Financial Statements

Prince Edward Island Mutual Insurance Company

December 31, 2019

Contents

MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

DECEMBER 31, 2019

The accompanying financial statements and all other information contained in this annual report are the responsibility of the management of Prince Edward Island Mutual Insurance Company. The financial statements have been prepared by management in accordance with International Financial Reporting Standards and have been approved by the Board of Directors.

Preparation of financial information is an integral part of management's broader responsibilities for the ongoing operations of Prince Edward Island Mutual Insurance Company. Management maintains a system of internal accounting controls to provide reasonable assurance that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial information. Such information also includes data based on management's best estimates and judgements.

The Audit Committee and the Board of Directors review and approve the annual financial statements. In addition, the Audit Committee meets periodically with financial officers of Prince Edward Island Mutual Insurance Company and the external auditors, and reports to the Board of Directors thereon.

The accompanying financial statements have been audited by Grant Thornton LLP, authorized to practice public accounting by the Chartered Professional Accountants of Prince Edward Island, who are engaged by the Board of Directors and whose appointment was ratified at the annual meeting of the policyholders. The auditors have access to the Audit Committee, without management present, to discuss the results of their work. Their report dated February 10, 2020 expresses their unqualified opinion on the Company's 2019 financial statements.

Blair Campbell, CEO/Manager	Rudy Smith, CFO/Treasurer

Grant Thornton
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Independent Auditor's Report

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To the Policyholders of
Prince Edward Island Mutual Insurance Company

Opinion

We have audited the financial statements of Prince Edward Island Mutual Insurance Company ("the Company"), which comprise the statement of financial position as at December 31, 2019, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Prince Edward Island Mutual Insurance Company as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRSs), 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.

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

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

Auditor’s Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Grant Thornton LLP

Summerside PE, Canada

February 10, 2020

Chartered Professional Accountants

Prince Edward Island Mutual Insurance Company
Statement of Financial Position
December 31, 2019

		2019		2018
Assets				
Cash and cash equivalents	**$**	**5,364,640**	$	4,648,363
Receivables (Note 6)		**3,924,003**		3,484,160
Income taxes receivable		**-**		387,251
Prepaid expenses		**72,009**		81,388
Deferred policy acquisition expenses		**1,540,064**		1,426,583
Reinsurer's share of provision for unpaid claims (Note 9)		**7,401,514**		1,232,165
Investments (Note 7)		**71,050,097**		66,195,937
Property, plant and equipment (Note 8)		**4,282,677**		4,187,478
Deferred income taxes (Note 11)		**598,020**		489,408
	$	**94,233,024**	$	82,132,733
Liabilities				
Accounts payable and accrued liabilities	**$**	**767,041**	$	601,626
Income taxes payable		**1,670,942**		-
Provision for unpaid claims (Note 9)		**18,084,299**		13,374,131
Unearned premium reserve		**16,259,519**		14,894,412
		36,781,801		28,870,169
Members' Surplus				
Unappropriated members' surplus		**57,451,223**		53,262,564
	$	**94,233,024**	$	82,132,733

The accompanying notes are an integral part of these financial statements

On behalf of the Board:

______________________________ Director
President

______________________________ Director
Vice President

Prince Edward Island Mutual Insurance Company
Statement of Comprehensive Income
For the Year-Ended December 31, 2019

	2019	2018
Underwriting Income		
Gross premiums written	**$ 27,889,788**	$ 25,694,199
Less: reinsurance ceded	**(2,910,369)**	(2,434,573)
Net premiums written	**24,979,419**	23,259,626
Less: increase in unearned premiums	**(1,365,107)**	(1,061,565)
Net premiums earned	**23,614,312**	22,198,061
Direct losses incurred		
Gross claims and adjustment expenses (Note 12)	**21,857,314**	15,698,632
Less: Reinsurer's share of claims and adjustment expenses	**(6,838,710)**	87,496
Net losses incurred	**15,018,604**	15,786,128
	8,595,708	6,411,933
Expenses		
Fees, commissions and other acquistion expenses (Note 13)	**2,528,175**	2,494,353
Other operating and administrative expenses (Note 14)	**4,924,657**	4,639,095
	7,452,832	7,133,448
Net underwriting income	**1,142,876**	(721,515)
Investment and other income (Note 16)	**4,761,653**	1,814,292
Income before income taxes	**5,904,529**	1,092,777
Provision for income taxes (Note 11)	**1,715,870**	87,531
Net income and comprehensive income for the year	**$ 4,188,659**	$ 1,005,246

The accompanying notes are an integral part of these financial statements

Prince Edward Island Mutual Insurance Company
Statement of Members' Surplus
For the Year-Ended December 31, 2019

		Unappropriated Members' Surplus		Total
Balance at January 1, 2018	$	52,257,318	$	52,257,318
Net income and comprehensive income		1,005,246		1,005,246
Balance at December 31, 2018		53,262,564		53,262,564
Net income and comprehensive income		4,188,659		4,188,659
Balance at December 31, 2019	**$**	**57,451,223**	**$**	**57,451,223**

The accompanying notes are an integral part of these financial statements

Prince Edward Island Mutual Insurance Company
Statement of Cash Flows
For the Year-Ended December 31, 2019

		2019		2018
Operating activities				
Net income and comprehensive income	**$**	**4,188,659**	$	1,005,246
Adjustments for:				
Depreciation of property, plant and equipment		**313,359**		283,728
Bond premium amortized		**366,845**		340,650
Gain on sale of investments		**(517,280)**		(432,812)
Gain on disposal of property, plant and equipment		**(7,364)**		(16,397)
Deferred income taxes		**(108,612)**		(85,818)
Unrealized (gain) loss on investments		**(1,418,525)**		1,310,279
		2,817,082		2,404,876
Change in non-cash operating working capital				
Receivables		**(439,843)**		(306,714)
Prepaid expenses		**9,379**		(28,344)
Deferred policy acquisition expenses		**(113,481)**		33,382
Reinsurers' share of provision for unpaid claims		**(6,169,349)**		3,949,557
Accounts payable and accrued liabilities		**165,415**		(84,304)
Income taxes payable/receivable		**2,058,193**		588,187
Refund from surplus payable		**-**		(2,410,643)
Provision for unpaid claims		**4,710,168**		(718,775)
Unearned premium reserve		**1,365,107**		1,061,565
		4,402,671		4,488,787
Investing activities				
Purchase of investments		**(10,900,406)**		(11,196,686)
Proceeds on disposal of investments		**7,615,206**		6,370,354
Purchase of property, plant and equipment		**(420,294)**		(121,824)
Proceeds on disposal of property, plant and equipment		**19,100**		48,300
		(3,686,394)		(4,899,856)
Net increase (decrease) in cash and cash equivalents		**716,277**		(411,069)
Cash and cash eqvivalents, beginning of year		**4,648,363**		5,059,432
Cash and cash eqvivalents, end of year	**$**	**5,364,640**	$	4,648,363
Income taxes paid, net of refunds	**$**	**(233,712)**	$	(414,838)

The accompanying notes are an integral part of these financial statements

1. Nature of operations

The Company is incorporated without share capital under the laws of Prince Edward Island and is subject to the Prince Edward Island Insurance Act. It is licensed to write property and casualty insurance in Prince Edward Island. The Company's head office is located at 116 Walker Avenue, Summerside, Prince Edward Island.

These financial statements have been authorized for issue by the Board of Directors on February 10, 2020.

2. 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 on a historical cost basis except for those financial assets and liabilities that have been measured at fair value.

The Company's functional and presentation currency is the Canadian dollar.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment of complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

3. Significant accounting policies

Insurance contracts
In accordance with IFRS 4, Insurance Contracts, the Company has continued to apply the accounting policies it applied in accordance with pre-changeover Canadian GAAP.

Balances arising from insurance contracts primarily include unearned premiums, provisions for unpaid claims and adjustment expenses, the reinsurer's share of provisions for unearned premiums and 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 commissions' payable to agents.

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

(b) Deferred policy acquisition expenses
Acquisition costs are those expenses such as agents' commissions, which relate directly to the acquisition of premiums. 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.

3. Significant accounting policies (cont'd)

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

Claim liabilities are carried on an undiscounted basis.

(d) 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.

(e) Refund from premium
Under 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. This refund is recognized as a reduction of revenue in the period for which it is declared.

Financial instruments
The Company's financial assets are classified as fair value though profit or loss, or amortized cost. Financial liabilities are classified as amortized cost. Financial assets and liabilities are initially recognized at fair value with subsequent measurement based on classification. The classification depends on the purpose for which the financial instruments were acquired, their characteristics and choice where applicable.

Financial assets are measured at fair value except for those classified as amortized cost, which are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument, then subsequently carried at amortized cost using the effective interest method.

Financial liabilities are initially measured at fair value net of any transaction costs directly attributable to the issuance of the instrument, and are subsequently carried at cost using the effective interest rate method.

Fair values are based on quoted market values where available from active markets, otherwise fair values are estimated using a variety of valuation techniques and models.

3. Significant accounting policies (cont'd)

Property, plant and equipment
Property, plant & equipment is initially recorded at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses, with the exception of land which is not depreciated. Assets under construction are not depreciated until they are available for use. Depreciation of an asset commences when it is available for use and is recognized in net income using the diminishing balance method over the estimated useful life of the assets at the following rates:

Building structure	4%
Building components	8%
Office equipment	20%
Computer equipment	45%
Vehicles	30%
Parking lots	8%

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.

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 one cash-generating unit 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.

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 of 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.

3. Significant accounting policies (cont'd)

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).

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

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 arising on the retranslation of monetary available-for-sale financial assets are treated as a change in fair value and recognized in net income or other comprehensive income.

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Standards, amendments and interpretations not yet effective
Certain new standards, amendments and interpretations have been published that are mandatory for the Company's accounting periods beginning on or after January 1, 2020 or later periods that the Company has decided not to early adopt.

- IFRS 17 Insurance Contracts supersedes IFRS 4 Insurance Contracts. IFRS 17 fundamentally changes how entities account for insurance contracts, introducing a default "building block approach", which disaggregates the cash flows in an insurance contract and provides a different measurement basis for each component, and a simplified "premium allocation approach" for certain short-term contracts. Assumptions used in measuring insurance assets and liabilities such as cash flows, discount rates and risk adjustment will be updated at each reporting period. The discount rate will reflect the characteristics of the insurance liabilities and the estimated future cash flows to settle claims incurred will be discounted unless the period of time between claim occurrence and settlement is less than one year. Presentation changes include 'insurance revenue' replacing the current reporting of 'written premiums' and 'earned premiums' and insurance contract assets and liabilities will not be netted. Under this standard, premiums receivable, unearned premiums and claims payable may no longer be presented separately from other insurance assets and liabilities. The effective date for IFRS 17 is January 1, 2021 with a proposed amendment extending the effective date to January 1, 2022 with mandatory restatement of comparative periods. The Company is currently assessing the impact of IFRS 17.

4. Critical accounting estimates and judgments

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated and based on historical experience and other IAS 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.

Deferred policy acquisition expenses
Deferred policy acquisition expenses are those expenses such as agents' commissions, which relate directly to the acquisition of policies. These expenses, to the extent that they are considered recoverable, are estimated, deferred and amortized over the terms of the related policies.

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 provisions can be caused by receipt of additional claim information, changes in judicial interpretation of contracts, or significant changes in severity or frequency of claims from historical trends. The estimates are based on the Company's historical experience and industry experience. More details are included in Note 9.

Unearned premium reserve
The unearned premium reserve is calculated based on the estimated unexpired term of all policies of the Company in force as at December 31. The factor used to estimate the unexpired term is based on the Company's historical experience.

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.

5. Financial instrument classification

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

	Fair value through profit or loss	**Amortized cost**	**Total**
December 31, 2019			
Cash and cash equivalents	**$ 5,364,640**	**$ -**	**$ 5,364,640**
Receivables (Note 6)	**3,924,003**	**-**	**3,924,003**
Investments (Note 7)	**14,841,179**	**56,208,918**	**71,050,097**
Accounts payable and accrued liabilities	**-**	**767,041**	**767,041**
	$ 24,129,822	**$ 56,975,959**	**$81,105,781**

	Fair value through profit or loss	Amortized cost	Total
December 31, 2018			
Cash and cash equivalents	$ 4,648,363	$ -	$ 4,648,363
Receivables (Note 6)	3,484,160	-	3,484,160
Investments (Note 7)	12,028,474	54,167,463	66,195,937
Accounts payable and accrued liabilities	-	601,626	601,626
	$ 20,160,997	$ 54,769,089	$ 74,930,086

6. Receivables

	2019	2018
Policyholders for premiums	**$ 3,317,646**	$ 2,943,851
Accrued interest	**595,173**	507,385
Other	**11,184**	32,924
	$ 3,924,003	$ 3,484,160

7. 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 carrying value as shown below.

Carrying value	**2019**	2018
Investments at amortized cost	**$ 56,208,918**	$ 54,167,463
Investments at fair value though profit or loss	**14,841,179**	12,028,474
	$ 71,050,097	$ 66,195,937

	December 31, 2019		December 31, 2018	
Investments at amortized cost	**Cost**	**Fair Value**	Cost	Fair Value
Term deposits and GIC's	**$ 7,120,000**	**$ 7,120,000**	$ 6,120,000	$ 6,120,000
Bonds, at par less unamortized purchase discounts and premiums				
- Federal	**194,544**	**225,322**	193,634	224,650
- Provincial	**13,801,232**	**14,873,152**	13,891,071	14,647,907
- Municipal	**13,720,915**	**14,925,156**	13,540,803	14,506,653
- Corporate	**21,372,227**	**22,784,626**	20,421,955	21,123,050
Total bonds	**49,088,918**	**52,808,256**	48,047,463	50,502,260
	$ 56,208,918	**$ 59,928,256**	$ 54,167,463	$ 56,622,260
Investments at fair value through profit or loss				
Equities - Canadian Common Stock	**$ 9,378,600**	**$ 11,355,204**	$ 8,063,392	$ 9,021,027
Equities - US Common Stock	**2,646,949**	**3,485,975**	2,567,977	3,007,447
	$ 12,025,549	**$ 14,841,179**	$ 10,631,369	$ 12,028,474

7. Investments (cont'd)

The following table summarizes fair value measurements recognized in the statement of financial position or disclosed in the Company's financial statements, categorized by level according to the significance of the inputs used in making the measurements.

- 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).

	Carrying	Fair Value			
	Value	Level 1	Level 2	Level 3	Total
December 31, 2019					
Equity investments					
- Canadian	**$11,355,204**	**$11,355,204**	**$ -**	**$ -**	**$11,355,204**
- US	**3,485,975**	**3,485,975**	**-**	**-**	**3,485,975**
Bonds	**56,208,918**	**-**	**59,928,256**	**-**	**59,928,256**
Total	**$71,050,097**	**$14,841,179**	**$59,928,256**	**$ -**	**$74,769,435**
December 31, 2018					
Equity investments					
- Canadian	$ 9,021,027	$ 9,021,027	$ -	$ -	$ 9,021,027
- US	3,007,447	3,007,447	-	-	3,007,447
Bonds	54,167,463	-	56,622,260	-	56,622,260
Total	$ 66,195,937	$ 12,028,474	$ 56,622,260	$ -	$ 68,650,734

There were no transfers between Level 1 and Level 2 for the years ended December 31, 2018 and 2019.

7. Investments (cont'd)

Maturity profile of held to maturity investments is as follows:

	Within 1 Year	2 to 5 Years	6 to 10 Years	Over 10 Years	Total
December 31, 2019					
Bonds	**$ 2,054,000**	**$ 9,964,462**	**$ 29,836,584**	**$ 7,233,872**	**$ 49,088,918**
Term Deposits	**4,640,000**	**2,480,000**	**-**	**-**	**7,120,000**
Total	**$ 6,694,000**	**$ 12,444,462**	**$ 29,836,584**	**$ 7,233,872**	**$ 56,208,918**
Percent of total	**12%**	**22%**	**53%**	**13%**	**100%**
December 31, 2018					
Bonds	$ 2,718,000	$ 9,481,615	$ 26,306,991	$ 9,540,857	$ 48,047,463
Term Deposits	2,800,000	3,320,000	-	-	6,120,000
Total	$ 5,518,000	$ 12,801,615	$ 26,306,991	$ 9,540,857	$ 54,167,463
Percent of total	10%	24%	48%	18%	100%

The effective interest rate for amortized cost investments is 3.87% and 3.90% at December 31, 2019 and December 31, 2018 respectively.

8. Property, plant & equipment

	Land	Building	Office equipment	Computer equipment	Vehicles	Parking lot	Total
Cost							
Balance on January 1, 2018	$ 608,343	$ 3,781,491	$ 323,406	$ 215,713	$ 389,268	$ 89,666	$ 5,407,887
Additions	-	-	16,913	33,715	71,195	-	121,823
Disposals	-	-	-	(11,193)	(99,266)	-	(110,459)
Balance on December 31, 2018	608,343	3,781,491	340,319	238,235	361,197	89,666	5,419,251
Additions	-	204,472	39,694	61,432	114,697	-	420,295
Disposals	-	-	(4,712)	(33,865)	(60,355)	-	(98,932)
Balance on December 31, 2019	**$ 608,343**	**$3,985,963**	**$ 375,301**	**$ 265,802**	**$ 415,539**	**$ 89,666**	**$ 5,740,614**
Accumulated depreciation							
Balance on January 1, 2018	$ -	$ 420,431	$ 178,532	$ 176,172	$ 231,624	$ 19,843	$ 1,026,602
Depreciation expense	-	153,922	32,358	32,413	59,449	5,586	283,728
Disposals	-	-	-	(9,967)	(68,590)	-	(78,557)
Balance on December 31, 2018	-	574,353	210,890	198,618	222,483	25,429	1,231,773
Depreciation expense	-	156,646	33,447	44,235	73,892	5,139	313,359
Disposals	-	-	(2,824)	(31,118)	(53,253)	-	(87,195)
Balance on December 31, 2019	**$ -**	**$ 730,999**	**$ 241,513**	**$ 211,735**	**$ 243,122**	**$ 30,568**	**$ 1,457,937**
Net book value							
December 31, 2018	$ 608,343	$ 3,207,138	$ 129,429	$ 39,617	$ 138,714	$ 64,237	$ 4,187,478
December 31, 2019	**$ 608,343**	**$3,254,964**	**$ 133,788**	**$ 54,067**	**$ 172,417**	**$ 59,098**	**$ 4,282,677**

9. Insurance contracts

The following is a summary of the insurance contract provisions and related reinsurance assets at December 31.

	December 31, 2019			December 31, 2018		
	Gross	**Reinsurance**	**Net**	Gross	Reinsurance	Net
Outstanding claims provision						
Long settlement term	**$ 4,644,355**	**$ 479,637**	**$ 4,164,718**	$ 3,553,590	$ 370,385	$ 3,183,205
Short settlement term	**11,081,122**	**6,921,877**	**4,159,245**	7,750,925	861,780	6,889,145
	15,725,477	**7,401,514**	**8,323,963**	11,304,515	1,232,165	10,072,350
Provision for claims incurred but not reported	**2,358,822**	**-**	**2,358,822**	2,069,616	-	2,069,616
	$18,084,299	**$ 7,401,514**	**$10,682,785**	$ 13,374,131	$ 1,232,165	$ 12,141,966

9. Insurance contracts (cont'd)

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.

Claims and adjustment expenses

Changes in claim liabilities recorded in the balance sheet for the years-ended December 31, 2019 and 2018 and their impact on claims and adjustment expenses for the two years follow:

	2019	2018
Unpaid claim - beginning of year – net of reinsurance	**$10,072,350**	$ 7,072,979
Increase (decrease) in estimated losses and expenses, for losses occurring in prior years	**606,727**	(198,549)
Provision for losses and expenses on claims occurring in the current year	**14,122,671**	15,753,266
Payment on claims:		
Current year	**(9,791,600)**	(8,425,061)
Prior years	**(6,686,185)**	(4,130,285)
Unpaid claims – end of year - net of reinsurance	**$ 8,323,963**	$ 10,072,350

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. As the Company does not sell auto insurance, future investment income has been disregarded for this purpose.

9. Insurance contracts (cont'd)

Claim development

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

The tables that follow present the development of claims payments and the estimated ultimate cost of claims for the claim year 2010 to 2019. 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.

Net Claims **($'000)**

	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**Total**
Net estimate of cumulative claims cost:											
At the end year of claim	8,890	9,885	9,012	12,918	13,670	13,945	10,575	12,522	15,753	14,123	
One year later	8,797	9,966	8,596	12,472	13,893	13,523	10,246	12,491	16,258		
Two years later	8,774	9,846	8,344	12,362	13,770	13,760	10,090	12,565			
Three years later	8,731	9,778	8,335	12,309	13,712	13,769	10,164				
Four years later	8,686	9,677	8,340	12,297	13,711	13,742					
Five years later	8,592	9,499	8,274	12,309	13,687						
Six years later	8,576	9,492	8,247	12,308							
Seven years later	8,576	9,510	8,237								
Eight years later	8,577	9,516									
Nine years later	8,577										
Current estimate of cumulative claims cost	8,577	9,516	8,237	12,308	13,687	13,742	10,164	12,565	16,258	14,123	
Cumulative payments	8,577	9,297	8,227	12,336	13,541	13,172	9,546	11,910	14,551	9,792	
Outstanding claims	-	219	10	(28)	146	570	618	655	1,707	4,331	8,228
Outstanding claims 2009 and prior											96
Claims handling expense											(1,231)
Total net outstanding claims net of claims handling expense											**7,093**

10. Pension plan

The Company has a defined contribution plan providing pension benefits to eligible employees. The total plan expense for the Company's defined contribution plan for 2019 was $289,421 (2018 - $277,955).

11. Income taxes

Income tax expense is comprised of current and deferred tax. The significant components of tax expense included in net income and comprehensive income are as follows:

	2019	2018
Current tax expense		
Based on current year taxable income	**$ 1,824,482**	$ 148,760
Adjustments for over/under provision in prior periods	**-**	24,589
	$ 1,824,482	$ 173,349
Deferred tax expense		
Origination and reversal of temporary differences	**$ (108,612)**	$ 54,374
(Increase) reduction in tax rate	**-**	(140,192)
	$ (108,612)	$ (85,818)
Total income tax expense	**$ 1,715,870**	$ 87,531

11. Income taxes (cont'd)

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rates are as follows:

	2019	2018
Income before income taxes	$ 5,904,529	$ 1,092,777
Combined basic Canadian Federal and provincial income tax rate	31%	31%
Income taxes at statutory rates	1,830,404	338,761
Income from insuring farming & fishing related risks	-	(61,531)
Non deductible portion of claims liabilities	146,015	(22,282)
Depreciation in excess of capital cost allowance	(12,997)	3,621
Other non deductible expenses	(19,665)	(12,750)
Deduction for CCPC dividends	(119,275)	(97,059)
Adjustments for over/under provision in prior periods	-	24,589
Change in tax rates	-	(140,192)
Origination and reversal of temporary timing differences	(108,612)	54,374
Total income tax expense	$ 1,715,870	$ 87,531

The significant components of deferred tax assets are:

Deferred tax assets	2019	2018
Pension obligation	$ -	$ 21,777
Provision for unpaid claims	560,613	414,598
Property, plant & equipment	37,407	53,033
	$ 598,020	$ 489,408

12. Gross claims and adjustment expenses

Included in claims expenses were wage costs of $868,807 (2018 - $568,913).

13. Fees, commissions and other acquisition expenses

		2019		2018
Commissions	**$**	**1,718,023**	$	1,694,045
Sales salaries		**596,060**		593,014
Other		**214,092**		207,294
	$	**2,528,175**	$	2,494,353

14. Other operating and administrative expenses

		2019		2018
Advertising	**$**	**164,910**	$	184,124
Conventions, courses and travel		**126,233**		134,340
Depreciation		**244,389**		229,201
Directors fees		**266,271**		263,621
Donations		**91,300**		89,000
Loss Prevention		**39,801**		48,183
Office supplies		**190,509**		150,554
Other administration costs		**420,526**		434,020
Postage		**181,478**		181,418
Premium tax		**318,489**		321,177
Professional fees		**36,204**		47,178
Salaries and benefits		**2,662,514**		2,364,684
Taxes, dues and licences		**115,633**		115,952
Telephone		**66,400**		75,643
	$	**4,924,657**	$	4,639,095

15. Salaries, benefits and directors fees

		2019		2018
Claims handling - Salaries, adjusting fees & benefits (Note 12)	**$**	**868,807**	$	568,913
Sales salaries, commissions and benefits (Note13)		**2,314,083**		2,287,059
Director fees (Note 14)		**266,271**		263,621
Other salaries and benefits (Note 14)		**2,662,514**		2,364,684
	$	**6,111,675**	$	5,484,277

16. Investment and other income

	2019	2018
Interest income	**$ 2,231,629**	$ 2,097,560
Dividend income	**478,472**	397,413
Gains on disposal of investments	**517,280**	432,812
Unrealized gains (losses) on investments	**1,418,525**	(1,310,278)
Investment expenses	**(71,189)**	-
Gain on disposal of property, plant and equipment	**7,364**	16,397
Other income	**179,572**	180,388
	$ 4,761,653	$ 1,814,292

17. Related party transactions

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

	2019	2018
Compensation		
Short term employee benefits and director's fees	**$ 1,380,215**	$ 1,001,238
Total pension and other post-employment benefits	**80,025**	85,787
	$ 1,460,240	$ 1,087,025

18. 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. Reinsurance is utilized to protect capital from catastrophic losses as the frequency and severity of these losses are inherently unpredictable. To limit their potential impact, catastrophe coverage limits the Company's exposure to $1.65 million. The $1.65 million net retained amount represents approximately 2.9% of Company's capital. For the purpose of capital management, the Company has defined capital as members' surplus.

Section 317.(1) of the Insurance Act of Prince Edward Island requires insurers to maintain a reserve fund equal to the sum of $500 for every $100,000 of the first $1 million of insurance in force, and $3,000 for each additional $1 million or part thereof insurance in force. The Company's reserve fund as at December 31, 2019 was1.46 times that which is required by S317.(1) of the Insurance Act.

20. Financial instrument and Insurance risk management

Insurance risk management

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

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

The Company purchases reinsurance as part of its risk 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 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 Prince Edward Island.

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.

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

Reinsurance is purchased to mitigate the effect of the potential loss to the company. Reinsurance is placed with Farm Mutual Re, 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 $550,000 in the event of a property claim, and $500,000 in the event of a liability claim. The Company also obtained reinsurance which limits the Company's liability to $1.65 million in the event of a series of claims arising out of a single occurrence. In addition, the Company has obtained stop loss reinsurance which limits the liability of all claims in a specific year to 80% of gross net earned premiums for property and liability 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, 2019 and 2018.

The risks associated with insurance contracts are complex and subject to a number of variables which complicate quantitative sensitivity analysis. The company uses various techniques based on past claims development experience to quantify these sensitivities. This includes indicators such as average claim cost, amount of claims occurrence, expected loss ratios and claims development as described in Note 9.

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		Liability claims	
	2019	2018	**2019**	2018
5% increase in loss ratios				
Gross	**1,225,939**	1,123,126	**168,550**	161,584
Net	**1,096,141**	1,020,597	**152,830**	142,385
5% decrease in loss ratios				
Gross	**(1,225,939)**	(1,123,126)	**(168,550)**	(161,584)
Net	**(1,096,141)**	(1,020,597)	**(152,830)**	(142,385)

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

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

All of the Company's investments in bonds and debentures are measured at amortized cost and are considered to have low credit risk. Based on Management's assessment of past events, current conditions and expected collectability of future cash flows from these instruments, there is no expected credit loss allowance to be recognized in the financial statements.

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

The Company's investment policy includes guidelines on the bond portfolio relating to portfolio composition, issuer type, bond quality ratings (at time of acquisition – rated as "AL" or better) and general guidelines for geographic exposure. All fixed income portfolios and monitored by management on a monthly basis.

Reinsurance is placed with Farm Mutual Re, a Canadian registered reinsurer. 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.

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

The maximum exposure to investment credit risk is outlined in Note 7.

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 Investment Committee and the Board of Directors. Diversification techniques are utilized to minimize risk.

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

The Company's foreign exchange risk is related to stock holdings which are limited to United States equities in sectors which are not readily available in Canada. The Company limits its holdings in foreign equity to 25% of its total equity holdings in accordance with its investment policy. Foreign currency changes are monitored by the investment committee and holdings are adjusted when offside of the investment policy. A 1% change in the value of the United States dollar would affect the fair value of stocks by $34,860 which would be reflected in the statement of 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.

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

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

The Company is not exposed to this risk as its interest bearing investments are being held to maturity.

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

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

The Company's portfolio includes Canadian stocks with fair values that move with the Toronto Stock Exchange Composite Index and United States stocks with fair values that move with the S&P 500 Index. A 10% movement in the stock markets with all other variables held constant would have an estimated effect on the fair values of the Company's Canadian common stock and United States common stock of $1.48 million (2018 - $1.20 million), which would be recognized in the statement of comprehensive income.

The Company's investment policy limits investment in common shares to a maximum of 25% of the adjusted cost base of the portfolio.

Equities are monitored by the board of directors on a semi-annual basis. Holdings are adjusted by the Investment Committee, as required.

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 used to measure the risk.