Grant Thornton

Financial Statements

Clare Mutual Insurance Company

December 31, 2016

Contents

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Independent Auditor's Report

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To the Policyholders of Clare Mutual Insurance Company

We have audited the accompanying financial statements of Clare Mutual Insurance Company, which comprise the statement of financial position as at December 31, 2016 and the statements of earnings, comprehensive income, policyholders' equity 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.

Auditor's 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 auditor's judgement, 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 in our audit 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 Clare Mutual Insurance Company as at December 31, 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Grant Thornton LLP

Yarmouth, Canada
February 21, 2017

Chartered Professional Accountants
Licensed Public Accountants

Clare Mutual Insurance Company
Statement of Earnings

Year Ended December 31	**2016**	2015	
Gross premiums written	**$ 3,029,262**	$ 3,024,874	
Less: Reinsurance premiums	**880,245**	1,193,286	
Net premiums written	**2,149,017**	1,831,588	
Less: (Decrease) increase in unearned premiums	**(4,217)**	56,822	
Net premiums earned	**2,153,234**	1,774,766	32.18
Policy fee	**100,866**	101,921	
Total revenue	**2,254,100**	1,876,687	
Net claims and adjusting expenses incurred (Note 4)	16.53 **355,906**	571,115	
Commission expense	**124,824**	125,400	
Total underwriting expenses	**480,730**	696,515	
Underwriting income before expenses	**1,773,370**	1,180,172	
Operating expenses (Note 5)	**1,082,030**	1,051,653	
Net underwriting income	**691,340**	128,519	
Other income (Note 6)	**142,302**	188,805	
Earnings before income taxes	**833,642**	317,324	
Income taxes (Note 15)	**183,537**	44,191	
Net earnings	**$ 650,105**	$ 273,133	

See accompanying notes to the financial statements.

Clare Mutual Insurance Company
Statement of Comprehensive Income

Year Ended December 31		**2016**		2015
Statement of Comprehensive Income				
Net earnings	**$**	**650,105**	$	273,133
Other comprehensive income on available for sale investments		**78,960**		23,923
Reclassification to Statements of Earnings and Retained Earnings (Note 6)		**(987)**		(57,206)
Deferred income tax effect (Note 15)		**(18,369)**		4,660
Other comprehensive income (loss)		**59,604**		(28,623)
Total comprehensive income	**$**	**709,709**	$	244,510

Clare Mutual Insurance Company
Statement of Changes in Policyholders' Equity

December 31, 2016

		Retained earnings		Accumulated other comprehensive income		Total
Balance at December 31, 2014	$	1,782,124	$	207,725	$	1,989,849
Net earnings		273,133		-		273,133
Other comprehensive loss		-		(28,623)		(28,623)
Balance at December 31, 2015		2,055,257		179,102		2,234,359
Net earnings		650,105		-		650,105
Other comprehensive income		-		59,604		59,604
Balance at December 31, 2016	**$**	**2,705,362**	**$**	**238,706**	**$**	**2,944,068**

See accompanying notes to the financial statements.

Clare Mutual Insurance Company
Statement of Financial Position

December 31	2016	2015
Assets		
Current		
Cash and cash equivalents	**$ 2,195,338**	$ 1,710,890
Receivables (Note 7)	**90,577**	104,967
Prepaid expenses	**25,213**	22,373
Deferred policy acquisition costs	**171,786**	171,620
Reinsurer's share of reserve for unpaid claims	**176,000**	457,563
	2,658,914	2,467,413
Investments (Note 8)	**2,454,672**	2,042,507
Property and equipment (Note 10)	**170,941**	187,335
Deferred income taxes (Note 15)	**28,420**	15,090
	$ 5,312,947	$ 4,712,345
Liabilities		
Current		
Payables and accruals	**$ 125,155**	$ 133,806
Payable to reinsurer	**17,007**	10,035
Income tax payable	**174,873**	19,769
Reserve for unpaid and unreported claims	**437,252**	691,279
Unearned revenue	**24,605**	28,893
Unearned premium reserve	**1,589,987**	1,594,204
	2,368,879	2,477,986
Policyholders' Equity		
Retained earnings (Page 3)	**2,705,362**	2,055,257
Accumulated other comprehensive income (Page 3)	**238,706**	179,102
	2,944,068	2,234,359
	$ 5,312,947	$ 4,712,345

On Behalf of the Board

Nancy Theodore Director Russell Conway Director

See accompanying notes to the financial statements.

Clare Mutual Insurance Company
Statement of Cash Flows

Year Ended December 31	2016	2015
Increase (decrease) in cash and cash equivalents		
Operating		
Net earnings	**$ 650,105**	$ 273,133
Add (deduct) charges to operations not requiring a current cash payment		
Depreciation	**40,793**	42,242
Deferred income taxes	**(13,330)**	730
Current tax recovery (expense) charged to other comprehensive income	**(18,369)**	4,660
Unearned premium reserve	**(4,217)**	56,822
Gain on sale of investments	**(987)**	(57,206)
	653,995	320,381
Change in non-cash operating working capital (Note 11)	**188,057**	(432)
	842,052	319,949
Financing		
Repayment of long term debt	**-**	(8,798)
Investing		
Proceeds from sale of investments	**126,143**	560,939
Purchase of investments	**(459,348)**	(375,414)
Purchase of property and equipment, net	**(24,399)**	(9,883)
	(357,604)	175,642
Net increase in cash and cash equivalents	**484,448**	486,793
Cash and cash equivalents		
Beginning of year	**1,710,890**	1,224,097
End of year	**$ 2,195,338**	$ 1,710,890

See accompanying notes to the financial statements.

1. Nature of business

The Clare Mutual Insurance Company (the "Company"), incorporated without share capital under the laws of the Province of Nova Scotia, is federally licensed and is subject to the *Nova Scotia Insurance Act* and the Office of the Superintendent of Financial Institutes of Canada. It is licensed to write property and liability insurance in Nova Scotia.

2. Basis of preparation

(a) Statement of compliance

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

The financial statements were authorized for issue by the Board of Directors on February 21, 2017.

(b) Basis of measurement

The financial statements have been prepared on a going concern basis under the historical cost basis, except for those financial assets and financial liabilities that have been measured at fair value as described in Note 3.

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

(c) Functional and presentation currency

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

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

(d) Use of estimates and judgement

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

2. Basis of preparation (continued)

(d) Use of estimates and judgement (continued)

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

Note 3 (e)	Insurance contract assets
Note 3 (f)	Unpaid claims
Note 3 (j)	Depreciation
Note 3 (k)	Income taxes

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

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

3. Significant accounting policies

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

(a) Cash and cash equivalents

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

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

(b) Financial assets

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

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

3. Significant accounting policies (continued)

(b) Financial assets (continued)

Available-for-sale financial assets

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

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

The Company employs a fair value hierarchy to categorize the inputs it uses in valuation techniques to measure the fair value. The extent of use of (Level 1) quoted prices in active markets for identical assets or liabilities, (Level 2) inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly, and (Level 3) inputs for the asset or liability that are not based on observable market data in the valuation of securities as at the statement of financial position date is disclosed in Note 9.

Loans and receivables

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

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

(c) Impairment of financial assets

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

3. Significant accounting policies (continued)

(c) Impairment of financial assets (continued)

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

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

(d) Financial liabilities

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

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

(e) Insurance contract assets

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

Reinsurance assets

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

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

3. Significant accounting policies (continued)

(e) Insurance contract assets (continued)

Deferred policy acquisition costs

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

(f) Insurance contract liabilities

Insurance contract liabilities comprise of unpaid claims and unearned premiums.

Unpaid claims

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

Unpaid claims are first determined on a case-by-case basis as insurance claims are reported and then reassessed as additional information becomes known. Reserving takes into account the consistency of the Company's claims handling procedures, the amount of information available, the characteristics of the line of business from which the claim arises, and the delays in reporting claims.

These reserves for unpaid claims and adjusting expenses are estimates and, as such, are subject to variability, which could be material in the near term. Changes to the estimates could result from future events such as receiving additional claim information, changes in judicial interpretation of contracts or significant changes in severity or frequency of claims from past trends. In general, the longer the term required for the settlement of a group of claims, the more variable the estimates.

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

3. Significant accounting policies (continued)

(f) Insurance contract liabilities (continued)

Unpaid claims (continued)

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

Unearned premiums

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

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

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.

3. Significant accounting policies (continued)

(f) Insurance contract liabilities (continued)

The tables that follow present the development of claims payments and the estimated ultimate cost of claims for the claim year 2007 to 2015 in 000's. 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 basis:

	Total all Insurance risks										
Year of loss	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
Estimate of ultimate claims costs											
at end of the year of loss	$ 373	$ 509	$ 433	$ 610	$ 416	$ 723	$ 987	$ 754	$ 623	$ 416	
one year later	$ 329	$ 398	$ 401	$ 746	$ 496	$ 714	$ 933	$ 712	$ 576		
two years later	$ 331	$ 390	$ 395	$ 782	$ 505	$ 706	$ 933	$ 711			
three years later	$ 327	$ 391	$ 395	$ 695	$ 471	$ 703	$ 933				
four years later	$ 329	$ 410	$ 395	$ 688	$ 468	$ 699					
five years later	$ 329	$ 402	$ 395	$ 687	$ 468						
six years later	$ 324	$ 402	$ 396	$ 687							
seven years later	$ 324	$ 403	$ 396								
eight years later	$ 324	$ 403									
nine years later	$ 324										
Current estimate of ultimate claims cost	$ 324	$ 403	$ 396	$ 687	$ 468	$ 699	$ 933	$ 711	$ 576	$ 416	$ 5,612
Cumulative payments to date	$ 324	$ 403	$ 396	$ 687	$ 468	$ 699	$ 933	$ 710	$ 575	$ 177	$ 5,371
Outstanding claims	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1	$ 1	$ 239	$ 241
Outstanding claims 2006 and prior											$ 2
ULAE											$ 7
Facility Association											$ -
Effect of Discounting and PfAD											$ 11
Liability Recoverable from reinsurers											$ 176
Gross liabilities in statement of financial position											$ 437

(g) Revenue recognition

Gross premiums

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

3. Significant accounting policies (continued)

(g) Revenue recognition (continued)

Gross premiums (continued)

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

Reinsurance premiums

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

Fees and commission income

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

Investment income

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

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

Realized gains and losses

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

(h) Claims and expenses recognition

Gross claims

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

3. Significant accounting policies (continued)

(h) Claims and expenses recognition (continued)

Reinsurance claims

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

(i) Property and equipment

Property and equipment is initially recorded at cost and subsequently measured at cost less accumulated depreciation and any accumulated impairment loss, with the exception of land which is not depreciated. Depreciation is charged so as to write off the cost or valuation of property and equipment over their estimated useful lives using the following methods and rates.

Buildings	20 yrs, straight-line
Office equipment	4 yrs, straight-line
Computer equipment	4 yrs, straight-line
Computer software	3 yrs, straight-line
Vehicles	5 yrs, straight-line
Paving	12.5 yrs, straight-line

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

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

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

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

3. Significant accounting policies (continued)

(j) Depreciation

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

(k) Income taxes

The income tax expense represents the sum of tax currently payable and deferred tax.

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

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

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

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

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

(l) Comprehensive income

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

3. Significant accounting policies (continued)

(m) Application of new and revised International Financial Reporting Standards

During fiscal 2016, the Company adopted the following accounting standards and policies.

IAS 16 – Property, plant and equipment and IAS 38 – Intangible Assets
Both standards currently require that a depreciation or amortization method reflect the expected pattern of consumption of the future economic benefits of the asset. The amendments to IAS 16 prohibit the use of a revenue-based depreciation method for property, plant and equipment because a depreciation method which is based on revenue allocates the asset's depreciable amount based on revenue generated in an accounting period as a proportion of total expected revenue during the asset's useful life and revenue reflects a pattern of economic benefits that are generated from operating the business rather than the economic benefits that are being consumed through use of the asset. The application of this interpretation has had no material impact on the disclosures or the amounts recognized in the Company's financial statements.
A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2016 and have not yet been adopted by the Company in preparing these financial statements.

IAS 7 – Statement of Cash Flows (disclosure initiatives)
The IASB issued disclosure initiative – Amendments to IAS 7, aimed at improving the effectiveness of presentation and disclosure principles and requirements in existing Standards. The disclosure initiative focuses on providing information related to changes in debt, related cash flows (and non-cash changes), as well as changes in liabilities arising from financing activities. The new standard permits early adoption and is effective for annual periods beginning on or after January 1, 2017. The Company does not intend to early adopt the new standard at this time and does not expect the new standard to have a material impact on the financial statements.

The following are future accounting standards not yet effective and not yet adopted by the company.

IFRS 9 – Financial Instruments
In July 2014, the IASB issued the final version of IFRS 9, "Financial Instruments", which replaces IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 provides guidance on the classification and measurement of financial assets and financial liabilities, establishes an expected credit losses impairment model and a new hedge accounting model with corresponding risk management activity disclosures. The effective date is January 1, 2018. The impact of IFRS 9 on the Company has not yet been determined.

IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)

The impact of IFRS 9 is noted above, due to IFRS 4 "Insurance Contracts" having an effective date no earlier than 2020 there are practical implementation challenges and the potential for increased volatility in profit or loss if IFRS 9 is applied before IFRS 4. As a result, the IASB has introduced two possible approaches in response:

- the overlay approach which provides the option to adjust profit by removing any additional accounting volatility that may arise; and
- temporary exemption (deferral approach) which allows insurance companies to apply the existing financial instruments requirements under IAS 39 Financial Instruments: Recognition and Measurement

The effective date for the amendment depends on when IFRS 9 is adopted and which approach is chosen. The overlay approach is applied when entities first adopt IFRS 9 and the temporary approach is applied on or after January 1, 2018. The Company has not yet been determined the effect of these standards on the financial statements.

Clare Mutual Insurance Company
Notes to the Financial Statements
December 31, 2016

4. **Net claims and adjusting expenses incurred**	**2016**	2015
Gross claims and adjusting expenses	**$ 572,360**	$ 1,248,183
Reinsurance recoveries	**(216,454)**	(677,068)
Net claims and adjusting expenses incurred	**$ 355,906**	$ 571,115

5. **Operating expenses**	**2016**	2015
Advertising	**$ 31,023**	$ 27,967
Bad debt expense	**72**	1,928
Bank charges	**18,509**	18,467
Depreciation	**40,793**	42,242
Defined contribution pension plan	**19,543**	17,130
Directors' fees and costs	**24,466**	24,473
Fax	**1,356**	1,201
General	**21,232**	20,040
Inspection	**3,102**	2,459
Insurance	**21,440**	22,369
Interest on mortgage	**-**	154
Maintenance	**26,958**	26,449
Office supplies	**35,639**	32,642
Premium tax	**117,102**	116,469
Professional fees	**94,791**	105,669
Salaries and benefits	**421,300**	375,686
Taxes and fees	**82,425**	85,970
Telephone	**15,609**	14,612
Training and computer support	**40,213**	44,376
Travel and meals	**57,708**	61,884
Utilities	**8,749**	9,466
	$ 1,082,030	$ 1,051,653

6. Other income

	2016	2015
Interest and other investment income	$ **78,911**	$ 70,937
Commissions – auto, net of expenses of $10,118 (2015 - $9,043)	**61,318**	59,838
Gain on sale of investments	**987**	57,206
Miscellaneous	**1,086**	824
	$ **142,302**	$ 188,805

7. Receivables

	2016	2015
Trade	$ **89,942**	$ 104,967
Reinsurer	**635**	-
	$ **90,577**	$ 104,967

8. Investments

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

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

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

	2016 Market Value	2015 Market Value
Caisse Populaire de Clare Ltee term deposits	$ **371,578**	$ 366,076
RBC Phillips, Hager & North Investments		
Canadian bonds	**480,435**	450,452
Canadian equities	**247,162**	173,999
US equities	**4,237**	2,843
	731,834	627,294
Canadian Bond Mutual Fund	**367,287**	322,377
Canadian Equity Mutual Fund	**441,702**	305,951
US Equity Mutual Fund	**375,377**	286,502
International Equity Mutual Fund	**166,894**	134,307
Total mutual funds	**1,351,260**	1,049,137
Total RBC Phillips, Hager & North portfolio	**2,083,094**	1,676,431
Total	$ **2,454,672**	$ 2,042,507

8. Investments (continued)

Maturity profile

Term Deposits - All term deposits mature within one year.

Bonds

	2016 Market Value	2015 Market Value
Maturing within one year	$ 48,793	$ 42,883
Maturing between one and five years	269,289	176,444
Maturing over five years	162,353	231,125
Total	$ 480,435	$ 450,452

9. Fair value hierarchy

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

	Level 1	Level 2	Level 3	Total Fair Value
Term deposits	$ -	$ 371,578	$ -	$ 371,578
Canadian bonds	84,610	395,825	-	480,435
Canadian equities	247,162	-	-	247,162
US equities	4,237	-	-	4,237
Mutual funds	1,351,260	-	-	1,351,260
	$ 1,687,269	$ 767,403	$ -	$ 2,454,672

Available-for-sale investments recorded at fair value by the level of the fair value hierarchy as at December 31, 2015:

	Level 1	Level 2	Level 3	Total Fair Value
Term deposits	$ -	$ 366,076	$ -	$ 366,076
Canadian bonds	-	450,452	-	450,452
Canadian equities	173,999	-	-	173,999
US equities	2,843	-	-	2,843
Mutual funds	1,049,137	-	-	1,049,137
	$ 1,225,979	$ 816,528	$ -	$ 2,042,507

10. Property and equipment

As at December 31, 2016

	Land	Office Buildings	Equipment	Computer Equipment	Paving	Vehicles	Total
Gross carrying amount							
Balance, Dec 31, 2015	$ 5,000	$ 333,758	$ 139,571	$ 176,650	$ 22,919	$ 33,644	**$ 711,542**
Additions	-	11,872	5,928	6,599	-	-	**24,399**
Disposals	-	-	-	-	-	-	**-**
	5,000	345,630	145,499	183,249	22,919	33,644	**735,941**
Depreciation and impairment							
Balance, Dec 31, 2015	-	205,562	131,949	156,997	19,606	10,093	**524,207**
Depreciation	-	17,006	4,682	10,542	1,834	6,729	**40,793**
Disposals	-	-	-	-	-	-	**-**
	-	222,568	136,631	167,539	21,440	16,822	**565,000**
At December 31, 2016	$ 5,000	$ 123,062	$ 8,868	$ 15,710	$ 1,479	$ 16,822	**$ 170,941**

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

As at December 31, 2015

	Land	Office Buildings	Computer Equipment	Equipment	Paving	Vehicles	Total
Gross carrying amount							
Balance, Dec 31, 2014	$ 5,000	$ 330,722	$ 137,097	$ 172,277	$ 22,919	$ 33,644	$ 701,659
Additions	-	3,036	2,474	4,373	-	-	9,883
Disposals	-	-	-	-	-	-	-
	5,000	333,758	139,571	176,650	22,919	33,644	711,542
Depreciation and impairment							
Balance, Dec 31, 2014	-	188,874	128,338	143,616	17,773	3,364	481,965
Depreciation	-	16,688	3,611	13,381	1,833	6,729	42,242
Disposals	-	-	-	-	-	-	-
	-	205,562	131,949	156,997	19,606	10,093	524,207
At December 31, 2015	$ 5,000	$ 128,196	$ 7,622	$ 19,653	$ 3,313	$ 23,551	**$ 187,335**

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

11. Supplemental cash flow information

	2016	2015
Change in non-cash operating working capital		
Receivables	$ **14,390**	$ (1,873)
Prepaid expenses	**(2,840)**	1,686
Deferred policy acquisition costs	**(166)**	(14,620)
Payables and accruals	**(8,651)**	(1,833)
Payable to reinsurer	**6,972**	10,035
Income tax payable	**155,104**	743
Reserve for unpaid claims, net of reinsurer's share	**27,536**	(322)
Unearned revenue	**(4,288)**	5,752
	$ **188,057**	$ (432)
Interest paid	$ **-**	$ 154

12. Capital management

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

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

13. Insurance risk management

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

The above risk exposure is mitigated by careful selection and implementation of underwriting strategy guidelines, by the use of reinsurance arrangements and by settling claims promptly.

13. Insurance risk management (continued)

Underwriting strategy

The Company manages this risk via its underwriting and reinsurance strategy within an overall risk management framework. Exposures are limited by having documented underwriting limits and criteria. Pricing of property and liability policies are based on assumptions in regard to trends and past experience, in an attempt to correctly match policy revenue with exposed risk. There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk

Reinsurance arrangements

The Company purchases reinsurance as part of its risks mitigation program. Reinsurance is placed with Farm Mutual Reinsurance Plan Inc., a Canadian registered reinsurer. Retention limits for the excess-of-loss reinsurance vary by product line.

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

Excess of loss

The Company retains $100,000 on property claims with recoveries at 100% on amounts greater than retention, up to a total limit of $2 million per risk.

The Company retains $70,000 on liability with recoveries at 100% on amounts greater than retention, up to a total limit of up to $30 million per occurrence.

Catastrophe

Reinsurance also limits the Company's liability in the event of a catastrophe. The Company retains $150,000 with recoveries at 100% on amounts greater than retention.

Stop loss

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

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

13. Insurance risk management (continued)

Claims settlement

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

The Company writes insurance policies covering a twelve month period. The most significant risks arise through high severity, low frequency events such as natural disasters and catastrophes. A concentration of risk may arise through insurance contracts issued in specific geographic location since all insurance contracts are written in Nova Scotia.

The Company is exposed to a pricing risk to the extent that unearned premiums are insufficient to meet the related future policy costs. Evaluation is performed regularly to estimate future claim costs, related expenses, and expected profit in relation to unearned premiums. There is no premium deficiency recorded during the current or prior year.

14. Financial instrument management

Interest rate risk

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

At December 31, 2016, a 1% move in interest rates, with all other variables held constant, could impact the market value of bonds by $45,099 (2015 - $40,264). For bonds that the Company did not sell during the year, the change during the period and changes prior to the period would be recognized as other comprehensive income during the period.

Credit risk

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

14. Financial instrument management (continued)

Credit risk (continued)

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

Credit Rating - Bonds	2016	2015
AAA	$ 75,193	$ 96,365
AA-	20,709	38,257
A+	229,632	191,128
A	130,427	80,138
Other	24,474	44,564
	$ 480,435	$ 450,452

Reinsurance is placed with FMRP. 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.

Receivables are short term in nature and are not subject to material credit risk. However, the Company's maximum exposure to credit risk is $90,577 (2015 - $104,967). The Company minimizes credit risk on cash and cash equivalents through the utilization of different investments to spread the risk amongst various financial institutions.

Currency risk

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

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

	2016	2015
Available-for-sale investments	$ 379,614	$ 289,345

Market risk

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

The Company's portfolio includes Canadian equity investments with fair values that move with the Toronto Stock Exchange Composite Index, US equity investments with fair values that move with the S&P 500 Index, and International equity investments that move with the Europe, Australasia, and Far East Index ("EAFE").

14. Financial instrument management (continued)

Market risk (continued)

A 1% movement in the stock values with all other variables held constant would have an estimated effect on the fair values of the Company's Canadian investments of $6,889 (2015 - $4,800). A 1% movement in the stock values with all other variables held constant would have an estimated effect on the fair values of the Company's foreign investments of $1,669 (2015 - $1,343). A 1% movement in the stock values with all other variables held constant would have an estimated effect on the fair values of the Company's United States investments of $3,796 (2015 - $2,893).

Liquidity risk

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

15. Income taxes

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

Deferred tax asset	2016	2015
Reserves	$ 3,080	$ 1,580
Capital loss carryforward	1,130	640
Property and equipment	24,210	12,870
	$ 28,420	$ 15,090

Current and deferred income tax expense in other comprehensive income

	2016	2015
Current income tax expense (recovery)	$ 18,369	$ (4,660)