SOUTH EASTHOPE MUTUAL INSURANCE COMPANY

CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015

South Easthope Mutual Insurance Company
Consolidated Financial Statements
For the year ended December 31, 2015

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Independent Auditor's Report

To the Policyholders of
SOUTH EASTHOPE MUTUAL INSURANCE COMPANY

We have audited the accompanying consolidated financial statements of SOUTH EASTHOPE MUTUAL INSURANCE COMPANY, which comprise the consolidated statement of financial position as at December 31, 2015, and the consolidated statements of comprehensive income, members' surplus and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of SOUTH EASTHOPE MUTUAL INSURANCE COMPANY as at December 31, 2015, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants
Woodstock, Ontario
January 28, 2016

SOUTH EASTHOPE MUTUAL INSURANCE COMPANY
Consolidated Statement of Financial Position

December 31	2015	2014
Assets		
Cash	$ 7,259,711	$ 9,716,248
Investments (Note 5)	34,308,267	35,738,279
Investment income accrued	77,054	89,606
Income taxes recoverable	624,649	-
Due from reinsurers (Note 9)	25,322	17,689
Due from policyholders	4,080,262	3,837,535
Reinsurers' share of provision for unpaid claims (Note 9)	6,427,652	6,370,173
Other receivables	79,579	230,355
Deferred policy acquisition expenses (Note 9)	614,574	577,679
Investment property (Note 6)	133,500	138,821
Property, plant & equipment (Note 7)	4,653,210	1,146,896
Intangible assets (Note 8)	1,019,208	132,307
Other assets	84,068	90,651
Deferred income taxes (Note 13)	6,100	83,439
	$59,393,156	$ 58,169,678
Liabilities		
Accounts payable and accrued liabilities	$ 508,038	$ 541,755
Provision for refund of premium	895,653	1,700,921
Income taxes payable	-	478,998
Unearned premiums (Note 9)	7,584,693	7,257,718
Long-term debt (Note 10)	867,328	-
Provision for unpaid claims (Note 9)	15,839,913	15,499,233
	25,695,625	25,478,625
Members' Surplus		
Unappropriated members' surplus	33,697,531	32,691,053
	$59,393,156	$ 58,169,678

Signed on behalf of the Board by:

, Director

, Director

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

SOUTH EASTHOPE MUTUAL INSURANCE COMPANY
Consolidated Statement of Comprehensive Income

For the year ended December 31	2015	2014
Underwriting income		
Gross premiums written	**$15,128,072**	$ 14,651,723
Less reinsurance ceded	**(1,823,415)**	(1,893,882)
Net premiums written	**13,304,657**	12,757,841
Less increase in unearned premiums	**(326,975)**	(138,554)
Net premiums earned	**12,977,682**	12,619,287
Service charges	**97,670**	61,135
	13,075,352	12,680,422
Direct losses incurred		
Gross claims and adjustment expenses	**7,656,634**	5,302,903
Less reinsurers' share of claims and adjustment expenses	**(706,804)**	594,386
	6,949,830	5,897,289
	6,125,522	6,783,133
Expenses		
Fees, commissions and other acquisition expenses	**2,099,029**	2,028,333
Other operating and administrative expenses (Note 14)	**2,061,119**	1,728,978
	4,160,148	3,757,311
Net underwriting income before refund	**1,965,374**	3,025,822
Refund of premium	**(848,299)**	(1,645,057)
Net underwriting income	**1,117,075**	1,380,765
Net (loss) income from subsidiary (Note 16)	**(278,897)**	19,353
Investment and other income (Note 17)	**394,260**	3,263,413
Income before taxes	**1,232,438**	4,663,531
Provision for income taxes (Note 13)	**225,960**	789,496
Comprehensive income for the year	**$ 1,006,478**	$ 3,874,035

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

SOUTH EASTHOPE MUTUAL INSURANCE COMPANY
Consolidated Statement of Members' Surplus

For the year ended December 31	2015	2014
Unappropriated members' surplus		
Balance, beginning of year	**$32,691,053**	$ 28,817,018
Comprehensive income for the year	**1,006,478**	3,874,035
Balance, end of year	**$33,697,531**	$ 32,691,053

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

SOUTH EASTHOPE MUTUAL INSURANCE COMPANY
Consolidated Statement of Cash Flows

For the year ended December 31	2015	2014
Operating activities		
Comprehensive income for the year	$ 1,006,478	$ 3,874,035
Adjustments for		
Depreciation of property, plant & equipment and intangible assets	373,400	158,669
Depreciation of investment property	5,321	5,390
Interest and dividend income	(1,440,097)	(1,591,332)
Provision for income taxes	225,960	789,496
Realized gains from disposal of investments	(415,349)	-
Unrealized losses (gains) on investments	1,399,107	(1,734,227)
Realized losses from disposal of property, plant & equipment	272,242	2,654
	1,427,062	1,504,685
Changes in working capital		
Change in due from policyholders and other receivables	(91,951)	(242,123)
Change in other assets	6,583	(12,842)
Change in accounts payable and other liabilities	(805,792)	1,487,408
	(891,160)	1,232,443
Changes in insurance contract related balances		
Change in due from reinsurers	(65,112)	2,664,185
Change in deferred policy acquisition expenses	(36,895)	(18,557)
Change in unearned premiums	326,975	138,554
Change in provision for unpaid claims	340,680	(2,492,124)
	565,648	292,058
Cash flows related to interest, dividends and income taxes		
Interest and dividends received	1,452,650	1,592,106
Income taxes paid	(1,285,485)	(20,956)
	167,165	1,571,150
Total cash inflows from operating activities	1,268,715	4,600,336
Investing activities		
Sale of investments	5,863,747	1,584,526
Purchase of investments	(5,417,469)	(1,203,661)
Proceeds on disposal of property plant & equipment	30,915	4,500
Purchase of property plant & equipment and intangibles assets	(5,069,773)	(224,288)
Total cash outflows from investing activities	(4,592,580)	161,077
Financing activities		
Repayment of long-term debt	(236,344)	-
Proceeds from long-term debt	1,103,672	-
Total cash inflows from financing activities	867,328	-
Net change in cash and cash equivalents	(2,456,537)	4,761,413
Cash and cash equivalents, beginning of year	9,716,248	4,954,835
Cash and cash equivalents, end of year	$ 7,259,711	$ 9,716,248

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

1. Nature of operations and summary of significant accounting policies

Reporting entity

SOUTH EASTHOPE MUTUAL INSURANCE COMPANY (the Company) is incorporated under the laws of Ontario and is subject to the Ontario Insurance Act. It is licensed to write property, liability, automobile, boiler and machinery, fidelity and farmer's accident insurance in Ontario. The Company's head office is located at 62 Woodstock St. S., Tavistock, Ontario.

The Company is subject to rate regulation in the automobile business that it writes. Before automobile insurance rates can be changed, a rate filing is prepared as a combined filing for most Ontario Farm Mutuals by the Farm Mutual Reinsurance Plan Inc. The rate filing must include actuarial justification for rate increases or decreases. All rate filings are approved or denied by the Financial Services Commission of Ontario. Rate regulation may affect the automobile revenues that are earned by the Company. The actual impact of rate regulation would depend on the competitive environment at the time.

These financial statements have been authorized for issue by the Board of Directors on January 28, 2016.

Basis of presentation

These financial statements include the financial statements of SOUTH EASTHOPE MUTUAL INSURANCE COMPANY and those of its subsidiary company, SEH COMPUTER SYSTEMS INC.

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

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

The financial statements are presented in Canadian dollars ("CDN"), which is also the Company's functional currency.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment of complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.

1. Nature of operations and summary of significant accounting policies (cont'd)

Significant accounting policies

Insurance contracts

Balances arising from insurance contracts primarily include the following:

(a) Premiums and unearned premiums

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

The Company earns premium income evenly over the term of the insurance policy generally using the pro rata method. The portion of the premium related to the unexpired portion of the policy at the end of the fiscal year is reflected in unearned premiums.

(b) Deferred policy acquisition expenses

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

(c) Provisions for unpaid claims and adjustment expenses

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

Claim liabilities are carried on an undiscounted basis.

1. Nature of operations and summary of significant accounting policies (cont'd)

(d) Liability adequacy test

At each reporting date the Company performs a liability adequacy test on its insurance liabilities less deferred policy acquisition expenses to ensure the carrying value is adequate, using current estimates of future cash flows which take into account the relevant investment return. If that assessment shows that the carrying amount of the liabilities is inadequate, any deficiency is recognized as an expense in the consolidated statement of comprehensive income. It is recognized by initially writing off the deferred policy acquisition expense and subsequently by recognizing any additional claims liability for claims provisions.

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

The Company enters into reinsurance contracts in the normal course of business in order to limit potential losses arising from certain exposures. Reinsurance premiums are accounted for in the same period as the related premiums for the direct insurance business being reinsured. Reinsurance liabilities, consist of premiums payable for the purchase of reinsurance contracts, are included in accounts payable and accrued liabilities and are recognized as an expense when due.

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

(f) Salvage and subrogation recoverable

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

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

(g) Refund from premium

Under the discretion of the board of directors, the Company may declare a refund to qualifying property policy holders based on the premiums paid in the fiscal period. This refund is recognized as a reduction of underwriting income in the period for which it is declared.

1. Nature of operations and summary of significant accounting policies (cont'd)

*Structured settlements, Fire Mutuals Guarantee Fund and financial guarantee cont*racts

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

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

These exposures represent financial guarantee contracts. The Company accounts for financial guarantee contracts in accordance with IFRS 4, Insurance Contracts.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits at call with banks, other short-term highly liquid investments with original maturities of three months or less. For cash flow statement presentation purposes, cash and cash equivalents includes bank overdrafts.

Financial instruments

The Company classifies its financial instruments into one of the following categories based on the purpose for which the asset was acquired or liability incurred. All transactions related to financial instruments are recorded on a trade date basis. The Company's accounting policy for each category is as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loan and receivables (including due from policyholders, bank balances and cash) are measured at amortized cost using the effective interest method, less any impairment.

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

1. Nature of operations and summary of significant accounting policies (cont'd)

Fair value through profit and loss

The Company does not have any instruments that are held for trading purposes. However, management has designated to voluntarily classify its investments at fair value through profit and loss. These instruments are carried at fair value with changes in fair value recognized in comprehensive income. Transaction costs on these instruments are expensed as incurred. Interest on debt securities classified as fair value through profit and loss is calculated using the effective interest method.

Other financial liabilities

Other financial liabilities include all financial liabilities and consist of accounts payable and accrued liabilities. These liabilities are initially recognized at fair value and subsequently carried at amortized cost.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements for invested assets are categorized into levels within a fair value hierarchy based on the nature of valuation inputs (Level 1, 2 or 3).

The fair value of other financial assets and financial liabilities is considered to be the carrying value when they are of short duration or when the instrument's interest rate approximates current observable market rates.

Investment property

The Company's investment property consists of land, building and furniture and fixtures held to earn rental income. Investment property is initially recorded at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses. Land is not depreciated. Buildings are depreciated on a straight-line basis over their estimated useful life of 20 years. Furniture and fixtures are depreciated on a straight-line basis over their estimated useful life of 5 years.

Rent receivable is recognized in net income and is recorded on a straight-line basis over the period of the lease. Where an incentive, such as a rent free period is given to a tenant, the carrying value of the investment property excludes any amount reported as a separate asset as a result of recognizing rental income on this basis.

1. Nature of operations and summary of significant accounting policies (cont'd)

Property, plant & equipment

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

Buildings	20 years
Land improvements	5 years
Leasehold improvements	10 years
Computer hardware	5 years
Furniture and fixtures	5 years
Vehicles	5 years

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

Intangible assets

Intangible assets consist of computer software, which are not integral to the computer hardware owned by the Company, developed software, and a customer list. Computer software is initially recorded at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses. Software is amortized on a straight-line basis over its estimated useful life of 3 or 4 years. Developed software relates to the cost of developing new products. These costs are capitalized and amortized over the expected useful life of the software. The customer list is amortized on a straight-line basis over its estimated useful life of 5 years. The depreciation expense is included in other operating and administrative expenses.

Impairment of non-financial assets

Non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly.

For the purpose of assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows.

Impairment charges are included in comprehensive income.

1. Nature of operations and summary of significant accounting policies (cont'd)

Income taxes

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

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit or loss.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The amount of the deferred tax asset or liability is measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date and are expected to apply when the liabilities are settled or assets are recovered.

Pension plan

The Company participates in an employer defined benefit pension plan, however, sufficient information is not available to use defined benefit accounting. Therefore, the Company accounts for the plan as if it were a defined contribution plan, recognizing contributions as an expense in the year to which they relate.

Provisions

Provisions are recognized for liabilities of uncertain timing or amounts that have arisen as a result of past transactions, including legal, equitable or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

1. Nature of operations and summary of significant accounting policies (cont'd)

Foreign currency translation

Foreign currency accounts are translated into Canadian dollars as follows:

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year-end date, monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at the year-end date and the related translation differences are recognized in net income.

Leased assets

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the Company (a "finance lease"), the asset is treated as if it had been purchased outright. The amount initially recognized as an asset is the lower of the fair value of the leased property and the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are split between capital and interest. The interest element is charged to the Consolidated Statement of Comprehensive Income over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Company (an "operating lease"), the total rentals payable under the lease are charged to the Consolidated Statement of Comprehensive Income on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognized as a reduction of the rental expense over the lease term on a straight-line basis.

1. Nature of operations and summary of significant accounting policies (cont'd)

New Standards, interpretations and amendments effective from January 1, 2015

There were no new standards, interpretations and amendments, effective for the first time from January 1, 2015 that have had a material effect on the financial statements.

New standards, interpretations and amendments not yet effective

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been early adopted by the Company.

Information on new standards, amendments and interpretations that are expected to be relevant to the Company's financial statements is provided below. Certain other new standards, amendments, and interpretations have been issued but are not expected to have a material impact on the Company's financial statements.

IFRS 9 Financial Instruments

IFRS 9 amends the requirements for classification and measurement of financial assets, impairment, and hedge accounting. IFRS 9 introduces an expected loss model of impairment and retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through profit or loss, and fair value through other comprehensive income. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The effective date for IFRS 9 is January 1, 2018. The Company is in the process of evaluating the impact of the new standard.

IFRS 16 Leases

IFRS 16 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 is in the process of evaluating the impact of the new standard.

Amendments to IAS 1 Presentation of Financial Statements

The amendments to IAS 1 are a part of a major initiative to improve disclosure requirements in IFRS financial statements. The amendments clarify the application of materiality to note disclosure and the presentation of line items in the primary statements provide options on the ordering of financial statements and additional guidance on the presentation of other comprehensive income related to equity accounted investments. The effective date for these amendments is January 1, 2016. The Company is in the process of evaluating the impact of these amendments.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company's future financial statements.

2. Critical accounting estimates and judgments

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

Estimates

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change.

The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Provision for unpaid claims

The estimation of the provision for unpaid claims and the related reinsurers' share are the Company's most critical accounting estimates. There are several sources of uncertainty that need to be considered by the Company in estimating the amount that will ultimately be paid on these claims. The uncertainty arises because all events affecting the ultimate settlement of claims have not taken place and may not take place for some time. Changes in the estimate of the provision can be caused by receipt of additional claim information, changes in judicial interpretation of contracts, or significant changes in severity or frequency of claims from historical trends. The estimates are based on the Company's historical experience and industry experience. More details are included in Note 9.

Income taxes

The Company periodically assesses its liabilities and contingencies related to income taxes for all years open to audit based on the latest information available. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax provision.

3. Business Combination

On January 1, 2015, the subsidiary company purchased computer software and a customer list from Paul Nopper and Associates Inc. The final purchase price will be based on contingent consideration and is based on customer retention, conversion of software and future price increases. See Notes 8 and 10 for more details.

4. Financial instrument classification

The carrying amount of the Company's financial instruments by classification is as follows:

	Fair value through profit and loss	Loans and receivables	Other financial liabilities	Total
December 31, 2015				
Cash	**$ -**	**$ 7,259,711**	**$ -**	**$ 7,259,711**
Investments	**34,308,267**	**-**	**-**	**34,308,267**
Investment income accrued	**-**	**77,054**	**-**	**77,054**
Due from policyholders	**-**	**4,080,262**	**-**	**4,080,262**
Accounts payable and accrued liabilities	**-**	**-**	**(508,038)**	**(508,038)**
	$ 34,308,267	**$ 11,417,027**	**$ (508,038)**	**$ 45,217,256**
December 31, 2014				
Cash	$ -	$ 9,716,248	$ -	$ 9,716,248
Investments	35,738,279	-	-	35,738,279
Investment income accrued	-	89,606	-	89,606
Due from policyholders	-	3,837,535	-	3,837,535
Accounts payable and accrued liabilities	-	-	(541,755)	(541,755)
	$ 35,738,279	$ 13,643,389	$ (541,755)	$ 48,839,913

5. Investments

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

	December 31, 2015 Cost	December 31, 2015 Fair value	December 31, 2014 Cost	December 31, 2014 Fair value
Bonds issued by:				
Federal	$ 1,542,500	$ 1,685,188	$ 2,137,978	$ 2,295,049
Provincial	2,913,123	3,028,842	2,160,407	2,291,784
Municipal	308,143	327,393	309,445	320,535
Corporate				
AAA	2,772,458	2,869,103	4,229,050	4,321,556
AA	2,165,404	2,194,407	1,015,273	1,055,388
A	2,668,179	2,786,635	2,315,374	2,418,728
	12,369,807	12,891,568	12,167,527	12,703,040
Equity Investments				
Canadian Common				
Finance/Utility	2,690,877	4,566,194	2,857,433	4,878,936
Consumer	261,240	505,006	702,610	937,418
Mining/Energy/Industrials	3,333,074	3,474,019	3,171,382	4,554,841
Technology	111,964	258,297	143,544	338,000
US Common				
Finance/Utility	68,297	83,621	94,297	112,577
Consumer	397,231	935,276	452,856	877,487
Mining/Energy/Industrials	151,455	264,521	321,966	294,429
Technology	354,326	657,830	417,342	634,027
	7,368,464	10,744,764	8,161,430	12,627,715
Pooled Funds				
Canadian Fixed Income	10,928,162	10,633,770	10,428,176	10,371,353
Other Investments				
Fire Mutuals Guarantee Fund	38,165	38,165	36,171	36,171
Total Investments	$30,704,598	$34,308,267	$ 30,793,304	$ 35,738,279

5. Investments (cont'd)

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities using the last bid price;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1	Level 2	Level 3	Total
December 31, 2015				
Bonds	**$12,891,568**	**$ -**	**$ -**	**$12,891,568**
Equities	**10,744,764**	**-**	**-**	**10,744,764**
Pooled funds	**-**	**10,633,770**	**-**	**10,633,770**
Other investments	**-**	**38,165**	**-**	**38,165**
Total	**$23,636,332**	**$10,671,935**	**$ -**	**$34,308,267**
December 31, 2014				
Bonds	$ 12,703,040	$ -	$ -	$ 12,703,040
Equities	12,627,715	-	-	12,627,715
Pooled funds	-	10,371,353	-	10,371,353
Other investments	-	36,171	-	36,171
Total	$ 25,330,755	$ 10,407,524	$ -	$ 35,738,279

There were no transfers between Level 1 and Level 2 for the years ended December 31, 2015 and 2014.

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, 2015	**$ 614,195**	**$5,882,449**	**$6,394,924**	**$ -**	**$12,891,568**
Percent of Total	**4 %**	**46 %**	**50 %**	**- %**	
December 31, 2014	$ 4,153,455	$ 3,010,504	$ 5,539,081	$ -	$ 12,703,040
Percent of Total	32 %	24 %	44 %	- %	

The effective interest rate of the bonds portfolio held is 3.28% at December 31, 2015 (2014 - 3.39%).

6. Investment property

		Land		Buildings		Furniture and fixtures		Total
Cost								
Balance - January 1, 2014	$	60,000	$	105,000	$	1,362	$	166,362
Balance - December 31, 2014	$	60,000	$	105,000	$	1,362	$	166,362
Balance - December 31, 2015	**$**	**60,000**	**$**	**105,000**	**$**	**1,362**	**$**	**166,362**
Accumulated depreciation								
Balance - January 1, 2014	$	-	$	21,000	$	1,151	$	22,151
Depreciation expense		-		5,250		140		5,390
Balance - December 31, 2014	$	-	$	26,250	$	1,291	$	27,541
Depreciation expense		-		5,250		71		5,321
Balance - December 31, 2015	**$**	**-**	**$**	**31,500**	**$**	**1,362**	**$**	**32,862**
Net book value								
December 31, 2014	$	60,000	$	78,750	$	71	$	138,821
December 31, 2015	**$**	**60,000**	**$**	**73,500**	**$**	**-**	**$**	**133,500**

		2015		2014
Rental income from investment property	**$**	**6,000**	$	6,000
Direct operating costs of investment property	**$**	**9,266**	$	8,853

The fair value of the investment property is $165,000 (2014 - $165,000).

Investment properties were subject to external valuation performed by a local real estate brokerage. The fair value of investment property is determined by discounting the expected cash flows of the properties based upon internal plans and assumptions and comparable market transactions.

The investment property held by the Company is currently leased out on a month to month basis.

7. Property, plant & equipment

	Land	Buildings	Land improvements	Leasehold improvements	Computer hardware	Furniture and fixtures	Vehicles	Total
Cost								
Balance - January 1, 2014	$ 195,000	$ 688,984	$ 14,375	$ 274,813	$ 83,538	$ 345,410	$ 172,389	$ 1,774,509
Additions	-	92,818	-	-	49,883	16,515	30,341	189,557
Disposals	-	-	-	-	(29,756)	(13,810)	(26,827)	(70,393)
Balance - December 31, 2014	$ 195,000	$ 781,802	$ 14,375	$ 274,813	$ 103,665	$ 348,115	$ 175,903	$ 1,893,673
Additions	-	2,685,866	467,702	-	166,433	629,174	-	3,949,175
Disposals	-	(406,911)	(5,000)	-	(17,850)	(201,744)	-	(631,505)
Balance - December 31, 2015	**$ 195,000**	**$ 3,060,757**	**$ 477,077**	**$ 274,813**	**$ 252,248**	**$ 775,545**	**$ 175,903**	**$ 5,211,343**
Accumulated depreciation								
Balance - January 1, 2014	$ -	$ 129,282	$ 11,500	$ 76,666	$ 67,746	$ 301,565	$ 100,851	$ 687,610
Depreciation expense	-	34,449	2,875	27,649	15,291	18,640	23,502	122,406
Disposals	-	-	-	-	(29,755)	(13,811)	(19,673)	(63,239)
Balance - December 31, 2014	$ -	$ 163,731	$ 14,375	$ 104,315	$ 53,282	$ 306,394	$ 104,680	$ 746,777
Depreciation expense	-	35,852	3,898	27,649	25,014	23,202	24,088	139,703
Disposals	-	(118,682)	(5,000)	-	(14,572)	(190,093)	-	(328,347)
Balance - December 31, 2015	**$ -**	**$ 80,901**	**$ 13,273**	**$ 131,964**	**$ 63,724**	**$ 139,503**	**$ 128,768**	**$ 558,133**
Net book value of								
December 31, 2014	$ 195,000	$ 618,071	$ -	$ 170,498	$ 50,383	$ 41,721	$ 71,223	$ 1,146,896
December 31, 2015	**$ 195,000**	**$ 2,979,856**	**$ 463,804**	**$ 142,849**	**$ 188,524**	**$ 636,042**	**$ 47,135**	**$ 4,653,210**

8. Intangible assets

		Computer software		Developed software		Customer List		Total
Cost								
Balance - January 1, 2014	$	152,410	$	969,900	$	-	$	1,122,310
Additions		-		34,731		-		34,731
Disposals		(43,343)		-		-		(43,343)
Balance - December 31, 2014	$	109,067	$	1,004,631	$	-	$	1,113,698
Additions		157,345		9,581		953,672		1,120,598
Disposals		-		-		-		-
Balance - December 31, 2015	**$**	**266,412**	**$**	**1,014,212**	**$**	**953,672**	**$**	**2,234,296**
Accumulated depreciation								
Balance - January 1, 2014	$	117,753	$	870,718	$	-	$	988,471
Depreciation expense		32,290		3,973		-		36,263
Disposals		(43,343)		-		-		(43,343)
Balance - December 31, 2014	$	106,700	$	874,691	$	-	$	981,391
Depreciation expense		39,299		3,662		190,736		233,697
Balance - December 31, 2015	**$**	**145,999**	**$**	**878,353**	**$**	**190,736**	**$**	**1,215,088**
Net book value								
December 31, 2014	$	2,367	$	129,940	$	-	$	132,307
December 31, 2015	**$**	**120,413**	**$**	**135,859**	**$**	**762,936**	**$**	**1,019,208**

9. Insurance contracts

Due from reinsurers	2015	2014
Balance, beginning of the year	$ 17,689	$ 91,940
Submitted to reinsurer	643,054	1,983,360
Received from reinsurer	(635,421)	(2,057,611)
Balance, end of the year	$ 25,322	$ 17,689
Expected settlement		
Within one year	$ 5,775	$ 5,775
More than one year	$ 19,547	$ 11,914

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

Reinsurers share of provision for unpaid claims	2015	2014
Balance, beginning of the year	$ 6,370,173	$ 8,960,107
New claims reserve	2,729,050	847,151
Change in prior year's reserve	(2,028,517)	(1,453,725)
Submitted to reinsurer	(643,054)	(1,983,360)
Balance, end of the year	$ 6,427,652	$ 6,370,173
Expected settlement		
Within one year	$ 1,799,127	$ 33,560
More than one year	$ 4,628,525	$ 6,336,613

9. Insurance contracts (cont'd)

Deferred policy acquisition expenses	**2015**	2014
Balance, beginning of the year	**$ 577,679**	$ 559,122
Acquisition costs incurred	**1,233,658**	1,168,292
Expensed during the year	**(1,196,763)**	(1,149,735)
Balance, end of the year	**$ 614,574**	$ 577,679

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

Unearned premiums	**2015**	2014
Balance, beginning of the year	**$ 7,257,718**	$ 7,119,164
Premiums written	**15,128,072**	14,651,723
Premiums earned during year	**(14,801,097)**	(14,513,169)
Balance, end of the year	**$ 7,584,693**	$ 7,257,718

9. Insurance contracts (cont'd)

The following is a summary of the insurance contract provisions and related reinsurance assets.

	December 31, 2015			December 31, 2014		
	Gross	**Reinsurance**	**Net**	Gross	Reinsurance	Net
Outstanding claims provision						
Long term	**$ 9,441,848**	**$ 3,194,525**	**$ 6,247,323**	$ 9,922,408	$ 4,411,613	$ 5,510,795
Short term	**2,581,816**	**1,754,127**	**827,689**	1,257,656	13,560	1,244,096
Facility Association and other residual pools	**408,249**	**-**	**408,249**	464,169	-	464,169
	12,431,913	**4,948,652**	**7,483,261**	11,644,233	4,425,173	7,219,060
Provision for claims incurred but not reported	**3,408,000**	**1,479,000**	**1,929,000**	3,855,000	1,945,000	1,910,000
	$15,839,913	**$ 6,427,652**	**$ 9,412,261**	$ 15,499,233	$ 6,370,173	$ 9,129,060

9. Insurance contracts (cont'd)

Comments and assumptions for specific claims categories

The Company must participate in industry automobile residual pools of business, and recognizes a share of this business based on its automobile market share. The Company records its share of the liabilities provided by the actuaries of the pools.

Claims and adjustment expenses

Changes in claim liabilities recorded in the consolidated statement of financial position for the years ended December 31, 2015 and 2014 and their impact on claims and adjustment expenses for the two years are as follow:

	2015	2014
Unpaid claim liabilities - beginning of year – net of reinsurance	**$ 9,129,060**	$ 9,031,250
Decrease in estimated losses and expenses, for losses occurring in prior years	**(2,097,725)**	(1,265,155)
Provision for losses and expenses on claims occurring in the current year	**8,424,287**	6,528,258
Payment on claims:		
Current year	**(4,323,754)**	(3,364,117)
Prior years	**(1,719,607)**	(1,801,176)
Unpaid claims – end of year - net	**9,412,261**	9,129,060
Reinsurer's share and subrogation recoverable	**6,427,652**	6,370,173
	$ 15,839,913	$ 15,499,233

The change in estimate of losses occurring in prior years is due to new information received.

Claim development

The estimation of claim development involves assessing the future behaviour of claims, taking into consideration the consistency of the Company's claim handling procedures, the amount of information available, the characteristics of the line of business from which the claim arises and historical delays in reporting claims. In general, the longer the term required for the settlement of a group of claims the more variable the estimates. Short settlement term claims are those which are expected to be substantially paid within a year of being reported.

The tables that follow present the development of claims payments and the estimated ultimate cost of claims for the claim year 2007 to 2015. The tables show the cumulative amounts paid or estimated to be paid during successive years related to each claim year. The original estimates will be increased or decreased, as more information becomes known about the original claims and overall claim frequency and severity.

9. Insurance contracts (cont'd)

Gross claims	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
Gross estimate of cumulative claims cost										
At the end year of claim	$ 8,761,584	$ 11,470,647	$ 8,507,858	$ 8,913,514	$ 11,865,980	$ 8,221,979	$ 13,201,857	$ 7,375,409	$ 11,153,337	
One year later	9,473,679	9,786,729	7,196,376	8,558,935	10,566,877	7,938,886	12,596,858	6,420,753		
Two years later	9,068,841	8,655,600	5,361,577	9,680,616	9,961,805	7,412,083	11,539,464			
Three years later	9,137,483	8,002,677	5,068,524	9,405,995	9,173,590	6,183,122				
Four years later	8,887,857	7,979,539	4,606,417	8,200,839	8,563,230					
Five years later	8,632,142	7,985,483	4,504,855	8,457,253						
Six years later	8,952,810	7,985,169	4,492,846							
Seven years later	8,978,962	7,952,066								
Eight years later	8,838,421									
Current estimate of cumulative claims cost	8,838,421	7,952,066	4,492,846	8,457,253	8,563,230	6,183,122	11,539,464	6,420,753	11,153,337	$ 73,600,492
Cumulative payments	8,749,095	7,952,066	4,464,579	7,198,574	7,942,507	4,631,220	8,141,948	4,182,735	4,692,677	57,955,401
Outstanding claims	$ 89,326	$ -	$ 28,267	$ 1,258,679	$ 620,723	$ 1,551,902	$ 3,397,516	$ 2,238,018	$ 6,460,660	15,645,091
Outstanding claims 2006 and prior										194,822
Total gross outstanding claims and claims handling expense										**$15,839,913**

Net of Reinsurance	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
Net estimate of cumulative claims cost										
At the end year of claim	$ 6,933,378	$ 8,575,855	$ 7,459,571	$ 5,979,537	$ 8,631,722	$ 6,767,432	$ 8,605,416	$ 6,528,258	$ 8,424,287	
One year later	6,982,347	7,395,606	6,256,745	6,486,962	7,208,913	6,142,455	8,028,111	5,837,753		
Two years later	6,783,531	6,836,067	4,630,502	5,077,474	6,809,239	6,321,724	7,672,541			
Three years later	6,761,393	6,390,462	4,750,136	4,802,679	8,181,722	5,738,246				
Four years later	6,473,952	6,407,962	4,593,976	4,524,163	8,033,432					
Five years later	6,312,737	6,424,906	4,508,690	4,565,873						
Six years later	6,337,993	6,424,592	4,489,019							
Seven years later	6,328,740	6,391,489								
Eight years later	6,160,563									
Current estimate of cumulative claims cost	6,160,563	6,391,489	4,489,019	4,565,873	8,033,432	5,738,246	7,672,541	5,837,753	8,424,287	57,313,203
Cumulative payments	6,109,089	6,391,489	4,460,753	4,423,991	7,711,307	4,407,954	5,992,694	4,182,735	4,323,755	48,003,767
Outstanding claims	$ 51,474	$ -	$ 28,266	$ 141,882	$ 322,125	$ 1,330,292	$ 1,679,847	$ 1,655,018	$ 4,100,532	9,309,436
Outstanding claims 2006 and prior										102,825
Total net outstanding claims and claims handling expense										**$ 9,412,261**

10. Long-term Debt

	2015	2014
Loan payable to Paul Nopper and Associates Inc., repayable based on agreed upon variable repayment terms, due December 31, 2019	**$ 867,328**	$ -

The estimated purchase price is repayable over five years ending December 31, 2019. The purchase price provided is an estimate as the agreed price is based on customer retention, timing of conversion and future price increases.

Estimated principal repayments on long-term debt over the next four years are as follows:

2016	$ 307,385
2017	256,042
2018	178,897
2019	125,004
	$ 867,328

11. Other provisions and contingent liabilities

In common with the insurance industry in general, the Company is subject to litigation arising in the normal course of conducting its insurance business which is taken into account in establishing the provision for unpaid claims and adjustment expenses. There are no outstanding provisions in the current year outside of the unpaid claims and adjustment expenses.

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

12. Pension Plan

The Company makes contributions on behalf of its employees to the Ontario Mutual Insurance Association Pension Plan. This pension plan is accounted for as a multi-employer pension plan as defined by IAS 19 Employee Benefits. 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. Under the terms of the Ontario Mutual Insurance Association Pension Plan, the Company is liable for the obligations of other companies participating in the pension should they be unable to satisfy their respective funding requirements.

The Company is one of a number of employers who have pooled the assets and liabilities of the pension plan to take advantage of economies of scale in making investment decisions and in minimizing expenses. The information to account for the plan as a defined benefit plan is not readily available for each company to determine its share of the assets and liabilities of the plan. In the event of a wind-up or withdrawal from the plan, the Company is responsible for its portion of the deficit and all expenses as determined by the plan actuary.

The amount contributed to the plan for 2015 was $337,945 (2014 - $320,560). The contributions were made for current service and these have been recognized in comprehensive income. The current service amount is determined by the plan actuary using the projected accrued benefit actuarial cost method. These contributions amount to 6.16% 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 $348,083.

The defined benefit pension plan has been closed to future eligible employees effective July 1, 2013. The Company and all current employees who are accruing benefits under the defined benefit plan will continue to contribute to the defined benefit plan according to the existing terms of the agreement. Future eligible employees will become part of the defined contribution plan.

13. Income taxes

The Company is subject to income taxes on that portion of its income derived from insuring other than farm related risks.

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

	2015	2014
Current tax expense		
Based on current year taxable income	**$ 145,369**	$ 820,189
Adjustments to provision of prior periods	**3,252**	(14,773)
	148,621	805,416
Deferred tax expense		
Origination and reversal of temporary differences	**77,639**	(1,520)
Reduction in tax rate	**(300)**	(14,400)
	77,339	(15,920)
Total income tax expense	**$ 225,960**	$ 789,496

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 26.5%

	2015	2014
Income before taxes	**$ 1,232,438**	$ 4,663,531
Expected taxes based on the statutory rate of 26.5%	**326,596**	1,235,836
Income from insuring farm related risks	**(111,484)**	(337,741)
Canadian dividend income	**(87,924)**	(85,643)
Other non deductible expenses	**9,505**	8,428
Adjustments related to investments	**(5,305)**	(4,558)
Change in deferred tax rates on temporary differences	**12**	(14,406)
Adjustments to provisions of prior years	**3,252**	(14,773)
Other	**91,308**	2,353
Total income tax expense	**$ 225,960**	$ 789,496

13. Income taxes (cont'd)

The movement in 2015 deferred tax liabilities and assets are:

	Opening balance at Jan 1, 2015	Recognize in comprehensive income	Closing Balance at Dec 31, 2015
Deferred tax liabilities			
Intangible assets	$ (20,700)	$ 40,400	$ 19,700
Adjustments related to investments	(33,000)	(8,000)	(41,000)
	(53,700)	32,400	(21,300)
Deferred tax assets			
Property, plant & equipment	52,800	(150,300)	(97,500)
Claims liabilities	83,800	40,900	124,700
Other	539	(339)	200
	137,139	(109,739)	27,400
2015 net deferred tax asset movement	$ 83,439	$ (77,339)	$ 6,100

The movement in 2014 deferred tax liabilities and assets are:

	Opening balance at Jan 1, 2014	Recognize in comprehensive income	Closing Balance at Dec 31, 2014
Deferred tax liabilities			
Intangible assets	$ (13,600)	$ (7,100)	$ (20,700)
Adjustments related to investments	(34,400)	1,400	(33,000)
	(48,000)	(5,700)	(53,700)
Deferred tax assets			
Property, plant & equipment	42,700	10,100	52,800
Claims liabilities	72,300	11,500	83,800
Other	519	20	539
	115,519	21,620	137,139
2014 net deferred tax asset movement	$ **67,519**	$ **15,920**	$ 83,439

14. Other operating and administrative expenses

	2015	2014
Computer costs	**$ 188,038**	$ 190,795
Depreciation	**70,764**	71,442
Licenses, fees and dues	**56,400**	55,824
Postage and office supplies	**154,572**	157,704
Professional fees	**43,524**	38,516
Repairs and maintenance	**16,321**	12,810
Salaries, benefits and directors fees	**682,644**	639,163
Utilities	**39,871**	29,940
Other	**808,985**	532,784
	$ 2,061,119	$ 1,728,978

15. Salaries, benefits and directors fees

	2015	2014
Sales salaries, commissions and benefits	**$ 1,614,542**	$ 1,529,056
Other salaries and benefits	**935,546**	910,190
Directors fees	**123,282**	116,455
	$ 2,673,370	$ 2,555,701

16. Subsidiary operations

	2015	2014
Revenue	**$ 2,175,456**	$ 1,763,121
Expenses		
Salaries and benefits	**1,358,800**	1,175,258
Depreciation	**285,209**	69,115
General and administrative	**659,057**	373,766
Premise expenses	**151,287**	125,629
	2,454,353	1,743,768
	$ (278,897)	$ 19,353

17. Investment and other income

	2015	2014
Interest income	**$ 1,067,407**	$ 1,233,012
Dividend income	**372,690**	358,320
Realized gains on disposal of investments	**415,349**	-
Unrealized (losses) gains on investments	**(1,399,107)**	1,734,227
Investment expenses	**(72,399)**	(72,466)
Rental income	**10,320**	10,320
	$ 394,260	$ 3,263,413

18. Commitments

The Company entered into an operating lease for some of its computer hardware. The equipment is leased at $8,800 per month under a lease expiring in October 2017.

The Company entered into a building lease at $500 per month under a lease that will expire May 2016.

The Company's subsidiary has entered into five operating leases for some of its computer hardware. The leases run from June 2016 to December 2017.

The Company's subsidiary entered into a building lease that will expire in January 2020.

The minimum annual lease payments for the next five years is as follows:

2016	$ 233,117
2017	$ 180,855
2018	$ 38,630
2019	$ 39,407
2020	$ 40,184

19. 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:

	2015	2014
Short term employee benefits and directors' fees	$ 825,050	$ 718,921
Total pension and other post-employment benefits	74,912	68,553
	$ 899,962	$ 787,474
Premiums written	$ 98,085	$ 99,128
Claims paid	$ 49,134	$ 14,732

Amounts owing to and from key management personnel at December 31, 2015 are $16,585 (2014 - $34,913) and $31,435 (2014 - $32,267) respectively. The amounts are included in due from policyholders and accounts payable and accrued liabilities on the statement of financial position.

20. Capital management

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

The regulators measure the financial strength of property and casualty insurers using a minimum capital test (MCT). The regulators 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 regulator indicates that the Company should produce a minimum MCT of 150%. During the year, the Company has consistently exceeded this minimum. The regulator has the authority to request more extensive reporting and can place restrictions on the Company's operations if the Company falls below this requirement and if deemed necessary.

The Company uses a ratio of unappropriated members' surplus to gross premiums written to monitor capital adequacy. The ratio the board of directors desires for the Company is 1.5:1 (150%) with a minimum not less than a 1:1 (100%). The Company's Surplus to Premiums Ratio at December 31, 2015 was 223% (2014 - 223%).

The Company's objective is to maintain this ratio by increasing surplus in proportion to written premium. Accordingly, this ratio is the primary consideration in determining the amount of new business written, allocating new business budgets for agents and brokers and policyholder premium refunds in years the Company realizes an underwriting profit.

21. Financial instrument and Insurance risk management

Insurance risk management

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

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

The Company purchases reinsurance as part of its risks mitigation program. Retention limits for the excess-of-loss reinsurance vary by product line.

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

21. Financial instrument and Insurance risk management (cont'd)

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

The Company manages this risk via its underwriting and reinsurance strategy within an overall risk management framework. Exposures are limited by having documented underwriting limits and criteria. Pricing of property and liability policies are based on assumptions in regard to trends and past experience, in an attempt to correctly match policy revenue with exposed risk. 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. Reinsurance is purchased to mitigate the effect of the potential loss to the Company. Reinsurance is placed with Farm Mutual Reinsurance Plan Inc. (FMRP), a Canadian registered reinsurer.

The Company follows a policy of underwriting and reinsuring contracts of insurance which, in the main, limit the liability of the Company to an amount on any one claim of $450,000 in the event of a property claim, an amount of $450,000 in the event of an automobile claim and $450,000 in the event of a liability claim. The Company also obtained reinsurance which limits the Company's liability to $1,350,000 in the event of a series of claims arising out of a single occurrence. In addition, the Company has obtained stop loss reinsurance which limits the liability of all claims in a specific year to 70% of the gross net earned premiums incurred.

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, 2015 or 2014.

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, frequency of claims occurrence, expected loss ratios and claims development as described in Note 9.

21. Financial instrument and Insurance risk management (cont'd)

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

	Property claims		Auto claims		Liability claims	
	2015	2014	**2015**	2014	**2015**	2014
5% change in loss ratios would result in the following increase/decrease:						
Gross	**$ 375,567**	$ 355,134	**$ 325,495**	$ 324,766	**$ 55,342**	$ 52,686
Net	**$ 340,108**	$ 321,150	**$ 281,220**	$ 277,109	**$ 43,905**	$ 39,633

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.

Credit risk

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

The Company's investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits, corporate sector limits and general guidelines for geographic exposure. The bond portfolio remains a very high quality with 100% of bonds rated A or better. All fixed income portfolios are measured for performance on a quarterly basis and monitored by management on a monthly basis.

Reinsurance is placed with Farm Mutual Reinsurance Plan Inc. (FMRP), a Canadian registered reinsurer. Management monitors the creditworthiness of FMRP by reviewing their annual financial statements and through ongoing communications. Reinsurance treaties are reviewed annually by the board and management prior to renewal of the reinsurance contract.

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

The maximum exposure to investment credit risk is outlined in Note 5.

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.

21. Financial instrument and Insurance risk management (cont'd)

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of market factors. Market factors include three types of risk: currency risk, interest rate risk and equity risk.

The Company's investment policy operates within the guidelines of the Insurance Act. An investment policy is in place and its application is monitored by the Finance Committee and the Board of Directors. Diversification techniques are utilized to minimize risk. The Policy limits the investment in any one corporate issuer rated "AAA/AA" to a maximum of 5% and "A" to a maximum of 2.5% of the Company's fixed income portfolio. There is no single issuer limit on securities of the Government of Canada or of Provinces and guaranteed Crown Corporations rated A- or better.

The Company's investment policy limits investment in the Farm Mutual Canadian Fixed Income Pool Fund to a maximum of 50% of investible assets. Funds are invested in bonds and debentures of Federal, Provincial or Municipal Government and Canadian companies rated BBB or better. The fund is monitored by the Farm Mutual Pooled Fund Investment Committee appointed by the Ontario Mutual Insurance Association.

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.

Currency risk

Currency risk relates to the Company operating in different currencies and converting non Canadian earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur.

The Company's foreign exchange risk is related to 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 15% of the equity portfolio in accordance with its investment policy. Foreign currency changes are monitored by the investment committee and holdings are adjusted when offside of the investment policy. A 1% change in the value of the United States dollar would affect the fair value of stocks by $19,500 (2014 - $19,000) which would be recognized in comprehensive income.

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

21. Financial instrument and Insurance risk management (cont'd)

Interest rate risk

Interest rate risk is the potential for financial loss caused by fluctuations in fair value or future cash flows of financial instruments because of changes in market interest rates.

The Company is exposed to this risk through its interest bearing investments (bonds and fixed income pooled funds).

At December 31, 2015, a 1% move in interest rates, with all other variables held constant, could impact the market value of bonds by $690,000 (2014 - $520,000). Also, a 1% move in interest rates, with all other variables held constant, could impact the market value of the fixed income pooled fund by $638,000 (2014 – $622,000). These changes would be recognized in comprehensive income.

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

Equity risk

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

The Company's portfolio includes Canadian stocks with fair values that move with the Toronto Stock Exchange Composite Index and US stocks that move with the New York Stock Exchange. At December 31, 2015, 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 equities of $1,074,000 (2014 - $1,263,000). This change would be recognized in comprehensive income.

The Company's investment policy limits equity investments to 25% of total assets. Investment managers are mandated to follow the same conservative strategy that they have demonstrated to the Company since 1992. All stocks must be freely tradable and listed on a recognized stock exchange in Canada or the US. The Company investment policy limits the investment in any single issuer to a maximum of 15% by market value of the equity portfolio. In the 10 global classification sectors, sector weights are limited to a maximum of 35%. Holdings in the four economic sectors (Technology, Consumer, Energy/Industrials and Financials/Utilities) are maintained within 50% to 150% of the BMO/TSX CAP 10% index. The Investment Manager must suspend further sales when net realized losses in one quarter exceed $40,000.

Equities are monitored by the Finance Committee and holdings are adjusted following each quarter to ensure holdings are in compliance with the investment policy.

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

21. Financial instrument and Insurance risk management (cont'd)

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet all cash outflow obligations as they come due. The Company mitigates this risk by monitoring cash activities and expected outflows. The Company's current liabilities arise as claims are made. The Company does not have material liabilities that can be called unexpectedly at the demand of a lender or client. Claim payments are funded by current operating cash flow including investment income.

The Company’s investment policy requires that 2.5% to 7.5% of assets available for investments to be held in cash in an interest bearing demand account which includes a pre-approved line of credit to meet immediate cash flow requirements.

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.