Dufferin Mutual Insurance Company
Consolidated Financial Statements
For the year ended December 31, 2018

Contents

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Independent Auditor's Report

To the Policyholders of Dufferin Mutual Insurance Company

Opinion

We have audited the consolidated financial statements of Dufferin Mutual Insurance Company and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statements of operations and unappropriated members' surplus, comprehensive (loss) income and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Independent Auditor's Report

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

Mississauga, Ontario
February 19, 2019

Dufferin Mutual Insurance Company
Consolidated Statement of Financial Position

December 31	2018	2017
Assets		
Cash	**$ 815,644**	$ 1,044,389
Investments (Note 5)	**9,863,638**	9,286,251
Due from reinsurer (Note 4)	**40,527**	-
Due from policyholders (Note 4)	**1,706,642**	1,642,165
Income taxes recoverable	**126,190**	90,860
Due from related party	**15,000**	15,000
Reinsurer's share of provisions for unpaid claims and adjusting expenses (Note 4)	**3,362,769**	3,675,715
Deferred policy acquisition expenditures (Note 4)	**771,818**	753,319
Prepaid expenses	**21,883**	5,650
Investment in associated company (Note 6)	**602,225**	581,500
Property and equipment (Note 12)	**482,391**	14,050
Land and building held for sale (Note 12)	**-**	741,110
Intangible asset (Note 11)	**261,653**	315,026
Deferred tax asset (Note 10)	**27,685**	19,016
	$ 18,098,065	$ 18,184,051
Liabilities		
Accounts payable and accrued liabilities	**$ 297,317**	$ 325,001
Unearned premiums (Note 4)	**3,336,908**	3,230,628
Due to reinsurer (Note 4)	**-**	77,547
Unpaid claims and adjustment expenses (Note 4)	**6,953,837**	7,452,804
	10,588,062	11,085,980
Commitments (Note 15)		
Members' surplus		
Unappropriated members' surplus	**7,510,003**	6,409,187
Accumulated other comprehensive income (Note 3)	**-**	688,884
	7,510,003	7,098,071
	$ 18,098,065	$ 18,184,051

On behalf of the Board:

Director

Director

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

Dufferin Mutual Insurance Company
Consolidated Statement of Operations and Unappropriated Members' Surplus

For the year ended December 31	**2018**	2017
Revenue		
Premiums written	**$ 6,648,093**	$ 6,572,118
Change in unearned	**(106,281)**	92,138
Less: reinsurance ceded	**(1,468,387)**	(1,571,452)
Net premiums earned	**5,073,425**	5,092,804
Service charges	**60,426**	63,158
	5,133,851	5,155,962
Expenses		
Gross incurred losses and claims expenses	**4,541,429**	4,385,488
Reinsurance recoveries	**(1,533,867)**	(1,336,824)
Commissions expense	**1,124,279**	1,132,800
Operating expenses (Note 9)	**1,722,574**	1,833,177
	5,854,415	6,014,641
Net underwriting (loss) income	**(720,564)**	(858,679)
Other income		
Investment income (Note 7)	**(40,086)**	417,266
Gain on disposition of real estate property (Note 12)	**1,168,889**	-
(Loss) income before income taxes	**408,239**	(441,413)
Income taxes (recovery) (Note 10)		
Current	**4,975**	(91,331)
Deferred	**(8,668)**	(9,032)
	(3,693)	(100,363)
Net (loss) income for the year	**411,932**	(341,050)
Unappropriated members' surplus, beginning of year	**6,409,187**	6,750,237
Effect of adoption of IFRS 9 on January 1, 2018 (Note 3)	**688,884**	-
Unappropriated members' surplus, end of year	**$ 7,510,003**	$ 6,409,187

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

Dufferin Mutual Insurance Company
Consolidated Statement of Comprehensive (Loss) Income

For the year ended December 31		2018		2017
Net (loss) income for the year	**$**	**411,932**	$	(341,050)
Other comprehensive income (Note 3)				
Unrealized gains on available for sale assets, net of income taxes payable of $Nil (2017 - $5,734)		**-**		47,360
Transfer of realized gains available for sale assets to statement of operations net of income taxes payable of $Nil (2017 - $18,976)		**-**		(149,202)
Total other comprehensive income		**-**		(101,842)
Comprehensive (loss) income for the year	**$**	**411,932**	$	(442,892)
Accumulated other comprehensive income, beginning of year	**$**	**688,884**	$	790,726
Effect of adoption of IFRS 9 on January 1, 2018 (Note 3)		(688,884)		-
Other comprehensive income, for the year		**-**		(101,842)
Accumulated other comprehensive income, end of year	**$**	**-**	$	688,884

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

Dufferin Mutual Insurance Company
Consolidated Statement of Cash Flows

For the year ended December 31	2018	2017
Cash provided by (used in)		
Operating activities		
Net income for the year	**$ 411,932**	$ (341,050)
Adjustments for:		
Depreciation of property and equipment	**66,708**	40,996
Amortization of intangible asset	**53,373**	53,374
Interest and dividend income	**(287,593)**	(302,810)
Current income taxes	**4,975**	(91,331)
Deferred income taxes	**(8,668)**	(9,032)
Gain on disposition of real estate property	**(1,168,889)**	-
Bad debt expense	**24,261**	-
Change in market value of investments	**296,557**	-
Realized gain (loss) on disposal of investments	**5,602**	(134,898)
Equity pickup from 2098738 Ontario Inc.	**14,464**	-
Increase in investment in associated company	**(20,725)**	-
	(608,003)	(784,751)
Changes in working capitals and insurance contract related balances		
Changes in due form policyholders and reinsurers	**(182,551)**	291,460
Change in due from related party	**-**	(15,000)
Change in accounts payable and accrued liabilities	**(27,684)**	(12,710)
Change in deferred tax asset	**(8,669)**	(525)
Change in prepaid expenses	**(16,233)**	(2,344)
Change in deferred policy acquisition expenditures	**(18,499)**	12,585
Change in unearned premiums	**106,280**	(92,138)
Change in unpaid claims and adjustment expense	**(186,021)**	410,351
	(333,377)	591,679
Cash flows related to interest, dividends and income taxes		
Interest and dividends received	**269,746**	288,506
Income taxes (paid) recovered	**(38,304)**	(101,006)
Total cash (outflows) inflows from operating activities	**(709,938)**	(5,572)
Investing activities		
Sale of investments	**1,153,220**	983,291
Purchase of investments	**(2,034,933)**	(541,162)
Purchase of property and equipment	**(535,049)**	(4,483)
Disposal of property and equipment	**1,897,955**	-
Purchase of associated company	**-**	(581,500)
Total cash outflows from investing activities	**481,193**	(143,854)
Decrease in cash during the year	**(228,745)**	(149,426)
Cash, beginning of year	**1,044,389**	1,193,815
Cash, end of year	**$ 815,644**	$ 1,044,389

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

1. Corporate Information

Dufferin Mutual Insurance Company (the "Company") was incorporated without share capital under the laws governed in Ontario on May 15, 1895. The Company is licensed to write property, auto and liability insurance in Ontario. The Company's products are marketed through independent agents and brokers located throughout Ontario. The Company's registered office is 712 Main Street East, Shelburne, Ontario.

The Company is subject to rate regulation on 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 Ontario Mutual Insurance Association ("OMIA"). 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 (“FSCO”). 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 19, 2019.

2. Basis of Presentation

(a) Statement of Compliance

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").

(b) Basis of Measurement

These consolidated financial statements were prepared under the historical cost convention, except for financial assets classified as fair value through profit or loss (“FVTPL”).

The consolidated financial statements are presented in Canadian dollars (“CDN”), which is also the Company’s functional currency.

(c) Judgment and Estimates

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 a higher degree of judgment of complexity, or areas where assumptions and estimates are significant to the consolidated financial statements within the next financial year are:

2. Basis of Presentation (continued)

- The calculation of unpaid claims, including the determination of the initial claim liability, discount rates, the estimate of time until ultimate settlement and the performance of a liability adequacy test (Note 4);
- The determination of the recoverability of deferred acquisition policy acquisition expenses (Note 4).
- The classification of financial assets at FVTPL, which includes assessing the business model within which the assets are held and whether the contractual terms of the assets are solely payments of principal and interest on the principal amount outstanding (Note 5).

(d) Consolidation

The Company acquired 100% of the shares of Mount Forest Insurance Brokers ("MFIB") on July 19, 2016. The assets, liabilities and operations of MFIB are included in these consolidated financial statements. All material intercompany accounts and transactions have been eliminated.

The Company acquired 100% of the shares of 2598738 Ontario Inc on December 15, 2017. The assets, liabilities and operations of 2598738 Ontario Inc. are included in these consolidated financial statements. All material intercompany accounts and transactions have been eliminated.

In addition, in preparing the consolidated financial statements, the notes to the consolidated financial statements were organized 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 consolidated financial statements. The determination of the relevance and materiality of disclosures involved significant judgement.

3. Adoption of New Accounting Standards

Accounting standards, interpretations and amendments effective for accounting years beginning on or after January 1, 2018 did not materially affect the Company's consolidated financial statements other than those described below.

3. Adoption of New Accounting Standards *(continued)*

IFRS 9 Financial Instruments (IFRS 9)

On January 1, 2018, the Company adopted IFRS 9, *Financial Instruments* (IFRS 9), which supersedes IAS 39, *Financial Instruments: Recognition and Measurement* (IAS 39). IFRS includes revised guidance on the classification and measurement of financial assets and liabilities; new guidance for measuring impairment on financial assets; and new hedge accounting guidance.

On adoption of IFRS 9, in accordance with its transitional provisions, the Company has not restated prior periods but has reclassified the financial assets held at January 1, 2018, retrospectively, based on the new classification requirements and the characteristics of each financial instrument as at the transition date. For financial liabilities, IFRS 9 retains most of the IAS 39 requirements. The company did not choose the option of designating any financial liabilities at FVTPL as such, the adoption of IFRS 9 did not impact the Company's accounting policies for financial liabilities.

(i) Classification and measurement of financial instruments

Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 contains three primary measurement categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVTOCI), and FVTPL.

The following table shows the original classification and carrying amount under IAS 39 and the new classification and carrying amount under IFRS 9 for each class of the Company’s financial assets and financial liabilities as at January 1, 2018.

Financial Instrument	Note	IAS 39		IFRS 9	
Financial assets			$000's		$000's
Cash		Loans and receivables	$1,044	Amortized cost	$1,044
Investments - GIC	5	Available-for-sale	$500	FVTPL	$500
Investments - bonds	5	Available-for-sale	$6,482	FVTPL	$6,482
Investments - equity securities in listed companies	5	Available-for-sale	$2,304	FVTPL	$2,304
Financial liabilities					
Accounts payable and accrued liabilities		Other financial liabilities	$325	Amortized cost	$325

3. Adoption of New Accounting Standards *(continued)*

(ii) Impairment of financial assets

IFRS 9 replaces the incurred loss model in IAS 39 with an expected credit loss ("ECL") model. This applies to financial assets classified at amortized cost and debt instruments classified at FVTOCI. Under IFRS 9, credit losses are recognized earlier than under IAS 39. This change did not have a material impact to the Company's consolidated financial statements.

(iii) Hedge accounting

The new hedge accounting model which replaces hedge accounting guidance in IAS 39 did not impact the Company's consolidated financial statements.

(iv) Disclosure

Amendments Were also made to IFRS 7 introducing expanded qualitative and quantitative disclosures related to IFRS 9, which the Company has also adopted for the annual period beginning January 1, 2018.

Impacts of adoption of IFRS 9

The following table presents the impact of adopting IFRS 9 on unappropriated members' surplus as at January 1, 2018:

	Unappropriated Members' Surplus	Accumulated Other Comprehensive Income	Total
Balance at December 31, 2017	$ 6,409,187	$ 688,884	$ 7,098,071
Impact of adopting IFRS 9 - change in classification (i)	688,884	(688,884)	-
Adjusted balance at January 1, 2018	**$ 7,098,071**	**$ -**	**$ 7,098,071**

(i) Available-for-sale debt and equity securities under IAS 39 have been reclassified to FVTPL under IFRS 9. Unrealized gains and the related tax effects on the available-for-sale debt and equity securities were reclassified to unappropriated members' surplus.

4. 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 ("GAAP").

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

(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's automobile insurance rates are subject to approval by the Financial Services Commission of Ontario ("FSCO"). Application for automobile rate increases are presented to FSCO by Farm Mutual Reinsurance Plan on behalf of members of Ontario Mutual Insurance Association ("OMIA"). FSCO approves these rates based on information submitted.

The Company earns premium income evenly over the term of the insurance policy using the pro rata method. The portion of the premium related to the unexpired portion of the policy at the end of the fiscal year is reflected in unearned premiums (UEP). Changes in unearned premiums recorded in the consolidated statement of financial position for the years ended December 31, 2018 and 2017 and their impact on net premiums earned for the two years follow:

	2018	2017
Balance, beginning of the year	**$ 3,230,628**	$ 3,322,766
Premiums written	**6,648,093**	6,572,118
Changes in UEP recognized in income	**(106,281)**	92,138
Premiums earned during year	**(6,435,532)**	(6,756,394)
Balance, end of the year	**$ 3,336,908**	$ 3,230,628

4. Insurance Contracts (continued)

(a) Premiums and unearned premiums *(continued)*

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 was no premium deficiency at December 31, 2018 and 2017.

Amounts due from policyholders are short-term in nature consisting of a large number of policyholders, and are not subject to material credit risk. Regular review of amounts outstanding is performed to ensure credit worthiness.

(b) Reinsurer's share of unearned premiums

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

(c) Deferred policy acquisition expenses

Acquisition costs are comprised of agents' commissions, premium taxes, association fees and other incremental costs of acquiring and renewing policies. These costs are deferred and recoverable from unearned premiums, after considering the related anticipated claims and amortized over the terms of the related policies to the extent that they are considered to be expenses. Changes in deferred acquisition expenditures recorded in the consolidated statement of financial position for the years ended December 31, 2018 and 2017 and their impact on fees, commissions and other acquisition expenses for the two years follow:

	2018	2017
Balance, beginning of the year	**$ 753,319**	$ 765,904
Acquisition expenses incurred	**1,197,215**	1,146,413
Expensed during the year	**(1,178,716)**	(1,158,998)
Balance, end of the year	**$ 771,818**	$ 753,319

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

4. Insurance Contracts (continued)

(d) 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 follows:

	December 31, 2018			December 31, 2017		
	Gross	**Re-insurance**	**Net**	Gross	Re-insurance	Net
Outstanding claims provision						
Long settlement term	**$ 3,350,998**	**$ 1,690,960**	**$ 1,660,038**	$ 4,524,583	$ 2,409,299	$ 2,115,284
Short settlement term	**1,949,199**	**865,282**	**1,083,917**	1,233,000	389,375	843,625
Facility Association and other residual pools	**162,485**	**-**	**162,485**	171,172	-	171,172
	5,462,682	**2,556,242**	**2,906,440**	5,928,755	2,798,674	3,130,081
Provision for claims incurred but not reported	**1,491,155**	**806,527**	**684,628**	1,524,049	877,041	647,008
	$ 6,953,837	**$ 3,362,769**	**$ 3,591,068**	$ 7,452,804	$ 3,675,715	$ 3,777,089

4. Insurance Contracts (continued)

(d) Unpaid claims and adjustment expenses *(continued)*

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

Changes in unpaid claim liabilities recorded in the consolidated statement of financial position for the years ended December 31, 2018 and 2017 and their impact on claims and adjustment expenses for the two years follows:

	2018	2017
Unpaid claims liabilities - beginning of year – net of reinsurance	**$ 3,777,089**	$ 3,366,738
Decrease in estimated losses and expenses, for losses occurring in prior years	**(1,734,605)**	(1,169,130)
Provision for losses and expenses on claims occurring in the current year	**1,548,584**	1,579,481
Unpaid claims – end of year - net of reinsurance	**3,591,068**	3,777,089
Reinsurer’s share	**3,362,769**	3,675,715
	$ 6,953,837	$ 7,452,804

4. Insurance Contracts (continued)

(d) Unpaid claims and adjustment expenses *(continued)*

Claim development

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

The Company writes insurance primarily over a twelve month duration. The most significant risks arise through high severity, low frequency events such as natural disasters or catastrophes. The Company primarily insures in Ontario and as a result the Company is exposed to geographical risk. These risks are mitigated by regular review of the claims reserves as well as risk management strategies and the use of reinsurance arrangements.

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, and the characteristics of the line of business from which the claim arises and claims reporting patterns. In general, the longer the term required for the settlement the more variable the estimates. Short settlement term claims are those which are expected to be substantially paid within a year of being reported.

The tables below show how the Company's estimate of cumulative incurred claim cost for each accident year has changed at successive year ends and reconcile the cumulative claims to the amount appearing in the statement of financial position. An accident-year basis is considered to be the most appropriate for the business written by the Company.

4. Insurance Contracts (continued)

(d) Unpaid claims and adjustment expenses (continued)

Gross claims ('000's)

Reporting Date	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
	Accident Year										
At end of accident year	$ 4,187	$ 12,431	$ 5,855	$ 6,864	$ 6,642	$ 2,594	$ 3,434	$ 2,671	$ 4,656	$ 5,009	
1 year later	5,032	11,747	4,275	5,906	6,483	2,621	2,835	2,268	4,416		
2 years later	4,281	11,127	2,794	5,451	6,211	2,206	2,350	2,055			
3 years later	3,583	10,222	2,757	5,073	5,824	2,349	2,075				
4 years later	3,446	8,725	2,576	5,183	5,922	2,716					
5 years later	3,129	8,679	2,464	5,100	6,030						
6 years later	3,115	8,587	2,457	4,663							
7 years later	3,115	8,594	2,457								
8 years later	3,115	8,576									
9 years later	3,115										
10 years later											
Current estimate of ultimate cost	3,115	8,576	2,457	4,663	6,030	2,716	2,075	2,055	4,416	5,009	$ 41,112
Cumulative payments	3,115	8,556	2,457	4,619	5,987	1,817	1,994	1,344	3,268	1,686	34,843
Outstanding claims	$ -	$ 20	$	$ 44	$ 43	$ 899	$ 81	$ 711	$ 1,148	$ 3,323	6,269
Liability for all prior accident years											2
Impact of discount and PFAD											308
Facility Association and risk sharing pool											375
Total gross outstanding claims											$ 6,954

4. Insurance Contracts (continued)

(d) Unpaid claims and adjustment expenses *(continued)*

Net of reinsurance ('000's)

	Accident Year										
Reporting Date	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
At end of accident year	$ 2,417	$ 3,009	$ 2,590	$ 3,222	$ 2,980	$ 2,087	$ 2,441	$ 2,263	$ 3,325	$ 3,127	
1 year later	2,270	3,233	2,263	2,794	2,377	1,859	2,162	2,034	3,246		
2 years later	2,258	2,896	1,911	2,793	2,435	1,622	1,763	1,978			
3 years later	2,123	2,428	1,920	2,681	2,172	1,657	1,536				
4 years later	2,066	2,348	1,890	2,709	2,158	1,642					
5 years later	1,996	2,314	1,835	2,603	2,138						
6 years later	1,996	2,345	1,835	2,583							
7 years later	1,996	2,331	1,835								
8 years later	1,996	2,331									
9 years later	1,996										
Current estimate of ultimate cost	1,996	2,331	1,835	2,583	2,138	1,642	1,536	1,978	3,246	3,127	$ 22,412
Cumulative payments	1,996	2,331	1,835	2,543	2,138	1,625	1,464	1,344	2,472	1,685	19,433
Outstanding claims	$ -	$ -	$ -	$ 40	$ -	$ 17	$ 72	$ 634	$ 774	$ 1,442	2,979
Liability for all prior accident years											1
Impact of discount and PFAD											236
Facility Association and risk sharing pool											375
Total net outstanding claims											$ 3,591

4. Insurance Contracts (continued)

(d) Unpaid claims and adjustment expenses *(continued)*

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

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

	Property claims		Auto claims		Liability claims	
	2018	2017	**2018**	2017	**2018**	2017
5% increase in loss ratios						
Gross	**$ 205,525**	$ 198,659	**$ 176,662**	$ 95,472	**$ 33,293**	$ 32,082
Net	**166,880**	160,730	**68,602**	69,888	**23,504**	20,681
5% decrease in loss ratios						
Gross	**$(205,525)**	$(198,659)	**$(176,662)**	$ (95,472)	**$ (33,293)**	$ (32,082)
Net	**(166,880)**	(160,730)	**(68,602)**	(69,888)	**(23,504)**	(20,681)

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.

(e) Liability adequacy test

At each reporting date, the Company performs a liability adequacy test on its insurance liabilities less deferred acquisition expenditures 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 to the consolidated statement of operations and unappropriated members' surplus initially by writing down the deferred acquisition expenditure and subsequently by recognizing additional unearned premiums.

4. Insurance Contracts (continued)

(f) Reinsurer's 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 due to reinsurer and are recognized as an expense on the same basis as 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 the first $240,000 on any auto claim and $270,000 on any property claim (2017 - $240,000 for auto claim and $260,000 for property claim). It further limits the liability of the Company to the first $150,000 on any liability claim (2017 - $150,000). In addition, the Company has obtained reinsurance having an upper amount of $4,000,000 (2017 - $4,000,000), which limits the Company's liability to the first $780,000 (2017 - $780,000) in the event of a series of claims arising out of a single occurrence.

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

Expected reinsurance recoveries on unpaid claims and adjustment expenses are recognized in assets at the same time and using principles consistent with the Company's method for establishing the related liability. Changes in due from reinsurer recorded in the statement of financial position for the years ended December 31, 2018 and 2017 is as follows:

	2018	2017
Balance, beginning of the year	**$ 3,675,715**	$ 2,961,216
New claims reserve	**1,209,877**	347,177
Change in prior years' reserve	**268,341**	1,001,157
Submitted to reinsurer	**(1,791,164)**	(633,835)
Balance, end of the year	**$ 3,362,769**	$ 3,675,715

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.

4. Insurance Contracts (continued)

(g) Refund of premium

At the discretion of the board of directors, the Company may declare a refund to its policyholders based on the premiums paid. This refund is recognized as a reduction of revenue in the period for which it is declared.

5. Investments

(a) Recognition and initial measurement

The Company recognizes debt instruments on the date on which they are originated. Equity instruments are recognized on the settlement date, which is the date that the asset is received by the Company. The instruments are initially measured at fair value.

(b) Classification and subsequent measurement

The Company classifies its debt instruments, GIC and bonds as FVTPL because the Company manages the debt instruments and evaluates their performance on a fair value basis in accordance with a documented investment strategy and the instruments are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

The Company classifies its equity instruments in listed companies as FVTPL.

The debt and equity instruments are subsequently measured at fair value where the net gains and losses, including any interest or dividend income and foreign exchange gains and losses, are recognized in the consolidated statement of operations and unappropriated members' surplus.

(c) Derecognition

The Company derecognizes investments when the contractual rights to the cash flows from the investment expires or the Company transfers the investment. On derecognition, the difference between the carrying amount at the date of derecognition and the consideration received is recognized in the consolidated statement of operations and unappropriated members' surplus.

5. Investments (continued)

(d) Risks

The following table provides fair value information of investments by type of security and issuer.

		2018 Fair Value		2017 Fair Value
Guaranteed investment certificate (GIC)		**500,000**		500,000
Bonds issued by:				
Canadian provincial (A or better)	**$**	**3,952,826**	$	2,907,229
Corporate:				
A or better	**$**	**2,746,887**	$	3,051,590
B to BBB		**508,526**		523,432
		7,208,239		6,482,251
Equity investments:				
Canadian listed companies		**2,154,399**		2,304,000
		9,862,638		9,286,251

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

The Company's investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits and corporate sector limits. The bond portfolio includes 68% (2017 - 64%.) of bonds rated A or better. The Company’s investment policy limits investment in bonds of the various ratings to limits ranging from 65% to 100% of the Company's portfolio. The Company's policy requires that funds be invested in bonds of Federal, Provincial or Municipal Government and corporations rated BBB or better. All fixed income portfolios are measured for performance on a quarterly basis and monitored by management on a monthly basis.

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 polices, procedures and methods used to measure the credit risk.

5. Investments (continued)

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 that 0% to 30% 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.

The maturity profile of bonds held is as follows:

	Within 1 year	2 to 5 years	6 to 10 years	Over 10 years	Fair Value
December 31, 2017	**$ 334,364**	**$ 2,605,929**	**$ 4,020,431**	**$ 247,513**	**$ 7,208,239**
Percent of Total	**10.82%**	**33.81%**	**52.16%**	**3.21%**	**100%**
December 31, 2017	$ -	$ 2,151,193	$ 4,331,057	$ -	$ 6,482,251
Percent of Total	0.0%	33.19%	66.81%	0.0%	100%

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

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 Board of Directors. Diversification techniques are utilized to minimize risk. The policy limits the investment in Canadian equities to 25% and international equities to 10% thereof.

The Company's, currency 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 10% of the total investment portfolio in accordance with its investment policy. Foreign currency changes are monitored by the Investment Committee and Board of Directors and holdings are adjusted when offside of the investment policy.

The Company is exposed to interest rate risk through its interest-bearing investments (bonds and GIC).

5. Investments (continued)

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 gains or losses in profit or loss.

At December 31, 2018 a 1% move in interest rates, with all other variables held constant, could impact the market value of bonds and GIC by $367,880 (2017 - $361,127). These changes would be recognized in profit of loss.

The Company is exposed to equity risk, through its portfolio of stocks in listed Canadian companies. At December 31, 2018, a 10% movement in the stock markets with all other variables held constant would have an estimated effect on the fair values of the Company's listed Canadian common equities of $214,2011. (2017 - $229,192). This change would be recognized in profit or loss.

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

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

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

(e) Fair value measurement

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

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

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

5. Investments (continued)

	Level 1	Level 2	Level 3	Total
December 31, 2018				
GIC	**$ 500,000**	**$ -**	**$ -**	**$ 500,000**
Bonds	**$ -**	**$ 7,208,239**	**$ -**	**$ 7,208,239**
Equities	**2,154,399**	**-**	**-**	**2,154,399**
Total	**$ 2,654,399**	**$ 7,208,239**	**$ -**	**$ 9,862,638**

	Level 1	Level 2	Level 3	Total
December 31, 2017				
GIC	$ 500,000	$ -	$ -	$ 500,000
Bonds	$ -	$ 6,482,251	$ -	$ 6,482,251
Equities	2,304,000	-	-	2,304,000
Total	$ 2,804,000	$ 6,482,251	$ -	$ 9,286,251

There were no transfers between any levels of the fair value hierarchy for the years ended December 31, 2018 and 2017.

6. Investment in Associated Company

On December 15, 2017, 2598738 Ontario Inc., entered into an agreement with two unrelated companies to acquire the issued and outstanding shares of 2037462 Ontario Inc., which owns 100% of the issued and outstanding shares of 11293374 Ontario Inc. operating as Norwich Insurance Brokers (“Norwich”). Each company acquired 33.33% of the issued shares of 2037462 Ontario Inc. for cash of $581,500 each.

As the investment meets the definition of an associated company as defined under IAS 28, the Company applies the equity method of accounting.

7. Investment and other income

		2018		2017
Interest income	**$**	**228,108**	$	227,341
Dividend income		**69,948**		77,359
Realized (loss) gain on disposal of investments		**(5,602)**		134,898
Change in market value of investments		**(296,557)**		-
Investment expenses		**(21,519)**		(22,333)
Equity pickup from 2598738 Ontario Inc. (Note 6)		**(14,464)**		
	$	**(40,086)**	$	417,265

8. Capital Management

For the purpose of capital management, the Company has defined capital as unappropriated 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 require 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 that are dependent on the risks associated with the company's assets. Additionally, an interest rate risk margin is included in the MCT by assessing the sensitivity of the Company's interest-sensitive assets and liabilities to changes in interest rates. The regulators indicate that the Company should produce a minimum MCT of 150%. During the year, the Company has consistently exceeded this minimum in its quarterly filings. 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.

9. Other Operating and Administrative Expenses

	2018	2017
Advertising	**$ 11,623**	$ 7,072
Depreciation on property and equipment	**54,164**	32,796
Amortization on intangible asset	**53,374**	53,374
Association fees and training	**30,823**	27,844
Computer services	**266,462**	276,188
Employee benefits	**158,725**	292,341
Facility office costs	**2,204**	1,711
Inspection of risks and fire prevention	**16,378**	19,554
Occupancy costs	**90,137**	82,368
Postage and telephone	**20,729**	21,044
Printing, stationery and office	**20,242**	26,778
Professional fees	**61,856**	99,354
Provincial premium tax	**24,093**	33,449
Salaries and directors' fees	**694,611**	702,007
Statistics and assessments	**38,095**	19,716
Sundry	**98,003**	56,584
Travel	**81,055**	80,997
	$ 1,722,574	$ 1,833,177

10. Income Taxes

Income tax expense comprises current and deferred tax. Current and deferred tax are recognized in net income except to the extent that it is recognized directly in equity or in other comprehensive income.

The significant components of the tax effect of the amounts recognized in other comprehensive income are composed of:

	2018	2017
Current tax		
Change in unrealized gain / losses on available-for-sale investments*	**$ -**	$ 5,734
	-	5,734
Deferred tax		
Change in unrealized gain / losses on available-for-sale investments*	**-**	(18,976)
	-	(18,976)
Total tax effect of amounts recorded in other comprehensive income	**$ -**	$ (18,976)

* As of January 1, 2018, investments are no longer classified as available-for-sale and, under IFRS 9, they are classified as FVTPL (Note 3).

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

	2018	2017
Income before income taxes	**$ 408,239**	$ (441,413)
Expected taxes based on the statutory rate	**$ 108,183**	$ (116,974)
Non deductible expenses	**9,626**	18,225
Over (under) provision in prior years	**(20,051)**	-
Non taxable dividends	**(18,536)**	(20,500)
Rate differential on future tax	**(5,191)**	-
Effect of small business deduction	**(44,346)**	-
Exempt income farm related	**(18,480)**	20,201
Equity loss on 2598738 Ontario Inc. booked on consolidation	**(3,833)**	-
Additional amortization booked on consolidation	**(14,144)**	-
Other	**3,079**	(1,315)
Total income tax expense	**$ (3,693)**	$ (100,363)

11. Intangible Asset

Intangible asset consists of a customer list arising on the purchase of Mount Forest Insurance Brokers Limited on July 19, 2016. Intangible assets are initially recorded as cost and subsequently measured at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized in (loss) income, is provided on a straight-line basis over the estimated finite useful life of the assets and is calculated as follows:

Customer list	8 years

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

The cost of the intangible asset as at December 31, 2018 was $421,774 (2017 - $421,774).

The accumulated amortization of the intangible asset as at December 31, 2018 was $160,121 (2017 - $106,748). Amortization during the year totalled $53,374 (2017 - $53,374).

The net book value of the asset as at December 31, 2018 was $261,653 (2017 - $315,026).

12. Property and Equipment

Property and equipment is initially recorded at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses. Depreciation is recognized in net income, is provided on a straight-line basis over the estimated useful life of the assets and is calculated as follows:

Building	2.5%
Leasehold improvements	10 years
Parking lot	8.0%
Equipment and fixtures	20.0% - 30.0%

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

12. Property & Equipment (continued)

	Land and building	Leasehold Improvements	Parking lot	Equipment and fixtures	Total
Cost					
Balance at January 1, 2017	$ 1,435,803	$ -	$ 34,121	$ 302,788	$ 1,772,712
Additions	475	-	-	4,008	4,483
Balance at December 31, 2017	1,436,278	-	34,121	306,796	1,777,195
Additions	-	504,091	-	30,958	535,049
Disposals	1,436,278	-	-	-	1,436,278
Removal from statement of financial position (fully depreciated)	-	-	34,121	232,490	266,611
Balance at December 31, 2018	**$ -**	**$ 504,091**	**$ -**	**$ 105,264**	**$ 609,355**
Accumulated Depreciation					
Balance at January 1, 2017	$ 666,924	$ -	$ 34,121	$ 279,994	$ 981,039
Depreciation	28,246	-	-	12,750	40,996
Balance at December 31, 2017	695,170	-	34,121	292,744	1,022,035
Depreciation	-	50,410	-	16,299	66,709
Disposals	695,170	-	-	-	695,170
Removal from statement of financial position (fully depreciated)	-	-	34,121	232,490	266,611
Balance at December 31, 2018	**$ -**	**$ 50,410**	**$ -**	**$ 76,553**	**$ 126,963**
Net book value: December 31, 2017	$ 741,108	$ -	$ -	$ 14,052	$ 755,160
December 31, 2018	**$ -**	**$ 453,681**	**$ -**	**$ 28,711**	**$ 482,392**

12. Property & Equipment (continued)

During the year, the Company completed the sale of their previous location which resulted in the carrying values of $435,130 and $305,980 being removed from buildings and land respectively.

13. Pension Plan

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

The amount contributed to the plan for 2018 was $172,982 (2017 - $163,482). The contributions were made for current service and these have been recognized in net (loss) income. The current service amount is determined by the plan actuary using the projected accrued benefit actuarial cost method. These contributions amount to 1.54% (2017 - 1.2%) 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 $173,000, which is based on payments made to the multi-employer plan during the current fiscal year.

The 2018 funding valuation revealed a surplus on the financial position of the plan, therefore, eliminating the expected payments for 2018 and 2019 according to the 2016 valuation, when a deficit of $6,908,598 in the plan was demonstrated as at the last triannual valuation and the Company set up a liability of total contribution of $87,527 over 2017, 2018 and 2019. Due to the change in financial position of the plan, the company reversed the liability accrued for 2018 and 2019, totalling $58,351. An equal amount has also been recognized as a reduction of pension expense.

14. Related Party Transactions

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

		2018		2017
Compensation				
Short term employee benefits and directors' fees	**$**	**189,130**	$	182,981
Premiums		**65,984**		69,272
Claims paid		**15,345**		32,137

15. Commitments

The Company has entered into an operating lease for its premises for 10 years. The future minimum lease payments are as follows:

		2018
No later than 1 year	**$**	**73,684**
Later than 1 year and not later than 5 years		**297,334**
Later than 5 years		**388,494**
	$	**759,512**

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, 2019 or later.

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

- *IFRS 16 Leases* supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. It eliminates the distinction between operating and finance leases from the perspective of the lessee. All contracts that meet the definition of a lease will be recorded in the statement. of financial position with a “right of use” asset and a corresponding liability. 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. The Company expects to recognize right-of-use assets and lease liabilities for its office lease and some office equipment. See note 15 for a schedule of lease commitments.

- *IFRS 17 Insurance Contracts* supersedes IFRS 4 Insurance Contracts. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts. IFRS 17 requires entities to measure insurance contract liabilities using updated estimates and assumptions that reflect the timing of cash flows and any uncertainty relating to insurance contracts. Additionally, IFRS 17 requires entities. to recognize profits as it delivers insurance services. The effective date for IFRS 17 is January 1, 2021. The Company has not yet determined the impact of adoption, however is expected to significantly impact the overall consolidated financial statements.

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