LAMBTON MUTUAL

INSURANCE COMPANY

Financial Statements

For the year ended December 31, 2019

Lambton Mutual Insurance Company
Financial Statements
For the year ended December 31, 2019

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Independent Auditor's Report

To the Directors and Policyholders of
Lambton Mutual Insurance Company

Opinion

We have audited the financial statements of Lambton Mutual Insurance Company (the Entity), which comprise the statement of financial position as at December 31, 2019, and the statements of comprehensive income, policyholders' surplus 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 Lambton Mutual Insurance Company as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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 Entity 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.

Other Information

Management is responsible for the other information. The other information comprises the information, other than the financial statements and our auditor's report thereon, in the Annual Newsletter for our Policyholders.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the Annual Newsletter for our Policyholders prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance 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.

In preparing the financial statements, management is responsible for assessing the Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

Sarnia, Ontario
January 23, 2020

Lambton Mutual Insurance Company
Statement of Financial Position
As at December 31, 2019

	2019	2018
Assets		
Cash	$ 4,460,689	$ 8,444,159
Investments (Note 5)	52,616,836	45,486,301
Investment income accrued	216,589	124,491
Income taxes recoverable	86,656	-
Due from agents, brokers and policyholders	5,753,557	5,208,810
Reinsurers' share of provision for unpaid claims (Note 4)	4,661,115	7,159,191
Deferred policy acquisition expenses (Note 4)	2,036,209	1,851,618
Property, plant & equipment (Note 14)	1,276,329	1,069,252
Intangible assets (Note 14)	137,666	231,842
Other assets	200,727	186,249
Deferred income taxes	1,597,000	2,187,000
	$73,043,373	$ 71,948,913
Liabilities		
Accounts payable and accrued liabilities	$ 807,663	$ 679,747
Income taxes payable	-	801,876
Unearned premiums (Note 4)	12,414,219	11,333,945
Provision for unpaid claims (Note 4)	21,256,147	22,579,724
	34,478,029	35,395,292
Policyholders' Surplus		
Unappropriated policyholders' surplus	38,565,344	36,553,621
	$73,043,373	$ 71,948,913

Signed on behalf of the Board by:

______________________ Director

______________________ Director

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

Lambton Mutual Insurance Company
Statement of Comprehensive Income
For the Year Ended December 31, 2019

	2019	2018
Underwriting income		
Gross premiums written	$25,109,518	$ 22,777,437
Less reinsurance ceded	3,472,104	3,216,815
Net premiums written	21,637,414	19,560,622
Less increase in unearned premiums	1,080,274	1,062,949
Net premiums earned	20,557,140	18,497,673
Service charges	126,953	109,792
	20,684,093	18,607,465
Direct losses incurred		
Gross claims and adjustment expenses (Note 11)	17,385,237	15,143,340
Less reinsurers' share of claims and adjustment expenses	3,027,053	2,753,343
	14,358,184	12,389,997
	6,325,909	6,217,468
Expenses		
Fees, commissions and other acquisition expenses (Note 8)	4,050,209	3,655,256
Other operating and administrative expenses (Note 9)	3,112,198	3,008,201
	7,162,407	6,663,457
Net underwriting loss	(836,498)	(445,989)
Investment and other income (loss) (Note 6)	3,438,221	(31,314)
Income (loss) before income taxes	2,601,723	(477,303)
Provision for income taxes (Note 12)	590,000	(753,581)
Net income and total comprehensive income for the year	$ 2,011,723	$ 276,278

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

Lambton Mutual Insurance Company
Statement of Policyholders' Surplus
For the Year Ended December 31, 2019

	Total
Balance at January 1, 2018	$36,277,343
Net income and total comprehensive income for the year	276,278
Balance on December 31, 2018	36,553,621
Net income and total comprehensive income for the year	2,011,723
Balance on December 31, 2019	$38,565,344

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

Lambton Mutual Insurance Company
Statement of Cash Flows
For the Year Ended December 31, 2019

	2019	2018
Operating activities		
Net income	$ 2,011,723	$ 276,278
Adjustments for:		
Depreciation (Note 9 and Note 11)	187,597	186,893
Unrealized (gain) loss on investments	(1,509,157)	1,171,208
Amortization of investments	45,919	73,808
Interest and dividend income	(1,699,916)	(1,623,152)
Provision for income taxes	590,000	(753,581)
Realized (gain) loss from disposal of investments	(379,925)	345,266
(Gain) loss on disposal of property, plant & equipment	(50)	2,637
	(2,765,532)	(596,921)
Changes in working capital		
Change in due from policyholders and reinsurers	1,953,329	1,087,862
Change in other assets	(14,478)	(1,483)
Change in accounts payable and accrued liabilities	127,916	73,554
	2,066,767	1,159,933
Changes in insurance contract related balances, provisions		
Change in deferred policy acquisition expenses	(184,591)	(214,384)
Change in unearned premiums	1,080,274	1,062,950
Change in provision for unpaid claims	(1,323,577)	(3,598,154)
	(427,894)	(2,749,588)
Cash flows related to interest, dividends and income taxes		
Interest and dividends received	1,607,818	1,593,269
Income taxes paid	(888,532)	(933,847)
	719,286	659,422
Total cash inflows (outflows) from operating activities	1,604,350	(1,250,876)
Investing activities		
Sale of investments	10,366,076	14,516,876
Purchase of investments	(15,653,448)	(13,187,354)
Proceeds from sale of property, plant & equipment	50	1,130
Purchase of property, plant & equipment and intangible assets	(300,498)	(66,465)
Total cash inflows from investing activities	(5,587,820)	1,264,187
Net increase (decrease) in cash	(3,983,470)	13,311
Cash, beginning of year	8,444,159	8,430,848
Cash, end of year	$ 4,460,689	$ 8,444,159

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

1. Corporate Information

Lambton Mutual Insurance Company (the Company) is incorporated under the laws of Ontario, Canada and is subject to the Ontario Insurance Act. It is licensed to write property, liability, automobile, farmers' accident and aviation insurance (limited to unmanned air vehicles for use in farming) and commercial activities in Ontario. The Company's head office is located at 7873 Confederation Line, Watford, Ontario.

The Company is subject to rate regulation on 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. 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 January 23, 2020.

2. Basis of presentation

(a) Statement of Compliance

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

(b) Basis of Measurement

These financial statements were prepared under the historical cost convention, except for the financial assets classified as fair value through profit or loss ("FVTPL").

The financial statements are presented in Canadian Dollars ("CDN"), which is also the company's functional currency.

(c) Judgment and Estimates

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 critical judgments and estimates in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year are:

- The calculation of unpaid claims, including the determination of the initial claim liability, discount rates, the estimate of time until ultimate settlement and the performance of a liability adequacy test (Note 4); and
- The determination of the recoverability of deferred policy acquisition expenses (Note 4).
- 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 (Note 5).

2. Basis of presentation (continued)

In addition, in preparing the financial statements, the notes to the financial statements were ordered so that the most relevant information was presented earlier in the notes and the disclosures that were deemed to be immaterial were excluded from the notes to the financial statements. The determination of the relevance and materiality of disclosures involved significant judgment.

3. Adoption of New Accounting Standards

IFRS 16 Leases (IFRS 16)
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.

(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 a lease 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.

The adoption of IFRS 16 did not have a material impact on the Company's financial statements.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments (IFRIC 23)
IFRIC 23 provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Interpretation requires:

- An entity to contemplate whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution;
- An entity to determine if it is probable that the tax authorities will accept the uncertain tax treatment; and
- If it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty.

The adoption of IFRIC 23 did not have a material impact on the Company's financial statements.

4. 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 generally accepted accounting principles.

4. Insurance Contracts (continued)

Balances arising from insurance contracts primarily include unearned premiums, provisions for unpaid claims and adjustment expenses, the Reinsurers' share of provisions for unearned premiums and unpaid claims and adjustment expenses and deferred policy acquisition expenses.

(a) Premiums and unearned premiums

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

The Company recognizes premium income evenly over the term of the insurance policy 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 (UEP). Changes in unearned premiums recorded in the statement of financial position for the years-ended December 31, 2019 and 2018 and their impact on net premiums earned for the two years follow:

	2019	2018
Balance, beginning of the year	$11,333,945	$ 10,270,995
Premiums written	25,109,518	22,777,437
Premiums earned during year	(24,029,244)	(21,714,487)
Balance, end of the year	$12,414,219	$ 11,333,945

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.

The Company is exposed to a pricing risk to the extent that unearned premiums are insufficient to meet the related future policy costs. Evaluations are 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.

Amounts due from policyholders are measured at amortized cost less any impairment losses. These amounts are short-term in nature consisting 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.

4. Insurance Contracts (continued)

(b) Deferred policy acquisition expenses

Acquisition costs are comprised of agents and broker 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. Changes in deferred policy acquisition expenses recorded in the statement of financial position for the years-ended December 31, 2019 and 2018 and their impact on fees, commissions and other acquisition expenses for the two years follow:

	2019	2018
Balance, beginning of the year	$ 1,851,618	$ 1,637,234
Acquisition costs incurred	4,234,800	3,869,640
Expensed during the year	(4,050,209)	(3,655,256)
Balance, end of the year	$ 2,036,209	$ 1,851,618

(c) Unpaid claims and adjustment expenses

Individual loss estimates are provided on each claim reported. In addition, provisions are made for adjustment expenses, claims development, 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 a discounted basis to reflect the time value of money.

4. Insurance Contracts (continued)

A summary of the Company's outstanding gross unpaid claims liabilities, related reinsurers' share of unpaid claims and the net insurance liabilities follow:

	December 31, 2019			December 31, 2018		
	Gross	Re-insurance	Net	Gross	Re-insurance	Net
Outstanding claims provision						
Long term	$12,739,487	$ 2,153,110	$10,586,377	$ 13,859,637	$ 3,487,658	$ 10,371,979
Short term	2,714,111	63,945	2,650,166	3,304,343	1,296,573	2,007,770
Facility Association and other residual pools	374,481	-	374,481	362,353	-	362,353
	15,828,079	2,217,055	13,611,024	17,526,333	4,784,231	12,742,102
Provision for claims incurred but not reported	5,428,068	2,444,060	2,984,008	5,053,391	2,374,960	2,678,431
	$21,256,147	$ 4,661,115	$16,595,032	$ 22,579,724	$ 7,159,191	$ 15,420,533

The ultimate cost of long settlement general liability claims are difficult to predict for several reasons. Claims may not be reported until many years after a policy expires. Changes in the legal environment can create 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.

4. Insurance Contracts (continued)

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 assets, liabilities, revenue and expenses provided by the actuaries of the pools.

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

	2019	2018
Unpaid claim liabilities - beginning of year – net of reinsurance	$15,420,533	$ 17,399,491
Decrease in estimated losses and expenses, for losses occurring in prior years	(2,594,020)	(4,875,816)
Provision for losses and expenses on claims occurring in the current year	16,952,205	17,265,813
Payment on claims:		
Current year	(9,658,273)	(10,210,843)
Prior years	(3,525,413)	(4,158,112)
Unpaid claims – end of year - net	16,595,032	15,420,533
Reinsurers' share and subrogation recoverable	4,661,115	7,159,191
Provision for unpaid claims, end of year	$21,256,147	$ 22,579,724

4. Insurance Contracts (continued)

Claim development

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 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 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 estimation of claim development involves assessing the future behaviour of claims, review of previous legal settlements, the amount of information available, the characteristics of the line of business from which the claim arises and historical delays in reporting claims. In general, the longer the term required for the settlement of a group of claims the more variable the estimates. Short settlement term claims are those which are expected to be substantially paid within a year of being reported.

The tables that follow show how the Company's estimate of cumulative incurred claim cost for each accident year has changed at successive year ends and reconcile the cumulative claims to the amount appearing in the statement of financial position. An accident-year basis is considered to be the most appropriate for the business written by the Company.

4. Insurance Contracts (continued)

Gross claims	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Gross estimate of cumulative claims cost											
End year of claim	$ 15,709,070	$ 14,359,963	$ 16,256,300	$ 17,888,427	$ 17,166,979	$ 14,795,702	$ 16,540,379	$ 17,664,566	$ 19,912,085	$ 17,641,842	
One year later	13,363,489	12,557,183	14,148,115	13,437,360	14,687,640	13,372,327	14,161,850	15,334,376	18,170,935		
Two years later	12,329,693	12,957,338	12,596,327	12,753,264	14,581,289	11,488,282	12,720,133	15,265,188			
Three years later	12,229,445	12,513,395	12,869,413	12,514,702	14,172,342	10,819,171	12,637,617				
Four years later	11,518,159	12,080,667	13,133,956	12,205,780	13,537,683	10,787,213					
Five years later	11,418,554	12,147,577	12,674,587	12,198,445	13,308,831						
Six years later	10,462,823	12,118,002	12,456,179	12,404,541							
Seven years later	10,431,395	12,253,741	14,118,794								
Eight years later	10,406,579	12,290,599									
Nine years later	10,408,568										
Current estimate of cumulative claims cost	10,408,568	12,290,599	14,118,794	12,404,541	13,308,831	10,787,213	12,637,617	15,265,188	18,170,935	17,641,842	137,034,128
Cumulative payments	10,394,938	11,655,533	14,008,916	10,958,599	13,254,509	9,880,308	9,256,847	12,811,769	13,898,289	9,658,273	115,777,981
Outstanding claims	$ 13,630	$ 635,066	$ 109,878	$ 1,445,942	$ 54,322	$ 906,905	$ 3,380,770	$ 2,453,419	$ 4,272,646	$ 7,983,569	$ 21,256,147

4. Insurance Contracts (continued)

Net of Reinsurance	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Net estimate of cumulative claims cost											
End year of claim	$ 11,892,869	$ 12,463,116	$ 12,212,971	$ 13,602,427	$ 15,476,266	$ 13,721,990	$ 14,834,452	$ 14,096,398	$ 17,265,813	$ 16,952,206	
One year later	10,258,937	10,237,307	9,977,459	10,809,137	12,536,215	12,042,142	12,472,962	11,391,721	15,482,162		
Two years later	9,825,672	9,961,824	8,999,933	10,137,849	12,510,364	10,335,584	11,610,571	11,638,255			
Three years later	9,767,038	9,561,403	8,577,799	9,731,215	12,269,580	9,899,086	11,238,455				
Four years later	9,564,301	9,216,252	8,555,836	9,499,046	11,691,977	9,837,784					
Five years later	9,472,666	9,036,884	8,454,937	9,403,366	11,043,047						
Six years later	9,366,512	8,919,931	8,350,189	9,538,125							
Seven years later	9,368,104	8,884,393	8,220,064								
Eight years later	9,347,368	8,880,537									
Nine years later	9,382,533										
Current estimate of cumulative claims cost	9,382,533	8,880,537	8,220,064	9,538,125	11,043,047	9,837,784	11,238,455	11,638,255	15,482,162	16,952,206	112,213,168
Cumulative payments	9,370,627	8,821,645	8,112,669	9,141,882	11,018,936	9,091,423	9,026,592	9,584,033	11,792,056	9,658,273	95,618,136
Outstanding claims	$ 11,906	$ 58,892	$ 107,395	$ 396,243	$ 24,111	$ 746,361	$ 2,211,863	$ 2,054,222	$ 3,690,106	$ 7,293,933	$ 16,595,032

4. Insurance Contracts (continued)

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 frequency, expected loss ratios and claims development.

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

	Property claims		Auto claims		Liability claims	
	2019	2018	2019	2018	2019	2018
5% increase in loss ratios would result in the following increase:						
Gross	$ 537,935	$ 481,544	$ 568,964	$ 516,713	$ 94,563	$ 87,467
Net	$ 450,402	$ 410,576	$ 502,189	$ 449,106	$ 75,266	$ 65,202

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.

(d) 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 comprehensive income initially by writing down the deferred policy acquisition expense and subsequently by recognizing an additional claims liability for claims provisions.

(e) 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. Retention limits for the excess-of-loss reinsurance are set by product line. 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.

4. Insurance Contracts (continued)

The company follows the policy of underwriting and reinsuring contracts of insurance which, for 2019 claims, limited the liability of the company to a maximum amount on any one property claim to $300,000 (2018 - $300,000). The maximum liability to the company for each auto claim is limited to the amount of $600,000 (2018 - $575,000), and for each liability claim to the amount of $550,000 (2018 - $525,000).

Additionally the company carries reinsurance with an upper limit of $900,000 (2018 - $900,000) to protect itself against certain catastrophic losses. In addition, the company has obtained stop loss reinsurance which limits the liability of all claims in a specific year to 70% (2018 - 70%) of gross net earned premiums for all lines of business combined.

Amounts recoverable from reinsurer 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 the reinsurer is unable to meet its obligations assumed under such reinsurance agreements.

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. Changes in due from reinsurer recorded in the statement of financial position for the years-ended December 31, 2019 and 2018 follow:

Due from reinsurers	2019	2018
Balance, beginning of the year	$ -	$ 48,147
Submitted to reinsurer	5,525,129	4,372,539
Received from reinsurer	(5,525,129)	(4,420,686)
Balance, end of the year	$ -	$ -

Reinsurance is placed with Farm Mutual Re, a Canadian registered reinsurer. Management monitors the creditworthiness of Farm Mutual Re by reviewing their annual financial statements, monitoring their A.M. Best rating and through ongoing communications. Reinsurance treaties are reviewed annually by management prior to renewal of the reinsurance contract. At year-end, the Company reviewed the amounts owing from its reinsurer and determined that no allowance is necessary.

4. Insurance Contracts (continued)

Changes in reinsurers' share of provision for unpaid claims recorded in the statement of financial position for the years-ended December 31, 2019 and 2018 and their impact on net premiums earned for the two years follow:

Reinsurers' share of provision for unpaid claims	2019	2018
Balance, beginning of the year	$ 7,159,191	$ 8,778,387
New claims reserve	689,636	2,646,272
Change in prior year's reserve	2,337,417	107,071
Submitted to reinsurer	(5,525,129)	(4,372,539)
Balance, end of the year	$ 4,661,115	$ 7,159,191

(f) Refund from premium

Under the discretion of the Board of Directors the Company may declare a refund to its policy holders based on the property premiums paid in the fiscal period. This refund is recognized as a reduction of underwriting income in the period for which it is declared.

5. Investments

(a) Recognition and initial measurement

The Company recognizes debt instruments on the date on which they are originated. Equity instruments are recognized on the settlement date, which is the date that the asset is received by the Company. The instruments are initially measured at fair value.

(b) Classification and subsequent measurement

The Company classifies its debt instruments, treasury bills / bankers' acceptance, GICs and bonds as FVTPL because the Company manages the debt instruments and evaluates their performance on a fair value basis in accordance with a documented investment strategy and the instruments are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

The Company's mutual funds are redeemable at the option of the holder and therefore considered debt instruments under IFRS 9 that do not give rise to cash flows that are solely payments of principal and interest and therefore are classified as FVTPL.

The Company classifies its equity instruments in listed and unlisted companies, as FVTPL.

The debt and equity instruments are subsequently measured at fair value where the net gains and losses, including any interest or dividend income and foreign exchange gains and losses, are recognized in profit or loss.

5. Investments (continued)

(c) Derecognition

The Company derecognizes investments when the contractual rights to the cash flows from the investment expires or the Company transfers the investment. On derecognition, the difference between the carrying amount at the date of derecognition and the consideration received is recognized in profit or loss.

(d) Risks

The following table provides fair value information of investments by type of security and issuer.

	2019	2018
GICs	$11,900,100	$ 6,845,298
Bonds issued by		
Provincial	6,487,731	6,236,466
Corporate (A or better)	3,609,715	3,171,357
	10,097,446	9,407,823
Equity investments		
Canadian	6,232,699	6,307,737
Pooled funds		
ACM mortgage fund	588,404	566,111
Lincluden Canadian equity	3,233,938	3,317,468
Lincluden fixed income	8,851,362	8,443,644
Scotia Trust fixed income	2,432,084	2,295,047
Addenda mortgage fund	8,252,066	7,947,496
Dynamic Global Infrastructure	982,612	309,892
	24,340,466	22,879,658
Other investments		
Fire Mutuals guarantee fund	46,125	45,785
Total investments	$52,616,836	$ 45,486,301

The Company is exposed to credit risk relating to its bond holdings in its investment portfolio.

5. Investments (continued)

The Company's investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits, corporate sector limits and general guidelines for geographic exposure. The bond portfolio includes 100% (2018 – 100%.) of bonds rated A or better. The Company's investment policy limits investment in bonds and debentures of the various ratings to limits ranging from 65% to 100% of the Company's portfolio. All fixed income portfolios are measured for performance and monitored by management on a monthly basis.

The maximum exposure to investment credit risk is the carrying value of investments.

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

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

The Company's investment policy includes holdings in cash and short-term investments to a maximum of 20%, which mitigates liquidity risk. Short-term investments include treasury bills, commercial paper and term deposits with an original maturity of less than one year.

Maturity profile of bonds held is as follows:

	Within 1 year	2 to 5 years	6 to 10 years	Over 10 years	Fair value
December 31, 2019	$ -	$ 3,775,606	$ 6,321,840	$ -	$10,097,446
Percent of Total	- %	37 %	63 %	- %	
December 31, 2018	$ 430,495	$ 1,894,036	$ 6,203,735	$ 879,557	$ 9,407,823
Percent of Total	5 %	20 %	66 %	9 %	

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

Market factors that will impact the fair value of investments include three types of risk: currency risk, interest rate risk and equity risk.

5. Investments (continued)

The Company's investment policy operates within the guidelines of the Insurance Act. The Company's portfolio includes Canadian stocks with fair values that move with the Toronto Stock Exchange Composite Index. At December 31, 2019, a 10% movement in the stock markets with all other variables held constant would have an estimated effect on the fair values of the Company's Canadian common equities of $623,270 (2018 - $630,774) and the equity pooled funds of $421,655 (2018 - $362,736). This change would be recognized in comprehensive income.

The Company is exposed to interest rate risk through its interest bearing investments (Bankers Acceptance, T-Bills and Bonds, and GICs).

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.

At December 31, 2019, a 1% move in interest rates, with all other variables held constant, could impact the market value of bonds by $541,708 (2018 - $462,037). Also, a 1% move in interest rates, with all other variables held constant, could impact the market value of the fixed income pooled funds by $730,045 (2018 – $712,279). These changes would be recognized in comprehensive income.

The Company's equity investment policy limits investment in preferred and common shares to a maximum of 25% of the market value of the portfolio.

Equities are monitored by the Board of Directors and holdings are adjusted following each quarter to ensure the investments portfolio remains in compliance with the investment policy.

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

5. Investments (continued)

(e) Fair value measurement

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1	Level 2	Level 3	Total
December 31, 2019				
GICs	$11,900,100	$ -	$ -	$11,900,100
Bonds	10,097,446	-	-	10,097,446
Equity investments	6,232,699	-	-	6,232,699
Pooled fund - commercial mortgages	-	-	8,252,066	8,252,066
Pooled funds - equities	-	-	982,612	982,612
Pooled funds - other	-	15,105,788	-	15,105,788
Other investments	-	46,125	-	46,125
Total	$28,230,245	$15,151,913	$ 9,234,678	$52,616,836
December 31, 2018				
Treasury bills, GICs, and bankers acceptance	$ 6,845,298	$ -	$ -	$ 6,845,298
Bonds	9,407,823	-	-	9,407,823
Equity investments	6,307,737	-	-	6,307,737
Pooled fund - commercial mortgages	-	-	7,947,496	7,947,496
Pooled funds - equities	-	-	309,892	309,892
Pooled funds - other	-	14,622,270	-	14,622,270
Other investments	-	45,785	-	45,785
Total	$ 22,560,858	$ 14,668,055	$ 8,257,388	$ 45,486,301

5. Investments (continued)

Transfers between levels are considered to have occurred at the date of the circumstances that caused the transfer. There were no transfers between level 1 and 2 for the year ended December 31, 2019 and 2018. There were also no transfers in and out of level 3. The level 3 commercial mortgage pooled funds are valued based on the net asset values of the fund as provided by the investment manager of the fund. The commercial mortgages in the commercial mortgage pooled fund are valued at the present value of discounted future cash flows. The discount rate is based on the equivalent Government of Canada rate and an additional spread to compensate for a loan's particular risk. The level 3 equity pooled funds are valued based on the net asset values of the fund as provided by the investment manager of the fund. The equities in the equity pooled fund are valued using various valuation techniques. The valuation techniques include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option pricing models and other techniques commonly used by market participants which make the maximum use of observable inputs.

The reconciliation of financial instruments at fair value using unobservable inputs (Level 3) is as follows:

	2019	2018
Balance, beginning of year	$ 8,257,388	$ 3,669,955
Net purchases and sales	531,594	4,292,000
Unrealized gains	445,696	295,433
	$ 9,234,678	$ 8,257,388

6. Investment and other income (loss)

	2019	2018
Interest income	$ 1,246,172	$ 1,188,050
Dividend income	453,744	435,102
Realized gains (losses) on disposal of investments	379,925	(345,266)
Investment expenses	(157,697)	(140,475)
Unrealized gains (losses) on investments	1,509,157	(1,171,208)
Miscellaneous	6,920	2,483
	$ 3,438,221	$ (31,314)

7. Capital management

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

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

7. Capital management (continued)

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

8. Fees, commissions and other acquisition expenses

	2019	2018
Commissions and other acquisition expenses	$ 4,050,209	$ 3,655,256

9. Other operating and administrative expenses

	2019	2018
Computer costs	$ 446,920	$ 462,968
Licenses, fees and dues	143,056	157,597
Depreciation	128,892	130,287
Education, travel and meals	89,183	82,443
Office premises	85,659	75,301
Postage and office supplies	115,649	116,204
Professional fees	49,168	63,015
Salaries, benefits and directors fees	1,718,426	1,573,921
Other	335,245	346,465
	$ 3,112,198	$ 3,008,201

10. Salaries, benefits, commissions and directors fees

	2019	2018
Claims salaries and benefits (Note 11)	$ 1,040,309	$ 1,001,041
Commissions and other acquisition expenses (Note 8)	4,050,209	3,655,256
Other salaries, benefits and directors fees (Note 9)	1,718,426	1,573,921
	$ 6,808,944	$ 6,230,218

11. Gross claims and adjustment expenses

Included in claims expenses were wage costs of $1,040,309 (2018 - $1,001,041) and depreciation of $58,705 (2018 - $56,606).

12. Income taxes

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

The significant components of the tax effect of the amounts recognized in other comprehensive income are composed of:

	2019	2018
Current tax provision		
Based on current year taxable income	$ -	$ 1,312,419
Deferred tax expense		
Difference between previous reduced rates and expected future tax rates	590,000	(2,066,000)
Total income tax expense	$ 590,000	$ (753,581)

Reasons for the difference between current income tax expense for the year and the expected income taxes based on the statutory tax rate of 26.5% (2018 - 26.5%). are as follows:

	2019	2018
Income before income taxes	$ 2,601,723	$ (477,303)
Expected taxes based on the statutory rate of 26.5% (2018 - 26.5%)	689,457	(126,485)
Income from insuring farm-related risks	-	(543,504)
Deferred portion of claims liabilities	(609,636)	2,093,779
Other non-deductible expenses	1,238	1,738
Adjustments related to investments	(99,868)	(86,096)
Difference between amortization and CCA	18,809	(27,013)
Total current income tax expense	$ -	$ 1,312,419

13. Structured Settlements, Fire Mutuals Guarantee Fund and Financial Guarantee Contracts

The Company enters into annuity agreements with various life insurance companies to provide for fixed and recurring payments to claimants. Under such arrangements, the Company's liability to its claimants is substantially transferred, although the Company remains exposed to the credit risk if 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 if a member company becomes bankrupt. As a result, the Company may be required to contribute assets to their proportionate share in meeting this obligation.

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

14. Property, plant & equipment and intangible assets

Property, plant & equipment

Property, plant & equipment is initially recorded at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses, with the exception of land which is not depreciated. Depreciation is taken in the year of acquisition using the half year rule. Depreciation is recognized in comprehensive income and is provided on a diminishing balance basis and straight line basis.

Intangible assets

Intangible assets consist of computer software which are not integral to the computer hardware owned by the Company. Computer software is initially recorded at cost and subsequently measured at cost less accumulated depreciation. Computer software is depreciated on a straight-line basis over its estimated useful life of 4 years. Depreciation is taken in the year of acquisition using the half year rule. The depreciation expense is included in other operating and administrative expenses and gross claims and adjustment expenses in the statement of comprehensive income.

14. Property, plant & equipment and intangible assets (continued)

Property, plant and equipment

	Depreciation Rate	2019 Cost	2019 Accumulated Depreciation	2019 Net Book Value
Land	N/A	$ 459,410	$ -	$ 459,410
Buildings	2.5% declining balance	1,143,667	547,371	596,296
Computer hardware	4 years straight line	235,218	145,977	89,241
Equipment	10-20% declining balance	510,045	426,327	83,718
Vehicles	30% declining balance	134,194	86,530	47,664
		$ 2,482,534	$ 1,206,205	$ 1,276,329

	Depreciation Rate	2018 Cost	2018 Accumulated Depreciation	2018 Net Book Value
Land	N/A	$ 280,734	$ -	$ 280,734
Buildings	2.5% declining balance	1,068,667	533,042	535,625
Computer hardware	4 years straight line	313,110	220,384	92,726
Equipment	10-20% declining balance	511,283	419,208	92,075
Vehicles	30% declining balance	134,194	66,102	68,092
		$ 2,307,988	$ 1,238,736	$ 1,069,252

Intangible assets

	Useful Life	2019 Cost	2019 Accumulated Depreciation	2019 Net Book Value
Computer software	4 years	$ 933,069	$ 795,403	$ 137,666

	Useful Life	2018 Cost	2018 Accumulated Depreciation	2018 Net Book Value
Computer software	4 years	$ 933,069	$ 701,227	$ 231,842

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". This pension plan is being accounted for as a multi-employer pension plan as defined by IAS 19 Employee Benefits. Each member company has signed an Ontario Mutual Insurance Association Pension Plan Agreement. Eligible employees participate in the defined benefit 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 plans 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.

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 Pension 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. According to the most recent actuarial valuation dated January 1, 2018, the going concern valuation of the defined benefit plan shows a surplus. The next pension valuation is scheduled for January 1, 2021.

The defined benefit plan has been closed to future eligible employees effective September 1, 2013. The Company and all current employees who are accruing benefits under the defined benefit plan continue to contribute to the defined benefit plan according to the existing terms of the agreement. Future eligible employees will be enrolled in the defined contribution plan. The Company's obligation with respect to this plan is to make specified monthly contributions based on a percentage of the employee's eligible earnings.

The amount contributed to the plans for 2019 was $247,974 (2018 - $233,891). The contributions were made for current service and these have been recognized in comprehensive income. Additional lump sum payments for 2019 were $nil (2018 - $nil).

The Company had a 3.91% (2018 - 3.93%) share of the total contributions to the defined benefit plan in 2019.

The expected contributions to the plans by the Company for 2020 are $265,772.

16. 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		
Salaries, short term employee benefits and director's fees	$ 645,930	$ 614,935
Pension	74,142	71,314
	$ 720,072	$ 686,249
Premiums	$ 89,762	$ 85,882
Claims paid	$ 22,566	$ 3,774

Amounts owing to key management personnel at December 31, 2019 are $46,715 (2018 - $nil).

17. Standards, amendments and interpretations not yet effective

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting years beginning after January 1, 2020 or later.

The Company has not yet determined the extent of the impact of the following new standards, interpretations and amendments, which have not been applied in these financial statements:

- IFRS 17 Insurance Contracts supersedes IFRS 4 Insurance Contracts. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts. IFRS 17 requires entities to measure insurance contract liabilities using updated estimates and assumptions that reflect the timing of cash flows and any uncertainty relating to insurance contracts. Additionally, IFRS 17 requires entities to recognize profits as it delivers insurance services. The effective date for IFRS 17 is January 1, 2021. As of November 14, 2018, the IASB has proposed a one year deferral of the effective date to 2022. The Company has not yet determined the impact of adoption, however is expected to significantly impact the overall Financial Statements.