The Kings Mutual Insurance Company
Consolidated Financial Statements
December 31, 2017

Contents

Independent auditor's report

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To the Policyholders of The Kings Mutual Insurance Company

We have audited the accompanying consolidated financial statements of The Kings Mutual Insurance Company, which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of operations, consolidated statement of comprehensive income, consolidated statement of changes in policyholders' equity and consolidated statement of 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 consolidated financial position of The Kings Mutual Insurance Company as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Grant Thornton LLP

Yarmouth, Nova Scotia
January 31, 2018

Chartered Professional Accountants
Licensed Public Accountants

The Kings Mutual Insurance Company
Consolidated Statement of Operations

Year Ended December 31	2017	2016
Underwriting		
Gross premiums written	**$ 11,890,481**	$ 11,030,874
Gross reinsurance premiums	**(1,356,990)**	(1,167,392)
Net written premium income	**10,533,491**	9,863,482
Increase in unearned premium reserve	**(423,328)**	(171,388)
Net earned premium income	**10,110,163**	9,692,094
Commission income	**137,322**	115,351
Total underwriting revenue	**10,247,485**	9,807,445
Net claims and adjusting expenses	**3,014,362**	3,243,099
Commission expense	**2,173,964**	1,782,466
Premium tax	**259,926**	278,867
Operating expenses (Note 19)	**3,439,407**	3,940,603
Total underwriting expenses	**8,887,659**	9,245,035
Net underwriting profit	**1,359,826**	562,410
Investment		
Interest income	**623,496**	603,493
Dividend income	**638,360**	619,624
Rental income	**40,350**	24,450
	1,302,206	1,247,567
Amortization of discount on investments	**(31,766)**	(44,848)
Investment expense	**(214,128)**	(91,141)
Gain on sale of investments	**873,726**	854,792
Net investment income	**1,930,038**	1,966,370
Net income from underwriting and investments	**3,289,864**	2,528,780
Policyholder rebates	**(1,630,000)**	(1,265,000)
Net income before provision for income taxes	**1,659,864**	1,263,780
Provision for income taxes (recovery) (Note 17)	**231,187**	(326,441)
Net income for the year	**$ 1,428,677**	$ 1,590,221

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

The Kings Mutual Insurance Company
Consolidated Statement of Comprehensive Income

Year Ended December 31		**2017**		2016
Statement of Comprehensive Income				
Net income for the year	**$**	**1,428,677**	$	1,590,221
Other comprehensive income				
Items that will be reclassified subsequently to net earnings				
Change in unrealized gain on available-for-sale investments, net of income tax		**1,082,842**		1,826,877
Reclassification to statement of operations		**(873,726)**		(854,792)
Income tax effect		**(59,200)**		(207,000)
Other comprehensive income		**149,916**		765,085
Total comprehensive income	**$**	**1,578,593**	$	2,355,306

The Kings Mutual Insurance Company
Consolidated Statement of Changes in Policyholders' Equity

Year Ended December 31		Policyholders' equity (Note 3)		Accumulated other comprehensive income (AOCI)		Total
Balance at December 31, 2015	$	27,543,530	$	2,258,914	$	29,802,444
Net income for the year		1,590,221		-		1,590,221
Adjustment on amalgamation, retained earnings		6,205,128		-		6,205,128
Changes in unrealized gain/losses on available-for-sale investments		-		765,085		765,085
Adjustment on amalgamation, changes in unrealized gains/losses on available-for-sale investments		578,449		-		578,449
Balance at December 31, 2016		35,917,328		3,023,999		38,941,327
Net income for the year		1,428,677		-		1,428,677
Changes in unrealized gain/losses on available-for-sale investments		-		149,916		149,916
Balance at December 31, 2017	$	37,346,005	$	3,173,915	$	40,519,920

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

The Kings Mutual Insurance Company
Consolidated Statement of Financial Position

December 31		2017		2016
Assets				
Cash and cash equivalents	**$**	**5,782,515**	$	3,529,838
Receivables		**1,939,694**		1,671,075
Reinsurance reserve for unpaid claims		**1,187,256**		1,347,841
Deferred policy acquisition costs		**1,376,909**		1,276,680
		10,286,374		7,825,434
Investments (Note 5)		**39,836,985**		40,060,693
Property and equipment (Note 8)		**1,588,499**		1,666,765
Deferred income tax asset (Note 17)		**37,000**		300,000
	$	**51,748,858**	$	49,852,892
Liabilities				
Payables and accruals (Note 9)	**$**	**2,064,516**	$	1,728,355
Reserve for unpaid claims		**2,999,037**		3,441,153
Unearned premium reserve		**6,165,385**		5,742,057
		11,228,938		10,911,565
Policyholders' equity				
Accumulated other comprehensive income		**3,173,915**		3,023,999
Policyholders' equity (Note 3)		**37,346,005**		35,917,328
	$	**51,748,858**	$	49,852,892

Commitments (Note 12)

Comparative figures (Note 18)

On Behalf of the Board

Chairman: Robert Wilson

Director: Don Cox

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

The Kings Mutual Insurance Company
Consolidated Statement of Cash Flows

Year Ended December 31		**2017**		2016
Operating				
Net income	**$**	**1,428,677**	$	1,590,221
Add (deduct) charges to operations not requiring a current cash payment:				
Depreciation		**102,720**		104,452
Unearned premium reserve		**423,328**		171,388
Deferred income taxes		**263,000**		(133,410)
Tax expense charged to other comprehensive income		**(59,200)**		(207,000)
Loss on sale of property and equipment		**1,843**		848
Gain on sale of investments		**(873,726)**		(854,792)
Amortization of discount on investments		**31,766**		44,848
		1,318,408		716,555
Change in non-cash operating working capital (Note 10)		**(314,218)**		995,540
		1,004,190		1,712,095
Investing				
Investment disposal proceeds		**9,361,056**		15,668,583
Purchase of investments		**(8,056,331)**		(16,069,400)
Accrued interest		**(29,941)**		(35,737)
Proceeds from disposal of fixed assets		**227**		3,000
Purchase of property and equipment		**(26,524)**		(66,337)
		1,248,487		(499,891)
Net change in cash and cash equivalents		**2,252,677**		1,212,204
Adjustment on amalgamation		**-**		(45,012)
Cash and cash equivalents, beginning of year		**3,529,838**		2,362,646
Cash and cash equivalents, end of year	**$**	**5,782,515**	$	3,529,838

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

1. Nature of business

The Kings Mutual Insurance Company ("the Company") is federally incorporated without share capital under the Insurance Companies Act and is domiciled in Canada. The address of the Company's registered office is 220 Commercial Street, Berwick, Nova Scotia. The Company is a general property and casualty insurer operating in the province of Nova Scotia.

2. Basis of preparation

(a) Statement of compliance

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

The consolidated financial statements were authorized for issue by the Board of Directors on January 31, 2018.

(b) Basis of consolidation

The Company accounts for its subsidiary using the consolidation method. These consolidated financial statements include the accounts of its subsidiary, KMI Brokerage Limited. All significant intercompany balances and transactions with the subsidiary have been eliminated.

(c) Basis of measurement

The consolidated financial statements have been prepared on a going concern basis under the historical cost basis, except for those financial assets and financial liabilities that have been measured at fair value as described in Note 4.

As permitted by IFRS 4 *Insurance Contracts*, the Company has applied Canadian generally accepted accounting principles ("GAAP") for its insurance contracts.

(d) Functional and presentation currency

The consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. Assets and liabilities denominated in foreign currencies are translated at the rates of exchange on the consolidated statement of financial position date. Revenues and expenses are translated at average exchange rates.

Unrealized gains and losses resulting from translation of currencies to the presentation currency are included as a component of comprehensive income. Realized currency gains and losses resulting from foreign currency transactions are included in income.

2. Basis of preparation (continued)

(e) Use of estimates and judgement

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgements, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

Note 4 (e)	Insurance contract assets
Note 4 (f)	Unpaid claims
Note 4 (j)	Depreciation
Note 4 (k)	Income taxes

(f) Critical judgements in applying the Company's accounting policies

Management has not made any critical judgments apart from those involving estimations in the process of applying the Company's accounting policies that have a significant effect on the amounts recognized in these consolidated financial statements.

3. Amalgamation

Effective January 1, 2016, The Kings Mutual Insurance Company and Pictou County Farmers' Mutual Fire Insurance Company executed a statutory amalgamation to form "The Kings Mutual Insurance Company." The amalgamation was performed by mutual consent of the Boards of Directors and approved at the Special General Meetings of both companies held on August 26, 2015. The former companies operating under the names of The Kings Mutual Insurance Company and Pictou County Farmers' Mutual Fire Insurance Company ceased to exist and all business is now transacted under the name The Kings Mutual Insurance Company. The amalgamation with Pictou County Farmers' Mutual Fire Insurance Company provided Contributed Surplus of $6,783,577 to Policyholders' Equity. This has been presented with Retained Earnings of $30,562,428 as Policyholders' Equity.

4. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

(a) Cash and cash equivalents

Cash and cash equivalents are comprised of cash on hand, balances with banks and highly liquid temporary investments which are readily convertible into cash and which are subject to an insignificant risk of changes in value. Bank borrowings are considered to be financing activities.

The estimated fair value of cash and cash equivalents approximate carrying values due to the relatively short term nature of the instruments.

(b) Financial assets

Non-derivative financial assets of the Company include: available-for-sale financial assets and loans and receivables. The Company initially recognizes loans and receivables and deposits on the date that they are originated at fair value. All other financial assets are recognized on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expires or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Available-for-sale financial assets

Available-for-sale financial assets include investments. Changes in fair value are recorded in other comprehensive income until the instrument is derecognized or impaired. Accumulated other comprehensive income (AOCI) is included in the consolidated statement of financial position as a separate component of equity (net of tax) and includes net unrealized gains and losses on available-for-sale assets.

Fair value is best evidenced by quoted market prices in an active market. Where quoted market prices are not available, the quoted prices of similar financial instruments or valuation models with observable market based inputs are used to estimate fair value. These valuation models may use multiple observable market inputs, including observable interest rates, foreign exchange rates, index levels, credit spreads, equity prices, counterparty credit quality, and corresponding market volatility levels. Minimal management judgement is required for fair values calculated using quoted market prices or observable market inputs for models. The calculation of estimated fair value is based on market conditions at a specific point in time and may not be reflective of future fair values.

4. Significant accounting policies (continued)

(b) Financial assets (continued)

The Company employs a fair value hierarchy to categorize the inputs it uses in valuation techniques to measure the fair value. The extent of use of (Level 1) quoted prices in active markets for identical assets or liabilities, (Level 2) inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly, and (Level 3) inputs for the asset or liability that are not based on observable market data in the valuation of securities as at the consolidated statement of financial position date is disclosed in Note 6.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest rate method, less any impairment losses.

Loans and receivables comprise mainly cash and cash equivalents and receivables arising from insurance contracts. The estimated fair value of cash and cash equivalents and receivables approximate carrying values due to the relatively short term nature of the instruments.

(c) Impairment of financial assets

Financial assets are assessed for indicators of impairment at each consolidated statement of financial position date. They are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. A significant or prolonged decline in fair value of an investment in an equity investment below its cost is considered to be objective evidence of impairment. The carrying amount of the financial asset is reduced by the impairment loss and is recognized in net income (loss) for the year.

In respect of available-for-sale equity instruments, impairment losses previously recognized through net income (loss) are not reversed through net income (loss) for the year. Any increase in fair value subsequent to an impairment loss is recognized directly in comprehensive income (loss) for the year.

Certain categories of financial assets, such as loans and receivables carried at amortized cost that are assessed to not be impaired individually, are subsequently assessed for impairment on a collective basis.

4. Significant accounting policies (continued)

(d) Financial liabilities

Financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, financial liabilities are measured at amortized cost using the effective interest rate method. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires.

Financial liabilities comprise payables arising from insurance contracts, trade payables and accrued liabilities. The estimated fair value of financial liabilities approximate carrying values due to the relatively short term nature of the instruments.

(e) Insurance contract assets

Insurance contract assets comprise reinsurance assets and deferred policy acquisition costs.

Reinsurance assets

Recoverable amounts from Farm Mutual Re in respect to unpaid claims are benefits of the Company and are recognized as reinsurance assets. These assets are estimated in a manner consistent with estimates of unpaid claims and in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting period or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the insurance asset that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the Farm Mutual Re. The impairment loss is then recorded in the consolidated statement of operations in the reporting period in which the Company determines objective evidence that the full amount or disputed amount due from Farm Mutual Re will not be collectible.

Deferred policy acquisition costs

Deferred policy acquisition costs comprise commissions, direct sales office expenditures and premium tax as they are directly related to the writing and renewal of insurance contracts. These costs are deferred and amortized on the same basis as unearned premiums and are reported in commissions, direct distribution, and premium tax expenses on the consolidated statement of operations.

4. Significant accounting policies (continued)

(f) Insurance contract liabilities

Insurance contract liabilities comprise unpaid claims and unearned premiums.

Unpaid claims

Unpaid claims is the estimated ultimate cost of all claims incurred but not settled on insurance contracts at the reporting date, whether reported to the Company or not, together with related claims handling costs. Unpaid claims are reported gross of any related recoverable. The recoverable is reported as an asset in reinsurance reserve for unpaid claims.

Unpaid claims are first determined on a case-by-case basis as insurance claims are reported and then reassessed as additional information becomes known. Reserving takes into account the consistency of the Company's claims handling procedures, the amount of information available, the characteristics of the line of business from which the claim arises and the delays in reporting claims. These reserves for unpaid claims and adjusting expenses are estimates and, as such, are subject to variability, which could be material in the near term. Changes to the estimates could result from future events such as receiving additional claim information, changes in judicial interpretation of contracts or significant changes in severity or frequency of claims from past trends. In general, the longer the term required for the settlement of a group of claims, the more variable the estimates.

Unpaid claims includes a provision to include claims incurred but not reported ("IBNR"), as well as a provision for adverse deviation, as required by Canadian accepted actuarial practice. Unpaid claims are discounted to take into account the time value of money. The discount rate reflects the estimated market yield of the underlying assets backing these unpaid claims. Several actuarial assumptions are used to calculate this discount rate. These may change from period to period in order to arrive at the most accurate and representative market yield based discount rate.

The estimated costs of all claims are calculated based on Canadian accepted actuarial practice as there is no active market for such liabilities. The provision consists of case estimates, a provision for further development of losses that have been reported but for which not enough has been recorded as paid or reserved, and a margin for adverse deviation. Estimates performed by the appointed actuary are completed using standard actuarial techniques and are based on assumptions such as historical loss development factors, payment patterns, future rates of insurance claims frequency and severity, inflation, expenses, changes in the legal environment, changes in the regulatory environment and other matters, taking into consideration the circumstances of the Company and the nature of the insurance contracts. These liabilities are recognized on the consolidated statement of financial position and changes are recognized in gross claims and adjustment expenses on the consolidated statement of operations. The liabilities are derecognized when the obligation to pay a claim expires, is discharged, or is cancelled.

4. Significant accounting policies (continued)

(f) Insurance contract liabilities (continued)

Unearned premiums

Unearned premiums are those proportions of premiums written in a year on insurance contracts that relate to periods of risk after the reporting date. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums and is recognized over the remaining term of the insurance contract in net premiums earned on the consolidated statement of operations.

At the end of each reporting period, a liability adequacy test is performed, in accordance with IFRS, to validate the adequacy of unearned premiums and deferred policy acquisition costs. A premium deficiency would exist if unearned premiums are deemed insufficient to cover the estimated future costs associated with the unexpired portion of written insurance contracts. A premium deficiency would be recognized immediately as a reduction of deferred policy acquisition costs to the extent that unearned premiums plus anticipated investment income is not considered adequate to cover all deferred policy acquisition costs and related insurance claims and expenses. If the premium deficiency is greater than the unamortized deferred policy acquisition costs, a liability is accrued for the excess deficiency.

(g) Revenue recognition

Gross premiums

Insurance premiums written comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period. The premiums are recognized on the date on which the policy commences. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior accounting periods. Premiums collected by intermediaries, but not yet received, are assessed based on estimates from underwriting or past experience and are included in premiums written.

Unearned premiums are calculated on a daily pro rata basis. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

Reinsurance premiums

Reinsurance premiums written comprise the total premiums payable for the whole period of cover provided by contracts entered into during the period and are recognized on the date on which the policy incepts. Premiums include any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior accounting periods. Reinsurance premiums are earned during the year as the reinsurance contract expires December 31 of each year.

4. Significant accounting policies (continued)

(g) Revenue recognition (continued)

Fees and commission income

Insurance contract policyholders are charged for policy administrations costs. These fees are recognized as revenue over the period in which the related services are performed. If the fees are for services provided in future periods, then they are deferred and recognized over those future periods.

Investment income

Interest income is recognized in the statement of operations as it accrues and is calculated by using the effective interest rate method. Fees and commissions that are an integral part of the effective yield of the financial asset or liability are recognized as an adjustment to the effective interest rate of the instrument.

Investment income also includes dividends when the right to receive payment is established.

Realized gains and losses

Realized gains and losses recorded in the consolidated statement of operations on investments include gains and losses on financial assets and investment properties. Gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the original or amortized cost and are recorded on occurrence of the sale transaction.

(h) Claims and expenses recognition

Gross claims

Gross claims include all claims occurring during the year, whether reported or not. These expenses include related internal and external claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

Reinsurance claims

Reinsurance claims are recognized when the related gross insurance claim is recognized according to the terms of the contract.

4. Significant accounting policies (continued)

(i) Property and equipment

Property and equipment is recorded at cost less accumulated depreciation and any recognized impairment loss. Depreciation is charged to write off the cost or valuation of property and equipment over their estimated useful lives using the following methods and rates.

Buildings	60 yrs, straight-line
Building attachments	20 yrs, straight-line
Land improvements	20 yrs, straight-line
Computer equipment	4 yrs, straight-line
Furniture and fixtures	10 yrs, straight-line
Leasehold improvements	20 yrs, straight-line

The assets' residual values and useful lives and method of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

Impairment reviews are performed when there are indicators that the carrying value may not be recoverable. The recoverable amount is determined as the higher of an asset's fair value less costs to sell and value in use. If an asset is impaired, the carrying amount is reduced to the asset's recoverable amount with an offsetting charge recorded in the consolidated statement of operations. If events or changes in circumstances indicate that a previously recognized impairment loss has decreased or no longer exists, the reversal is recognized in the consolidated statement of operations to the extent that the carrying amount of the asset after reversal does not exceed the carrying amount that would have been had no impairment taken place.

Gains and losses arising from the disposition of a property and equipment asset are measured as the difference between the net disposal proceeds and the carrying value of the asset and are reported in the consolidated statement of operations.

An item of property and equipment is derecognized upon disposal or when no further economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset, calculated as the difference between the net disposal proceeds and the carrying amount of the asset, is included in the consolidated statement of operations in the year the asset is derecognized.

(j) Depreciation

Property and equipment is depreciated using the straight-line method over the estimated useful lives of the assets. Management reviews useful lives and residual values of the depreciable assets at each reporting date, based on the expected utilization of the assets by the Company. Significant judgement is involved in the determination of useful lives and residual values and no assurance can be given that actual useful lives and residual values will not differ significantly from current assumptions.

4. Significant accounting policies (continued)

(k) Income taxes

The income tax expense represents income tax currently payable and deferred income tax.

The tax currently payable is based on taxable income for the year. Taxable income differs from net income as reported in the consolidated statement of operations because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the consolidated statement of financial position date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable income and is accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable income will be available against which deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each consolidated statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax is charged or credited in the statement of operations, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the Company intends to settle its current tax assets and liabilities on a net basis.

(l) Comprehensive income

Comprehensive income includes the change in a Company's net assets that results from transactions, events and circumstances from sources other than the Company's equity and includes items that would not normally be included in net income, such as unrealized gains and losses on available-for-sale financial assets.

(m) Business combinations

The consolidated financial statements incorporate the results of business combinations using the acquisition method. In the statement of financial position, the acquiree's identifiable assets and liabilities are initially recognized at their fair values at the acquisition date. In the statement of changes in policyholders' equity, the acquiree's net assets are recognized as a direct addition to contributed surplus. The results of acquired operations are included in the statement of operations from the date on which control is obtained.

4. Significant accounting policies (continued)

(n) New and Revised International Financial Reporting Standards in issue but not yet effective

IFRS 17 – Insurance contracts

The IASB has issued IFRS 17 Insurance Contracts, which replaces the similarly titled IFRS 4 effective January 1, 2021. The new standard will increase consistency for all insurance contracts, and change the measurement for insurance obligations to use current values instead of historical cost. The key features of the new standard are as follows:

- insurance contracts will be measured with current, explicit, and unbiased estimates of future cash flows, discount rates that reflect the characteristics of the contracts' cash flows, and explicit revenue is no longer equal to written premiums but to the change in the contract liability covered by consideration which is anticipated to increase volatility within the statement of earnings.
- premiums received will be deferred as a contractual service margin and allocated systematically to profit or loss as entities provide coverage and are released from risk.
- reinsurance contracts will apply a separate measurement model with modifications for qualifying short-term contracts and participating contracts.
- increased disclosure requirements.

The Company is currently evaluating the impact of these new standards and amendments on its consolidated financial statements

IFRS 9 – Financial instruments

In November 2009, the IASB issued IFRS 9 – Financial Instruments. This standard represents the completion of the first part of a three-part project to replace IAS 39 – Financial Instruments: Recognition and Measurement. The new standard reduces complexity by replacing the many different rules in IAS 39. The key features of the new standard are as follows:

- a business model test is applied first in determining whether a financial asset is eligible for amortized cost measurement. The business model objective is based on holding financial assets in order to collect contractual cash flows rather than realizing cash flows from the sale of the financial assets,
- in order to be eligible for amortized cost measurement an asset must have contractual cash flow characteristics representing principle and interest,
- all other financial assets are measured at fair value on the consolidated statement of financial position,
- an entity can elect on initial recognition to present the fair value changes on an equity investment that is not held for trading directly in other comprehensive income ("OCI"). The dividends on investments for which this election is made must be recognized in net income (loss) but gains and losses are not removed from OCI when the equity investment is disposed, and if a financial asset is eligible for amortized cost measurement an entity can elect to measure its fair value if it eliminates or significantly reduces an accounting mismatch. The standard is effective for years beginning on or after January 1, 2018, as an insurance company the adoption of IFRS 9 will be deferred until January 1, 2021 with the implementation of IFRS 17.

The Company is currently evaluating the impact of these new standards and amendments on its consolidated financial statements.

4. Significant accounting policies (continued)

(n) New and Revised International Financial Reporting Standards in issue but not yet effective (continued)

IFRS 15 Revenue from contracts with customers

The IASB has published *IFRS 15 Revenue from Contracts with Customers* which establishes a new control-based revenue recognition model and provides additional guidance on multiple deliverable arrangements, variable pricing, customer refund rights, supplier repurchase options and other complexities, effective January 2018. The key features of the new standard are as follows:

- contracts involving the delivery of two or more goods and services—when to account separately for the individual performance obligations in a multiple element arrangement, how to allocate the transaction price, and when to combine contracts,
- timing – when revenue is required to be recognized (over time or at a point in time),
- variable pricing and credit risk – how to treat arrangements with variable (e.g., performance-based) pricing, and how revenue can be constraint,
- time value of money – when to adjust a contract price for a financing component,
- specific issues, including: non-cash consideration and asset exchanges; contract costs; rights of return and other customer options; supplier repurchase options; warranties; principal versus agent; licensing; breakage; non-refundable upfront fees; and consignment and bill-and-hold arrangements.

The Company is currently evaluating the impact of these new standards and amendments on its consolidated financial statements but believes there will be no material change as a result of adoption.

5. Investments

The Company manages its investment portfolio in accordance with their Investment Policy which is in compliance with regulatory and statutory requirements.

The policy has both short term and long term objectives based upon preserving Company capital, increasing portfolio value, producing a stable level of investment income, meeting Company liquidity requirements and complying with the Company's level of risk tolerance.

Portfolio performance and compliance with the Investment Policy is reviewed at each Board meeting. The Investment Policy is reviewed and approved by the Board of Directors on an annual basis.

	2017	2016
	Market Value	Market Value
Guaranteed Investment Certificates (GICs)	**$ 6,565,859**	$ 7,154,055
Bonds		
Provincial	**4,587,083**	5,671,796
Municipal	**445,842**	461,603
Corporate	**9,010,917**	8,466,338
Total bonds	**14,043,842**	14,599,737
Equity investments		
Canadian common equity	**10,260,609**	8,722,003
Canadian preferred	**7,085,138**	7,337,751
U.S. common equity	**1,881,537**	2,247,147
Total equity investments	**19,227,284**	18,306,901
Total	**$ 39,836,985**	$ 40,060,693

5. Investments (continued)

	2017	2016
	Market Value	Market Value
GIC's – maturity profile		
Maturing within one year	**$ 4,482,971**	$ 883,174
Maturing between one and five years	**2,082,888**	6,270,881
	$ 6,565,859	$ 7,154,055
Bonds – maturity profile		
Maturing within one year	**$ 2,176,115**	$ 4,142,825
Maturing between one and five years	**10,456,547**	8,733,554
Mauturing in greater than five years	**1,411,180**	1,723,358
	$ 14,043,842	$ 14,599,737

6. Fair value hierarchy

Available-for-sale investments recorded at fair value by the level of the fair value hierarchy as at December 31, 2017:

	Level 1	**Level 2**	**Level 3**	**Total Fair Value**
Term deposits	**$ -**	**$ 6,565,859**	**$ -**	**$ 6,565,859**
Bonds	**-**	**14,043,842**	**-**	**14,043,842**
Common equity	**12,142,146**	**-**	**-**	**12,142,146**
Preferred equity	**7,085,138**	**-**	**-**	**7,085,138**
	$ 19,227,284	**$ 20,609,701**	**$ -**	**$ 39,836,985**

Available-for-sale investments recorded at fair value by the level of the fair value hierarchy as at December 31, 2016:

	Level 1	**Level 2**	**Level 3**	**Total Fair Value**
Term deposits	$ -	$ 7,154,055	$ -	$ 7,154,055
Bonds	-	14,599,737	-	14,599,737
Common equity	10,969,150	-	-	10,969,150
Preferred equity	7,337,751	-	-	7,337,751
	$ 18,306,901	$ 21,753,792	$ -	$ 40,060,693

7. Insurance contracts

Estimating claim development requires evaluating the future behaviour of claims, including consideration into the consistency of claim handling procedures, available information, characteristics related to the line of business claim occurs in and past delays in claims reporting. The longer the amount of time required for settlement of a claim, the greater the variable in the estimates. Short term claims are expected to be settled within a year of the reporting date.

The following tables show the development of claim payments and the estimated ultimate cost of claims for the years 2008 to 2017. The top half of the table provides the cumulative amounts paid or estimated to be paid in the years following for each claim year. Original estimates may be changed as additional information becomes available regarding the original claims as well as claim frequency and severity.

	Total all Insurance risks										
Year of loss	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
Estimate of ultimate claims costs											
at end of the year of loss	$ 3,779	$ 2,951	$ 3,797	$ 1,750	$ 2,151	$ 2,533	$ 3,185	$ 4,989	$ 3,393	$ 3,539	
one year later	$ 3,251	$ 2,851	$ 3,404	$ 1,572	$ 1,924	$ 2,336	$ 3,251	$ 4,925	$ 3,089		
two years later	$ 3,046	$ 2,837	$ 3,366	$ 1,525	$ 1,936	$ 2,394	$ 3,159	$ 4,483			
three years later	$ 3,142	$ 2,821	$ 3,335	$ 1,499	$ 1,881	$ 2,483	$ 3,174				
four years later	$ 3,328	$ 2,812	$ 3,335	$ 1,495	$ 1,879	$ 2,458					
five years later	$ 3,323	$ 2,809	$ 3,335	$ 1,494	$ 2,035						
six years later	$ 3,319	$ 2,806	$ 3,334	$ 1,492							
seven years later	$ 3,319	$ 2,806	$ 3,334								
eight years later	$ 3,319	$ 2,806									
nine years later	$ 3,319										
Current estimate of Unpaid claims	$ 3,319	$ 2,806	$ 3,334	$ 1,492	$ 2,035	$ 2,458	$ 3,174	$ 4,483	$ 3,089	$ 3,539	$ 29,727
Cumulative payments to date	$ 3,314	$ 2,802	$ 3,334	$ 1,491	$ 1,879	$ 2,448	$ 3,169	$ 4,405	$ 2,931	$ 2,358	$ 28,129
Outstanding claims	$ 5	$ 4	$ -	$ 1	$ 156	$ 10	$ 4	$ 78	$ 159	$ 1,181	$ 1,598
Outstanding claims 2007 and prior											$ 15
ULAE											$ 80
Facility Association											$ -
Effect of Discounting and PfAD											$ 118
Liability Recoverable from reinsurers											$ 1,188
Gross liabilities in statement of financial position											$ 3,000

8. Property and equipment

As at December 31, 2017

	Land & Improvements	Buildings	Office Equipment	Computer Equipment	Total
Gross carrying amount balance, Dec 31, 2016	$ 514,596	$ 1,303,252	$ 269,277	$ 603,909	**$ 2,691,034**
Additions	-	8,878	13,893	3,753	**26,524**
Disposals	-	-	-	(17,168)	**(17,168)**
	514,596	1,312,130	283,170	590,494	**2,700,390**
Depreciation and impairment balance, Dec 31, 2016	92,093	282,323	216,400	433,453	**1,024,269**
Depreciation	6,560	21,136	7,332	67,692	**102,720**
Disposals	-	-	-	(15,098)	**(15,098)**
	98,653	303,459	223,732	486,047	**1,111,891**
At December 31, 2017	**$ 415,943**	**$ 1,008,671**	**$ 59,438**	**$ 104,447**	**$ 1,588,499**

The Company did not record any impairment charges or reversals during the year.

As at December 31, 2016

	Land & Improvements	Buildings	Office Equipment	Computer Equipment	Total
Gross carrying amount balance, Dec 31, 2015	$ 427,904	$ 962,505	$ 264,787	$ 568,221	**$ 2,223,417**
Adjustment from amalgamation	82,092	335,601	2,826	1,818	**422,337**
Additions	4,600	5,146	6,817	49,774	**66,337**
Disposals	-	-	(5,153)	(15,904)	**(21,057)**
	514,596	1,303,252	269,277	603,909	**2,691,034**
Depreciation and Impairment balance, Dec 31, 2015	85,761	259,271	213,288	377,831	**936,151**
Depreciation	6,332	23,052	7,632	67,436	**104,452**
Disposals	-	-	(4,520)	(11,814)	**(16,334)**
	92,093	282,323	216,400	433,453	**1,024,269**
At December 31, 2016	**$ 422,503**	**$ 1,020,929**	**$ 52,877**	**$ 170,456**	**$ 1,666,765**

The Company did not record any impairment charges or reversals during the year.

9. Payables and accruals

	2017	2016
Agents	**$ 273,572**	$ 212,199
Policyholders' rebate	**1,630,921**	1,269,793
Other	**139,494**	215,542
Provincial premium tax	**20,529**	30,821
	$ 2,064,516	$ 1,728,355

10. Supplemental cash flow information

Change in non-cash operating working capital	2017	2016
Receivables	**$ (268,339)**	$ (175,315)
Reinsurance reserve for unpaid losses	**160,585**	786,288
Deferred policy acquisition costs	**(100,229)**	(182,810)
Payables and accruals	**336,161**	1,227,508
Reserve for unpaid claims	**(442,116)**	(1,382,492)
Income taxes	**(280)**	722,361
	$ (314,218)	$ 995,540

11. Recovery on corporate bond

During 2017, a recovery of $16,421 (2016 – $16,575) was received on a corporate bond previously written down in 2008. This has been recorded as a gain on sale of investments.

12. Commitments

The Company has entered into various vehicle, temporary office space, and office equipment lease agreements for various periods until 2021. Minimum payments are:

2018	$ 94,342
2019	66,080
2020	46,447
2021	26,336
	$ 233,205

The Company has pledged to donate $5,000 for the next five years to Valley Wildcats Major Bantam Hockey Club, $5,000 for the next three years to Acadia Athletics and $10,000 per year for the next four years to Annapolis Valley Farmland Trust.

13. Capital management

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

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

14. Insurance risk management

The principal risk the Company faces under insurance contracts is that the actual claims and benefit payments or 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 careful selection and implementation of underwriting strategy guidelines, the use of reinsurance arrangements and settling claims promptly.

Underwriting strategy

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. 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.

Reinsurance arrangements

The Company purchases reinsurance as part of its risks mitigation program. Reinsurance is placed with Farm Mutual Re, a Canadian registered reinsurer. 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 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.

14. Insurance risk management (continued)

Excess of Loss

The Company retains $450,000 on property claims with recoveries at 100% on amounts greater than retention, up to a total limit of $9 million per risk.

The Company retains $350,000 on liability claims with recoveries at 100% on amounts greater than retention, up to a total limit of $30 million per occurrence.

Catastrophe

Reinsurance also limits the Company's liability in the event of a catastrophe. The Company retains $1,350,000 with recoveries at 100% on amounts greater than retention.

Stop Loss

The Company recovers 90% of current year claims which exceed 80% of gross net earned premiums. If the current year losses exceed 200% of gross net earned premiums, the recovery rate increases to 100% on the excess.

Claims Settlement

Claims settlement is generally not a long process as most claims fall under the property class of business with remaining claims in the liability class. The Company does not offer automobile insurance significantly reducing the risk of long-tail claims. Typically, the Company settles claims within one year of being reported. This significantly reduces uncertainty about the amount and timing of claim payments. As such, additional information on these unpaid claims is not disclosed as permitted by *IFRS 4 - Insurance Contracts.*

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 and catastrophes. A concentration of risk may arise through insurance contracts issued in a specific geographic location since all insurance contracts are written in Nova Scotia.

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 claim costs, related expenses, and expected profit in relation to unearned premiums. There is no premium deficiency recorded during the current or prior year.

15. Financial instrument management

Interest rate risk

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

At December 31, 2017, a 1% move in interest rates, with all other variables held constant, could impact the market value of bonds and GICs by $317,011 (2016 - $320,068). For bonds and GICs that the Company did not sell during the year, the change during the period and changes prior to the period would be recognized as Other Comprehensive Income during the period.

Credit risk

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 high quality with 89.8% of the 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.

Below is the Company's exposure to credit risk by credit rating for bonds and debentures:

Credit Rating - Bonds	**2017**	2016
AAA	**$ 67,530**	$ 441,136
AA	**8,239,315**	7,866,021
A	**9,993,837**	10,279,783
BBB	**2,076,189**	3,166,852
BB	**232,830**	-
	$ 20,609,701	$ 21,753,792

Reinsurance is placed with Farm Mutual Re. Management monitors the creditworthiness of Farm Mutual Re by reviewing their annual financial statements and through ongoing communications. Reinsurance treaties are reviewed annually by management prior to renewal of the reinsurance contract.

Receivables are short term in nature and are not subject to material credit risk. However, the Company's maximum exposure to credit risk is $1,939,414 (2016 - $1,810,607). The Company minimizes credit risk on cash and cash equivalents and GICs through the utilization of different investments to spread the risk amongst various financial institutions.

15. Financial instrument management (continued)

Currency risk

Foreign currency risk is the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in exchange rates and produce an adverse impact on net income when measured in the Company's functional currency.

Net exposure to United States dollar denominated amounts (in United States Dollars) included in the balance sheet as at December 31 is:

	2017	2016
Cash	**$ 1,260,528**	$ 887,586
Investments	**2,669,510**	2,540,441
	$ 3,930,038	$ 3,428,027

Market risk

The Company utilizes the prudent person approach to asset management as required by the Insurance Companies Act. An investment policy is in place and is monitored by management and the Board of Directors. Diversification techniques are utilized to minimize risk. The policy limits investment in any one corporate issuer to a maximum of 5% of the Company's total assets.

The Company's portfolio includes Canadian equity investments with fair values that move with the Toronto Stock Exchange Composite Index and US equity investments with fair values that move with the S&P 500 Index.

A 1% movement in the stock markets with all other variables held constant would have an estimated affect on the fair values of the Company's Canadian common equity of $102,606 (2016 - $87,220). A 1% movement in the stock markets with all other variables held constant would have an estimated affect on the fair values of the Company's Canadian preferred equity of $70,851 (2016 - $73,377). A 1% movement in the stock markets with all other variables held constant would have an estimated affect on the fair values of the Company's United States common equity of $18,815 (2016 - $22,471).

Liquidity risk

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

16. Related party transactions

Director's fees are presented in Note 19. Compensation for the Company's key management personnel is set out below:

		2017		2016
Key management personnel				
Salaries	**$**	**500,525**	$	783,642
Short term employee benefits		**61,969**		90,160
Total remuneration	**$**	**562,494**	$	873,802

17. Income taxes

Deferred tax assets, and current / deferred income tax expense recognized in the consolidated statement of comprehensive income.

Deferred tax asset (liability)	**2017**	2016
Property, equipment and reserves	**$ 9,000**	$ 7,000
Investments	**(10,000)**	(3,000)
Losses, donations and other	**38,000**	296,000
	$ 37,000	$ 300,000

Current and deferred tax expense in other comprehensive income

	2017	2016
Current	**$ 53,700**	$ 203,000
Deferred	**5,500**	4,000
Current and deferred income tax expense	**$ 59,200**	$ 207,000

Income tax expense compared to statutory income tax rates

Income tax expense attributable to taxable income differs from the amounts computed by applying the combined federal and provincial income tax rate of 21.60% (2016 – 21.64%) to income before income taxes as a result of the following:

The provision for income tax expense is as follows:	**2017**	2016
Income before income taxes	**$ 1,659,864**	$ 1,263,780
Income tax expense at the statutory rate	**$ 358,503**	$ 273,496
Changes in income taxes		
Non-taxable dividend income	**(122,309)**	(116,989)
Loss utilized	**-**	(504,029)
Other	**11,955**	21,081
Deferred tax rate differential	**(16,962)**	-
	$ 231,187	$ (326,441)
Current income tax expense	$ **27,387**	$ 13,969
Deferred income tax expense (recovery)	**203,800**	(340,410)
	$ 231,187	$ (326,441)

18. Comparative figures

Certain of the comparative figures have been reclassified to conform to the consolidated financial statement presentation adopted for the current year.

19. Operating expenses

	2017	2016
Administrative salaries	**$ 951,069**	$ 1,336,883
Advertising	**83,330**	83,948
Agency (excluding commissions)	**27,337**	33,405
Allowance for doubtful accounts	**3,258**	2,490
Automobile and travel	**151,014**	214,704
Bureaus and associations	**22,480**	29,372
Direct distribution	**211,889**	347,664
Director's remuneration	**110,600**	121,100
Donations	**82,038**	38,676
EDP and statistical	**384,399**	327,700
Loss on sale of capital assets	**1,843**	848
Employee benefits	**195,564**	243,591
Fire prevention tax	**102,760**	104,796
Furniture and equipment	**9,754**	13,986
Inspections and investigations	**541,561**	550,116
Insurance	**41,632**	46,275
Miscellaneous	**100,474**	79,416
Occupancy - 220 Commercial Street	**85,178**	79,342
Occupancy - 222 Commercial Street	**7,655**	7,914
Occupancy - 8994 Commercial Street	**33,047**	29,270
Occupancy - 368 Faulkland Street	**31,497**	44,432
Postage and courier	**49,567**	46,290
Printing and stationary	**27,748**	36,904
Professional fees	**107,791**	90,062
Regulatory assessments	**56,500**	14,415
Telephone and other communication	**19,422**	17,004
	$ 3,439,407	$ 3,940,603