$ 4,491,636**
Pooled funds	**-**	**70,860,613**	**-**	**70,860,613**
Other investments	**-**	**112,830**	**690,827**	**803,657**
Total	**$ 4,491,636**	**$70,973,443**	**$ 690,827**	**$76,155,906**
December 31, 2015				
Short term deposits	$ 4,464,040	$ -	$ -	$ 4,464,040
Pooled funds	-	67,390,349	-	67,390,349
Other investments	-	111,024	976,178	1,087,202
Total	$ 4,464,040	$ 67,501,373	$ 976,178	$ 72,941,591

There were no transfers between any levels of the fair value hierarchy for the years ended December 31, 2015 and 2016.

5. Investment and other income

	2016	2015
Interest income	**$ 117,614**	$ 94,805
Dividend income	**11,250**	15,000
Realized gains (losses) on disposal of investments	**(128,364)**	823,150
Investment expenses	**(204,836)**	(101,343)
Pooled fund distributions	**2,963,068**	3,686,986
Increase (decrease) in market value of investments	**634,144**	(3,800,513)
Total investment income	**3,392,876**	718,085
Other income	**17,900**	10,940
Realized gains on disposal of fixed assets	**26,965**	49,050
Total other income	**44,865**	59,990
Total investment and other income	**$ 3,437,741**	$ 778,075

6. Capital management

For the purpose of capital management, the Company has defined capital as members' surplus. The Company's objectives with respect to capital management are to maintain a capital base that is structured to exceed regulatory requirements and to best utilize capital allocations.

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

7. Fees, commissions and other acquisition expenses

	2016	2015
Commissions	$ 8,633,385	$ 7,740,624
Inspection salaries and benefits	377,028	428,660
Underwriting salaries and benefits	1,473,497	1,379,541
Premium taxes	132,909	118,584
	$10,616,819	$ 9,667,409

8. Other operating and administrative expenses

	2016	2015
Advertising	$ 265,445	$ 247,227
Association fees and dues	105,815	94,706
Amortization of intangible assets	499,654	514,186
Depreciation	328,589	390,645
Educational seminars and conventions	133,870	111,170
Inspection costs	300,306	288,033
Occupancy costs	319,862	323,133
Postage, bank charges and telephone	296,995	238,512
Printing, stationary and office	779,250	746,514
Professional fees	373,013	366,081
Salaries, benefits and directors' fees	3,535,113	3,579,426
Travel	251,709	235,436
	$ 7,189,621	$ 7,135,069

9. Salaries, benefits and directors fees

	2016	2015
Claims salaries and benefits (included in claims expenses)	**$ 1,133,135**	$ 1,174,141
Inspection salaries and benefits (Note 7)	**377,028**	428,660
Underwriting salaries and benefits (Note 7)	**1,473,497**	1,379,541
Other salaries, benefits and directors fees (Note 8)	**3,535,113**	3,579,426
	$ 6,518,773	$ 6,561,768

10. Income taxes

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

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

	2016	2015
Current tax expense		
Based on current year taxable income	**$ 37,602**	$ 1,039,179
Adjustments for (over) / under provision in prior periods	**(54,736)**	(185,660)
	(17,134)	853,519
Deferred tax expense		
Origination and reversal of temporary differences	**88,000**	(119,000)
Changes in tax rate	**(4,000)**	7,000
	84,000	(112,000)
Total income tax expense	**$ 66,866**	$ 741,519

10. Income taxes (con't)

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 26.50% (2015 – 26.50%) are as follows:

	2016	2015
Comprehensive income before taxes	**$ 1,373,613**	$ 5,222,386
Expected taxes based on the statutory rate of 26.50% (2015 – 26.50%)	**$ 364,007**	$ 1,383,932
Non-taxable income from insuring farm related risks	**2,195**	(396,193)
Non-deductible loss (non-taxable gain) on disposal of assets	**(7,146)**	(12,998)
Non-taxable dividend income	**(110,587)**	(20,897)
Amortization/CCA/CEC	**(98,851)**	(24,189)
Change in reserves	**64,684**	(26,202)
(Over) under provision in prior years	**(54,736)**	(185,660)
Adjustment for lower tax rate on capital gain distributions	**-**	63,786
Other non deductible expenses	**(92,700)**	(40,060)
Total income tax expense	**$ 66,866**	$ 741,519

11. Structured settlements, fire mutual guarantee fund and financial guarantee contracts

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

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

The Company is also a member of the Farm Mutual Reinsurance Plan Inc. ("the Plan"), which is a general reinsurer that shares in the insurance risks originally accepted by member insurance companies. As a member of the Plan, the Company may be required to contribute additional capital to the Plan in the form of subordinated debt should the Plan's capital fall below a prescribed minimum.

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

12. Property, plant and equipment and intangible assets

Property, plant & equipment

Property, plant & equipment is initially recorded at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses, with the exception of land which is not depreciated. Depreciation is recognized in comprehensive income and is provided on a straight-line basis over the estimated useful life of the assets as follows:

Buildings	40 years
Computer hardware	4 years
Furniture and fixtures	4 to 5 years
Vehicles	4 years

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

Intangible assets

Intangible assets consist of computer software, which are not integral to the computer hardware owned by the Company, developed software, customer lists and goodwill.

Computer software is initially recorded at cost and subsequently measured at cost less accumulated amortization and accumulated impairment losses. Software is amortized on a straight-line basis over its estimated useful life of 4 years.

Developed software relates to the cost of developing new products. These costs are capitalized and amortized over the expected useful life of the software.

Customer lists are initially recorded at cost and subsequently measured at cost less accumulated amortization and accumulated impairment losses. Customer lists are amortized on a straight-line basis over their estimated useful life of 10 years. The amortization expense is included in other operating and administrative expenses in the statement of comprehensive income.

Goodwill is deemed to have an indefinite life and is initially recorded at cost and subsequently measured at cost less accumulated impairment losses. Goodwill is tested for impairment annually.

12. Property, plant & equipment and intangible assets (cont'd)

	Property, plant and equipment					
	Land	**Buildings**	**Computer hardware**	**Furniture and fixtures**	**Vehicles**	**Total**
Cost						
Balance - December 31, 2015	$ 1,004,360	$ 6,408,428	$ 692,147	$ 1,281,756	$ 285,829	$ 9,672,520
Additions	-	44,391	648,449	25,207	69,264	787,311
Disposals	-	-	-	-	60,117	60,117
Balance - December 31, 2016	**$ 1,004,360**	**$ 6,452,819**	**$ 1,340,596**	**$ 1,306,963**	**$ 294,976**	**$10,399,714**
Accumulated depreciation						
Balance - December 31, 2015	$ -	$ 465,354	$ 542,917	$ 1,217,194	$ 78,007	$ 2,303,472
Depreciation expense		85,712	144,477	27,110	71,290	328,589
Disposals	-	-	-	-	52,721	52,721
Balance - December 31, 2016	**$ -**	**$ 551,066**	**$ 687,394**	**$ 1,244,304**	**$ 96,576**	**$ 2,579,340**
Net book value						
December 31, 2015	$ 1,004,360	$ 5,943,074	$ 149,230	$ 64,562	$ 207,822	$ 7,369,048
December 31, 2016	**$ 1,004,360**	**$ 5,901,753**	**$ 653,202**	**$ 62,659**	**$ 198,400**	**$ 7,820,374**

12. Property, plant & equipment and intangible assets (cont'd)

Intangible assets

	Computer software	Goodwill	Customer lists	Total
Cost				
Balance - December 31, 2015	$ 2,537,396	$ 680,695	$ 610,694	$ 3,828,785
Additions	262,615	-	-	262,615
Disposals	-	-	-	-
Balance - December 31, 2016	$ 2,800,011	$ 680,695	$ 610,694	$ 4,091,400
Accumulated depreciation				
Balance - December 31, 2015	$ 1,306,499	$ -	$ 91,604	$ 1,398,103
Depreciation expense	438,585	-	61,069	499,654
Disposals	-	-	-	-
Balance - December 31, 2016	$ 1,745,084	**$ -**	**$ 152,673**	**$ 1,897,757**
Net book value				
December 31, 2015	$ 1,230,897	$ 680,695	$ 519,090	$ 2,430,682
December 31, 2016	**$ 1,054,927**	**$ 680,695**	**$ 458,021**	**$ 2,193,643**

13. Pension Plans

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

The Company makes contributions to the plan on behalf of its employees. The plan is a money purchase plan, with a defined benefit option at retirement, which specifies the amount of the retirement benefit to be received by the employees based on length of service and rates of pay.

The amount contributed to the plan for 2016 was $401,575 (2015 - $417,229). The contributions were made for current service and these have been recognized in comprehensive income. These contributions amount to 7.60% (2015 - 7.83%) of the total contributions made to the Ontario Mutual Insurance Association Pension Plan by all participating entities during the current fiscal year. Expected contributions to the plan for the next annual reporting period amount to $402,000, which is based on payments made to the multi-employer plan during the current fiscal year.

During the year, the company also made an additional contribution of $942,086 as part of an agreement to reduce the plan deficit based on the projected 2016 actuarial valuation.

The defined benefit pension plan has been closed to future eligible employees effective July 1, 2013. The Company and all current employees who are accruing benefits under the defined benefit plan will continue to contribute to the defined benefit plan according to the existing terms of the agreement. New and future eligible employees will become part of the defined contribution plan. The amount contributed to the defined contribution plan for 2016 was $55,868 (2015 - $49,322). The contributions were made for current service and these have been recognized in comprehensive income.

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:

	2016	2015
Compensation		
Salaries, short term employee benefits and director’s fees	**$ 925,631**	$ 1,401,966
Total pension and other post-employment benefits	**70,363**	106,165
	$ 995,994	$ 1,508,131
Premiums	**$ 216,478**	$ 214,806
Claims paid	**$ 128,582**	$ -

Amounts owing to and from key management personnel at December 31, 2016 are $41,428 (2015 - $129,009) and $83,068 (2015 - $86,111) respectively. The amounts are included in due from policyholders and accounts payable and accrued liabilities on the statement of financial position.

15. Recognizing Our Opportunity to Support ("ROOTS")

The Company has decided to appropriate a portion of their surplus annually to Recognizing Our Opportunity to Support ("ROOTS"). The amount designated to appropriated members' surplus annually is to be 7.5% of the current year investment income, with a minimum of $150,000 to a maximum of $300,000 for expenditure in the following year. If the maximum threshold is not met based on 7.5% of investment income, and the company's Combined Ratio (net incurred claims, commissions and general expenses to net underwriting revenue) is less than 90%, the appropriated portion will be increased to the $300,000 maximum as long as the additional amount does not increase the Combined Ratio above 90%. The donations paid and committed during the year are expensed in the consolidated statement of comprehensive income. The ROOTS fund will be used to support not-for-profit organizations that provide growth opportunities for children, advance health care efforts for citizens and promote safety in everyday living within the communities where the Company's policyholders, staff and brokers reside. The Company expects to continue to provide additional contributions to this fund.

	2016	2015
Balance, beginning of year	**$ 342,345**	$ 295,571
Donations paid and committed	**(361,526)**	(253,226)
Amounts designated to appropriated members' surplus for future use	**254,466**	300,000
Balance end of year	**$ 235,285**	$ 342,345

16. Standards, amendments, and interpretations not yet effective

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting years beginning after January 1, 2017 or later. As disclosed in Note 2 under significant judgements and estimates, the Company applied judgements related to order and exclusion of immaterial disclosures, consistent with the amendment to IAS 1, Presentation of Financial Statements.

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

- *IFRS 9 Financial Instruments* amends the requirements for classification and measurement of financial assets, impairment, and hedge accounting. IFRS 9 introduces an expected loss model of impairment and retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through profit or loss, and fair value through other comprehensive income (loss). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The effective date for IFRS 9 is January 1, 2018.
- *IFRS 16 Leases* 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. The asset is subsequently accounted for as property, plant and equipment or investment property and the liability is unwound using the interest rate inherent in the lease. 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.