CARADOC DELAWARE MUTUAL INSURANCE COMPANY

FINANCIAL STATEMENTS

DECEMBER 31, 2016

INDEPENDENT AUDITORS' REPORT

To the Policyholders of
Caradoc Delaware Mutual Insurance Company
Mount Brydges, Ontario

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

INDEPENDENT AUDITORS' REPORT - continued

Opinion

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

Professional Corporation
Chartered Professional Accountants
Authorized to practise public accounting by
the Chartered Professional Accountants of Ontario

Stratford, Ontario
February 2, 2017

		2016		2015
Current Assets				
Cash	$ **200,639**		$ 64,907	
Accrued investment interest	**29,712**		41,651	
Premiums receivable	**514,032**		471,512	
Prepaid expenses	**10,807**		9,286	
Reinsurers' share of provision for unpaid claims (Note 9)	**930,254**		692,114	
Income and premium taxes receivable	**-**		116,781	
Deferred policy acquisition expenses (Note 9)	**153,326**		4,380	
		$ **1,838,770**		1,400,631
Investments (Note 6)				
Fair value through profit and loss		**7,669,333**		7,352,720
Property, Plant and Equipment - ***net of depreciation*** **(Note 8)**		**313,158**		318,821
Deferred Income Taxes Asset (Note 11)		**2,214**		41,127
		$ **9,823,475**		$ 9,113,299

Approved on Behalf of the Board:

Director

Director

(See Accompanying Notes to the Financial Statements)

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

LIABILITIES

		2016	2015
Current Liabilities			
Accounts payable and accrued liabilities	**$ 60,762**		$ 48,233
Unearned premiums (Note 9)	**1,135,637**		1,055,790
Provision for unpaid claims (Note 9)	**1,477,451**		1,286,524
Premium deficiency (Note 21)	**94,618**		60,969
		$ 2,768,468	2,451,516

POLICYHOLDERS' EQUITY

Members' Surplus		**7,055,007**	6,661,783
		$ 9,823,475	$ 9,113,299

(See Accompanying Notes to the Financial Statements)

Caradoc Delaware Mutual Insurance Company
Statement of Members' Surplus
For the year ended December 31, 2016

		2016	2015
Balance - beginning of year	**$ 6,661,783**		$ 7,326,785
Net income (loss) for the year	**393,224**		(665,002)
Balance - end of year		**$ 7,055,007**	$ 6,661,783

(See Accompanying Notes to the Financial Statements)

Caradoc Delaware Mutual Insurance Company
Statement of Comprehensive Income
For the year ended December 31, 2016

		2016	2015
Gross Premiums Written		$ 2,212,599	$ 2,062,985
Less:			
Increase in reserve for unearned premiums	$ 79,847		25,712
Reinsurance premiums	344,509		397,477
Reinsurance assumed	(8,812)		(1,673)
		415,544	421,516
Net premium income		1,797,055	1,641,469
Service charges		14,586	13,261
		1,811,641	1,654,730
Claims and Expenses			
Gross claims and adjusting expenses incurred	1,497,058		2,282,077
Reinsurance plan recoveries	483,806		799,276
	1,013,252		1,482,801
Commissions	129,052		373,432
Salaries, benefits and directors' fees	330,362		258,418
Audit and legal fees	26,917		22,893
Office	22,903		25,945
Computer costs	42,732		41,769
Telephone	4,642		5,586
Insurance	13,553		12,557
Association fees	17,459		17,890
Utilities	6,332		5,684
Advertising	21,004		26,844
Repairs and maintenance	70,995		30,651
Postage	8,192		5,277
Premium taxes	8,842		8,406
Depreciation	9,729		10,862
Property taxes	6,661		6,705
Travel, convention, meetings and education	31,214		36,106
Premium deficiency	33,649		60,969
		1,797,490	2,432,795
Underwriting income (loss)		14,151	(778,065)
Other Income (Expenses) (Note 7)			
Investment	146,842		153,092
Market value appreciation (depreciation) of investments (Note 6)	240,098		(172,900)
Realized gain (loss) on investments	31,046		(17,916)
		417,986	(37,724)
Income (loss) before income taxes		432,137	(815,789)
Provision for (recovery of) income taxes			
- current (Note 11)	-		(86,681)
- deferred (Note 11)	38,913		(64,106)
		38,913	(150,787)
Net income (loss) for the year		$ 393,224	$ (665,002)

(See Accompanying Notes to the Financial Statements)

Caradoc Delaware Mutual Insurance Company

Statement of Cash Flows

For the year ended December 31, 2016

		2016	2015
Operating Activities			
Comprehensive income (loss) for the year	**$ 393,224**		$ (665,002)
Future income taxes	**38,913**		(64,106)
Provision for (recovery of) income taxes	**-**		(86,681)
Investment income	**(146,842)**		(153,092)
	285,295		(968,881)
Adjustments to convert income to a cash basis:			
Increase (decrease) in unearned premiums	**79,847**		25,712
Increase (decrease) in unpaid claims	**190,927**		369,212
Increase (decrease) in accounts payable, accrued liabilities and premium deficiency	**46,178**		51,695
Depreciation of property, plant and equipment	**9,729**		10,862
Amortization of discount (premiums) on bonds	**1,288**		6,227
(Gain) loss on sale of investments	**(31,046)**		17,916
Decrease (increase) in premiums receivable	**(42,520)**		(42,057)
Decrease (increase) in deferred policy acquisition expenses	**(148,946)**		123,805
Decrease (increase) in prepaid expenses	**(1,521)**		(2,297)
Decrease (increase) in accrued investment interest	**11,939**		(10,511)
Decrease (increase) in reinsurer's share of provision for unpaid claims	**(238,140)**		(229,693)
Market value (appreciation) depreciation on investments	**(240,098)**		172,900
		$ (77,068)	(475,110)
Investing Activities			
Proceeds from sale of investments	**1,573,917**		1,627,844
Purchase of investments	**(1,620,674)**		(1,629,973)
Investment income received	**146,842**		153,092
Income taxes recovered (paid)	**116,781**		(27,129)
Purchase of property, plant and equipment	**(4,066)**		(41,179)
		212,800	82,655
Excess of cash provided over cash applied (cash applied over cash provided)		**135,732**	(392,455)
Cash - beginning of year		**64,907**	457,362
Cash - end of year		**$ 200,639**	$ 64,907

Cash consists of cash on hand and balances with banks.

(See Accompanying Notes to the Financial Statements)

Caradoc Delaware Mutual Insurance Company
Notes to the Financial Statements
For the year ended December 31, 2016

1. Nature of Operations of Reporting Entity

Caradoc Delaware 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, auto and farmers' accident insurance in Ontario. The Company's head office is located in Mount Brydges, Ontario.

These financial statements have been authorized for issue by the Board of Directors on February 2, 2017.

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 the historical cost convention, as modified by the revaluation of financial instruments designated as fair value through profit and loss.

The Company's functional and presentation currency is the Canadian dollar.

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.

(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.

3. Significant Accounting Policies (continued)

(a) Insurance Contracts (continued)

(ii) Reinsurers' share of unearned premiums

The Company reflects reinsurance balances on the statement of financial position on a gross basis to indicate the extent of credit risk related to reinsurance and its obligations to policyholders and on a net basis in the statement of comprehensive income to indicate the results of its retention of its premiums written.

Reinsurance premiums ceded and reinsurance recoveries on losses incurred are recorded as reductions of the respective income and expense accounts. A contingent liability exists with respect to reinsurance ceded which could become a liability of the Company in the event that the reinsurer might be unable to meet its obligation under the reinsurance agreements. The Company ascertained that no provision is necessary at December 31, 2016 for doubtful collection of reinsurance recoveries.

(iii) Deferred policy acquisition expenses

Acquisition costs are comprised of agents' 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 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 in the fiscal year. This refund is recognized as a reduction of revenue in the period for which it is declared.

(b) Fire Mutuals Guarantee Fund and Financial Guarantee Contracts

The Company is a member of the Fire Mutuals Guarantee Fund ("the Fund"). The Fund was established to provide payment of outstanding policyholders' claims if a member company becomes 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) Loans and receivables

These assets are non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates or on demand. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue and subsequently carried at amortized cost, using the effective interest rate method, less any impairment losses.

Impairment provisions are recognized when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Company will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For amounts due from policyholders and reinsurers, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognized in net income. On confirmation that the amounts receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

(ii) 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 and publicly traded shares 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.

(iii) Other financial liabilities

Other financial liabilities include all financial liabilities and comprise accounts payable and other short-term monetary liabilities. These liabilities are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carrying in the statement of financial position. Interest expense in this context includes initial transaction costs and premiums payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

(iv) Impairment

At the end of each reporting period, the Company assesses whether there is objective evidence that a financial asset is impaired. Impairments are measured as the excess of the carrying amount over the fair value and are recognized in the statement of comprehensive income.

3. Significant Accounting Policies (continued)

(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 comprehensive income and is provided on a basis over the estimated useful life of the assets as follows:

Depreciation is recognized in net income and is provided at the following annual rates:

Office building	2% declining balance
Furniture and office equipment	5% declining balance
Computer equipment	20% declining balance

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

(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 comprehensive income.

(g) Income Taxes

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.

3. Significant Accounting Policies (continued)

(g) Income Taxes (continued)

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.

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 income 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).

(h) Pension Plan

The Company participates in a multi-employer defined benefit pension 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.

(i) 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.

(j) 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 gains and losses on non-monetary financial assets form part of the overall gain or loss recognized in respect of that financial instrument.

3. Significant Accounting Policies (continued)

(j) Foreign Currency Translation (continued)

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.

(k) 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.

(l) New 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, 2017 or later periods that the Company has decided not to early adopt. The standards, amendments and interpretations that will be relevant to the Company are:

IFRS 9, Financial Instruments, is part of the IASB's wider project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets, amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after January 1, 2018. The Company is in the process of evaluating the impact of the new standard.

None of the other new standards, interpretations and amendments, which are effective for the Company's accounting periods beginning after January 1, 2017 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 an 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 the 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	**Loans and Receivables**	**Other Financial Liabilities**	**Total**
December 31, 2016				
Cash	$ 200,639	$ -	$ -	$ 200,639
Interest receivable	29,712	-	-	29,712
Investments (Note 6)	7,669,333	-	-	7,669,333
Premiums receivable	-	514,032	-	514,032
Accounts payable and accrued liabilities	-	-	(60,762)	(60,762)
	$ 7,899,684	$ 514,032	$ (60,762)	$ 8,352,954
December 31, 2015				
Cash	$ 64,907	$ -	$ -	$ 64,907
Interest receivable	41,651	-	-	41,651
Investments (Note 6)	7,352,720	-	-	7,352,720
Premiums receivable	-	471,512	-	471,512
Accounts payable and accrued liabilities	-	-	(48,233)	(48,233)
	$ 7,459,278	$ 471,512	$ (48,233)	$ 7,882,557

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, 2016		December 31, 2015	
Fair value through profit and loss	**Cost**	**Fair Value**	Cost	Fair Value
Short-term investments	**$ -**	**$ -**	$ -	$ -
Bonds issued by:				
Federal	**402,341**	**428,722**	503,283	541,275
Provincial	**1,502,641**	**1,517,043**	1,402,578	1,423,189
Other government	**99,763**	**104,014**	99,720	104,458
Corporate	**2,004,653**	**2,004,452**	2,395,625	2,415,308
	4,009,398	**4,054,231**	4,401,206	4,484,230
Equity investments				
Common shares	**1,938,096**	**2,525,790**	1,696,801	1,997,340
Mutual funds	**1,108,602**	**1,084,329**	881,654	866,247
Other investments				
Fire Mutuals Guarantee fund	**4,983**	**4,983**	4,903	4,903
Total investments	**$ 7,061,079**	**$ 7,669,333**	$ 6,984,564	$ 7,352,720

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 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).

	Level 1	Level 2	Level 3	Total
December 31, 2016				
Bankers acceptance	$ -	$ -	$ -	$ -
Bonds				
Federal	-	428,722	-	428,722
Provincial	-	1,517,043	-	1,517,043
Other government	-	104,014	-	104,014
Corporate	-	2,004,452	-	2,004,452
Equity investments Canadian	2,525,790	-	-	2,525,790
Mutual funds	1,084,329	-	-	1,084,329
Fire Mutuals Guarantee Fund	-	-	4,983	4,983
	$ 3,610,119	$ 4,054,231	$ 4,983	$ 7,669,333

	Level 1	Level 2	Level 3	Total
December 31, 2015				
Bankers acceptance	$ -	$ -	$ -	$ -
Bonds				
Federal	-	541,275	-	541,275
Provincial	-	1,423,189	-	1,423,189
Other government	-	104,458	-	104,458
Corporate	-	2,415,308	-	2,415,308
Equity investments Canadian	1,997,340	-	-	1,997,340
Mutual funds	866,247	-	-	866,247
Fire Mutuals Guarantee Fund	-	-	4,903	4,903
	$ 2,863,587	$ 4,484,230	$ 4,903	$ 7,352,720

6. Investments (continued)

There were no transfers between Level 1 and Level 2 for the years ended December 31, 2015 and 2016. The following table presents a reconciliation of the other investments which are the only Level 3 investments:

	2016	2015
Balance - beginning of year	**$ 4,903**	$ 3,769
Gains (losses) recognized in other comprehensive income	**-**	-
Gains (losses) recognized in net income	**80**	1,134
Purchases	**-**	-
Sales	**-**	-
Transfers out of Level 3	**-**	-
Balance - end of year	**$ 4,983**	$ 4,903

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% higher or lower, while all the other variables were held constant, the carrying amount of the shares would be affected by $ 100.

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 has been recognized in net income for the year ended December 31, 2016 (2015 - $ nil). Interest income on the impaired financial assets was $ nil (2015 - $ nil).

Maturity profile of bonds held is as follows:

	Within 1 Year	2 to 5 Years	6 to 10 Years	Over 10 Years	No Fixed	Fair Value
December 31, 2016						
Bankers acceptance	$ -	$ -	$ -	$ -	$ -	$ -
Bonds	1,300,485	1,989,489	764,257	-	-	4,054,231
Equity investments	-	-	-	-	2,525,790	2,525,790
Mutual funds	-	-	-	-	1,084,329	1,084,329
Fire mutual guarantee fund	-	-	-	-	4,983	4,983
	$ 1,300,485	$ 1,989,489	$ 764,257	$ -	$ 3,615,102	$ 7,669,333
Percentage of total	17 %	26 %	10 %	- %	47 %	100 %
December 31, 2015						
Bankers acceptance	$ -	$ -	$ -	$ -	$ -	$ -
Bonds	1,061,764	2,646,835	775,631	-	-	4,484,230
Equity investments	-	-	-	-	1,997,340	1,997,340
Mutual funds	-	-	-	-	866,247	866,247
Fire mutual guarantee fund	-	-	-	-	4,903	4,903
	$ 1,061,764	$ 2,646,835	$ 775,631	$ -	$ 2,868,490	$ 7,352,720
Percentage of total	14 %	36 %	11 %	- %	39 %	100 %

See the chart at the beginning of Note 6 for cost and fair values.

6. Investments (continued)

Shares, mutual funds and the Fire Mutuals Guarantee fund have no specific maturity. The effective interest rate of the bonds portfolio held is 2.49% and 2.56% at December 31, 2016 and 2015, respectively.

7. Investment and Other Income

2016	FVTPL	Receivable	Total
Interest income	$ 110,853	$ 4,899	$ 115,752
Dividend and other income	78,857	-	78,857
Investment expense	(47,767)	-	(47,767)
Net realized gains	31,046	-	31,046
Change in unrealized gains	240,098	-	240,098
Investment and other income	$ 413,087	$ 4,899	$ 417,986

2015			
Interest income	$ 125,611	$ 5,341	$ 130,952
Dividend and other income	70,968	-	70,968
Investment expense	(48,828)	-	(48,828)
Net realized gains (losses)	(17,916)	-	(17,916)
Change in unrealized gains (losses)	(172,900)	-	(172,900)
Investment and other income (loss)	$ (43,065)	$ 5,341	$ (37,724)

8. Property, Plant and Equipment

	Land	Office Building	Furniture & Equipment	Computer Equipment	Total
Cost					
Balance at January 1, 2015	$ 127,664	$ 240,733	$ 129,805	$ 104,432	$ 602,634
Additions	-	7,704	13,006	20,469	41,179
Disposals	-	-	-	-	-
Balance at December 31, 2015	127,664	248,437	142,811	124,901	643,813
Additions	-	-	4,066	-	4,066
Disposals	-	-	-	-	-
Balance at December 31, 2016	$ 127,664	$ 248,437	$ 146,877	$ 124,901	$ 647,879
Accumulated Depreciation					
Balance at January 1, 2015	$ -	$ 129,694	$ 88,363	$ 96,073	$ 314,130
Depreciation expense	-	2,375	2,722	5,765	10,862
Disposals	-	-	-	-	-
Balance at December 31, 2015	-	132,069	91,085	101,838	324,992
Depreciation expense	-	2,327	2,790	4,612	9,729
Disposals	-	-	-	-	-
Balance at December 31, 2016	$ -	$ 134,396	$ 93,875	$ 106,450	$ 334,721
Net book value December 31, 2015	$ 127,664	$ 116,368	$ 51,726	$ 23,063	$ 318,821
December 31, 2016	$ 127,664	$ 114,041	$ 53,002	$ 18,451	$ 313,158

The fair value of the land and buildings is determined by discounting the expected cash flows of the properties based upon internal plans and assumptions and comparable market transactions.

9. Insurance Contracts

(i) Due from reinsurers

	2016	2015
Balance - beginning of year	**$ -**	$ -
Submitted to reinsurer	**245,666**	569,582
Received from reinsurer	**(245,666)**	(569,582)
Balance - end of year	**$ -**	$ -
Expected settlement within one year	**-**	-
More than one year	**-**	-
	$ -	$ -

At year end, the Company reviewed the amounts owing from its reinsurer and determined that no allowance is necessary.

(ii) Reinsurers share of provision for unpaid claims

	2016	2015
Balance - beginning of year	**$ 692,114**	$ 462,421
New claims reserve	**424,854**	616,654
Change in prior year's reserve	**58,952**	182,621
Submitted to reinsurer	**(245,666)**	(569,582)
Balance - end of year	**$ 930,254**	$ 692,114
Expected settlement within one year	**370,533**	237,114
More than one year	**559,721**	455,000
	$ 930,254	$ 692,114

(iii) Deferred policy acquisition expenses

	2016	2015
Balance - beginning of year	**$ 4,380**	$ 128,185
Acquisition costs incurred	**298,730**	274,349
Expense recognized as a result of liability adequacy test	**-**	(136,040)
Expensed during the year	**(149,784)**	(262,114)
Balance - end of year	**$ 153,326**	$ 4,380

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

9. Insurance Contracts (continued)

(iv) Unearned premiums (UEP)

	2016	2015
Balance - beginning of year	**$ 1,055,790**	$ 1,030,078
Premiums written	**2,212,599**	2,062,985
Premiums earned during year	**(2,132,752)**	(2,037,273)
Changes in UEP recognized in income	**79,847**	25,712
Balance - end of year	**$ 1,135,637**	$ 1,055,790

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

	December 31, 2016			December 31, 2015		
Outstanding Claims Provision	**Gross**	**Re-Insurance**	**Net**	Gross	Re-Insurance	Net
Long settlement term	**$ 878,892**	**$ 559,721**	**$ 319,171**	$ 810,000	$ 455,000	$ 355,000
Short settlement term	**508,559**	**370,533**	**138,026**	386,524	237,114	149,410
Facility Association and other residential pools	**-**	**-**	**-**	-	-	-
	1,387,451	**930,254**	**457,197**	1,196,524	692,114	504,410
Provisions for claims incurred but not reported	**90,000**	**-**	**90,000**	90,000	-	90,000
	$ 1,477,451	**$ 930,254**	**$ 547,197**	$ 1,286,524	$ 692,114	$ 594,410

(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.

9. Insurance Contracts (continued)

(vii) Claims and adjustment expenses

Changes in claim liabilities recorded in the balance sheet for the years ended December 31, 2016 and 2015 and their impact on claims and adjustment expenses for the two years are as follows:

	2016	2015
Unpaid claim liabilities - beginning of year - net of reinsurance	**$ 594,410**	$ 454,891
Increase (decrease) in estimated losses and expenses, for losses occurring in prior years	**(197,573)**	(42,530)
Provision for losses and expenses on claims occurring in the current year	**932,660**	1,442,737
Payment on claims:		
Current year	**(674,461)**	(1,047,392)
Prior year	**(107,839)**	(213,296)
Unpaid claims liabilities - end of year - net of reinsurance	**547,197**	594,410
Reinsurer's share and subrogation recoverable	**930,254**	692,114
	$ 1,477,451	$ 1,286,524

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

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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 2007 to 2016. 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.

In 2011, the year of adoption of IFRS, only information from periods beginning on or after January 1, 2007 was required to be disclosed. This is being increased each succeeding additional year, until ten years of information is included.

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	$ 715,433	$ 1,182,953	$ 487,554	$ 408,431	$ 682,893	$ 622,334	$ 719,849	$ 1,588,428	$ 2,059,391	$ 1,357,514	$ 9,824,780
One year later	694,695	1,166,992	465,808	389,998	849,662	559,430	513,967	1,367,682	1,603,878	-	7,612,112
Two years later	692,998	1,166,992	445,907	409,998	889,055	546,781	784,804	1,409,387	-	-	6,345,922
Three years later	692,998	1,167,434	445,907	409,998	757,989	546,781	1,059,991	-	-	-	5,081,098
Four years later	692,998	1,167,434	445,907	409,998	757,989	546,781	-	-	-	-	4,021,107
Five years later	692,998	1,167,434	445,907	409,998	757,989	-	-	-	-	-	3,474,326
Six years later	692,998	1,167,434	445,907	409,998	-	-	-	-	-	-	2,716,337
Seven years later	692,998	1,167,434	445,907	-	-	-	-	-	-	-	2,306,339
Eight years later	692,998	1,167,434	-	-	-	-	-	-	-	-	1,860,432
Nine years later	692,998	-	-	-	-	-	-	-	-	-	692,998
Current estimate of cumulative claims cost	692,998	1,167,434	445,907	409,998	757,989	546,781	1,059,991	1,409,387	1,603,878	1,357,514	9,451,877
Cumulative payments	692,998	1,167,434	445,907	409,998	757,989	546,781	514,007	1,092,062	1,602,096	745,154	7,974,426
Outstanding claims	-	-	-	-	-	-	545,984	317,325	1,782	612,360	1,477,451
Outstanding claims 2006 and prior	-	-	-	-	-	-	-	-	-	-	-
Claims handling expense	-	-	-	-	-	-	-	-	-	-	321,910
Total gross outstanding claims net of claims handling expense	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,155,541

9. Insurance Contracts (continued)

(ix) Claim development (continued)

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	$ 613,437	$ 785,094	$ 487,554	$ 408,431	$ 682,893	$ 499,513	$ 719,849	$ 965,131	$ 1,442,737	$ 932,660	$ 7,537,299
One year later	586,277	789,810	463,113	389,998	660,857	505,921	513,967	786,765	1,140,993	-	5,837,701
Two years later	584,579	789,810	462,226	369,998	616,045	503,271	649,803	790,936	-	-	4,766,668
Three years later	584,579	790,252	462,226	369,998	617,610	503,271	749,803	-	-	-	4,077,739
Four years later	584,579	790,252	462,226	369,998	617,610	503,271	-	-	-	-	3,327,936
Five years later	584,579	790,252	462,226	369,998	617,610	-	-	-	-	-	2,824,665
Six years later	584,579	790,252	462,226	369,998	-	-	-	-	-	-	2,207,055
Seven years later	584,579	790,252	462,226	-	-	-	-	-	-	-	1,837,057
Eight years later	584,579	790,252	-	-	-	-	-	-	-	-	1,374,831
Nine years later	584,579	-	-	-	-	-	-	-	-	-	584,579
Current estimate of cumulative claims cost	584,579	790,252	462,226	369,998	617,610	503,271	749,803	790,936	1,140,993	932,660	6,942,328
Cumulative payments	584,579	790,252	462,226	369,998	617,610	503,271	514,007	736,145	1,142,582	674,461	6,395,131
Outstanding claims	-	-	-	-	-	-	235,796	54,791	(1,589)	258,199	547,197
Outstanding claims 2006 and prior	-	-	-	-	-	-	-	-	-	-	-
Claims handling expense	-	-	-	-	-	-	-	-	-	-	321,910
Total net outstanding claims net of claims handling	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 225,287

10. Pension Plan

The Company makes contributions on behalf of its employees to "The Retirement Annuity Plan for Employees of the Ontario Mutual Insurance Association and Member Companies", which is a multi-employer plan. Each member company has signed an Ontario Mutual Insurance Association Pension Plan Agreement. Eligible employees participate in the defined benefit plan and sales agents participate in the defined contribution plan. The defined benefit plan specifies the amount of the retirement benefit to be received by the employee based on the number of years the employee has contributed and his/her final average earnings. The plan is accounted for as a defined contribution plan as insufficient information is available to account for the plan as a defined benefit plan. The Company is one of a number of employers that participates in the plan and the financial information provided to the Company on the basis of the contractual agreements is insufficient to reliably measure the Company's proportionate share in the plan assets and liabilities on defined benefit accounting requirements.

The Company matches the employee contributions and funds the excess defined benefit based on the Company's percentage of pensionable earnings as calculated by the Pension Plan actuaries. The Pension Plan agreement states that the Company is responsible for its share of any deficit as a result of any actuarial valuation or cost certificate. The minimum funding requirement is the solvency valuation amount determined by the Pension Plan actuary on the valuation dates prescribed by the Pensions Benefit Act. In the event of a wind-up, voluntary withdrawal or bankruptcy, either by the Company or the group as a whole, the Company is responsible for its portion of all expenses and deficit related to such.

The amount contributed to the plan for 2016 was $ 81,406 (2015 - $ 29,236). The contributions were made for current service and have been recognized in comprehensive income. The Company had a 0.40% share of the total contributions to the plan in 2016 (2015 - 0.43%).

An actuarial valuation of the Pension Plan as of December 31, 2013 showed a going concern surplus position. The next actuarial valuation to be filed under the Pension Benefit Act will be as of December 31, 2016. In 2016, there was a contractual requirement to provide additional funding which resulted in a lump sum payment of $ 50,114 (2015 - $ nil) which has been recognized in comprehensive income. The expected contribution to the plan for 2017 is $ 67,000.

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:

	2016	2015
Current tax expense (recovery)		
Based on current year taxable income (loss)	**$ -**	$ (86,681)
Adjustments for over/under provision in prior periods	**-**	-
	$ -	$ (86,681)
Deferred tax expense (recovery)		
Origination and reversal of temporary differences	**37,239**	(64,106)
Reduction in tax rate	**1,674**	-
	38,913	(64,106)
Total income tax expense (recovery)	**$ 38,913**	$ (150,787)

Reasons for the difference between current tax expense for the year and the expected income taxes based on the statutory tax rate of 15% (2015 - 15.50%) are as follows:

	2016	2015
Net income (loss) for the year before income taxes	**$ 432,137**	$ (815,789)
Expected taxes based on the statutory rate of 15% (2015 - 15.50%)	**64,821**	(126,447)
Deductible portion of claims liabilities	**(20,301)**	21,068
Market to market and other adjustments related to investments	**(5,624)**	(48,590)
Depreciation in excess of capital cost allowance	**(2,390)**	1,684
Utilization of tax credits and losses carryforward	**(36,506)**	-
Income tax loss carryforward	**-**	65,604
Total current income tax expense (recovery)	**$ -**	$ (86,681)

11. Income Taxes (continued)

The movement in the 2016 deferred tax assets and liabilities are:

	Opening balance at January 1, 2016	Recognized in net income	Recognized in OCI	Recognized directly in equity	Reclassify from equity to net income	Closing balance at December 31, 2016
Deferred tax assets						
Property, plant and equipment	$ 64,754	$ (40,077)	$ -	$ -	$ -	$ 24,677
Investment property	-	-	-	-	-	-
Claims liabilities	-	-	-	-	-	-
Deferred tax asset	$ 64,754	$ (40,077)	$ -	$ -	$ -	$ 24,677
Deferred tax liabilities						
Property, plant and equipment	-	-	-	-	-	-
Claims liabilities	23,627	(1,164)	-	-	-	22,463
Other	-	-	-	-	-	-
Deferred tax liability	$ 23,627	$ (1,164)	$ -	$ -	$ -	$ 22,463
2016 net deferred tax asset movement	$ (41,127)	$ 38,913	$ -	$ -	$ -	$ (2,214)

The movement in the 2015 deferred tax assets and liabilities are:

	Opening balance at January 1, 2015	Recognized in net income	Recognized in OCI	Recognized directly in equity	Reclassify from equity to net income	Closing balance at December 31, 2015
Deferred tax assets						
Property, plant and equipment	$ -	$ 64,754	$ -	$ -	$ -	$ 64,754
Investment property	-	-	-	-	-	-
Claims liabilities	-	-	-	-	-	-
Deferred tax asset	$ -	$ 64,754	$ -	$ -	$ -	$ 64,754
Deferred tax liabilities						
Property, plant and equipment	1,388	(1,388)	-	-	-	-
Claims liabilities	21,591	2,036	-	-	-	23,627
Other	-	-	-	-	-	-
Deferred tax liability	$ 22,979	$ 648	$ -	$ -	$ -	$ 23,627
2015 net deferred tax asset movement	$ 22,979	$ (64,106)	$ -	$ -	$ -	$ (41,127)

11. Income Taxes (continued)

	2016	2015
Deferred tax liabilities		
Deferred tax liabilities to be settled within 12 months	**$ 22,463**	$ 23,627
Deferred tax liabilities to be settled after more than 12 months	**-**	-
	$ 22,463	$ 23,627
Deferred tax assets		
Deferred tax assets to be recovered within 12 months	**-**	-
Deferred tax assets to be recovered after more than 12 months	**24,677**	64,754
	$ 24,677	$ 64,754
Net deferred tax asset	**$ (2,214)**	$ (41,127)

12. Gross Claims and Adjustment Expenses

Included in claims expenses were wage and benefit costs of $ 89,979 (2015 - $ 61,780).

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.

	2016	2015
Compensation		
Short-term employee benefits, wages and directors' fees	**$ 181,287**	$ 159,324
Total pension and other post-employment benefits	**18,229**	16,488
Premiums	**20,181**	20,494
Claims paid	**1,724**	-

Amounts owing from key management personnel at December 31, 2016 are $ nil (2015 - $ nil). These amounts are included in due from policyholders on the statement of financial position.

14. Salaries, Benefits and Directors' Fees

	2016	2015
Claims salaries and benefits	**$ 89,979**	$ 61,870
Sales salaries and commissions	**129,052**	373,432
Other salaries, benefits and directors' fees	**330,362**	258,418
	$ 549,393	$ 693,720

15. Capital Management

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

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

The Company also uses a net premium written to surplus ratio to analyze the management of capital. The Company has determined that a ratio of 1 to 1 or lower is to be maintained. On December 31, 2016, this ratio was 0.26 to 1 (2015 - 0.25 to 1).

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

16. Insurance Risk Management

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

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 this 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. Reinsurance is purchased to mitigate the effect of the potential loss to the Company. Reinsurance is placed with Farm Mutual Reinsurance Plan Inc. (FMRP), a Canadian registered reinsurer.

16. Insurance Risk Management (continued)

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 $ 180,000 (2015 - $ 180,000) in the event of a property claim and an amount of $ 170,000 (2015 - $ 170,000) in the event of a liability claim. The Company also obtained reinsurance which limits the Company's liability to $ 540,000 (2015 - $ 540,000) in the event of a series of claims arising out of a single occurrence. In addition to the above reinsurance programs, the Company has assumed units of reinsurance through the FMRP on their Agricorp Program. The Agricorp units present a maximum exposure to the Company's surplus of $ 150,000 per annum. The Company has also obtained stop loss reinsurance which limits the liability of all claims in a specific year to 80% of gross net earned premiums for property.

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. The premium deficiency at December 31, 2016 was $ 94,618 (2015 - $ 60,969).

The risk associated with insurance contracts are 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.

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

	2016		2015	
Type of Unpaid Claim	**Gross**	**Ceded**	Gross	Ceded
Property	**$ 552,142**	**$ 370,533**	$ 415,974	$ 237,114
Liability	**925,309**	**559,721**	870,550	455,000
	$ 1,477,451	**$ 930,254**	$ 1,286,524	$ 692,114

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		**Liability Claims**	
	2016	2015	**2016**	2015
10% increase in loss ratios				
Gross	**$ 182,628**	$ 170,159	**$ 38,632**	$ 36,139
Net	**161,159**	145,044	**25,650**	21,507
10% decrease in loss ratios				
Gross	**(182,628)**	(170,159)	**(38,632)**	(36,139)
Net	**(161,159)**	(145,044)	**(25,650)**	(21,507)

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

17. Credit Risk

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

The Company's investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits, corporate sector limits and general guidelines for geographic exposure. The bond portfolio includes 100% (2015 - 100%) of bonds rated A or better. Funds should be invested in bonds and debentures of Federal, Provincial or Municipal Government and corporations rated A or better. All fixed income portfolios are measured for performance on a quarterly basis and monitored by management on a monthly basis.

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.

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.

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.

18. Market Risk

Market risk is the risk that the 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. The policy limits the investment in any one corporate issuer to a maximum of 10% (except government sponsored bonds) of the Company's portfolio.

(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 stock and mutual fund 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 nil% of the total investment portfolio in accordance with its investment policy. Foreign currency changes are monitored by the investment committee and holdings are adjusted when offside of the investment policy. A 1% change in the value of the United States dollar would affect the fair value of stocks by approximately $ nil (2015 - $ nil) which would be reflected in comprehensive income.

18. Market Risk (continued)

(a) Currency Risk (continued)

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.

(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 (short-term investments and bonds).

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

At December 31, 2016, a 1% move in interest rates, with all other variables held constant, could impact the market value of bonds by $ 108,000 (2015 - $ 142,000.) 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 limits it holdings in equities and preferred stock to 25% and 15% of the investment portfolio, respectively, in accordance with its investment policy.

The Company's portfolio includes Canadian stocks with fair values that move with the Toronto Stock Exchange Composite Index and United States stocks with fair values that move with the S&P 500 Index. 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 of $ 195,000 (2015 - $ 165,000) and Canadian preferred stock of $ 57,000 (2015 - $ 35,000). 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.

The Company's investment policy operates within the guidelines of the Insurance Act. An investment policy is in place and its application is monitored by the board of directors. Diversification techniques are utilized to minimize risk. The policy limits the investment in any one corporate issuer to a maximum of 5% of the company's total assets. The Company's investment policy requires that 0% to 20% of investment assets are to be held in cash and short-term investments, which can include T-Bills, commercial paper and term deposits with an original maturity of less than one year, to manage the short-term liquidity issue.

18. Market Risk (continued)

(c) Equity Risk (continued)

Equities are monitored by 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 the risk.

19. Liquidity Risk

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

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

20. Other Provisions and Contingent Liabilities

In common with the insurance industry in general, the Company is subject to litigation arising in the normal course of conducting its insurance business which is taken into account in establishing the provision for unpaid claims and adjustment expenses. The amount provided for as other provisions represents management's best estimate of the Company's liability related to legal disputes unrelated to their insurance business for which it is probable that an amount will be paid.

The Company is a member of the Farm Mutual Reinsurance Plan Inc. (FMRP), 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 should the Plan's capital fall below a prescribed minimum. The additional capital would be provided by purchasing subordinated debt obligations issued by the Plan.

The Company participates in a defined benefit multiple employee pension plan that exposes the Company to a contingent liability for any shortfall in plan assets resulting from insufficient contributions including actuarial losses relating to other participating entities and any shortfall in the plan if other entities cease to participate.

21. Premium Deficiency

In 2016, due to unfavourable experiences on several liability claims, the premium deficiency liability on the balance sheet has increased (decreased) by $ 33,649 (2015 - $ 60,969) and a corresponding premium deficiency expense (recovery) has been recorded on the statement of comprehensive income.

22. Change of Company Name

Articles of amendment were filed June 6, 2016 that changed the company's name from Caradoc Delaware Mutual Fire Insurance Company to Caradoc Delaware Mutual Insurance Company.

23. Comparative Figures

Certain of the 2015 figures on the statements of comprehensive income and cash flows have been reclassified to conform to the 2016 financial statement presentation.