L & A MUTUAL INSURANCE COMPANY

FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2015

WILKINSON

L & A MUTUAL INSURANCE COMPANY

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AS AT DECEMBER 31, 2015

INDEPENDENT AUDITORS' REPORT

To the Policyholders of
L & A Mutual Insurance Company

Report on the Financial Statements

We have audited the accompanying financial statements of L & A Mutual Insurance Company, which comprise the balance sheet as at December 31, 2015 and the statements of surplus and resources for protection of policyholders, comprehensive income 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 judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Wilkinson & Company LLP

BELLEVILLE, Canada
February 1, 2016

Chartered Accountants
Licensed Public Accountants

L & A MUTUAL INSURANCE COMPANY
BALANCE SHEET AS AT DECEMBER 31, 2015

	2015	2014
	$	$
ASSETS		
Cash	**887,235**	806,692
Portfolio investments - Note 4	**11,930,681**	11,666,575
Accrued investment income	**41,276**	46,340
Accounts receivable		
- Agents and policyholders	**2,763,019**	2,636,430
- Other - Note 5	**401,045**	235,135
Income taxes recoverable		10,545
Reinsurers' share of provisions for unpaid claims and adjustment expenses - Note 5	**1,765,706**	4,030,230
Deferred policy acquisition expenses - Note 5	**754,759**	731,341
Property, plant and equipment - Note 6	**608,705**	550,798
Intangible assets - Note 6	**8,562**	12,139
Deferred income taxes - Note 7	**16,000**	28,000
	19,176,988	20,754,225
LIABILITIES		
Accounts payable and accrued liabilities	**318,943**	308,859
Income taxes payable	**129,606**	
Provision for unpaid claims and adjustment expenses - Note 5	**5,840,186**	8,447,244
Unearned premiums - Note 5	**4,806,173**	4,668,295
	11,094,908	13,424,398
POLICYHOLDERS' SURPLUS		
Surplus and resources for protection of policyholders	**8,082,080**	7,329,827

APPROVED ON BEHALF OF THE BOARD

_______________________________ Director

_______________________________ Director

	19,176,988	20,754,225

L & A MUTUAL INSURANCE COMPANY
STATEMENT OF SURPLUS AND
RESOURCES FOR PROTECTION OF POLICYHOLDERS
FOR THE YEAR ENDED DECEMBER 31, 2015

	2015 $	2014 $
BALANCE - BEGINNING OF YEAR	**7,329,827**	7,136,614
COMPREHENSIVE INCOME FOR YEAR	**752,253**	193,213
BALANCE - END OF YEAR	**8,082,080**	7,329,827

The accompanying notes form an integral part of these financial statements

L & A MUTUAL INSURANCE COMPANY
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2015

	2015	2014
	$	$
PREMIUM INCOME		
Gross premiums written	**9,352,001**	9,140,214
Less reinsurance premiums	**(1,917,446)**	(2,078,273)
Net premiums written	**7,434,555**	7,061,941
(Increase) decrease in unearned premiums	**(137,828)**	107,713
Net premiums earned	**7,296,727**	7,169,654
Service charges	**135,818**	136,997
	7,432,545	7,306,651
DIRECT LOSSES INCURRED		
Gross claims and adjusting expenses		
(including salaries and benefits and overhead $338,351; 2014 - $91,547)	**4,680,637**	9,255,825
Less reinsurers' share of claims and adjusting expenses	**(471,126)**	(4,048,834)
	4,209,511	5,206,991
	3,223,034	2,099,660
EXPENSES		
Commissions	**1,373,237**	1,368,454
Salaries and benefits	**683,375**	630,823
Advertising and promotion	**50,948**	43,965
Bank charges and interest	**36,289**	43,483
Professional fees	**15,323**	25,045
Loss prevention	**75,743**	93,078
Travel and education	**30,533**	51,687
Other expenses	**24,922**	35,821
Office, printing and telephone	**75,213**	81,486
Computer expenses	**130,516**	150,005
Insurance	**13,351**	13,547
Ontario premium taxes	**27,332**	26,840
Association, bureau fees and donations	**35,250**	44,330
Building occupancy costs	**52,145**	39,681
Depreciation of property, plant and equipment and intangibles	**51,655**	43,138
	2,675,832	2,691,383
UNDERWRITING PROFIT (LOSS)	**547,202**	(591,723)
OTHER INCOME (EXPENSES)		
Investment income - Note 10	**440,700**	888,645
Management fees - portfolio investments	**(80,649)**	(76,709)
	360,051	811,936
COMPREHENSIVE INCOME BEFORE INCOME TAXES	**907,253**	220,213
INCOME TAX EXPENSE		
Current - Note 7	**143,000**	28,000
Deferred - Note 7	**12,000**	(1,000)
	155,000	27,000
COMPREHENSIVE INCOME FOR YEAR	**752,253**	193,213

L & A MUTUAL INSURANCE COMPANY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015

	2015 $	2014 $
OPERATING ACTIVITIES		
Comprehensive income for year	**752,253**	193,213
Adjustment for items which do not affect cash -		
Depreciation of property, plant and equipment and intangibles	**51,655**	43,138
Gain on sale of portfolio investments (realized and unrealized) - Note 10	**(130,641)**	(571,737)
Deferred income taxes	**12,000**	(1,000)
	685,267	(336,386)
Net change in non-cash working capital balances related to operations - Note 8	**(365,274)**	418,355
CASH FLOWS PROVIDED FROM OPERATING ACTIVITIES	**319,993**	81,969
INVESTING ACTIVITIES		
Purchase of portfolio investments	**(10,498,725)**	(10,172,843)
Proceeds on sale of portfolio investments	**10,363,932**	9,917,917
Purchase of property, plant and equipment and intangibles	**(104,657)**	(27,473)
CASH FLOWS USED IN INVESTING ACTIVITIES	**(239,450)**	(282,399)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS FOR YEAR	**80,543**	(200,430)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	**806,692**	1,007,122
CASH AND CASH EQUIVALENTS - END OF YEAR	**887,235**	806,692
REPRESENTED BY:		
Cash	**887,235**	806,692

L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

1. NATURE OF BUSINESS OPERATIONS

(a) Reporting Entity

The Company was incorporated without share capital in August, 1876 under the laws of the Province of Ontario as a mutual insurance company and is subject to the Insurance Act (Ontario). It is licenced to conduct its principal business activity which is to write property, liability and automobile insurance in Ontario. The Company's head office is located on 32 Mill Street East, Napanee, Ontario.

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

These financial statements have been authorized for issue by the Board of Directors on February 1, 2016.

(b) Basis of Presentation

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

These financial statements were prepared under the historical cost convention.

The Company presents the balance sheet in order of liquidity with a distinction based on expectations regarding recovery or settlement within twelve months after the balance sheet date (current) and more than twelve months after the balance sheet date (non-current) as described below.

The following balances are generally classified as current unless otherwise noted in these financial statements: cash, portfolio investments, accrued investment income, accounts receivable, reinsurance share of provisions for unpaid claims and adjustment expenses, deferred policy acquisition expenses, accounts payable and accrued liabilities, income taxes payable, provision for unpaid claims and adjustment expenses and unearned premiums.

The following balances are generally classified as non-current unless otherwise noted in these financial statements: property, plant and equipment, intangible assets and deferred income taxes.

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 2(a).

2. ACCOUNTING POLICIES

The Company follows International Financial Reporting Standards, which comply with the requirements for filing with the Financial Services Commission of Ontario. Those accounting policies considered to be particularly significant are as follows:

(a) Accounting Estimates

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

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 effects 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:

(i) Provision for Unpaid Claims

The estimation of the provision for unpaid claims and the related reinsurers' share are the Company's most critical accounting estimates. There are several sources of uncertainty that need to be considered by the Company in estimating the amount that will ultimately be paid on these claims. The uncertainty arises because all events affecting the ultimate settlement of claims have not taken place and may not take place for some time. Changes in the estimate of the provision can be caused by receipt of additional claim information, changes in judicial interpretation of contracts, or significant changes in severity or frequency of claims from historical trends. The estimates are based on the Company's historical experience and industry experience. More details are included in Note 5.

(ii) 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.

L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

2. ACCOUNTING POLICIES (Cont'd)

(b) 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 and unpaid claims and adjustment expenses and deferred policy acquisition expenses.

(i) 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 and exclusive of taxes levied on premiums.

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

(ii) Deferred Policy Acquisition Expenses

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

(iii) 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.

(iv) Liability Adequacy Test

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

L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

2. ACCOUNTING POLICIES (Cont'd)

(b) Insurance Contracts (Cont'd)

(v) 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.

(vi) Salvage and Subrogation Recoverable

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

Where the Company indemnifies policyholders against a liability claim, it acquires rights to subrogate its claim against other parties. These claims are recognized when funds are received, and are netted against gross claims and adjusting expenses.

(vii) Refund from Premiums

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 in the statement of comprehensive income in the period for which it is declared.

(c) Structured Settlements, Fire Mutuals Guarantee Fund and Financial Guarantee Contracts

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

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

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

2. ACCOUNTING POLICIES (Cont'd)

(d) Financial Instruments

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

(i) Loans and Receivables

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

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

(ii) Fair Value Through Profit and Loss Investments

Financial assets at fair value through profit and loss are financial assets held for trading. A financial asset is classified in this category if it is acquired principally for selling in the short term. Derivatives are also classified as held for trading unless they are designated hedges. Fair value through profit and loss instruments are carried at fair value in the balance sheet with changes in fair value recorded in the statement of comprehensive income.

Purchases and sales of equity instruments are recognized on settlement date.

(iii) Other Financial Liabilities

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

2. ACCOUNTING POLICIES (Cont'd)

(d) Financial Instruments (Cont'd)

(iv) Classification

Cash and cash equivalents are classified as fair value through profit and loss. Receivables are classified as loans and receivables, which are measured at amortized cost. Portfolio investments are classified in accordance with Note 2(e) below. Accounts payable and accrued liabilities, due to reinsurers and other insurance companies and structured settlements are classified as other financial liabilities, which are measured at amortized cost.

(e) Portfolio Investments

Portfolio investments invested are classified as fair value through profit and loss, and are initially recorded at their acquisition cost on the date of trade. Portfolio investments are subsequently adjusted to fair value as at the date of the balance sheet, and the corresponding unrealized gains and losses are recorded in income.

(f) Property, Plant and Equipment and Depreciation

Property, plant and equipment are stated at acquisition cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses. Gains or losses on the disposal of individual assets are recognized in income in the year of disposal. Depreciation is provided on the basis as detailed below:

Asset	Basis	Rate
Building	Declining balance	5%
Land and parking improvements	Declining balance	8%
Computer equipment	Straight-line	3 years
Office furniture and fixtures	Declining balance	20%

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

(g) Intangible Assets

Intangible assets consist of computer software which are not integral to the computer hardware owned by the Company. Software is initially recorded at cost and subsequently measured at cost less accumulated amortization and accumulated impairment losses. Software is amortized on a straight-line basis over 3 years.

(h) Income Taxes

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

2. ACCOUNTING POLICIES (Cont'd)

(h) Income Taxes (Cont'd)

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

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

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

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

(i) Provisions

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

(j) Accounts Receivable

Accounts receivable are classified as loans and receivables and are measured at initial recognition at fair value and are expected to be settled within one year. Appropriate allowances for estimated irrecoverable amounts are recognized in profit or loss when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable is impaired.

The carrying amount of the asset is reduced through the direct write-down of the asset in the statement of comprehensive income. Subsequent recoveries of amounts previously written off are credited against operating expenses in the statement of comprehensive income.

(k) Pension plan

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

L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

2. ACCOUNTING POLICIES (Cont'd)

(l) Cash and Equivalents

Cash and equivalents consist of cash on deposit.

(m) 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, 2016 or later periods that the Company has decided not to early adopt. The standards, amendments and interpretations that will be relevant to the Company are:

- IAS 1 - Presentation of Financial Statements. This standard was amended in order to clarify existing IAS 1 requirements. The amendments relate to materiality, order of the notes to the financial statements, subtotals, accounting policies and disaggregation. The amendments are effective for years beginning on or after January 1, 2016.

- IAS 16 - Property, Plant and Equipment and IAS 38 - Intangible Assets. These standards are amended in order to clarify acceptable methods of depreciation. The amendments are effective for years beginning on or after January 1, 2016.

- IFRS 7 - Financial Instruments: Disclosures. This was amended to require additional disclosure on transition from IAS 39 to IFRS 9. These amendments are effective on the adoption of IFRS 9 which was finalized in July 2014 and is effective for annual periods beginning on or after January 1, 2018.

- IFRS 9 - Financial Instruments. This standard will replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is measured at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise, it is measured at fair value through profit or loss. This standard is effective for years beginning on or after January 1, 2018.

- IFRS 15 - Revenue with Customers. This standard was issued to harmonize the revenue standard for IFRS and US GAAP. IFRS 15 provides more guidance on revenue recognition. The core principal is that an entity recognizes revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. IFRS 15 contains a scope exception which excludes insurance contracts within the scope of IFRS 4 "Insurance Contracts," therefore, this standard will have a limited impact on the Company. This standard is effective for years beginning on or after January 1, 2018.

L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

3. FINANCIAL INSTRUMENT CLASSIFICATION

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

	Fair value through profit and loss $	Loans and Receivables $	Other Financial Liabilities $	Total $
December 31, 2015				
Cash	**887,235**			**887,235**
Portfolio investments - Note 4	**11,930,681**			**11,930,681**
Accrued investment income		**41,276**		**41,276**
Accounts receivable				
- Agents and policyholders		**2,763,019**		**2,763,019**
- Other - Note 5		**401,045**		**401,045**
Accounts payable and accrued liabilities			**(318,943)**	**(318,943)**
	12,817,916	**3,205,340**	**(318,943)**	**15,704,313**
December 31, 2014				
Cash	806,692			806,692
Portfolio investments - Note 4	11,666,575			11,666,575
Accrued investment income		46,340		46,340
Accounts receivable				
- Agents and policyholders		2,636,430		2,636,430
- Other - Note 5		235,135		235,135
Accounts payable and accrued liabilities			(308,859)	(308,859)
	12,473,267	2,917,905	(308,859)	15,082,313

L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

4. PORTFOLIO INVESTMENTS

As noted in Note 2(e) to these financial statements, portfolio investments are classified as fair value through profit and loss and are adjusted to market value as at the balance sheet.

The cost and market values of the investments are as follows:

	2015		2014	
	Cost	**Fair Value**	Cost	Fair Value
	$	**$**	$	$
Money Market Fund	**451,522**	**451,522**	448,699	448,699
Canadian Treasury Bills	**574,963**	**574,963**	867,496	867,496
	1,026,485	**1,026,485**	1,316,195	1,316,195
Fixed income-securities				
Federal government	**6,311,470**	**6,378,766**	4,709,918	4,771,724
Provincial government & Provincially guaranteed			443,435	445,971
Canadian Municipal	**75,626**	**74,015**		
Canadian Corporate	**2,018,880**	**2,058,739**	2,732,567	2,784,199
	8,405,976	**8,511,520**	7,885,920	8,001,894
Guarantee Fund	**21,126**	**21,126**	21,755	21,755
Preference shares, common shares and income trusts	**1,945,686**	**2,371,550**	1,671,973	2,326,731
	11,399,273	**11,930,681**	10,895,843	11,666,575

The effective interest rates range from 0.191% to 4.066% (1.366% to 4.085% for December 31, 2014).

The maximum exposure to credit risk would be the carrying value (fair value) as shown above.

L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

4. PORTFOLIO INVESTMENTS (Cont'd)

Fair Value

The estimated market value of bonds and debentures are based on quoted market values. The estimated market value of preference and common shares are determined using the last bid price.

Maturity Profile

The expected maturity dates for fixed-income securities and term deposits are as follows:

	2015	2014
	$	$
Maturing within one year	**661,011**	
Maturing between one and five years	**1,708,504**	2,121,944
Maturing over five years	**6,142,005**	5,879,950
	8,511,520	8,001,894

5. INSURANCE CONTRACTS

Accounts Receivable - Other

	2015	2014
	$	$
Due from reinsurers, beginning of the year	**13,503**	9,120
Submitted to reinsurer	**2,735,650**	948,307
Received from reinsurer	**(2,579,087)**	(943,924)
Due from reinsurers, end of the year	**170,066**	13,503
Due from facility	**66,659**	68,108
Due from risk sharing pool	**164,320**	153,524
Accounts receivable - other	**401,045**	235,135

Expected settlement

Within one year	**401,045**	235,135
More than one year	**NIL**	NIL

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

L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

5. INSURANCE CONTRACTS (Cont'd)

Reinsurers Share of Provision for Unpaid Claims

	2015 $	2014 $
Balance, beginning of the year	**4,030,230**	929,704
New claims reserve	**1,166,202**	3,926,400
Change in prior years reserve	**(695,076)**	122,433
Submitted to reinsurer	**(2,735,650)**	(948,307)
Balance, end of the year	**1,765,706**	4,030,230

Expected settlement

Within one year	**939,127**	1,429,997
More than one year	**826,579**	2,600,233

Deferred Policy Acquisition Expenses

	2015 $	2014 $
Balance, beginning of the year	**731,341**	746,789
Acquisition costs incurred	**1,396,655**	1,353,007
Expensed during the year	**(1,373,237)**	(1,368,455)
Balance, end of the year	**754,759**	731,341

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

Unearned Premiums (UEP)

	2015 $	2014 $
Balance, beginning of the year	**4,668,295**	4,775,958
Premiums written	**9,352,001**	9,140,214
Premiums earned during year	**(9,214,123)**	(9,247,877)
Changes in UEP recognized in income	**137,878**	(107,663)
Balance, end of the year	**4,806,173**	4,668,295

L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

5. INSURANCE CONTRACTS (Cont'd)

The determination of the provision for unpaid claims and adjustment expenses and the related reinsurers' share requires the estimation of the following variables: development of claims and reinsurance recoveries. The estimates are based on the Company's historical experience and classified as follows:

	2015		2014	
	Gross	**Ceded**	Gross	Ceded
	$	**$**	$	$
Short-settlement term	**1,680,626**	**939,127**	2,763,182	1,429,997
Long-settlement term	**2,278,876**	**826,579**	3,782,709	2,600,233
Facility association and other residual pools	**230,684**		261,353	
Provision for claims incurred but not reported	**1,650,000**		1,640,000	
	5,840,186	**1,765,706**	8,447,244	4,030,230

Short-settlement term is defined as expected settlement within one year, long-term settlement is defined as expected settlement of more than one year.

Comments and Assumptions for Specific Claims Categories

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

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

L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

5. INSURANCE CONTRACTS (Cont'd)

Claims and Adjustment Expenses

Changes in claim liabilities recorded on the balance sheet for the years ended December 31, 2015 and 2014 and their impact on claims and adjustment expenses for the two years are as follow:

	2015	2014
	$	$
Unpaid claim liabilities, beginning of year	**8,447,244**	4,678,788
Decrease in estimated losses and expenses for losses occurring in prior years	**(2,063,772)**	(1,387,775)
Provision for losses and expenses on claims occurring in the current year	**6,744,220**	10,641,696
Payment on claims:		
Current year	**(3,587,784)**	(3,977,159)
Prior years	**(3,699,722)**	(1,508,306)
Unpaid claims, end of year	**5,840,186**	8,447,244
Reinsurer's share	**1,765,706**	4,030,230
Unpaid claims, end of year - net	**4,074,480**	4,417,014

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

Provision for Unpaid Claims and Adjustment Expenses

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

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

Claim Development

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

L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

5. INSURANCE CONTRACTS (Cont'd)

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

In 2015, only information from periods beginning on or after January 1, 2007 is required to be disclosed. This is being increased in each succeeding additional year, until ten years of information in included.

Gross Claims

	2007 $ (000's)	2008 $ (000's)	2009 $ (000's)	2010 $ (000's)	2011 $ (000's)	2012 $ (000's)	2013 $ (000's)	2014 $ (000's)	2015 $ (000's)	Total $ (000's)
Gross estimate of cumulative claims costs										
At the end year of claim	3,996	4,567	3,965	6,477	6,533	5,362	5,875	10,642	6,744	
One year later	3,377	4,088	3,297	5,336	5,737	4,878	4,851	9,247		
Two years later	3,223	3,605	3,093	5,133	5,652	4,502	4,306			
Three years later	3,071	3,445	3,073	4,980	5,615	4,321				
Four years later	2,629	3,465	3,073	4,958	5,783					
Five years later	2,511	3,473	3,050	4,837						
Six years later	2,511	3,593	3,053							
Seven years later	2,487	3,601								
Eight years later	2,487									
Current estimate of cumulative claims cost	2,487	3,601	3,053	4,837	5,783	4,321	4,306	9,247	6,744	44,379
Cumulative payments	2,487	3,511	3,053	4,765	5,347	4,294	4,048	7,446	3,588	38,539
Outstanding claims	NIL	90	NIL	72	436	27	258	1,801	3,156	5,840
Outstanding claims 2006 and prior										NIL
Provision for unpaid claims and expenses										5,840

L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

5. INSURANCE CONTRACTS (Cont'd)

Net Claims

	2007 $ (000's)	2008 $ (000's)	2009 $ (000's)	2010 $ (000's)	2011 $ (000's)	2012 $ (000's)	2013 $ (000's)	2014 $ (000's)	2015 $ (000's)	Total $ (000's)
Net estimate of cumulative claims costs										
At the end year of claim	2,964	3,417	3,451	5,043	5,500	4,890	5,085	6,938	5,750	
One year later	2,652	3,019	2,862	4,244	4,703	4,038	3,706	5,942		
Two years later	2,529	2,682	2,667	4,112	4,520	3,869	3,423			
Three years later	2,402	2,524	2,619	3,932	4,361	3,685				
Four years later	2,234	2,545	2,607	3,903	4,352					
Five years later	2,234	2,552	2,604	3,806						
Six years later	2,234	2,595	2,604							
Seven years later	2,210	2,595								
Eight years later	2,210									
Current estimate of cumulative claims cost	2,210	2,595	2,604	3,806	4,352	3,685	3,423	5,942	5,750	34,367
Cumulative payments	2,210	2,586	2,604	3,781	4,288	3,675	3,166	4,673	3,310	30,293
Outstanding claims	NIL	9	NIL	25	64	10	257	1,269	2,440	4,074
Outstanding claims 2006 and prior										NIL
Total net outstanding claims net of reinsurance										4,074

L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
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6. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLES

	Property, plant and Equipment							Intangibles
	Land $	Building $	Parking Lot $	Leasehold Improvements $	Computer Equipment $	Office Furniture and Fixtures $	Total $	Computer Software $
Cost								
Balance on December 31, 2014	80,924	537,633	17,576		120,671	82,894	839,698	47,898
Additions		6,611		51,271	19,860	24,146	101,888	2,769
Disposals					(76,407)		(76,407)	
Balance on December 31, 2015	80,924	544,244	17,576	51,271	64,124	107,040	865,179	50,667
Accumulated Depreciation								
Balance on December 31, 2014	NIL	115,067	5,992		109,532	58,309	288,900	35,759
Depreciation expense	NIL	21,294	927	5,127	10,631	7,332	45,311	6,346
Disposals					(77,737)		(77,737)	
Balance on December 31, 2015	NIL	136,361	6,919	5,127	42,426	65,641	256,474	42,105
Net book value								
December 31, 2014	80,924	422,566	11,584		11,139	24,585	550,798	12,139
December 31, 2015	80,924	407,883	10,657	46,144	21,698	41,399	608,705	8,562

The Company's land and buildings were last valued at January 1, 2010. Land and buildings were subject to external valuation performed by F.G. Myatt Commercial Appraisal Services, qualified professional appraiser adhering to the generally accepted Standards of Professional Practice (CUSPAP) and the Code of Ethics of the Appraisal Institute of Canada. The fair value of land and buildings is determined by the "Income Approach to Value" and on comparable market transactions. Had land and buildings not been accounted for using the revaluation model, on a historical cost basis, their net book values would have been approximately $11,000 and $383,000 (2014 - $12,000 and $396,000).

L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

7. INCOME TAX INFORMATION

The Company has a reduced effective income tax rate due to eligibility for the small business deduction and exemptions within the Income Tax Act for a proportion of its taxable income relating to insuring farm related risks.

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

	2015	2014
	$	$
Current Tax Expense		
Based on current year taxable income	**143,000**	28,000
Deferred Tax Expense (Recovery)		
Origination and reversal of temporary differences	**15,700**	(4,800)
Decrease (increase) in tax rate	**(3,700)**	3,800
	12,000	(1,000)
Total income tax expense	**155,000**	27,000

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

	2015	2014
	$	$
Net income for the year	**907,253**	220,213
Effective statutory rate	**19.15 %**	15.50 %
Expected taxes based on the effective statutory rate	**173,739**	34,133
Income from insuring farm related risks	**(18,612)**	(3,795)
Non-taxable dividends	**(8,384)**	(7,274)
Capital cost allowance in excess of depreciation	**(866)**	(521)
Non-deductible portion of claims liabilities	**(3,280)**	5,177
Other non-deductible expenses	**701**	592
Other	**(298)**	(312)
Total income tax expense	**143,000**	28,000

Adjustments to the opening carrying value of temporary differences based on changes to the federal and provincial tax rates result in changes to deferred income tax payable and is reflected in deferred income taxes.

L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

7. INCOME TAX INFORMATION (Cont'd)

The movement in 2015 deferred tax assets (liabilities) are:

	Opening Balance at January 1, 2015 $	Recognize in Net Income $	Closing Balance at December 31, 2015 $
Deferred Tax Assets			
Claims liabilities	34,200	4,800	39,000
Other	3,000	1,200	4,200
Deferred tax asset	37,200	6,000	43,200
Deferred Tax Liabilities			
Property, plant and equipment	(8,300)	(17,500)	(25,800)
Intangible assets	(900)	(500)	(1,400)
Deferred tax liability	(9,200)	(18,000)	(27,200)
2015 net deferred income taxes asset movement	28,000	(12,000)	16,000

L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

7. INCOME TAX INFORMATION (Cont'd)

The movement in 2014 deferred tax assets (liabilities) are:

	Opening Balance at January 1, 2014 $	Recognize in Net Income $	Closing Balance at December 31, 2014 $
Deferred Tax Assets			
Claims liabilities	33,700	500	34,200
Other	3,600	(600)	3,000
Deferred tax asset	37,300	(100)	37,200
Deferred Tax Liabilities			
Property,plant and equipment	(9,400)	1,100	(8,300)
Intangible assets	(900)		(900)
Deferred tax liability	(10,300)	1,100	(9,200)
2014 net deferred income taxes asset movement	27,000	1,000	28,000

	2015 $	2014 $
Deferred Tax Assets		
Deferred tax assets to be recovered within 12 months	**11,300**	13,300
Deferred tax assets to be recovered after more than 12 months	**31,900**	23,900
	43,200	37,200
Deferred Tax Liability		
Deferred tax liabilities to be settled within 12 months	**(1,400)**	(900)
Deferred tax liabilities to be settled after more than 12 months	**(25,800)**	(8,300)
	(27,200)	(9,200)
Net deferred income taxes asset movement	**16,000**	28,000

L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

8. NET CHANGE IN NON-CASH WORKING CAPITAL BALANCES RELATED TO OPERATIONS

Cash provided from (used in) non-cash working capital is compiled as follows:

	2015	2014
	$	$
(INCREASE) DECREASE IN CURRENT ASSETS		
Accrued interest	**5,064**	3,344
Accounts receivable - agents and policyholders	**(126,589)**	(10,805)
Accounts receivable - other	**(165,910)**	(17,960)
Income taxes recoverable	**10,545**	(10,545)
Reinsurers' share of provision for unpaid claims and adjustment expenses	**2,264,524**	(3,100,526)
Deferred policy acquisition expenses	**(23,418)**	15,448
	1,964,216	(3,121,044)
INCREASE (DECREASE) IN CURRENT LIABILITIES		
Accounts payable and accrued liabilities	**10,084**	(56,493)
Income taxes payable	**129,606**	(64,901)
Provision for unpaid claims and adjustment expenses	**(2,607,058)**	3,768,456
Unearned premiums	**137,878**	(107,663)
	(2,329,490)	3,539,399
NET CHANGE IN NON-CASH WORKING CAPITAL BALANCES RELATED TO OPERATIONS	**(365,274)**	418,355

L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

9. INSURANCE RISK MANAGEMENT

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

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

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

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

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

The Company manages this risk via its underwriting and reinsurance strategy within an overall risk management framework. Exposures are limited by having documented underwriting limits and criteria. Pricing of property and liability policies are based on assumptions in regard to trends and past experience, in an attempt to correctly match policy revenue with exposed risk. Automobile premiums are subject to approval by the Financial Services Commission of Ontario, and therefore, may result in a delay in adjusting the pricing to exposed risk; in this case, the Company has policies regarding renewal and new business accepted. Reinsurance is purchased to mitigate the effect of the potential loss to the Company. Reinsurance is placed with Farm Mutual Reinsurance Plan Inc. (FMRP), a Canadian registered reinsurer.

The Company follows a policy of underwriting with reinsuring contracts of insurance. The limit of liability of the Company is to a maximum amount of any one claim of $210,000 in the event of a property claim, $220,000 in the event of a liability claim and $250,000 in the event of an auto claim and $20,000 for Farmers Accident claims. For claims incurred over the respective limits, there is a 10% retention to a specified maximum for claims prior to 2013 and 100% is recovered for all claims in 2013 and subsequent years over the respective limit. In addition, the Company has obtained reinsurance which limits the Company's liability to approximately $630,000 in the event of a series of claims arising out of a single occurrence. The Company also has obtained stop loss reinsurance which limits the liability of all claims in a specific year to 80% of gross net earned premiums for all property, liability and automobile lines of business.

L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
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9. INSURANCE RISK MANAGEMENT (Cont'd)

The Company is exposed to a pricing risk to the extent that unearned premiums are insufficient to meet the related future policy costs. Evaluation is performed regularly to estimate future claims costs, related expenses and expected profit in relation to unearned premiums. There was no premium deficiency at December 31, 2015 and 2014.

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 occurrences, expected loss ratios and claims development as described in Note 5.

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

	Property Claims		Auto Claims		Liability Claims	
	2015	2014	**2015**	2014	**2015**	2014
	$	**$**	$	$	$	$
5% change in loss ratios						
Gross claims change	**278,422**	268,810	**148,872**	147,288	**37,298**	37,396
Net claims change	**228,117**	220,760	**116,465**	107,690	**24,137**	21,127

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.

10. INVESTMENT AND OTHER INCOME

	2015	2014
	$	$
Interest income	**229,798**	256,832
Dividend income	**64,706**	56,750
Unrealized gains (losses) on fair value measurement	**(58,017)**	417,548
Realized gains on disposal of investments	**188,658**	154,189
Other	**15,555**	3,326
	440,700	888,645

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NOTES TO FINANCIAL STATEMENTS
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11. RELATED PARTY TRANSACTIONS

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

	2015 **$**	2014 $
Compensation		
Salary, wages, short-term employee benefits and director's fees	**410,030**	400,181
Premiums	**60,083**	51,226
Claims incurred	**12,260**	NIL

Amounts owing from and to key management personnel and directors (excluding compensation due and accrued) at December 31, 2015 are $7,888 (2014 - $1,245) and $Nil (2014 - $Nil) respectively. The amounts owing are subject to regular payment terms for policyholders and are included in due from agents and policyholders on the balance sheet.

12. FINANCIAL RISKS AND CONCENTRATION OF 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 fixed-income securities in its investment portfolio and the reliance on reinsurers to make payment when certain loss conditions are met.

The Company's investment policy puts limits on the fixed-income securities including portfolio composition limits, issuer type limits and corporate sector limits. No foreign bonds are allowed and bonds must have a minimum credit rating of A. The maximum amount that may be invested in Guaranteed Investment Certificates may not exceed the amount guaranteed by the Canadian Deposit Insurance Corporation. All fixed income portfolios are monitored by management on a monthly basis and by the Board of Directors on a quarterly basis. Investment transactions are approved by any two of four specified management and Directors.

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NOTES TO FINANCIAL STATEMENTS
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12. FINANCIAL RISKS AND CONCENTRATION OF RISK (Cont'd)

Credit Risk (Cont'd)

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

Accounts receivable are short term in nature and are not subject to material credit risk. The maximum exposure to credit risk and concentration of this risk is limited to the carrying value of these instruments.

There have been no significant changes from the previous period 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 (Ontario). An investment policy is in place and its application is monitored by the Board of Directors. Diversification techniques are utilized to minimize risk.

Interest Rate Risk

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

The Company is exposed to risk through its interest-bearing investments (term deposits and debt securities).

Historical data and current information is used to profile the ultimate claims settlement pattern by class of insurance, which is then used in a broad sense to develop an investment policy and strategy. However, because a significant portion of the Company's assets relate to its capital rather than liabilities, the value of its interest rate based assets exceeds its interest rate based liabilities. As a result, generally the Company's investment income will move with interest rates over the medium to long-term with short-term interest rate fluctuations creating unrealized gains or losses in Comprehensive Income. There are no occurrences where interest would be charged on liabilities, therefore, little protection is needed to ensure the fair market value of assets will be offset by a similar change in liabilities due to an interest rate change.

12. FINANCIAL RISKS AND CONCENTRATION OF RISK (Cont'd)

Interest Rate Risk (Cont'd)

The objective and policies and procedures for managing interest rate risk is to diversify the bond portfolio in such a way that the bonds are a portfolio laddered over several years and an approximately equal portion of the bond portfolio would come due each year and be reinvested. This protects the Company from fluctuations in the interest rates.

As prevailing interest rates increase or decrease, the market value of these interest-bearing investments change. If interest rates were to increase by 1%, with all other variables being held constant, then the effect on the market value of these investments would be a decrease of approximately $531,000 (2014 - $481,000). If interest rates were to decrease by 1%, with all other variables being held constant, then the effect on the market value of these investments would be an increase of approximately $602,000 (2014 - $522,000). The Company has structured its portfolio in a manner as to be able to allow fixed-income securities to be held to maturity to reduce any potential interest rate risk. For bonds that the Company did not sell during the year, the change during the year would be recognized as Comprehensive Income during the year.

There have been no significant changes from the previous period 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. 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 preference and common shares of $237,000 (2014 - $233,000). For shares that the Company did not sell during the period, the change would be recognized in the asset value and in Comprehensive Income. For shares that the Company did sell during the period, the change during the period and changes prior to the period would be recognized as net realized gains or losses in income during the period.

12. FINANCIAL RISKS AND CONCENTRATION OF RISK (Cont'd)

The Company's investments policy operates within the guidelines of the Insurance Act (Ontario). An investment policy is in place and its application is monitored by the Board of Directors. Diversification techniques are utilized to minimize risk. The Policy limits the investment in preference and common shares are as follows:

Investment Category	Maximum Percentage of Investment Portfolio
Preference shares	25%
Common shares	25%
Income trusts	25%
Mutual and pooled funds	25%
Corporate securities	10%
Individual corporate group	10%
Individual sector	10%
Foreign securities	10%

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. There are no 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 the investment income.

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

13. DISCLOSURES RELATING TO FAIR VALUE MEASUREMENTS

The Company has categorized its financial assets and liabilities where fair value does not approximate cost based on the priority of the inputs to the valuation techniques used to measure fair value, into a three level fair value hierarchy. Financial assets and liabilities measured at fair value are categorized as follows:

Level 1: Fair value is based on unadjusted quoted prices for identical assets or liabilities in an active market.

Level 2: Fair value is based on quoted prices in markets that are not active or inputs that are observable for the asset or liability either directly as price or indirectly derived from price.

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13. DISCLOSURES RELATING TO FAIR VALUE MEASUREMENTS (Cont'd)

Level 3: Fair value is based on valuation techniques that require one or more significant unobservable inputs that are supported by little or no market activity and are significant to the estimated fair value of the assets and liabilities.

	Level 1 $ (000's)	**Level 2 $ (000's)**	**Total $ (000's)**
December 31, 2015			
Fixed-income securities			
Federal government	**6,379**		**6,379**
Provincial government and Provincially guaranteed			
Canadian Municipal	**74**		**74**
Canadian Corporate	**2,059**		**2,059**
Preference shares, common shares and income trusts	**2,371**		**2,371**
Fire Mutuals' Guarantee Fund		**21**	**21**
TOTAL ASSETS MEASURED AT FAIR VALUE	**10,883**	**21**	**10,904**

	Level 1 $ (000's)	Level 2 $ (000's)	Total $ (000's)
December 31, 2014			
Fixed-income securities			
Federal government	4,772		4,772
Provincial government and Provincially guaranteed	446		446
Canadian Corporate	2,784		2,784
Preference shares, common shares and income trusts	2,326		2,326
Fire Mutuals' Guarantee Fund		22	22
TOTAL ASSETS MEASURED AT FAIR VALUE	10,328	22	10,350

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14. CAPITAL MANAGEMENT

The Company's objectives with respect to capital management are to maintain a capital base that is structured to exceed regulatory requirements and to best use capital allocations. Reinsurance is utilized as outlined in the company's underwriting policy on Note 9 to these financial statements to protect the company's capital. In addition, 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, catastrophic coverage limits exposure to $630,000. The $630,000 net retained amount represents approximately 7.80% of the Company's capital. For the purpose of capital management, the Company has defined capital as policyholders' surplus.

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

In certain actuarial studies, the Net Risk Ratio was shown to have a high correlation to the MCT. As a result of these findings, the Company uses Net Risk Ratio to monitor capital adequacy.

The Company has several guidelines and benchmarks established by the Financial Services Commission of Ontario regarding capital management which it continues to manage and review. As of December 31, 2015, the Company's MCT ratio is well in excess of the minimum requirement of 150%.

15. PENSION PLAN

The Company makes contributions on behalf of its employees to "The Retirement Annuity Plan for Employees of the Ontario Mutual Insurance Association and Member Companies", which is a multi-employer plan. Each member company has signed an Ontario Mutual Insurance Association Pension Plan Agreement. Eligible employees participate in the defined benefit plan and sales agents participate in the defined contribution plan. The defined benefit plan specifies the amount of the retirement benefit to be received by the employee based on the number of years the employee has contributed and his/her final average earnings. The plan is accounted for as a defined contribution plan as insufficient information is available to account for the plan as a defined benefit plan. The Company is one of a number of employers that participates in the plan and the financial information provided to the Company on the basis of the contractual agreements is insufficient to reliably measure the Company's proportionate share in the plan assets and liabilities on defined benefit accounting requirements.

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15. PENSION PLAN (Cont'd)

The Company matches the employee contributions and funds the excess defined benefit based on the Company's percentage of pensionable earnings as calculated by the Pension Plan actuaries. The Pension Plan agreement states that the Company is responsible for its share of any deficit as a result of any actuarial valuation or cost certificate. The minimum funding requirement is the solvency valuation amount determined by the Pension Plan actuary on the valuation dates prescribed by the Pensions Benefit Act. In the event of a wind-up, voluntary withdrawal or bankruptcy, either by the Company or the group as a whole, the Company is responsible for its portion of all expenses and deficit related to such.

For the year ended December 31, 2015, the Company recognized $79,507 (2014 - $69,488) in operating expenses for current pension contributions. The Company had a 1.37% share of the total contributions to the Plan in 2015 (2014 - 1.25%)

The expected contributions for current service to the Plan for 2016 are approximately $83,000.

An actuarial valuation of the Pension Plan as of December 31, 2013 showed a solvency surplus of $510,000. The next actuarial valuation to be filed under the Pension Benefit Act will be as of December 31, 2016.

16. COMMITMENTS

The company has entered into a lease agreements covering a satellite office. The original lease expires May, 2020. This rental agreement includes the option two 5 year renewal periods. Base payments required under the current rental agreement are as follows:

	$
2016	**7,200**
2017	**8,250**
2018	**9,000**
2019	**9,000**
2020	**3,750**

17. COMPARATIVE FIGURES FOR 2015

During the year, the company reallocated general expenses in the amount $182,342 to claims and adjustment expenses and salaries and benefits in the amount of $156,008 to claims and adjustment expenses. This re-allocation was required by the Auto Rate Filing Committee. Prior year figures include direct salaries in the amount of $91,547. No other reclassification has been made to prior period comparative figures.