Dufferin Mutual Insurance Company

Consolidated Financial Statements

For the year ended December 31, 2019

Contents

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Independent Auditor's Report

To the Members 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, 2019, and the consolidated statements of operations and unappropriated members' surplus, comprehensive 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, 2019, 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.

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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 14, 2020

Dufferin Mutual Insurance Company
Consolidated Statement of Financial Position

December 31	2019	2018
Assets		
Cash	$ 1,985,811	$ 815,644
Investments (Note 5)	9,317,786	9,863,638
Due from reinsurer (Note 4)	-	40,527
Due from policyholders (Note 4)	2,060,631	1,706,642
Income taxes recoverable	-	126,190
Due from related party	15,000	15,000
Reinsurer's share of provisions for unpaid claims and adjusting expenses (Note 4)	2,426,765	3,362,769
Deferred policy acquisition expenditures (Note 4)	893,600	771,818
Prepaid expenses	21,883	21,883
Investment in associated company (Note 6)	571,860	602,225
Property and equipment (Note 12)	440,756	482,391
Right-of-use asset (Note 13)	605,653	-
Intangible asset (Note 11)	208,279	261,653
Deferred tax asset (Note 10)	18,864	27,685
	$ 18,566,888	$ 18,098,065
Liabilities		
Accounts payable and accrued liabilities	$ 430,634	$ 297,317
Unearned premiums (Note 4)	3,916,849	3,336,908
Due to reinsurer (Note 4)	117,333	-
Income taxes payable	148,937	-
Unpaid claims and adjustment expenses (Note 4)	5,114,867	6,953,837
Lease liability (Note 13)	620,114	-
	10,348,734	10,588,062
Members' surplus		
Unappropriated members' surplus	8,218,154	7,510,003
	8,218,154	7,510,003
	$ 18,566,888	$ 18,098,065

On behalf of the Board:

Kevin Green _______________ 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	2019	2018
Revenue		
Premiums written	$ **7,690,510**	$ 6,648,093
Change in unearned	**(579,941)**	(106,281)
Less: reinsurance ceded	**(1,540,585)**	(1,468,387)
Net premiums earned	**5,569,984**	5,073,425
Service charges	**66,685**	60,426
	5,636,669	5,133,851
Expenses		
Gross incurred losses and claims expenses	**2,633,093**	4,541,429
Reinsurance recoveries	**(446,114)**	(1,533,867)
Commissions expense	**1,362,769**	1,124,279
Operating expenses (Note 9)	**1,924,190**	1,722,574
	5,473,938	5,854,415
Net underwriting (loss) income	**162,731**	(720,564)
Other income		
Investment income (Note 7)	**742,761**	(40,086)
Gain on disposition of real estate property (Note 12)	**-**	1,168,889
Income before income taxes	**905,492**	408,239
Income taxes (recovery) (Note 10)		
Current	**188,520**	4,975
Deferred	**8,821**	(8,668)
	197,341	(3,693)
Net income for the year	**708,151**	411,932
Unappropriated members' surplus, beginning of year	**7,510,003**	6,409,187
Effect of adoption of IFRS 9 on January 1, 2018	**-**	688,884
Unappropriated members' surplus, end of year	$ **8,218,154**	$ 7,510,003

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

Dufferin Mutual Insurance Company
Consolidated Statement of Comprehensive Income

For the year ended December 31		2019		2018
Net income for the year	**$**	**708,151**	$	411,932
Other comprehensive income				
Unrealized gains on available for sale assets, net of income taxes payable of $Nil (2018 - $5,734)		-		-
Transfer of realized gains available for sale assets to statement of operations net of income taxes payable of $Nil (2018 - $18,976)		-		-
Total other comprehensive income		-		-
Comprehensive (loss) income for the year	**$**	**708,151**	$	411,932
Accumulated other comprehensive income, beginning of year	**$**	-	$	688,884
Effect of adoption of IFRS 9 on January 1, 2018		-		(688,884)
Other comprehensive income, for the year		-		-
Accumulated other comprehensive income, end of year	**$**	-	$	-

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		2019		2018
Cash provided by (used in)				
Operating activities				
Net income for the year	**$**	**708,151**	$	411,932
Adjustments for:				
Depreciation of property and equipment and right-of-use asset		**134,740**		66,708
Amortization of intangible asset		**53,374**		53,373
Interest and dividend income		**(297,333)**		(287,593)
Current income taxes		**188,520**		4,975
Deferred income taxes		**8,821**		(8,668)
Gain on disposition of real estate property		**-**		(1,168,889)
Bad debt expense		**136**		24,261
Change in market value of investments		**(491,456)**		296,557
Realized (gain) loss on disposal of investments		**(1,085)**		5,602
Equity pickup from 2098738 Ontario Inc.		**33,074**		14,464
Increase in investment in associated company		**(2,709)**		(20,725)
		334,233		(608,003)
Changes in working capitals and insurance contract related balances				
Changes in due from policyholders and reinsurers		**(196,129)**		(182,551)
Change in accounts payable and accrued liabilities		**133,317**		(27,684)
Change in deferred tax asset		**8,821**		(8,669)
Change in prepaid expenses		**-**		(16,233)
Change in deferred policy acquisition expenditures		**(121,782)**		(18,499)
Change in unearned premiums		**579,941**		106,280
Change in unpaid claims and adjustment expense		**(902,966)**		(186,021)
		(498,798)		(333,377)
Cash flows related to interest, dividends and income taxes				
Interest and dividends received		**250,128**		269,746
Income taxes (paid) recovered		**126,190**		(38,304)
Total cash (outflows) inflows from operating activities		**211,753**		(709,938)
Investing activities				
Sale of investments		**2,668,157**		1,153,220
Purchase of investments		**(1,631,100)**		(2,034,933)
Purchase of property and equipment		**(26,313)**		(535,049)
Disposal of property and equipment		**503**		1,897,955
Total cash outflows from investing activities		**1,011,247**		481,193
Financing activities				
Principal repaid on lease liability		**(52,833)**		-
Decrease in cash during the year		**1,170,167**		(228,745)
Cash, beginning of year		**815,644**		1,044,389
Cash, end of year	**$**	**1,985,811**	$	815,644

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 802 Main Street East Unit #4, 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 Regulatory Authority of Ontario ("FSRA"). 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 14, 2020.

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).
- The determination of lease term for some lease contracts in which the Company is a lessee that include renewal options and termination options, including whether the Company is reasonably certain to exercise such options and the determination of the incremental borrowing rate used to measure lease liabilities for each lease contract (Note 13)

(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, 2019 did not materially affect the Company's consolidated financial statements other than those described below.

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

IFRS 16 *Leases* (IFRS 16)

On January 1, 2019, the Company adopted IFRS 16 Leases (IFRS 16). IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less, or the underlying asset is of low value. IFRS 16 substantially carries forward the lessor accounting in IAS 17 - Leases ("IAS 17"), with the distinction between operating leases and finance leases being retained.

The Company adopted IFRS 16 using the modified retrospective approach without restatement of comparative figures. The Company elected to apply the practical expedient to not reassess whether a contract is, or contains a lease at the date of initial application. Contracts entered into before the transition date that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. The definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

IFRS 16 provides for certain optional practical expedients, including those related to the initial adoption of the standard. The Company applied the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Reliance on previous assessments on whether leases are onerous as opposed to preparing an impairment review under IAS 36 as at the date of initial application; and

- Applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term remaining as of the date of initial application.

(i) Recognition and measurement

As a lessee, the Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Company recognizes right-of-use assets and lease liabilities for most leases. However, the Company has elected not to recognize right-of-use assets and lease liabilities for some leases of low value assets based on the value of the underlying asset when new or for short-term leases with a lease term of 12 months or less.

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

On adoption of IFRS 16, the Company recognized a right-of-use asset and lease liability in relation to leases of a building which had previously been classified as an operating lease.

The lease liability and right-of-use asset was measured as follows:

- The lease liability was measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate as at January 1, 2019. The Company's incremental borrowing rate is the rate at which a similar borrowing could be obtained from an independent creditor under comparable terms and conditions; and

- The right-of-use asset was measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

(ii) Impacts on the Company's financial statements on January 1, 2019

The following table presents the impact of adopting IFRS 16 on the statement of financial position as at January 1, 2019:

	Balance, December 31, 2018	IFRS 16 adjustments	Adjusted balance, January 1, 2019
Right-of-use asset	$-	$672,948	$672,948
Prepaid expenses	-	-	-
Total assets	**$-**	**$672,948**	**$672,948**
Other payables	$-	$-	$-
Lease liability (i)	-	672,948	672,948
Total liabilities	**$-**	**$672,948**	**$672,948**

(i) When measuring the lease liability for the lease that was previously an operating lease, the Company discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted average incremental borrowing rate applied to the lease liability was 2.34%.

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

(iii) Reconciliation of operating lease commitments and aggregate lease liability

The following table reconciles the Company's operating lease commitments at December 31, 2018, as previously disclosed in the Company's financial statements, to the lease liabilities recognized on initial application of IFRS 16 at January 1, 2019:

	January 1, 2019
Minimum operating lease commitment disclosed as at December 31, 2018	$ 759,512
Effect of discounting using the incremental borrowing rate as at the date of initial application	(131,564)
Lease liabilities recognized at January 1, 2019	$ 627,948
Of which are:	
Current lease liabilities	$57,441
Non-current lease liabilities	570,507
	$ 627,948

(iv) Impacts on the Company's financial statements for the period ending December 31, 2019

As a result of initially applying IFRS 16, in relation to the lease that was previously classified as an operating lease, the Company recognized $627,948 of right-of-use asset and $627,948 of lease liability as at December 31, 2019.

Also in relation to those leases under IFRS 16, the Company recognized depreciation and interest costs, instead of operating lease expense. During the year ended December 31, 2019, the Company recognized $67,295 of depreciation expense and $15,183 of interest costs from this lease.

IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments* (IFRIC 23)

IFRIC 23 provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Interpretation requires:

- An entity to contemplate whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution;
- An entity to determine if it is probable that the tax authorities will accept the uncertain tax treatment; and

3. Adoption of new accounting standards (continued)

IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments* (IFRIC 23) (continued)

- If it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty.

The adoption of IFRIC 23 did not have a material impact on the Company's financial statements.

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 Regulatory Authority of Ontario ("FSRA"). Application for automobile rate increases are presented to FSRA by Farm Mutual Reinsurance Plan on behalf of members of Ontario Mutual Insurance Association ("OMIA"). FSRA 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 year ended December 31, 2019 and its impact on net premiums earned is as follows:

	2019	2018
Balance, beginning of the year	**$ 3,336,908**	$ 3,230,628
Premiums written	**7,690,510**	6,648,093
Changes in UEP recognized in income	**(579,941)**	(106,281)
Premiums earned during year	**(6,530,628)**	(6,435,532)
Balance, end of the year	**$ 3,916,849**	$ 3,336,908

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 Regulatory Authority 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, 2019 and 2018.

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, 2019 and its impact on fees, commissions and other acquisition expenses is as follows:

	2019	2018
Balance, beginning of the year	**$ 771,818**	$ 753,319
Acquisition expenses incurred	**1,494,645**	1,197,215
Expensed during the year	**(1,372,863)**	(1,178,716)
Balance, end of the year	**$ 893,600**	$ 771,818

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, 2019			December 31, 2018		
	Gross	Re-insurance	Net	Gross	Re-insurance	Net
Outstanding claims provision						
Long settlement term	$ 2,553,666	$ 1,223,960	$ 1,329,706	$ 3,350,998	$ 1,690,960	$ 1,660,038
Short settlement term	1,139,610	458,874	680,736	1,949,199	865,282	1,083,917
Facility Association and other residual pools	147,139	-	147,139	162,485	-	162,485
	3,840,415	1,682,834	2,157,581	5,462,682	2,556,242	2,906,440
Provision for claims incurred but not reported	1,274,452	743,931	530,521	1,491,155	806,527	684,628
	$ 5,114,867	$ 2,426,765	$ 2,688,102	$ 6,953,837	$ 3,362,769	$ 3,591,068

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, 2019 and its impact on claims and adjustment expenses is as follows:

	2019	2018
Unpaid claims liabilities - beginning of year – net of reinsurance	**$ 3,591,068**	$ 3,777,089
Decrease in estimated losses and expenses, for losses occurring in prior years	**(2,056,807)**	(1,734,605)
Provision for losses and expenses on claims occurring in the current year	**1,153,841**	1,548,584
Unpaid claims – end of year - net of reinsurance	**2,688,102**	3,591,068
Reinsurer's share	**2,426,765**	3,362,769
	$ 5,114,867	$ 6,953,837

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)

	Accident Year										
Reporting Date	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
At end of accident year	$ 12,431	$ 5,855	$ 6,864	$ 6,642	$ 2,594	$ 3,434	$ 2,671	$ 4,656	$ 5,009	$ 3,248	
1 year later	11,747	4,275	5,906	6,483	2,621	2,835	2,268	4,416	4,508		
2 years later	11,127	2,794	5,451	6,211	2,206	2,350	2,055	4,067			
3 years later	10,222	2,757	5,073	5,824	2,349	2,075	1,960				
4 years later	8,725	2,576	5,183	5,922	2,716	2,025					
5 years later	8,679	2,464	5,100	6,030	2,352						
6 years later	8,587	2,457	4,663	6,042							
7 years later	8,594	2,457	5,003								
8 years later	8,576	2,457									
9 years later	8,606										
10 years later											
Current estimate of ultimate cost	8,606	2,457	5,003	6,042	2,352	2,025	1,960	4,067	4,508	3,248	$ 40,268
Cumulative payments	8,587	2,457	4,642	5,997	2,338	2,010	1,481	3,456	3,207	1,539	35,714
Outstanding claims	$ 19	$ -	$ 361	$ 45	$ 14	$ 15	$ 479	$ 611	$ 1,301	$ 1,709	4,554
Liability for all prior accident years											125
Impact of discount and PFAD											300
Facility Association and risk sharing pool											136
Total gross outstanding claims											$ 5,115

4. Insurance Contracts (continued)

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

Net of reinsurance ('000's)

	Accident Year										
Reporting Date	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
At end of accident year	$ 3,009	$ 2,590	$ 3,222	$ 2,979	$ 2,087	$ 2,441	$ 2,263	$ 3,325	$ 3,127	$ 2,787	
1 year later	3,233	2,263	2,794	2,377	1,859	2,162	2,034	3,246	2,702		
2 years later	2,896	1,911	2,793	2,435	1,622	1,763	1,978	2,878			
3 years later	2,428	1,920	2,681	2,172	1,657	1,536	1,926				
4 years later	2,348	1,890	2,709	2,158	1,642	1,495					
5 years later	2,314	1,835	2,603	2,138	1,641						
6 years later	2,345	1,835	2,583	2,138							
7 years later	2,331	1,835	2,581								
8 years later	2,331	1,835									
9 years later	2,331										
Current estimate of ultimate cost	2,331	1,835	2,581	2,138	1,641	1,495	1,926	2,878	2,702	2,787	$ 22,314
Cumulative payments	2,331	1,835	2,548	2,137	1,627	1,480	1,481	2,660	2,468	1,536	20,103
Outstanding claims	$ -	$ -	$ 33	$ 1	$ 14	$ 15	$ 445	$ 218	$ 234	$ 1,251	2,211
Liability for all prior accident years											125
Impact of discount and PFAD											216
Facility Association and risk sharing pool											136
Total net outstanding claims											$ 2,688

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	
	2019	2018	**2019**	2018	**2019**	2018
5% increase in loss ratios						
Gross	**$ 243,658**	$ 205,525	**$ 99,073**	$ 176,662	**$ 38,537**	$ 33,293
Net	**199,806**	166,880	**78,830**	68,602	**29,296**	23,504
5% decrease in loss ratios						
Gross	**$(243,658)**	$(205,525)	**$ (99,073)**	$(176,662)	**$ (38,537)**	$ (33,293)
Net	**(199,806)**	(166,880)	**(78,830)**	(68,602)	**(29,296)**	(23,504)

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 (2018 - $240,000 for auto claim and $270,000 for property claim). It further limits the liability of the Company to the first $150,000 on any liability claim (2018 - $150,000). In addition, the Company has obtained reinsurance having an upper amount of $6,000,000 (2018 - $4,000,000), which limits the Company's liability to the first $810,000 (2018 - $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 year ended December 31, 2019 is as follows:

	2019	2018
Balance, beginning of the year	**$ 3,362,769**	$ 3,675,715
New claims reserve	**62,553**	1,209,877
Change in prior years' reserve	**320,964**	268,341
Submitted to reinsurer	**(1,319,521)**	(1,791,164)
Balance, end of the year	**$ 2,426,765**	$ 3,362,769

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 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.

	2019 Fair Value	2018 Fair Value
Guaranteed investment certificate (GIC)	**$ -**	$ 500,000
Bonds issued by:		
Canadian provincial (A or better)	**$ 3,627,497**	$ 3,952,826
Corporate:		
A or better	**2,533,660**	2,746,887
B to BBB	**523,182**	508,526
	6,684,339	7,208,239
Equity investments:		
Canadian listed companies	**1,876,425**	2,154,399
Canadian private company	**300,000**	-
US listed companies	**457,022**	-
	2,633,447	2,154,399
	$ 9,317,786	$ 9,862,638

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 66% (2018 - 68%.) 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, 2019	**$ -**	**$ 2,533,353**	**$ 4,150,984**	**$ -**	**$ 6,684,339**
Percent of Total	**0.0%**	**37.90%**	**62.10%**	**0.0%**	**100%**
December 31, 2018	$ 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%

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, 2019 a 1% move in interest rates, with all other variables held constant, could impact the market value of bonds and GIC by $352,637 (2018 - $367,880). 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, 2019, 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 $263,345 (2018 - $214,2011). This change would be recognized in profit or loss.

The Company is exposed to currency risk on its investments in the US Included in the statement of financial position are US denominated investments of $457,022 CDN (2018 - $nil CDN). If the US dollar weakened/strengthened by 5% against the Canadian dollar, all other variables held constant, the net effect on the Unappropriated members' surplus for the year would be $22,851 lower/higher (2018 - $nil).

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.

The fair value of the investment in the Canadian private company fluctuates based on the value of underlying net assets held by the private company. At December 31, 2019, the change in measurement inputs would not result in a material adjustment to the Company's investment.

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:

5. Investments (continued)

(e) Fair value measurement *(continued)*

- 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).

	Level 1	Level 2	Level 3	Total
December 31, 2019				
Bonds	**$ -**	**$ 6,684,339**	**$ -**	**$ 6,684,339**
Equities	**2,333,447**	**-**	**300,000**	**2,633,447**
Total	**$ 2,333,447**	**$ 6,684,339**	**$ 300,000**	**$ 9,317,786**

	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

There were no transfers between any levels of the fair value hierarchy for the years ended December 31, 2019 and 2018.

The investment in a Canadian private company is recorded at fair value and is not traded on an open market. The fair value of this investment is based on valuation techniques that include inputs that are not based on observable market data (unobservable inputs). Therefore, it is classified as Level 3.

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

	2019	2018
Interest income	$ **237,958**	$ 228,108
Dividend income	**67,919**	69,948
Realized (loss) gain on disposal of investments	**1,085**	(5,602)
Change in market value of investments	**491,456**	(296,557)
Investment expenses	**(22,583)**	(21,519)
Equity pickup from 2598738 Ontario Inc. (Note 6)	**(33,074)**	(14,464)
	$ **742,761**	$ (40,086)

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

	2019	2018
Advertising	**$ 14,180**	$ 11,623
Depreciation on property and equipment	**54,744**	54,164
Depreciation of right-of-use asset	**53,836**	-
Amortization on intangible asset	**53,374**	53,374
Association fees and training	**29,845**	30,823
Computer services	**287,977**	266,462
Employee benefits	**228,674**	158,725
Facility office costs	**3,601**	2,204
Interest expense	**19,220**	-
Inspection of risks and fire prevention	**16,696**	16,378
Occupancy costs	**79,093**	90,137
Postage and telephone	**17,227**	20,729
Printing, stationery and office	**20,336**	20,242
Professional fees	**102,113**	61,856
Provincial premium tax	**29,052**	24,093
Salaries and directors' fees	**738,205**	694,611
Statistics and assessments	**43,142**	38,095
Sundry	**59,366**	98,003
Travel	**73,509**	81,055
	$ 1,924,190	$ 1,722,574

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.

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 26.50% (2018 – 26.50%) are as follows:

	2019	2018
Income before income taxes	$ 905,492	$ 408,239
Expected taxes based on the statutory rate	$ 239,955	$ 108,183
Non deductible expenses	(10,612)	(4,518)
Over (under) provision in prior years	20,947	(20,051)
Non-deductible portion of claims liabilities	11,964	-
Non taxable dividends	(17,999)	(18,536)
Rate differential on future tax	-	(5,191)
Effect of small business deduction	(70,000)	(44,346)
Exempt income farm related	-	(18,480)
Equity loss (income) on 2598738 Ontario Inc. booked on consolidation	8,765	(3,833)
Other	14,321	3,079
Total income tax expense (recovery)	$ 197,341	$ (3,693)

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 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, 2019 was $421,774 (2018 - $421,774).

The accumulated amortization of the intangible asset as at December 31, 2019 was $213,495 (2018 - $160,121). Amortization during the year totalled $53,374 (2018 - $53,374).

The net book value of the asset as at December 31, 2019 was $208,279 (2018 - $261,653).

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, 2018	$ 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
Additions	-	-	-	25,811	25,811
Balance at December 31, 2019	**$ - $**	**504,091 $**	**- $**	**131,075 $**	**635,166**
Accumulated Depreciation					
Balance at January 1, 2018	$ 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
Depreciation	-	51,768	-	15,679	67,447
Balance at December 31, 2019	**$ - $**	**102,178 $**	**- $**	**92,232 $**	**194,410**
Net book value:					
December 31, 2018	$ - $	453,681 $	- $	28,711 $	482,392
December 31, 2019	**$ - $**	**401,913 $**	**- $**	**38,843 $**	**440,756**

13. Right-of-Use Asset and Lease Liability

At inception of a contract, the Company assess whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. This policy is applied to contracts entered into, or changed, on or after January 1, 2019. All leases are accounted for by recognizing a right-to-use asset and a lease liability except for:

- Leases of low value assets (based on the value of the underlying asset when new); and

- Short-term leases with a lease term of twelve months or less.

a) Nature of leasing activities (in the capacity as lessee)

The Company leases a building.

The building lease is for a period of 10 years, with two renewal options exercisable by the Company for an additional 5 years each after the end of the non-cancellable period. Extension options are included in the lease term when the Company is reasonably to exercise that option. The lease payments comprise fixed payments over the lease term and additional rent payments that are based on changes in market rates.

b) Recognition and initial measurement

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date.

The right-of-use asset is initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for lease payments made at or before commencement of the lease or initial direct costs incurred.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally the Company uses its incremental borrowing rate as the discount rate. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate (e.g. CPI or inflation). In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments that are not dependent on an index or rate are expensed in the period to which they relate.

13. Right-of-Use Asset and Lease Liability (continued)

c) Subsequent measurement

The right-of-use asset is subsequently measured at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate. The revised future lease payments are discounted at the same discount rate that applied on lease commencement. The lease liability is also remeasured when there is a change in the assessment of the term of any lease (for example, a change in the Company's assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised). The future lease payments over the revised term are discounted at the revised discount rate at the date of reassessment. In both cases, an equivalent adjustment is made to the carrying value of the right-of-use asset.

The right-of-use asset consists of the following:

	Building
Cost	
Balance at January 1, 2019	672,948
Additions	-
Balance at December 31, 2019	**$ 672,948**

	Building
Accumulated Depreciation	
Balance at January 1, 2019	-
Depreciation for the year	67,295
Balance at December 31, 2019	**$ 67,295**

Carrying amount	
at December 31, 2019	**$ 605,653**

13. Right-of-Use Asset and Lease Liability (continued)

c) Subsequent measurement

The lease liability consists of the following:

	Building
Cost	
Balance at January 1, 2019	672,948
Interest expense	15,183
Lease payments	(68,016)
Balance at December 31, 2019	**$ 620,115**

Amounts recognized in profit or loss

	2019	2018
Depreciation of right-of-use assets	$ 67,295	$ -
Interest expense on lease liability	15,183	-
Total operating lease expense	-	5,668
	$ 82,478	$ 5,668

Amounts recognized in the statement of cash flows

	2019	2018
Total cash outflow for lease	$ (52,833)	$ -

d) Liquidity risk

The Company does not face a significant liquidity risk with regard to its lease liability. The lease liability is monitored within the Company's finance function.

The following table sets out the contractual maturities, representing undiscounted contractual cash-flows, of the lease liability:

	2019
No later than 1 year	$ 71,322
Later than 1 year and not later than 5 years	308,197
Later than 5 years	306,308
	$ 685,827

14. 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 2019 was $92,565 (2018 - $31,309). The contributions were made for current service and these have been recognized in net income. The current service amount is determined by the plan actuary using the projected accrued benefit actuarial cost method. These contributions amount to 1.66% (2018 - 1.54%) 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 $22,000, which is based on payments made to the multi-employer plan during the current fiscal year.

December 31, 2019

15. Related Party Transactions

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

	2019	2018
Compensation		
Short term employee benefits and directors' fees	$ **195,212**	$ 189,130
Premiums	**70,624**	65,984
Claims paid	-	15,345

16. Standards, Amendments and Interpretations Not Yet Effective

Certain new standards, amendments to standards, and interpretations were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting years beginning after January 1, 2020 or later that the Company has decided not to adopt early.

Of those new standards, interpretations and amendments that are not yet effective, IFRS 17 *Insurance Contracts* is expected to have a material impact on the Company's financial statements in the period of initial application.

- *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, however the IASB has proposed to delay the effective date to January 1, 2022. The Company has not yet determined the impact of adoption, however is expected to significantly impact the overall financial statements.