OXFORD MUTUAL INSURANCE COMPANY

FINANCIAL STATEMENTS

DECEMBER 31, 2015

OXFORD MUTUAL INSURANCE COMPANY

DECEMBER 31, 2015

CONTENTS

Bailey
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CHARTERED ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

To the Policyholders of
Oxford Mutual Insurance Company

We have audited the accompanying financial statements of Oxford Mutual Insurance Company, which comprise the statement of financial position as at December 31, 2015, and the statements of comprehensive income, policyholders' surplus and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Oxford Mutual Insurance Company as at December 31, 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Bailey Kearney Ferguson LLP

Wallaceburg, Ontario
February 24, 2016

Chartered Accountants
Licensed Public Accountants

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STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2015

	2015	2014
ASSETS		
Cash and bank	$ 1,040,981	$ 811,253
Investments (Note 4)	24,449,279	24,083,336
Investment income due and accrued	5,194	11,551
Income taxes recoverable	182,962	-
Due from reinsurers (Note 6)	-	10,877
Premiums receivable	3,161,103	3,073,600
Reinsurers' share of provision for unpaid claims (Note 6)	1,463,449	1,508,557
Prepaid expenses and other	103,021	96,670
Deferred policy acquisition expenses (Note 6)	870,781	836,174
Property, plant and equipment (Note 5)	881,467	1,010,684
Share of Facility Association assets	279,707	283,926
Deferred income taxes (Note 8)	30,000	25,000
	$ 32,467,944	$ 31,751,628
LIABILITIES		
Provision for unpaid claims (Note 6)	$ 7,644,600	$ 7,427,675
Accounts payable and accrued liabilities	890,893	1,012,479
Unearned premiums (Note 6)	5,535,052	5,344,866
Income taxes payable	-	140,909
	14,070,545	13,925,929
POLICYHOLDERS' SURPLUS		
Unappropriated policyholders' surplus	18,397,399	17,825,699
	$ 32,467,944	$ 31,751,628

APPROVED ON BEHALF OF THE BOARD

______________________________**Helen Johns, Director**

______________________________**Carlos Rodrigues, Director**

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

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2015

	2015	2014
GROSS INSURANCE PREMIUMS WRITTEN	$ 11,598,948	$ 11,259,742
REINSURANCE PREMIUMS	1,736,345	1,753,375
NET PREMIUMS WRITTEN	9,862,603	9,506,367
INCREASE IN PROVISION FOR UNEARNED PREMIUMS	190,187	7,830
NET PREMIUMS EARNED	9,672,416	9,498,537
SERVICE CHARGES	167,222	161,398
TOTAL UNDERWRITING REVENUE	9,839,638	9,659,935
DIRECT LOSSES INCURRED		
Gross claims and adjustment expenses	5,731,007	4,586,668
Less reinsurers' share of claims and adjustment expenses	(444,608)	25,710
	5,286,399	4,612,378
	4,553,239	5,047,557
EXPENSES		
Fees, commissions and other acquisition expenses (Note 10)	1,848,376	1,813,500
Other operating and administrative expenses (Note 11)	2,376,417	2,752,658
	4,224,793	4,566,158
NET UNDERWRITING INCOME	328,446	481,399
INVESTMENT AND OTHER INCOME (EXPENSE)		
Investment income (Note 12)	350,888	1,845,539
Premium refund to policyholders	12,975	6,765
	363,863	1,852,304
INCOME BEFORE INCOME TAXES	692,309	2,333,703
PROVISION FOR (RECOVERY OF) INCOME TAXES (Note 8)		
Current	125,609	404,091
Deferred	(5,000)	5,000
	120,609	409,091
COMPREHENSIVE INCOME FOR THE YEAR	$ 571,700	$ 1,924,612

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

STATEMENT OF POLICYHOLDERS' SURPLUS

FOR THE YEAR ENDED DECEMBER 31, 2015

	2015	2014
BALANCE, beginning of the year	$ 17,825,699	$ 15,901,087
Comprehensive income for the year	571,700	1,924,612
BALANCE, end of the year	$ 18,397,399	$ 17,825,699

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2015

	2015	2014
OPERATING ACTIVITIES		
Comprehensive income for the year	$ 571,700	$ 1,924,612
Items not requiring cash		
Depreciation	174,344	171,306
Deferred income taxes	(5,000)	5,000
Realized loss (gain) on disposal of investments	(660,214)	(294,513)
Unrealized losses (gains) on investments	1,132,248	(454,589)
	1,213,078	1,351,816
Net change in non-cash working capital balances		
Investment income due and accrued	6,357	(6,571)
Income taxes recoverable	(182,962)	84,568
Due from reinsurers	10,877	2,716
Premiums receivable	(87,503)	(62,438)
Reinsurers' share of provision for unpaid claims	45,108	477,881
Prepaid expenses and other	(6,351)	(51,902)
Deferred policy acquisition expenses	(34,607)	(12,292)
Share of Facility Association assets	4,219	10,521
Provision for unpaid claims	216,925	(768,908)
Accounts payable and accrued liabilities	(121,586)	94,262
Unearned premiums	190,186	7,830
Income taxes payable	(140,909)	140,909
Net cash provided by operating activities	1,112,832	1,268,392
INVESTING ACTIVITIES		
Proceeds from sale of investments	29,386,324	13,060,673
Purchase of investments	(30,224,301)	(14,066,203)
Additions to property, plant and equipment	(45,127)	(110,196)
Net cash used in investing activities	(883,104)	(1,115,726)
FINANCING ACTIVITIES		
Provision for premium refund to policyholders	-	(560,000)
Net cash used in financing activities	-	(560,000)
INCREASE (DECREASE) IN CASH, during the year	229,728	(407,334)
CASH AND BANK, beginning of the year	811,253	1,218,587
CASH AND BANK, end of the year	$ 1,040,981	$ 811,253

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

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

Oxford Mutual Insurance Company is incorporated under the laws of Ontario and is subject to the Ontario Insurance Act. It is licensed to write property, liability, automobile, accident and sickness, fidelity and boiler and machinery insurance in Ontario. The company's head office is located in Thamesford, 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 February 24, 2016.

SUBSEQUENT EVENT - AMALGAMATION

On January 16, 2015, the Company entered into a merger agreement with another farm mutual insurance company, North Waterloo Farmers Mutual Insurance Company, providing for the amalgamation of the two companies. On August 27, 2015, the mutual policyholders of both companies voted and approved the amalgamation of the two companies to create Heartland Farm Mutual Inc. The amalgamation was completed January 1, 2016 (Note 16).

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

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

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

The company's functional and presentation currency is the Canadian dollar. The financial statements are presented in Canadian dollars.

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 and complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.

SIGNIFICANT ACCOUNTING POLICIES

INSURANCE CONTRACTS

The company accounts for insurance contracts in accordance with IFRS 4.

Balances arising from insurance contracts primarily include unearned premiums, provision for unpaid claims and adjustment expenses, reinsurers' share of provision for unpaid claims and adjustment expenses, deferred policy acquisition expenses, and salvage and subrogation recoverable.

(a) PREMIUMS AND UNEARNED PREMIUMS

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

The company earns premiums on 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.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) REINSURANCE

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

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

(c) DEFERRED POLICY ACQUISITION EXPENSES

Acquisition costs are comprised of agents' and brokers' commissions. 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.

(d) PROVISION 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.

(e) LIABILITY ADEQUACY TEST

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

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) REINSURERS' SHARE OF PROVISIONS FOR UNPAID CLAIMS AND ADJUSTMENT EXPENSES

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

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

(g) 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.

(h) REFUND FROM PREMIUM

At the discretion of the board of directors the company may declare a refund to its policyholders based on the premiums paid in the fiscal period.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

STRUCTURED SETTLEMENTS, FIRE MUTUALS GUARANTEE FUND AND FINANCIAL GUARANTEE CONTRACTS

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 fail to fulfill 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 and unearned premium 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.

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:

Fair value through profit and loss

A financial asset is classified as fair value through profit or loss if it is classified as held-for-trading or is designated as such upon initial recognition. Financial assets are designated as fair value through profit or loss if the company manages such investments and makes purchases and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

Loans and Receivables

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

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

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other Financial Liabilities

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

PROPERTY, PLANT AND EQUIPMENT

Property, plant and 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 as follows:

Buildings	2.5 %
Computer equipment	20 %
Office furniture and equipment	10 %
Computer software	33 %

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

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. The company has two cash-generating units for which impairment testing is performed.

Impairment charges are included in net income, except to the extent they reverse gains previously recognized in other comprehensive income.

FACILITY ASSOCIATION

As a member of the Facility Association, the company records its proportionate share of the Association's revenue, expenses, unearned premiums and provision for unpaid claims.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

INCOME TAXES

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

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/(assets) are settled/(recovered).

DEFERRED PROFIT SHARING PLAN

Employees and agents of the company are eligible to participate in a group retirement savings plan offered by the company. Under the terms of the plan, the company will contribute a matching amount that is contributed by the individual at a specified percent. The amounts contributed by the company are vested immediately but are only accessible upon termination of the relationship with the company for any reason.

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 (continued)

FOREIGN CURRENCY TRANSLATION

Foreign currency accounts are translated into Canadian dollars as follows:

At the transaction date, each asset, liability, revenue, and expense denominated in a foreign currency is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year-end date, unsettled monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at the year-end date and the related translation differences are recognized in net income. Exchange gains and losses on non-monetary available-for-sale financial assets form part of the overall gain or loss recognized in respect of that financial instrument.

Non-monetary assets and liabilities that are measured at historical cost are translated into Canadian dollars by using the exchange rate in effect at the date of the initial transaction and are not subsequently restated. Non-monetary assets and liabilities that are measured at fair value or a revalued amount are translated into Canadian dollars by using the exchange rate in effect at the date the value is determined and the related translation differences are recognized in net income or other comprehensive income consistent with where the gain or loss on the underlying non-monetary asset or liability has been recognized.

LEASED ASSETS

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

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

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET EFFECTIVE

Certain new standards, amendments and interpretations have been published that are mandatory for the company's accounting period beginning on or after January 1, 2016 or later periods that the company has decided not to early adopt. The standards, amendments and interpretations that will be relevant to the company are:

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

None of the new standards, interpretations and amendments, which are effective for the company's accounting periods beginning after January 1, 2016 and which have not been adopted early, are expected to have a material effect 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 based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only; or in the period of the change and future periods, if the change affects both.

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

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 6.

Income taxes

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

3. FINANCIAL INSTRUMENT CLASSIFICATION

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

	Fair value through profit or loss	Loans and receivables	Other financial liabilities	Total
December 31, 2015				
Cash and bank	$ 1,040,981	$ -	$ -	$ 1,040,981
Investments	24,449,279	-	-	24,449,279
Investment income due and accrued	-	5,194	-	5,194
Premiums receivable	-	3,161,103	-	3,161,103
Accounts payable and accrued liabilities	-	-	(890,893)	(890,893)
	$ 25,490,260	$ 3,166,297	$ (890,893)	$ 27,765,664

	Fair value through profit or loss	Loans and receivables	Other financial liabilities	Total
December 31, 2014				
Cash and bank	$ 811,253	$ -	$ -	$ 811,253
Investments	24,083,336	-	-	24,083,336
Investment income due and accrued	-	11,551	-	11,551
Due from reinsurers	-	10,877	-	10,877
Premiums receivable	-	3,073,600	-	3,073,600
Accounts payable and accrued liabilities	-	-	(1,012,479)	(1,012,479)
	$ 24,894,589	$ 3,096,028	$ (1,012,479)	$ 26,978,138

All fair value through profit or loss investments were designated as such upon initial recognition.

4. 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.

	2015		2014	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Treasury bills	$ 906,305	$ 906,338	$ 1,557,943	$ 1,558,541
Bonds issued by				
Federal	2,554,251	2,558,719	2,046,082	2,054,881
	2,554,251	2,558,719	2,046,082	2,054,881
Equities				
Canadian	2,095,983	2,421,195	2,400,350	2,895,080
US	1,881,762	2,208,839	1,122,954	1,425,697
	3,977,745	4,630,034	3,523,304	4,320,777
Pooled funds				
Fixed income	15,452,913	14,965,835	14,837,681	14,671,208
Canadian equity	1,633,937	1,359,948	1,061,516	1,450,244
	17,086,850	16,325,783	15,899,197	16,121,452
Other investments				
Fire Mutuals Guarantee Fund	28,437	28,405	27,461	27,685
Total investments	$ 24,553,588	$ 24,449,279	$ 23,053,987	$ 24,083,336

4. INVESTMENTS (continued)

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

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

	Level 1	Level 2	Level 3	Total
December 31, 2015				
Treasury bills	$ -	$ 906,338	$ -	$ 906,338
Bonds	-	2,558,719	-	2,558,719
Equities	4,630,034	-	-	4,630,034
Pooled funds	-	16,325,783	-	16,325,783
Other investments	-	28,405	-	28,405
Total	$ 4,630,034	$ 19,819,245	$ -	$ 24,449,279
December 31, 2014				
Treasury bills	$ -	$ 1,558,541	$ -	$ 1,558,541
Bonds	-	2,054,881	-	2,054,881
Equities	4,320,777	-	-	4,320,777
Farm mutual pooled funds	-	16,121,452	-	16,121,452
Other investments	-	27,685	-	27,685
Total	$ 4,320,777	$ 19,762,559	$ -	$ 24,083,336

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

4. INVESTMENTS (continued)

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	$ 3,331,015	$ 7,706,558	$ 3,291,100	$ 4,102,218	$ 18,430,891
Percent of total	18 %	42 %	18 %	22 %	
December 31, 2014	$ 1,871,514	$ 7,596,096	$ 4,520,422	$ 4,296,598	$ 18,284,630
Percent of total	10 %	42 %	25 %	23 %	

The effective interest rate of the bond portfolio held is 3.5% and 2.2% at December 31, 2015 and 2014 respectively.

5. PROPERTY, PLANT AND EQUIPMENT

	Property, plant and equipment					
	Land	Buildings	Computer equipment	Office furniture and equipment	Computer software	Total
Cost						
Balance at January 1, 2014	$ 91,914	$ 1,100,026	$ 340,823	$ 310,894	$ 274,183	$ 2,117,840
Additions	-	-	22,294	3,152	84,750	110,196
Balance on December 31, 2014	91,914	1,100,026	363,117	314,046	358,933	2,228,036
Additions	-	38,353	-	6,774	-	45,127
Balance on December 31, 2015	$ 91,914	$ 1,138,379	$ 363,117	$ 320,820	$ 358,933	$ 2,273,163
Accumulated depreciation						
Balance at January 1, 2014	$ -	$ 410,189	$ 305,525	$ 228,674	$ 101,659	$ 1,046,047
Depreciation expense	-	27,482	17,526	11,785	114,512	171,305
Balance on December 31, 2014	-	437,671	323,051	240,459	216,171	1,217,352
Depreciation expense	-	27,677	20,079	12,076	114,512	174,344
Balance on December 31, 2015	$ -	$ 465,348	$ 343,130	$ 252,535	$ 330,683	$ 1,391,696
Net book value						
December 31, 2014	$ 91,914	$ 662,355	$ 40,066	$ 73,587	$ 142,762	$ 1,010,684
December 31, 2015	$ 91,914	$ 673,031	$ 19,987	$ 68,285	$ 28,250	$ 881,467

6. INSURANCE CONTRACTS

Due from reinsurers

		2015		2014
Balance, beginning of the year	$	10,877	$	13,593
Submitted to reinsurer		489,716		452,171
Received from reinsurer		(500,593)		(454,887)
Balance, end of the year	$	-	$	10,877
Expected settlement				
Within one year	$	-	$	10,877

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	$	1,508,557	$	1,986,438
New claims reserve		1,024,177		936,904
Change in prior years reserve		(579,569)		(962,614)
Submitted to reinsurer		(489,716)		(452,171)
Balance, end of the year	$	1,463,449	$	1,508,557
Expected settlement				
Within one year	$	75,171	$	224,582
More than one year		1,388,278		1,283,975
	$	1,463,449	$	1,508,557

Deferred policy acquisition expenses

		2015		2014
Balance, beginning of the year	$	836,174	$	823,882
Acquisition costs incurred		1,818,188		1,756,618
Expensed during the year		(1,783,581)		(1,744,326)
Balance, end of the year	$	870,781	$	836,174

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

6. INSURANCE CONTRACTS (continued)

Unearned premiums (UEP)

	2015	2014
Balance, beginning of the year	$ 5,344,866	$ 5,337,036
Premiums written	11,559,437	11,224,611
Premiums earned during year	(11,369,251)	(11,216,781)
Balance, end of the year	$ 5,535,052	$ 5,344,866

Insurance Contract Provisions and Related Reinsurance Assets

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

	December 31, 2015		
	Gross	Reinsurance	Net
Outstanding claims provision			
Short settlement term	$ 1,242,522	$ 75,171	$ 1,167,351
Long settlement term	2,583,409	561,279	2,022,130
Facility Association and other residual pools	344,669	-	344,669
	4,170,600	636,450	3,534,150
Provision for claims incurred but not reported	3,474,000	826,999	2,647,001
	$ 7,644,600	$ 1,463,449	$ 6,181,151

	December 31, 2014		
	Gross	Reinsurance	Net
Outstanding claims provision			
Short settlement term	$ 1,637,348	$ 224,582	$ 1,412,766
Long settlement term	1,483,120	223,975	1,259,145
Facility Association and other residual pools	397,207	-	397,207
	3,517,675	448,557	3,069,118
Provision for claims incurred but not reported	3,910,000	1,060,000	2,850,000
	$ 7,427,675	$ 1,508,557	$ 5,919,118

6. INSURANCE CONTRACTS (continued)

Comments and assumptions for specific claims categories

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

The company must participate in industry automobile residual pools of business, and recognize 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.

6. INSURANCE CONTRACTS (continued)

Claims and adjustment expenses

Changes in claim liabilities recorded in the 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 follow:

	2015	2014
Provision for unpaid claims, beginning of year	$ 7,427,675	$ 8,196,583
Increase (decrease) in estimated losses and expenses, for losses occurring in prior years	1,674,806	1,380,365
Provision for losses and expenses on claims occurring in the current year	4,056,200	3,206,301
Payment on claims:		
Current year	(3,506,089)	(3,222,132)
Prior years	(2,007,992)	(2,133,442)
Provision for unpaid claims, end of the year	$ 7,644,600	$ 7,427,675

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

Provision for unpaid claims and adjustment expenses

The determination of the provision for unpaid claims and adjustment expenses and the related reinsurers' share requires the estimation of three major variables which are the development of claims, reinsurance recoveries, and future investment income.

The Superintendent of the Financial Services Commission of Ontario has required that consideration of future investment income be disregarded except in the evaluation of automobile accident benefit claims.

Claim development

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

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

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

6. INSURANCE CONTRACTS (continued)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
Gross estimate of cumulative claims cost										
At the end year of claim	$ 4,402,071	$ 4,938,073	$ 5,723,885	$ 5,011,139	$ 4,813,657	$ 5,044,217	$ 5,170,589	$ 5,932,112	$ 6,993,179	
One year later	4,457,117	4,589,765	5,405,968	5,681,055	4,477,321	4,445,380	4,875,913	5,587,200		
Two years later	5,170,195	4,518,752	4,976,826	5,706,379	4,174,442	4,508,369	4,602,628			
Three years later	5,752,254	5,133,130	4,866,022	5,274,119	3,994,253	4,546,763				
Four years later	6,220,079	4,819,392	4,813,949	4,727,956	3,580,653					
Five years later	6,387,792	4,949,647	4,713,782	4,464,173						
Six years later	6,329,917	4,811,240	4,632,398							
Seven years later	6,204,721	4,811,240								
Eight years later	6,281,119									
Current estimate of cumulative claims cost	6,281,119	4,811,240	4,632,398	4,464,173	3,580,653	4,546,763	4,602,628	5,587,200	6,993,179	45,499,353
Cumulative payments	(6,281,119)	(4,811,240)	(4,632,398)	(4,348,854)	(3,433,812)	(3,364,024)	(3,257,914)	(4,219,303)	(3,506,089)	37,854,753)
Outstanding claims		-		115,319	146,841	1,182,739	1,344,714	1,367,897	3,487,090	7,644,600
Outstanding claims 2006 and prior										-
Total gross outstanding claims										**$ 7,644,600**

6. INSURANCE CONTRACTS (continued)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
Net estimate of cumulative claims cost										
At the end year of claim	$ 3,570,108	$ 4,835,203	$ 4,896,747	$ 4,701,404	$ 4,313,657	$ 4,560,249	$ 4,955,902	$ 5,447,378	$ 5,998,621	
One year later	3,431,183	4,327,214	4,437,530	4,535,607	3,977,322	3,801,630	4,661,226	5,305,185		
Two years later	3,708,350	4,260,108	3,985,888	4,323,267	3,879,443	3,891,895	4,460,043			
Three years later	3,654,429	4,202,692	3,865,565	4,338,996	3,874,254	4,003,025				
Four years later	3,748,544	4,128,565	3,775,469	3,887,833	3,578,731					
Five years later	3,817,882	4,258,820	3,773,653	3,769,050						
Six years later	3,812,432	4,120,413	3,711,626							
Seven years later	3,798,387	4,120,413								
Eight years later	3,763,446									
Current estimate of cumulative claims cost	3,763,446	4,120,413	3,711,626	3,769,050	3,578,731	4,003,025	4,460,043	5,305,185	5,998,621	38,710,140
Cumulative payments	(3,763,446)	(4,120,413)	(3,711,626)	(3,687,252)	(3,431,889)	(3,045,754)	(3,240,329)	(4,037,291)	(3,490,989)	32,528,989)
Outstanding claims		-		81,798	146,842	957,271	1,219,714	1,267,894	2,507,632	6,181,151
Outstanding claims 2006 and prior										-
Total net outstanding claims										**$ 6,181,151**

7. DEFERRED PROFIT SHARING PLAN

Contributions made during the year on behalf of the employees and agents amounted to $78,675 ($82,986 in 2014) and are included as an expense in the Statement of Comprehensive Income under Employee, agents and directors' benefits.

8. INCOME TAXES

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 26.5% (2014 - 26.5%) are as follows:

	2015	2014
Income before income taxes	$ 692,309	$ 2,333,703
Expected taxes based on the statutory rate of 26.5% (2014 - 26.5%)	183,462	618,431
Income from insuring farm related risks	(48,852)	(168,294)
Non deductible portion of claims liabilities	3,472	(3,935)
Other non taxable income	(17,010)	(11,825)
Capital cost allowance in excess of depreciation	10,440	(15,823)
Ontario small business deduction	-	(11,603)
Other	(5,903)	(2,860)
Total current income tax expense	$ 125,609	$ 404,091

8. INCOME TAXES (continued)

The movement in 2015 deferred tax liabilities and assets are:

	Opening balance at Jan 1, 2015	Recognize in net income	Recognize in OCI	Recognize directly in equity	Reclassify from equity to net income	Closing at Dec 31, 2015
2015						
Deferred tax liabilities						
Property, plant and equipment	$ 25,000	$ (8,000)	$ -	$ -	$ -	$ 17,000
Other	2,000	4,000	-	-	-	6,000
Deferred tax liability	27,000	(4,000)	-	-	-	23,000
Deferred tax assets						
Claims liabilities	52,000	1,000	-	-	-	53,000
Deferred tax asset	52,000	1,000	-	-	-	53,000
2015 net deferred tax asset movement	$ 25,000	$ 5,000	$ -	$ -	$ -	$ 30,000

8. INCOME TAXES (continued)

The movement in 2014 deferred tax liabilities and assets are:

	Opening balance at Jan 1, 2014	Recognize in net income	Recognize in OCI	Recognize directly in equity	Reclassify from equity to net income	Closing at Dec 31, 2014
2014						
Deferred tax liabilities						
Property, plant and equipment	$ 22,000	$ 3,000	$ -	$ -	$ -	$ 25,000
Other	4,000	(2,000)	-	-	-	2,000
Deferred tax liability	26,000	1,000	-	-	-	27,000
Deferred tax assets						
Claims liabilities	56,000	(4,000)	-	-	-	52,000
Deferred tax asset	56,000	(4,000)	-	-	-	52,000
2014 net deferred tax asset movement	$ 30,000	$ (5,000)	$ -	$ -	$ -	$ 25,000

	2015	2014
Deferred tax liability		
Deferred tax liabilities to be settled within 12 months	$ 6,000	$ 2,000
Deferred tax liabilities to be settled after more than 12 months	17,000	25,000
	23,000	27,000
Deferred tax assets		
Deferred tax assets to be recovered within 12 months	53,000	52,000
Net deferred tax liability (asset)	$ (30,000)	$ (25,000)

9. GROSS CLAIMS AND ADJUSTMENT EXPENSES

Included in gross claims and adjustment expenses was total compensation of $213,651 (2014 - $218,571).

10. FEES, COMMISSIONS AND OTHER ACQUISITION EXPENSES

	2015	2014
Commissions	$ 1,848,376	$ 1,813,500

11. OTHER OPERATING AND ADMINISTRATIVE EXPENSES

	2015	2014
Salaries	$ 566,269	$ 1,034,611
Directors' fees	91,650	78,600
Professional development, travel and conventions	97,339	118,099
Employee, agents and directors' benefits	187,293	230,373
Professional fees	73,861	62,969
Advertising	94,877	111,984
Premium tax	24,985	24,074
Computer	343,210	328,237
Utilities, municipal taxes and repairs	80,010	71,527
Insurance	30,302	31,446
Dues and fees	158,869	129,075
Loss prevention	93,858	93,727
Postage and telephone	37,163	34,062
Printing and stationery	75,070	75,200
Miscellaneous	247,317	157,368
Depreciation	174,344	171,306
	$ 2,376,417	$ 2,752,658

12. INVESTMENT AND OTHER INCOME

	2015	2014
Interest income	$ 706,969	$ 933,787
Dividend income	223,233	239,079
Realized gains on disposal of investments	660,214	294,513
Investment expenses	(107,280)	(76,429)
Change in unrealized gains on investments	(1,132,248)	454,589
	$ 350,888	$ 1,845,539

13. RELATED PARTY TRANSACTIONS

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

	2015	2014
Compensation		
Short-term employee benefits and director's fees	$ 446,770	$ 813,257
Post-employment benefits	16,025	19,760
	$ 462,795	$ 833,017
Premiums	$ 107,998	$ 112,102
Claims paid	$ 26,219	$ 8,450

Amounts owing to and from key management personnel at December 31, 2015 are $nil (2014 - $272,593) and $nil (2014 - $1,692) respectively. The amounts would have been included in accounts payable and accrued liabilities and prepaid expenses and other on the statement of financial position.

14. 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%. The MCT for the company at December 31, 2015 was 589% (2014 - 575%). The regulator has the authority to request more extensive reporting and can place restrictions on the company's operations if the company falls below this requirement and deemed necessary.

The company uses Net Risk Ratio (policyholders' surplus to gross premiums written) to monitor capital adequacy. The company benchmarks an adequate Net Risk Ratio to be over 1.20:1.00. The company's Net Risk Ratio at December 31, 2015 was 1.59:1.00 (1.58:1.00 for 2014).

For the purpose of capital management, the company has defined capital as policyholders' surplus.

15. FINANCIAL INSTRUMENT 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 and loss prevention services, as well as the use of reinsurance arrangements.

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

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

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

The company manages this risk via its underwriting and reinsurance strategy within an overall risk management framework. Exposures are limited by having documented underwriting limits and criteria. Pricing of property and liability policies are based on assumptions in regard to trends and past experience, in an attempt to correctly match policy revenue with exposed risk. 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; in this case the company has policies regarding renewal and new business accepted. 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 $320,000 (2014 - $300,000) in the event of a property claim, an amount of $320,000 (2014 - $300,000) in the event of an automobile claim and $320,000 (2014 - $300,000) in the event of a liability claim. For claims incurred over the respective limits, there was a 10% retention, to a specified maximum, for claims prior to 2012 while for all claims occurring in 2013 and after the entire amount of the claim incurred is recovered when that claim is over the respective limit. The company also obtained reinsurance which limits the company's liability to $960,000 (2014 - $900,000) in the event of a series of claims arising out of a single occurrence. The company also obtained stop loss reinsurance which limits the company's liability for all claims occurring in 2015 to 70% (2014 - 80%) of gross net earned premiums for all lines of business combined.

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 and 2014.

15. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

INSURANCE RISK MANAGEMENT (cont'd)

The risks associated with insurance contracts are complex and subject to a number of variables which complicate quantitative sensitivity analysis. The company's various techniques are based on past claims development experience to quantify these sensitivities. This includes indicators such as average claim cost, amount of claims occurrence, expected loss ratios and claims development as described in Note 6.

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

	Property Claims		**Auto Claims**		**Liability Claims**	
	2015	**2014**	**2015**	**2014**	**2015**	**2014**
5% increase in loss ratios						
Gross	$ (258,939)	$ (247,307)	$ (274,084)	$ (270,460)	$ (46,924)	$ (45,219)
Net	$ (204,099)	$ (194,671)	$ (201,830)	$ (205,273)	$ (29,330)	$ (27,490)
5% decrease in loss ratios						
Gross	$ 258,939	$ 247,307	$ 274,084	$ 270,460	$ 46,924	$ 45,219
Net	$ 204,099	$ 194,671	$ 201,830	$ 205,273	$ 29,330	$ 27,490

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.

15. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

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 company's investment policy limits investment in bonds and debentures to only fixed income investments with a BBB rating or better. Fixed income investments, unless maturing within one year, will be sold when their rating, where known, drops to a BB. High yield (non-investment grade) bonds are also permitted, but no more than 7% of the market value of fixed income investments may be invested in this category, where the mix of bonds held in this category has an average rating of B or higher. All fixed income portfolios are measured for performance on a quarterly basis and monitored by management on a monthly basis.

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

Premiums 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 4.

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.

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 and Investment Committee and the Board of Directors. Diversification techniques are utilized to minimize risk. The policy limits the investment in any one corporate issuer to a maximum of 5% of the company's total investments at market value.

15. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

(a) CURRENCY RISK

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

The company's foreign exchange risk is related to stock holdings which are limited to United States equities in sectors which are not readily available in Canada. The company limits its holding in foreign equity to 15% of the total investment portfolio in accordance with its investment policy. The company also limits investments in foreign currency denominated investments to a maximum of 5% of the market value of the entire portfolio. Foreign currency changes are monitored by the Finance and Investment Committee and holdings are adjusted when offside of the investment policy. At December 31, 2015 the foreign portion of the portfolio is 9.03% (2014 - 5.79%).

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

(b) INTEREST RATE RISK

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

The company is exposed to this risk through its interest bearing investments (Bankers Acceptances, T-Bills, GICs, Bonds, and Farm Mutual Pooled Funds - Canadian Fixed Income).

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 gain or losses in other comprehensive income. There are no occurrences where interest would be charged on liabilities; therefore, little protection is needed to ensure the fair market value of assets will be offset by a similar change in liabilities due to an interest rate change.

At December 31, 2015, a 1% move in interest rates, with all other variables held constant, could impact the market value of bonds by $966,000 (2014 - $952,000). 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.

15. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

(c) 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 equities with fair values that move with the Toronto Stock Exchange Composite Index and United States equities with fair values that move with the S&P 500 index. At December 31, 2015 a 10% 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 and United States common share investments of $590,000 (2014 - $577,000). This change would be recognized in comprehensive income.

The company's investment policy limits investment in preferred and common shares to a maximum of 30% of the market value of the portfolio with a target of 21.5%. At December 31, 2015 the equity portion of the portfolio was 23.83% (2014 -23.45%).

Equities are monitored by the Finance and Investment Committee and holdings are adjusted following each quarter if the investments are offside of the investment policy.

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. The company has no material commitments for capital expenditures and there is no need for such expenditures in the normal course of business. Claim payments are funded by current operating cash flow including investment income.

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

16. SUBSEQUENT EVENT - FORMATION OF HEARTLAND FARM MUTUAL INC.

The following is the consolidated opening balance sheet of the amalgamated company on January 1, 2016, reflecting the audited December 31, 2015 financial statements of the predecessor companies:

Consolidated Statement of Financial Position as of January 1, 2016

(in thousands of dollars)	North Waterloo Farmers Mutual Insurance Company	Oxford Mutual Insurance Company	Heartland Farm Mutual Inc.
ASSETS			
Cash and cash equivalents	$ 19,659	$ 1,041	$ 20,700
Invested assets	124,914	24,449	149,363
Due from brokers	4,231	-	4,231
Premiums receivable from policyholders	20,672	3,162	23,834
Accrued investment income	580	5	585
Insurance and other receivables	395	-	395
Income taxes receivable	-	183	183
Deferred income taxes	218	30	248
Reinsurers' share of unearned premiums	301	-	301
Reinsurers' share of unpaid claims and adjustment expenses	21,209	1,463	22,672
Deferred policy acquisition costs	13,703	870	14,573
Property and equipment	7,227	881	8,108
Intangible assets	1,424	-	1,424
Other assets	396	384	780
	$ 214,929	$ 32,468	$ 247,397
LIABILITIES			
Expenses due and accrued	$ 2,272	$ 891	$ 3,163
Due to other insurers	1,690	-	1,690
Due to brokers	3,410	-	3,410
Income taxes payable	642	-	642
Provision for unpaid claims	86,022	7,645	93,667
Unearned reinsurance commissions	48	-	48
Unearned premiums	50,875	5,535	56,410
	144,959	14,071	159,030
SURPLUS FOR THE PROTECTION OF POLICYHOLDERS			
Policyholders' equity	64,096	18,397	82,493
Accumulated other comprehensive income	5,874	-	5,874
	69,970	18,397	88,367
	$ 214,929	$ 32,468	$ 247,397

16. SUBSEQUENT EVENT - FORMATION OF HEARTLAND FARM MUTUAL INC. (continued)

The following is the summarized pro forma information from the statement of income and comprehensive income of the amalgamated company, as if the amalgamation had been completed at the beginning of the year, on January 1, 2015:

(in thousands of dollars)	North Waterloo Farmers Mutual Insurance Company	Oxford Mutual Insurance Company	Heartland Farm Mutual Inc.
Gross written premiums	$ 100,656	$ 11,599	$ 112,255
Net income	$ 7,081	$ 572	$ 7,653
Total comprehensive income	$ 8,992	$ 572	$ 9,564