L & A MUTUAL INSURANCE COMPANY
FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2019

WILKINSON

L & A MUTUAL INSURANCE COMPANY

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AS AT DECEMBER 31, 2019

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INDEPENDENT AUDITOR'S REPORT

To the Policyholders of
L & A Mutual Insurance Company

Opinion

We have audited the financial statements of L & A Mutual Insurance Company (the Company), which comprise the balance sheet as at December 31, 2019 and the statements of surplus and resources for protection of policyholders, comprehensive income and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

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

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

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

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

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INDEPENDENT AUDITOR'S REPORT
(CONT'D)

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Wilkinson & Company LLP

BELLEVILLE, Canada
February 3, 2020

Chartered Professional Accountants
Licensed Public Accountants

L & A MUTUAL INSURANCE COMPANY
BALANCE SHEET AS AT DECEMBER 31, 2019

	2019 $	2018 $
ASSETS		
Cash	**652,925**	3,535,400
Portfolio investments - Note 5	**13,831,452**	10,095,154
Accrued investment income	**29,467**	7,227
Accounts receivable		
- Agents and policyholders	**3,640,123**	3,198,415
- Other - Note 6	**442,129**	308,371
Income taxes recoverable		25,440
Reinsurer's share of provisions for unpaid claims and adjustment expenses - Note 6	**4,362,241**	4,497,322
Deferred policy acquisition expenses - Note 6	**930,077**	830,326
Property, plant and equipment and right of use assets - Note 7	**1,204,303**	535,471
Intangible assets - Note 7	**6,607**	
Deferred income taxes - Note 9	**21,000**	10,000
	25,120,324	23,043,126
LIABILITIES		
Accounts payable and accrued liabilities	**637,986**	399,501
Income taxes payable	**327,036**	
Provision for unpaid claims and adjustment expenses - Note 6	**8,798,506**	9,280,195
Unearned premiums - Note 6	**6,136,146**	5,391,869
	15,899,674	15,071,565
POLICYHOLDERS' SURPLUS		
Surplus and resources for protection of policyholders	**9,220,650**	7,971,561
	25,120,324	23,043,126

APPROVED ON BEHALF OF THE BOARD

Alan S. Brown ________ Director

________ Director

The accompanying notes form an integral part of these financial statements

WILKINSON

L & A MUTUAL INSURANCE COMPANY
STATEMENT OF SURPLUS AND
RESOURCES FOR PROTECTION OF POLICYHOLDERS
FOR THE YEAR ENDED DECEMBER 31, 2019

	2019	2018
	$	$
BALANCE - BEGINNING OF YEAR	**7,971,561**	8,051,383
COMPREHENSIVE INCOME (LOSS) FOR YEAR	**1,249,089**	(79,822)
BALANCE - END OF YEAR	**9,220,650**	7,971,561

L & A MUTUAL INSURANCE COMPANY
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2019

	2019 $	2018 $
PREMIUM INCOME		
Gross premiums written	**11,839,907**	10,386,514
Less reinsurance premiums	**(2,032,513)**	(1,908,456)
Net premiums written	**9,807,394**	8,478,058
Increase in unearned premiums	**(744,277)**	(390,071)
Net premiums earned	**9,063,117**	8,087,987
Service charges	**67,307**	57,756
	9,130,424	8,145,743
DIRECT LOSSES INCURRED		
Gross claims and adjusting expenses		
(including salaries and benefits and overhead $267,454; 2018 - $309,180)	**6,290,935**	5,812,474
Less reinsurer's share of claims and adjusting expenses	**(1,020,156)**	(455,710)
	5,270,779	5,356,764
	3,859,645	2,788,979
EXPENSES		
Commissions	**1,622,313**	1,506,920
Salaries and benefits	**795,149**	636,859
Advertising and promotion	**72,591**	60,644
Bank charges and interest	**56,064**	42,490
Professional fees	**66,987**	67,662
Loss prevention (including salaries and benefits of $49,285; 2018 - $54,949)	**93,777**	97,965
Travel and education	**28,128**	27,860
Other expenses	**36,638**	35,220
Office, printing and telephone	**89,777**	77,414
Computer expenses	**211,965**	154,501
Insurance	**40,421**	35,172
Ontario premium taxes	**32,177**	29,604
Association, bureau fees and donations	**37,802**	38,448
Building occupancy costs	**70,728**	77,858
Depreciation of property, plant and equipment, right of use assets and intangibles	**56,805**	41,952
	3,311,322	2,930,569
UNDERWRITING PROFIT (LOSS)	**548,323**	(141,590)
OTHER INCOME (EXPENSES)		
Investment income - Note 12	**1,030,445**	90,609
Management fees - portfolio investments	**(26,679)**	(46,841)
	1,003,766	43,768
COMPREHENSIVE INCOME (LOSS) BEFORE INCOME TAXES	**1,552,089**	(97,822)
INCOME TAX EXPENSE (RECOVERY)		
Current - Note 9	**314,000**	(20,000)
Deferred - Note 9	**(11,000)**	2,000
	303,000	(18,000)
COMPREHENSIVE INCOME (LOSS) FOR YEAR	**1,249,089**	(79,822)

The accompanying notes form an integral part of these financial statements

L & A MUTUAL INSURANCE COMPANY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019

	2019	2018
	$	$
OPERATING ACTIVITIES		
Comprehensive income (loss) for year	**1,249,089**	(79,822)
Adjustment for items which do not affect cash -		
Depreciation of property, plant and equipment, right of use assets and intangibles	**56,805**	41,952
(Gain) loss on sale of portfolio investments (realized and unrealized) - Note 12	**(571,214)**	347,478
Deferred income taxes	**(11,000)**	2,000
	723,680	311,608
Net change in non-cash working capital balances related to operations - Note 10	**291,173**	654,782
CASH FLOWS PROVIDED FROM OPERATING ACTIVITIES	**1,014,853**	966,390
INVESTING ACTIVITIES		
Purchase of portfolio investments	**(10,652,729)**	(14,045,987)
Proceeds on sale of portfolio investments	**7,421,991**	15,897,445
Purchase of property, plant and equipment and intangibles	**(652,091)**	(60,319)
CASH FLOWS PROVIDED FROM (USED IN) INVESTING ACTIVITIES	**(3,882,829)**	1,791,139
FINANCING ACTIVITIES		
Principal paid on lease liabilities	**(14,499)**	NIL
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS FOR YEAR	**(2,882,475)**	2,757,529
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	**3,535,400**	777,871
CASH AND CASH EQUIVALENTS - END OF YEAR	**652,925**	3,535,400
REPRESENTED BY:		
Cash	**652,925**	3,535,400

The accompanying notes form an integral part of these financial statements

L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

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. ("Farm Mutual Re"). The rate filing must include actuarial justification for rate increases or decreases. All rate filings are approved or denied by the Financial Services Regulatory Authority 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 3, 2020.

(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, reinsurer's 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 Regulatory Authority 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 reinsurer's share are the Company's most critical accounting estimates. There are several sources of uncertainty that need to be considered by the Company in estimating the amount that will ultimately be paid on these claims. The uncertainty arises because all events affecting the ultimate settlement of claims have not taken place and may not take place for some time. Changes in the estimate of the provision can be caused by receipt of additional claim information, changes in judicial interpretation of contracts, or significant changes in severity or frequency of claims from historical trends. The estimates are based on the Company's historical experience and industry experience. More details are included in Note 6 to these financial statements.

(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.

(iii) Classification of Financial Assets at Fair Value Through Profit or Loss ("FVTPL")

The classification of financial assets at FVTPL, which includes assessing the business model within which the assets are held and whether the contractual terms of the assets are solely payments of principal and interest on the principal amount outstanding. See Note 2(e) for further information on the company's business model.

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, the reinsurer's share of provisions for unearned premiums 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.

Provisions for unpaid claims and adjustment expenses 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.

2. ACCOUNTING POLICIES (Cont'd)

(b) Insurance Contracts (Cont'd)

(v) Reinsurer's 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. This refund would be 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.

L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

2. ACCOUNTING POLICIES (Cont'd)

(d) Financial Instruments

The Company classifies its financial instruments into one of the following categories based on the business model in which they are held and the characteristics of their contractual cash flows. 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) Amortized Cost

Financial Assets

Financial assets measured at amortized cost are non-derivative and 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 estimated credit loss.

The IFRS 9 impairment model requires impairment allowances for all exposures from the time a financial asset is originated, based on the deterioration of credit risk (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) since initial recognition. This is based on the history of all credit losses for similar financial assets. If the credit risk has not increased significantly, the Company sets up an allowance based on 12 month expected losses. If the credit risk has increased significantly and if the loan is credit impaired, the Company will set up an allowance based on lifetime expected losses. For amounts due from policyholders and reinsurer, which are reported net, such allowance is 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 financial asset is written off against the associated allowance.

Financial Liabilities

Financial liabilities 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

(ii) Fair Value Through Profit or Loss

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

The Company uses settlement date accounting for the purchase and sale of equity instruments.

(iii) Classification

The classification of financial instruments are outlined in Note 4 to these financial statements.

(e) Portfolio Investments

Portfolio investments, which include fixed-income securities, equities and mutual/pooled funds, are classified as fair value through profit or loss and are initially recorded at their acquisition cost (fair value) on the date of trade. The Company manages and evaluates performance of its fixed-income securities, as well as equities and mutual/pooled funds, on a fair value basis in accordance with a documented investment strategy. The instruments are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

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 comprehensive 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.
Assets under construction are not amortized until the asset is available for productive use.

2. ACCOUNTING POLICIES (Cont'd)

(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.

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.

L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

2. ACCOUNTING POLICIES (Cont'd)

(j) Accounts Receivable

Accounts receivable are classified as amortized cost and are measured at initial recognition at fair value and are expected to be settled within one year. See Note 2(d)(i) to these financial statements for discussion regarding the impairment model. Subsequent recoveries of amounts previously written off are credited against operating expenses in the statement of comprehensive income.

(k) Post-Employment Benefits - Pension Plan

The Company participates in a multi-employer defined benefit pension plan, however, sufficient information is not available to use defined benefit pension 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) Post-Employment Benefits - Non-Pension Benefits

The Company participates in a multi-employer health and dental benefit plan that provides post-employment extended health and dental benefits to eligible retired employees. Entitlement to these benefits is conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. There are no employee contributions and the benefits are not funded.

The accrued obligation is based on the present value of expected future benefit plan payments once an employee reaches the age of eligibility. This method includes various estimates including retirement dates and ages of employees, expected extended health and dental benefit plan costs and related factors. Such estimates are subject to uncertainty.

The accrued obligation is included in accounts payable and accrued liabilities in the statement of financial position.

(m) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on deposit.

(n) 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, 2019 or later periods that the Company has decided not to early adopt. The standards, amendments and interpretations that will be relevant to the Company are:

- IFRS 1 - Presentation of Financial Statements. This standard sets out the principles for the presentation of general purpose financial statements to ensure comparability with prior year and other entity's financial statements. The updated standard provides a new definition of material in order to help ensure financial statements contain all information that could influence user decisions. This standard is effective for annual periods beginning on or after January 1, 2020.

2. ACCOUNTING POLICIES (Cont'd)

(n) Standards, Amendments and Interpretations Not Yet Effective (Cont'd)

- IFRS 17 - Insurance Contracts (to supersede IFRS 4 Insurance Contracts). This standard changes how entities account for insurance contracts. Under IFRS 17, the general model requires entities to measure an insurance contract using the total of the fulfillment cash flows (which is comprised of the estimated future cash flows, an adjustment to reflect the time value of money and an explicit risk adjustment for non-financial risk) and the contractual service margin. The fulfillment cash flows are re-measured on a current basis each reporting period. The contractual service margin is recognized over the coverage period. If the insurance contract is less than one year in length, the standard allows a simplified approach called the premium allocation method. This standard is effective for annual periods beginning on or after January 1, 2021 with early adoption permitted. The standard is to be applied retrospectively unless impracticable, in which case, the modified retrospective approach or fair value approach is to be used. The Company is currently assessing the impact of IFRS 17.

With the exception of IFRS 17, the Company does not expect the above amendments to have significant impacts on the financial statements in future years.

3. ADOPTION OF IFRS 16 - LEASES

On January 1, 2019, the Company adopted IFRS 16 Leases (IFRS 16). IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less, or the underlying asset is of low value. IFRS 16 substantially carries forward the lessor accounting in IAS 17 - Leases ("IAS 17"), with the distinction between operating leases and finance leases being retained.

The Company adopted IFRS 16 using the modified retrospective approach without restatement of comparative figures. The Company elected to apply the practical expedient to not reassess whether a contract is, or contains a lease at the date of initial application. Contracts entered into before the transition date that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. The definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

IFRS 16 provides for certain optional practical expedients, including those related to the initial adoption of the standard. The Company applied the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Reliance on previous assessments on whether leases are onerous as opposed to preparing an impairment review under IAS 36 as at the date of initial application; and
- Applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term remaining as of the date of initial application.

3. ADOPTION OF IFRS 16 - LEASES (Cont'd)

(i) Recognition and Measurement

As a lessee, the Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Company recognizes right-of-use assets and lease liabilities for most leases. However, the Company has elected not to recognize right-of-use assets and lease liabilities for some leases of low value assets based on the value of the underlying asset when new or for short-term leases with a lease term of 12 months or less.

On adoption of IFRS 16, the Company recognized right-of-use assets and lease liabilities in relation to the lease of facilities which had previously been classified as operating leases.

The lease liabilities and right-of-use assets were measured as follows:

(a) The lease liabilities were measured at the present value of the remaining lease payments, discounted using the Company’s incremental borrowing rate as at January 1, 2019. The Company’s incremental borrowing rate is the rate at which a similar borrowing could be obtained from an independent creditor under comparable terms and conditions; and

(b) Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

(ii) Impacts on the Company's Financial Statements on January 1, 2019

The following table presents the impact of adopting IFRS 16 on the statement of financial position as at January 1, 2019:

	Balance December 31, 2018 $	**IFRS 16 Adjustment $**	**Adjusted Balance January 1, 2019 $**
Right-of-use assets	NIL	**57,561**	**57,561**
Accounts payable and accrued liabilities	399,501		**399,501**
Lease liability		**57,561**	**57,561**
Total liabilities	399,501	**57,561**	**457,062**

When measuring lease liabilities for leases that were previously operating leases, the Company discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted average incremental borrowing rate applied to the lease liabilities was 3.95%

L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

3. ADOPTION OF IFRS 16 - LEASES (Cont'd)

(iii) Reconciliation of Operating Lease Commitments and Aggregate Lease Liability

The following table reconciles the Company's operating lease commitments at December 31, 2018, as previously disclosed in the Company's financial statements, to the lease liabilities recognized on initial application of IFRS 16 at January 1, 2019:

	January 1, 2019 $
Minimum operating lease commitment disclosed as a December 31, 2018	**21,307**
Less: low value leases not recognized under IFRS 16	**6,900**
Plus: effect of extension options reasonably certain to be exercised	**50,850**
	65,257
Effect of discounting using the incremental borrowing rate as at the date of initial application	**(7,696)**
Lease liabilities recognized at January 1, 2019	**57,561**
Of which are:	
Current lease liabilities	**8,041**
Non-current lease liabilities	**49,520**
	57,561

(iv) Impacts on the Company's Financial Statements for the Period Ending December 31, 2019

As a result of initially applying IFRS 16, in relation to the leases that were previously classified as operating leases, the Company recognized $80,155 of right-of-use assets and $65,656 of lease liabilities as at December 31, 2019. Also in relation to those leases under IFRS 16, the Company recognized depreciation and interest costs, instead of operating lease expense. During the year ended December 31, 2019, the Company recognized $12,736 of depreciation expense, $3,564 of interest costs.

L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

4. FINANCIAL INSTRUMENT CLASSIFICATION

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

	Fair value through profit or loss $	Amortized Cost $	Total $
December 31, 2019			
Cash	**652,925**		**652,925**
Portfolio investments - Note 5	**13,831,452**		**13,831,452**
Accrued investment income		**29,467**	**29,467**
Accounts receivable			
- Agents and policyholders		**3,640,123**	**3,640,123**
- Other - Note 6		**442,129**	**442,129**
Accounts payable and accrued liabilities		**(637,986)**	**(637,986)**
	14,484,377	**3,473,733**	**17,958,110**
December 31, 2018			
Cash	3,535,400		3,535,400
Portfolio investments - Note 5	10,095,154		10,095,154
Accrued investment income		7,227	7,227
Accounts receivable			
- Agents and policyholders		3,198,415	3,198,415
- Other - Note 6		308,371	308,371
Accounts payable and accrued liabilities		(399,501)	(399,501)
	13,630,554	3,114,512	16,745,066

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NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

5. PORTFOLIO INVESTMENTS

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

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

	2019		2018	
	Cost $	**Fair Value $**	Cost $	Fair Value $
Money Market Fund	**928,604**	**928,604**	667,280	667,280
Guaranteed Investment Certificates	**4,286,530**	**4,286,530**	1,300,000	1,300,000
	5,215,134	**5,215,134**	1,967,280	1,967,280
Fixed income-securities				
Federal government	**2,707,499**	**2,946,935**	2,249,327	2,455,152
Provincial government & Provincially guaranteed	**880,915**	**1,001,387**	1,062,822	1,241,119
Canadian Corporate	**2,359,626**	**2,109,295**	2,409,189	2,018,669
	5,948,040	**6,057,617**	5,721,338	5,714,940
Guarantee Fund	**20,811**	**20,811**	20,814	20,814
Preference shares, common shares and pooled funds	**2,313,778**	**2,537,890**	2,595,985	2,392,120
	13,497,763	**13,831,452**	10,305,417	10,095,154

The effective interest rates range from 0.5% to 5.75% (0.5% to 5.778% for December 31, 2018).

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, 2019

5. 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:

	2019	2018
	$	$
Maturing within one year	**154,072**	162,000
Maturing between one and five years	**997,752**	1,165,024
Maturing over five years	**4,905,793**	4,387,916
	6,057,617	5,714,940

6. INSURANCE CONTRACTS

Accounts Receivable - Other

	2019	2018
	$	$
Due from reinsurer, beginning of the year	**13,036**	271
Submitted to reinsurer	**1,155,237**	154,835
Received from reinsurer	**(1,054,681)**	(142,070)
Due from reinsurer, end of the year	**113,592**	13,036
Due from facility	**80,587**	69,937
Due from risk sharing pool	**247,950**	225,398
Accounts receivable - other	**442,129**	308,371
Expected settlement		
Within one year	**442,129**	308,371
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, 2019

6. INSURANCE CONTRACTS (Cont'd)

Reinsurer's Share of Provision for Unpaid Claims

	2019	2018
	$	$
Balance, beginning of the year	**4,497,322**	4,196,446
New claims reserve	**978,194**	517,849
Change in prior years reserve	**41,961**	(62,138)
Submitted to reinsurer	**(1,155,236)**	(154,835)
Balance, end of the year	**4,362,241**	4,497,322

Expected settlement

Within one year	**530,580**	586,391
More than one year	**3,831,661**	3,910,931

Deferred Policy Acquisition Expenses

	2019	2018
	$	$
Balance, beginning of the year	**830,326**	785,519
Acquisition costs incurred	**1,722,064**	1,551,726
Expensed during the year	**(1,622,313)**	(1,506,919)
Balance, end of the year	**930,077**	830,326

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

Unearned Premiums (UEP)

	2019	2018
	$	$
Balance, beginning of the year	**5,391,869**	5,001,798
Premiums written	**11,839,907**	10,386,514
Premiums earned during year	**(11,095,630)**	(9,996,443)
Changes in UEP recognized in income	**744,277**	390,071
Balance, end of the year	**6,136,146**	5,391,869

L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

6. INSURANCE CONTRACTS (Cont'd)

The determination of the provision for unpaid claims and adjustment expenses and the related reinsurer's 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:

	2019		2018	
	Gross	**Ceded**	Gross	Ceded
	$	**$**	$	$
Short-settlement term	**1,568,035**	**530,580**	1,964,236	586,391
Long-settlement term	**4,872,359**	**3,831,661**	5,398,112	3,910,931
Facility association and other residual pools	**233,112**		227,847	
Provision for claims incurred but not reported	**2,125,000**		1,690,000	
	8,798,506	**4,362,241**	9,280,195	4,497,322

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, 2019

6. INSURANCE CONTRACTS (Cont'd)

Claims and Adjustment Expenses

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

	2019	2018
	$	$
Unpaid claim liabilities, beginning of year	**9,280,195**	8,326,605
Decrease in estimated losses and expenses for losses occurring in prior years	**(1,738,081)**	(1,428,338)
Provision for losses and expenses on claims occurring in the current year	**8,029,017**	7,240,812
Payment on claims:		
Current year	**(4,841,186)**	(3,932,947)
Prior years	**(1,931,439)**	(925,937)
Unpaid claims, end of year	**8,798,506**	9,280,195
Reinsurer's share	**4,362,241**	4,497,322
Unpaid claims, end of year - net	**4,436,265**	4,782,873

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 reinsurer's share requires the estimation of three major variables which are the development of claims, reinsurance recoveries and future investment income.

The Chief Executive Officer of Financial Services Regulatory Authority 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, 2019

6. 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 2010 to 2019. 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.

Gross Claims

	2010 $ (000's)	2011 $ (000's)	2012 $ (000's)	2013 $ (000's)	2014 $ (000's)	2015 $ (000's)	2016 $ (000's)	2017 $ (000's)	2018 $ (000's)	2019 $ (000's)	Total $ (000's)
Gross estimate of cumulative claims costs											
At the end year of claim	6,477	6,533	5,362	5,875	10,642	6,744	10,551	6,732	7,241	8,029	
One year later	5,336	5,737	4,878	4,851	9,247	5,778	10,176	6,219	6,829		
Two years later	5,133	5,652	4,502	4,306	8,852	5,115	9,910	5,834			
Three years later	4,980	5,615	4,321	4,096	8,565	4,980	9,581				
Four years later	4,958	5,783	4,446	4,096	8,449	4,812					
Five years later	4,837	5,698	4,405	4,096	8,311						
Six years later	4,878	5,203	4,364	4,091							
Seven years later	4,707	5,203	4,364								
Eight years later	4,659	5,203									
Nine years later	4,649										
Current estimate of cumulative claims cost	4,649	5,203	4,364	4,091	8,311	4,812	9,581	5,834	6,829	8,029	61,703
Cumulative payments	4,649	5,203	4,364	4,076	7,927	4,812	5,639	5,498	5,896	4,840	52,904
Outstanding claims	NIL	NIL	NIL	15	384	NIL	3,942	336	933	3,189	8,799
Outstanding claims 2008 and prior											NIL
Provision for unpaid claims and expenses											8,799

L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

6. INSURANCE CONTRACTS (Cont'd)

Net Claims

	2010 $ (000's)	2011 $ (000's)	2012 $ (000's)	2013 $ (000's)	2014 $ (000's)	2015 $ (000's)	2016 $ (000's)	2017 $ (000's)	2018 $ (000's)	2019 $ (000's)	Total $ (000's)
Net estimate of cumulative claims costs											
At the end year of claim	5,043	5,500	4,890	5,085	6,938	5,750	6,302	6,524	6,883	7,212	
One year later	4,244	4,676	4,038	3,706	5,942	4,773	5,280	5,393	5,808		
Two years later	4,112	4,493	3,869	3,423	5,837	4,278	5,127	5,168			
Three years later	3,932	4,334	3,685	3,213	5,566	4,143	4,752				
Four years later	3,903	4,352	3,781	3,213	5,467	4,020					
Five years later	3,806	4,343	3,747	3,213	5,329						
Six years later	3,751	4,296	3,743	3,208							
Seven years later	3,751	4,296	3,743								
Eight years later	3,748	4,296									
Nine years later	3,748										
Current estimate of cumulative claims cost	3,748	4,296	3,743	3,208	5,329	4,020	4,752	5,168	5,808	7,212	47,284
Cumulative payments	3,748	4,296	3,743	3,193	5,108	4,020	4,546	4,832	5,081	4,281	42,848
Outstanding claims	NIL	NIL	NIL	15	221	NIL	206	336	727	2,931	4,436
Outstanding claims 2008 and prior											NIL
Total net outstanding claims net of reinsurance											4,436

L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

7. PROPERTY, PLANT AND EQUIPMENT, RIGHT OF USE ASSETS AND INTANGIBLES

	Property, Plant and Equipment						Right of Use Assets			Intangibles
	Land $	Building $	Parking Lot $	Leasehold Improvements $	Computer Equipment $	Office Furniture and Fixtures $	Facility Lease $	Server Lease $	Total $	Computer Software $
Cost										
Balance on December 31, 2018	80,924	590,883	17,576	54,168	79,143	107,040			929,734	50,667
IFRS 16 Adjustment							57,561		57,561	
Additions	275,000	345,655			23,506			22,594	666,755	7,929
Disposals					(29,483)				(29,483)	(50,667)
Balance on December 31, 2019	355,924	936,538	17,576	54,168	73,166	107,040	57,561	22,594	1,624,567	7,929
Accumulated Depreciation										
Balance on December 31, 2018	NIL	194,728	9,278	37,339	67,074	85,844	NIL	NIL	394,263	50,667
Depreciation expense	NIL	17,863	664	10,834	9,147	4,239	8,971	3,766	55,484	1,322
Balance on December 31, 2019	NIL	212,591	9,942	48,173	46,738	90,083	8,971	3,766	420,264	1,322
Net book value										
December 31, 2018	80,924	396,155	8,298	16,829	12,069	21,196	NIL	NIL	535,471	NIL
December 31, 2019	355,924	723,947	7,634	5,995	26,428	16,957	48,590	18,828	1,204,303	6,607

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 $7,000 and $319,000 (2018 - $8,000 and $329,000). The above building value of $936,538 includes an amount of $384,554 related to a new building that is under construction and is currently not in use and therefore no depreciation has been taken on this balance for the 2019 year.

8. RIGHT OF USE ASSETS AND LEASE LIABILITIES

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. This policy is applied to contracts entered into, or changed, on or after January 1, 2019. All leases are accounted for by recognizing a right-to-use asset and a lease liability except for:

- Leases of low value assets (based on the value of the underlying asset when new); and
- Short-term leases with a lease term of twelve months or less.

(a) Nature of Leasing Activities (in the capacity as lessee)

The Company leases facility space and server equipment.

Lease of facility space are made for fixed periods of 5 years and has an extension option exercisable by the Company for an additional 5 years after the end of the non-cancellable period. Extension option is included in the lease term when the Company is reasonably expected to exercise that option. The lease payments comprise fixed payments over the lease term and additional rent payments that are based on changes in market rates

Lease of server equipment comprise only fixed payments over the lease terms. The lease is for a period of 3 years. The Company's lease liabilities are secured by the lessor's title to the leased assets.

(b) Recognition and Initial Measurement

The Company recognizes right-of-use assets and lease liabilities at the lease commencement date.

The right-of-use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for lease payments made at or before commencement of the lease or initial direct costs incurred.

Lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally the Company uses its incremental borrowing rate as the discount rate. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate (e.g. CPI or inflation). In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments that are not dependent on an index or rate are expensed in the period to which they relate.

For contracts that both convey a right to the Company to use an identified asset and require services to be provided to the Company by the lessor, the Company has elected to account for the entire contract as a lease, and therefore the Company does not allocate the amount of the contractual payments to, and account separately for, any services provided by the supplier as part of the contract.

8. RIGHT OF USE ASSETS AND LEASE LIABILITIES (Cont'd)

(c) Subsequent Measurement

Right-of-use assets are subsequently measured at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability.

Lease liabilities are subsequently increased by the interest cost on the lease liability and decreased by lease payments made. Lease liabilities are remeasured when there is a change in future lease payments arising from a change in an index or rate. The revised future lease payments are discounted at the same discount rate that applied on lease commencement. Lease liabilities are also remeasured when there is a change in the assessment of the term of any lease (for example, a change in the Company's assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised). The future lease payments over the revised term are discounted at the revised discount rate at the date of reassessment. In both cases, an equivalent adjustment is made to the carrying value of the right-of-use asset.

Refer to Note 7 for details on right-of-use assets.

	Facilities	**Server Equipment**	**Total**
	$	**$**	**$**
Lease liabilities consist of the following:			
Balance at January 1, 2019	57,561		57,561
Additions		22,594	22,594
Interest expense	2,129	1,435	3,564
Lease payments	(10,170)	(7,893)	(18,063)
Balance at December 31, 2019	49,520	16,136	65,656

Lease liabilities have been included in accounts payable and accrued liabilities on the balance sheet.

Amounts recognized in profit or loss:

	2019	2018
	$	$
Depreciation of right-of-use assets	**12,736**	
Interest expense on lease liability	**3,564**	
Expenses relating to leases of low value assets that are not short-term leases (included in operating expense)	**6,900**	
Total operating lease		21,307
	23,200	21,307

Amounts recognized in the statement of cash flows:

	2019	2018
	$	$
Total cash outflow for leases	**14,499**	NIL

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FOR THE YEAR ENDED DECEMBER 31, 2019

9. INCOME TAX INFORMATION

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

	2019	2018
	$	$
Current Tax Expense		
Based on current year taxable income (loss)	**314,000**	(20,000)
Deferred Tax Expense (Recovery)		
Origination and reversal of temporary differences	**(11,000)**	2,000
Total income tax expense	**303,000**	(18,000)

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:

	2019	2018
	$	$
Net income (loss) for the year	**1,552,089**	(97,822)
Effective statutory rate	**21.68 %**	15.50 %
Expected taxes based on the effective statutory rate	**336,493**	(15,162)
Loss from insuring farm related risks		(2,063)
Non-taxable dividends	**(14,053)**	(8,814)
Capital cost allowance in excess of depreciation	**(2,559)**	(193)
Non-deductible portion of claims liabilities	**(3,757)**	5,059
Lease payments	**(3,143)**	
Other non-deductible expenses	**1,657**	1,172
Other	**(638)**	1
Total income tax expense	**314,000**	(20,000)

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, 2019

9. INCOME TAX INFORMATION (Cont'd)

The movement in 2019 deferred tax assets (liabilities) are:

	Opening Balance at January 1, 2019 $	**Recognize in Net Income $**	**Closing Balance at December 31, 2019 $**
Deferred Tax Assets			
Claims liabilities	**28,800**	**13,200**	**42,000**
Other		**6,100**	**6,100**
Deferred tax asset	**28,800**	**19,300**	**48,100**
Deferred Tax Liabilities			
Property, plant and equipment and right of use assets	**(18,800)**	**(7,000)**	**(25,800)**
Intangible assets		**(1,300)**	**(1,300)**
Deferred tax liability	**(18,800)**	**(8,300)**	**(27,100)**
2019 net deferred income taxes asset movement	**10,000**	**11,000**	**21,000**

The movement in 2018 deferred tax assets (liabilities) are:

	Opening Balance at January 1, 2018 $	Recognize in Net Income $	Closing Balance at December 31, 2018 $
Deferred Tax Assets			
Claims liabilities	27,500	1,300	28,800
Other			
Deferred tax asset	27,500	1,300	28,800
Deferred Tax Liabilities			
Property,plant and equipment	(15,400)	(3,400)	(18,800)
Intangible assets	(100)	100	
Deferred tax liability	(15,500)	(3,300)	(18,800)
2018 net deferred income taxes asset movement	12,000	(2,000)	10,000

L & A MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

9. INCOME TAX INFORMATION (Cont'd)

	2019 $	2018 $
Deferred Tax Assets		
Deferred tax assets to be recovered within 12 months	**16,100**	12,900
Deferred tax assets to be recovered after more than 12 months	**32,000**	15,900
	48,100	28,800
Deferred Tax Liability		
Deferred tax liabilities to be settled within 12 months	**(1,300)**	
Deferred tax liabilities to be settled after more than 12 months	**(25,800)**	(18,800)
	(27,100)	(18,800)
Net deferred income taxes asset movement	**21,000**	10,000

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

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

	2019 $	2018 $
(INCREASE) DECREASE IN CURRENT ASSETS		
Accrued interest	**(22,240)**	39,847
Accounts receivable - agents and policyholders	**(441,708)**	(293,097)
Accounts receivable - other	**(133,758)**	(38,747)
Income taxes recoverable	**25,440**	(25,440)
Reinsurer's share of provision for unpaid claims and adjustment expenses	**135,081**	(300,876)
Deferred policy acquisition expenses	**(99,751)**	(44,807)
	(536,936)	(663,120)
INCREASE (DECREASE) IN CURRENT LIABILITIES		
Accounts payable and accrued liabilities	**238,485**	15,538
Income taxes payable	**327,036**	(41,297)
Provision for unpaid claims and adjustment expenses	**(481,689)**	953,590
Unearned premiums	**744,277**	390,071
	828,109	1,317,902
NET CHANGE IN NON-CASH WORKING CAPITAL BALANCES RELATED TO OPERATIONS	**291,173**	654,782

11. 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 Regulatory Authority 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 Re, 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 $250,000 in the event of a property claim, $275,000 in the event of a liability claim and $400,000 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 $750,000 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.

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11. 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, 2019 and 2018.

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

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

	Property Claims		**Auto Claims**		**Liability Claims**	
	2019	2018	**2019**	2018	**2019**	2018
	$	$	**$**	$	**$**	$
5% change in loss ratios						
Gross claims change	**338,146**	306,719	**205,567**	168,830	**42,882**	39,530
Net claims change	**284,164**	257,579	**163,899**	129,102	**36,906**	32,974

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.

12. INVESTMENT AND OTHER INCOME

	2019	2018
	$	$
Interest income	**384,786**	304,880
Dividend income	**74,445**	118,357
Unrealized gains (losses) on fair value measurement	**543,286**	(572,115)
Realized gains on disposal of investments	**27,928**	224,637
Other		14,850
	1,030,445	90,609

13. RELATED PARTY TRANSACTIONS

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

	2019	2018
	$	$
Compensation		
Salary, wages, and director's fees	**314,107**	264,060
Short-term employee benefits	**8,100**	3,891
Pension and post employment benefits	**30,220**	29,555
Premiums	**60,710**	58,579
Claims incurred	**21,236**	5,420

Amounts owing from and to key management personnel and directors (excluding compensation due and accrued) at December 31, 2019 are $10,407 (2018 - $9,494) and $1,190 (2018 - $4,000) 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.

14. 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 BBB. All fixed income portfolios are monitored by management on a monthly basis and by the Board of Directors not less than a quarterly basis. The Board of Directors appoints and delegates authority to an Investment Manager for the day-to-day investment management relating to cash flow and portfolio levels.

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

Credit Risk (Cont'd)

Reinsurance is placed with Farm Mutual Reinsurance Plan Inc., a Canadian registered reinsurer. Management monitors the creditworthiness of Farm Mutual Reinsurance Plan Inc. 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, originating from of a large number of policyholders and are not subject to material credit risk. Regular review of amounts outstanding is performed to ensure credit worthiness. 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.

14. 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 portfolio laddered over several years where appropriate and corresponding balancing is achieved through investments in pooled funds which are exclusively comprised of bond investments. 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 $524,000 (2018 - $488,000). 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 $524,000 (2018 - $488,000). 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 $254,000 (2018 - $239,000). 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.

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

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. The Policy limits the investment in portfolio investments as follows:

Investment Category	Maximum percentage of investment portfolio	Minimum percentage of investment portfolio
Canadian equities	25%	0%
Foreign equities	10%	0%
Total equities	25%	0%
Canadian bonds, mortgages and other debt securities	100%	71%
Canadian cash and short-term investments	20%	4% with minimum of $500,000
Foreign bonds, mortgages and other debt securities	5%	0%
Total fixed	100%	75%

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. The Company does not face a significant liquidity risk with regard to lease liabilities. Although there are material commitments for capital expenditures, steps are in place to mitigate this risk. 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.

15. 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.

15. 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, 2019			
Fixed-income securities			
Federal government	**2,947**		**2,947**
Provincial government and Provincially guaranteed	**1,001**		**1,001**
Canadian Municipal			
Canadian Corporate	**2,109**		**2,109**
Preference shares, common shares and pooled funds	**2,538**		**2,538**
Fire Mutuals' Guarantee Fund		**21**	**21**
TOTAL ASSETS MEASURED AT FAIR VALUE	**8,595**	**21**	**8,616**

	Level 1 $ (000's)	Level 2 $ (000's)	Total $ (000's)
December 31, 2018			
Fixed-income securities			
Federal government	2,455		2,455
Provincial government and Provincially guaranteed	1,241		1,241
Canadian Corporate	2,019		2,019
Preference shares, common shares and pooled funds	2,392		2,392
Fire Mutuals' Guarantee Fund		21	21
TOTAL ASSETS MEASURED AT FAIR VALUE	8,107	21	8,128

16. 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 11 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 $750,000. The $750,000 net retained amount represents approximately 8.13% 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 300%. 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 Regulatory Authority of Ontario regarding capital management which it continues to manage and review. As of December 31, 2019, the Company's MCT ratio is is approximately 410%, in excess of the minimum requirement of 150%.

17. 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.

17. 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, 2019, the Company recognized $103,679 (2018 - $96,523) in operating expenses for current pension contributions. The Company had a 1.64% share of the total contributions to the Plan in 2019 (2018 - 1.47%)

The Company's expected contributions for current service to the Plan for 2020 are approximately $95,000.

An actuarial valuation of the Pension Plan as of January 1, 2018 showed a solvency surplus of $3,599,000. The next actuarial valuation to be filed under the Pension Benefit Act will be as of January 1, 2021.