Consolidated Financial Statements of

TRILLIUM MUTUAL INSURANCE COMPANY

And Independent Auditor's Report thereon

Year ended December 31, 2022

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INDEPENDENT AUDITOR'S REPORT

To the Policyholders of Trillium Mutual Insurance Company

Opinion

We have audited the consolidated financial statements of Trillium Mutual Insurance Company (the "Company"), which comprise:

- the consolidated statement of financial position as at December 31, 2022;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of policholders' surplus for the year the ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated scheduled of operating expenses for the year then ended;
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of Trillium Mutual Insurance Company as at December 31, 2022, and its consolidated financial performance, and its consolidated 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 auditor's 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.

Other Matter – Comparative Information

The financial statements for the year ended December 31, 2021 were audited by another auditor who expressed an unmodified opinion on those financial statements on February 16, 2022.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the 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.
- 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company and its subsidiaries to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Kitchener, Canada
February 23, 2023

TRILLIUM MUTUAL INSURANCE COMPANY

Consolidated Statement of Financial Position

December 31, 2022, with comparative figures for 2021

	2022	2021
Assets		
Cash	$ 9,158,170	$ 4,489,148
Investments (note 5)	104,215,082	108,262,371
Investment income accrued	2,647	2,647
Due from reinsurers	204,300	1,153,011
Due from policyholders	21,382,916	19,999,013
Due from Auto Facility Association	1,390,074	1,422,503
Reinsurance recoverable on unpaid claims and adjustment expenses (note 10)	14,012,190	15,685,306
Other receivables	669	3,976
Prepaid expenses	783,512	1,247,786
Deferred policy acquisition expenses (note 7)	8,834,428	8,065,258
Property, plant and equipment (note 8)	6,965,298	6,927,269
Goodwill and intangible assets (note 9)	5,262,256	5,780,505
Deferred income taxes (note 15)	570,253	1,175,000
	$ 172,781,795	$ 174,213,793
Liabilities and Policyholders' Surplus		
Liabilities:		
Accounts payable and accrued liabilities	$ 6,275,516	$ 6,686,116
Due to Auto Facility Association	1,387,795	1,346,378
Income taxes payable	12,824	15,380
Unearned premiums	39,343,675	37,028,548
Unpaid claims and adjustment expenses (note 10)	55,125,330	59,267,862
	102,145,140	104,344,284
Policyholders' surplus:		
Policyholders' surplus	70,636,655	69,257,656
Non-controlling interest	-	611,853
	70,636,655	69,869,509
	$ 172,781,795	$ 174,213,793

See accompanying notes to consolidated financial statements.

Ben Ha________________ Director　　Julie Gow________________ Director

TRILLIUM MUTUAL INSURANCE COMPANY

Consolidated Statement of Comprehensive Income

Year ended December 31, 2022, with comparative figures for 2021

	2022	2021
Premiums written	$ 80,504,252	$ 76,002,195
Less: premiums ceded to reinsurers	(11,026,404)	(9,558,588)
Net premiums written	69,477,848	66,443,607
Less: change in unearned premiums	(2,315,128)	(2,130,932)
Net premiums earned	67,162,720	64,312,675
Service charges	772,794	737,089
Underwriting income	67,935,514	65,049,764
Underwriting expenses		
Gross claims and adjustment expenses	36,176,602	41,371,963
Reinsurers' share of claims expense	(5,743,382)	(6,410,852)
Net claims expense	30,433,220	34,961,111
Fees, commissions and other acquisition expenses (note 13)	18,885,652	17,355,742
Operating expenses	11,396,178	9,100,265
Total underwriting expenses	30,281,830	26,456,007
Net underwriting income	7,220,464	3,632,646
Investment and other income (loss) (note 6)	(4,118,321)	4,328,228
Comprehensive income before taxes and other donations	3,102,143	7,960,874
Donations paid from ROOTS (note 19)	284,910	244,915
Income taxes (recovery):		
Current (note 16)	76,102	63,278
Deferred (note 15)	608,747	2,828,000
	684,849	2,891,278
Total comprehensive income	$ 2,132,384	$ 4,824,681

See accompanying notes to consolidated financial statements

TRILLIUM MUTUAL INSURANCE COMPANY

Consolidated Statement of Policyholders' Surplus

Year ended December 31, 2022, with comparative figures for 2021

	Appropriated Surplus (note 19)	Unappropriated Surplus	Subtotal	Non-controlling Interest ("NCI")
December 31, 2022				
Balance, beginning of the year	$ 312,428	$ 68,945,228	$ 69,257,656	$ 611,853
Adjustment on acquisition (note 20)				
Dividends paid	–	(83,227)	(83,227)	(83,227)
Recognition of comprehensive income of NCI ownership for pre-acquisition period	–	(5,854)	(5,854)	(5,854)
Acquisition of NCI	–	(664,304)	(664,304)	(522,772)
	–	(753,385)	(753,385)	(611,853)
Designated funds transferred to ROOTS	300,000	(300,000)	–	–
Comprehensive income (loss) for the year	(284,910)	2,417,294	2,132,384	–
Balance, end of the year	$ 327,518	$ 70,309,137	$ 70,636,655	$ –

	Appropriated Surplus (note 19)	Unappropriated Surplus	Subtotal	Non-controlling Interest
December 31, 2021				
Balance, beginning of the year	$ 257,343	$ 64,310,456	$ 64,567,799	$ 607,029
Designated funds transferred to ROOTS	300,000	(300,000)	–	–
Comprehensive income (loss) for the year	(244,915)	4,999,772	4,754,857	69,824
Dividends paid	–	(65,000)	(65,000)	(65,000)
Balance, end of the year	$ 312,428	$ 68,945,228	$ 69,257,656	$ 611,853

TRILLIUM MUTUAL INSURANCE COMPANY

Consolidated Statement of Cash Flows

Year ended December 31, 2022, with comparative figures for 2021

	2022	2021
Cash provided by (used in):		
Operating activities:		
Comprehensive income	$ 2,132,384	$ 4,824,681
Items not involving cash:		
Amortization of intangible assets	1,005,966	367,683
Depreciation of property, plant, and equipment	350,493	365,779
Deferred income tax	608,747	2,828,000
Decrease in market value of investments	7,437,271	1,190,849
Realized gain from disposal of investments	(228,286)	(291,914)
Realized (gain) loss from disposal of capital and intangible assets	(72,902)	305,868
Adjustment for NCI ownership period	(5,169)	-
Change in non-cash operating items:		
Due from reinsurers	948,711	(881,549)
Due from policyholders	(1,383,903)	(1,252,633)
Due to / from Auto Facility Association	73,846	(81,002)
Reinsurance recoverable on unpaid claims and adjustment expenses	1,673,116	(571,709)
Other receivables	3,307	(2,766)
Prepaid expenses	464,274	(648,064)
Deferred policy acquisition expenses	(769,170)	(582,802)
Accounts payable and accrued liabilities	(410,597)	590,718
Income taxes payable	(2,556)	14,750
Unpaid claims and adjustment expenses	(4,142,532)	(248,595)
Unearned premiums	2,315,127	2,130,933
	9,998,127	8,058,227
Investing activities:		
Proceeds on sale of investments	4,955,862	2,408,465
Purchase of investments	(8,121,561)	(8,160,497)
Proceeds on sale of property and equipment and intangibles	98,245	52,039
Purchase of property, plant and equipment and intangibles	(908,121)	(4,603,955)
	(3,975,575)	(10,303,948)
Financing activities:		
Dividends paid	(166,454)	(130,000)
Acquisition of NCI (note 20)	(1,187,076)	-
	(1,353,530)	(130,000)
Increase (decrease) in cash	4,669,022	(2,375,721)
Cash, beginning of year	4,489,148	6,864,869
Cash, end of year	$ 9,158,170	$ 4,489,148

See accompanying notes to consolidated financial statements.

TRILLIUM MUTUAL INSURANCE COMPANY

Consolidated Schedule of Operating Expenses

Year ended December 31, 2022, with comparative figures for 2021

	2022	2021
Advertising	$ 161,576	$ 168,462
Association fees and dues	96,710	99,384
Amortization of intangible assets	1,005,966	367,683
Depreciation on property and equipment	350,493	365,779
Educational seminars and conventions	126,930	154,611
Inspection costs	467,606	420,401
Insurance and bank charges	536,042	409,094
Occupancy costs	305,764	310,353
Postage and telephone	204,421	169,540
Printing, stationery and office	2,883,673	2,011,332
Professional fees	227,422	153,576
Salaries, benefits and directors' fees	4,844,090	4,380,114
Travel	185,485	89,936
Operating expenses	$ 11,396,178	$ 9,100,265

See accompanying notes to the consolidated financial statements.

Trillium Mutual Insurance Company (the “Company”) was incorporated under the laws governed in Ontario and is subject to the Ontario Insurance Act. The Company is licensed to write accident and sickness, aircraft, automobile, boiler and machinery, fidelity, hail, liability and property insurance in Ontario. The Company’s head office is located at 495 Mitchell Road South in Listowel, 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 by the Ontario Mutual Insurance Association ('OMIA"). 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 ("FSRA"). Rate regulation may affect the automobile premium revenues that are earned by the Company. The actual impact of rate regulation would depend on the competitive environment at the time.

1. Basis of presentation:

(a) Statement of compliance:

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and its interpretations adopted by the International Accounting Standards Board (“IASB”).

The consolidated financial statements were authorized for issue by the Board of Directors on February 15, 2023.

(b) Basis of measurement:

The consolidated financial statements have been prepared on a historical cost basis, except for the following items in the statement of financial position:

- financial assets classified as at fair value through profit or loss are measured at fair value
- insurance contract assets and liabilities which are measured using acceptable actuarial practices

(c) Functional and presentation currency:

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. Except as otherwise indicated, all financial information presented is in Canadian dollars.

(d) Use of estimates and judgments:

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

1. Basis of presentation (continued):

(e) Use of estimates and judgments (continued):

are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future periods affected.

Information about estimates and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is discussed in note 3.

(f) Statement of financial position:

The Company presents its consolidated statement of financial position broadly in order of liquidity.

2. Significant accounting policies:

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are wholly-owned and controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Company.

The consolidated financial statements include all financial operations of Trillium Mutual Insurance Company, 1792270 Ontario Inc. and Morris-Wagner Insurance Agency Ltd. 1792270 Ontario Inc. holds the real estate for the company and operates out of the Listowel location. During the fiscal year, the Company acquired the full non-controlling interest in Morris-Wagner Insurance Agency Ltd., an entity the Company controlled. Changes in ownership interests in a subsidiary that do not result in a loss of control, such as the subsequent purchase or sale by a parent of a subsidiary's equity instruments, are accounted for as an equity transaction.

(ii) Transactions eliminated on consolidation

All intra-company balances and transactions, including any unrealized revenue and expenses arising from intra-company transactions, are eliminated and non-controlling interest recognized in preparing these consolidated financial statements.

2. Significant accounting policies (continued):

(b) Financial assets and liabilities:

(i) Financial instruments

Under IFRS 9, the Company classifies its financial assets into the following categories:

- financial instruments mandatorily measured at FVTPL; or,
- financial instruments measured at amortized cost.

The classification and measurement of debt instruments depends on the Company' business model for managing the financial assets to generate cash flows and whether the contractual cash flows represent solely payment of principal and interest ("SPPI").

Equity investments are required to be measured at FVTPL, except where the Company has elected at initial recognition to irrevocably designate an equity instrument, held for purposes other than trading, at fair value through other comprehensive income ("FVOCI"). No such election has been made by the Company.

Financial instruments mandatorily measured at FVTPL

Trading financial instruments are mandatorily measured at FVTPL as they are held for trading purposes or are part of a managed portfolio with a pattern of short-term profit taking. Non-trading financial assets are also mandatorily measured at FVTPL if their contractual cash flow characteristics do not meet the SPPI test or if they are managed together with other financial instruments on a fair value basis.

Trading and non-trading financial instruments mandatorily measured at FVTPL are remeasured at fair value as at the statement of financial position date. Gains and losses realized on disposition, unrealized gains and losses from changes in fair value and investment income are included in profit and loss. Transaction costs are expensed as incurred. Dividends are recognized on the ex-dividend date and interest is recognized on an accrual basis. Both dividends and interest are included in interest income.

2. Significant accounting policies (continued):

(b) Financial assets and liabilities (continued):

(i) Financial instruments (continued)

Financial instruments mandatorily measured at FVTPL comprise the Company's bonds, equities, and pooled fund instruments.

Financial instruments measured at amortized cost

Under IFRS 9, financial instruments that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. These financial assets are recognized initially at fair value plus or minus direct and incremental transaction costs, and are subsequently measured at amortized cost, using the effective interest rate method, net of an allowance for expected credit losses ("ECL"). Interest income from these financial instruments is included in investment income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss. Impairment losses are presented as separate line item in the statement of comprehensive (loss) income and equity.

Financial instruments measured at amortized cost comprise receivables arising from insurance contracts and other receivables. Due to the short-term nature of these financial instruments, carrying value is considered to approximate fair value.

(ii) Financial liabilities:

Financial liabilities are recognized initially at fair value. The fair value on initial recognition is the fair value of the consideration received. Subsequent to initial recognition financial liabilities are measured at amortized cost using the effective interest rate method.

Financial liabilities comprise payables arising from insurance contracts, and trade payables and accrued liabilities. Due to the short-term nature of payables, carrying value is considered to approximate fair value.

(iii) Fair value:

The fair value of a financial instrument on initial recognition is defined as the fair value of the consideration given. Subsequent to initial recognition, fair value amounts represent estimates of the consideration that would currently be agreed upon between knowledgeable, willing parties who are under no compulsion to act.

2. Significant accounting policies (continued):

(b) Financial assets and liabilities (continued):

(iii) Fair value (continued):

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

The Company uses the services of external security pricing vendors to obtain estimated fair values of securities in its investment portfolio. Fair values of pooled funds and mutual funds are based on the quoted market values of the underlying investments.

(iv) Investment income:

Dividends on equity investments are recognized when the Company's right to receive payment is established, which is the ex-dividend date, and are reported as dividends in investment income.

(c) Property and equipment:

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, with the exception of land which is not depreciated. Cost includes expenditure that is directly attributable to the acquisition of the asset.

2. Significant accounting policies (continued):

(c) Property and equipment (continued):

Depreciation is recognized in comprehensive income on a straight-line basis over the estimated useful life of the assets at the following annual rates:

Buildings	40 years
Computer hardware	4 years
Furniture and fixtures	4 to 5 years
Vehicles	4 years

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

(d) Intangible asset:

Intangible assets consist of computer software, which are not integral to the computer hardware owned by the Company, developed software, customer lists and goodwill.

Computer software is initially recorded at cost and subsequently measured at cost less accumulated amortization and accumulated impairment losses. Software is amortized on a straight basis over its estimated useful life of 4 years.

Developed software relates to the cost of developing new products. These costs are capitalized and amortized over the expected useful life of the software.

Customer lists are initially recorded at cost and subsequently measured at cost less accumulated amortization and accumulated impairment losses. Customer lists are amortized on a straight-line basis over their estimated useful life of 10 years. The amortization expense is included in operating expenses in the consolidated statement of comprehensive income.

Goodwill arising on the acquisition of a subsidiary is recognized as an asset at the date that control is acquired. Goodwill is measured as the excess of the sum of the consideration transferred over the net fair value of the identifiable net assets recognized. Goodwill is deemed to have an indefinite life and is initially recorded at cost and subsequently measured at cost less accumulated impairment losses. Goodwill is tested for impairment annually.

2. Significant accounting policies (continued):

(e) Impairment:

(i) Financial assets:

A financial asset not carried at FVTPL is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

The Company considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. Receivables that are not individually significant are collectively assessed for impairment. In assessing collective impairment, the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in income and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through income.

(ii) Non-financial assets:

The carrying amounts of the Company's non-financial assets are reviewed at each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset exceeds its estimated recoverable amount.

Impairment losses are recognized in profit or loss. The recoverable amount of an asset is the greater of its value in use and its fair value less expected selling costs. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognized in income in the period in which the impairment is determined.

2. Significant accounting policies (continued):

(f) Impairment (continued):

(ii) Non-financial assets (continued):

In respect of other non-financial assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

The assessment of impairment of non-financial assets excludes assessment of deferred policy acquisition costs, which is discussed in note 2(g)(iv). The ability of the Company to recover its deferred policy acquisition costs is assessed as part of the Company's overall insurance liability adequacy testing. In the event that a provision for premium deficiency is required based on this test, the deferred policy acquisition cost asset is reduced with a corresponding charge recognized as change in deferred policy acquisition costs in income.

(g) Insurance contracts:

(i) Classification:

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Insurance risk arises when the Company agrees to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. Contracts not meeting the definition of insurance contracts are classified as investment contracts, derivative contracts or service contracts. The Company has reviewed all the contracts issued to its policyholders and concluded that they all meet the definition of insurance contracts.

(ii) Premiums earned and unearned premiums:

Insurance premiums are included in income on a pro rata basis over the terms of the policies. Unearned premiums represent the portion of premiums written that relate to the unexpired term of the policies in force. Premiums are shown before deduction of commissions and are gross of any taxes and dues levied on premiums.

(iii) Reinsurers share of unearned premiums:

The reinsurer's share of unearned premiums are recognized as an asset using principles consistent with the Company's method for determining the unearned premium liability.

2. Significant accounting policies (continued):

(g) Insurance contracts (continued):

(iv) Deferred policy acquisition expenses

Acquisition costs are comprised of commissions, premium taxes, and other incremental costs of acquiring and renewing policies. The deferred policy acquisition expenses are subsequently amortized over the terms of the related policies. To the extent they are considered non-recoverable, they are expensed as incurred.

(v) Liability adequacy test

At each reporting date, the Company performs a liability adequacy test on its insurance liabilities less deferred acquisition expenditures to ensure the carrying value is adequate, using current estimates of future cash flows, taking into account the relevant discount rate. If that assessment shows that the carrying amount of the liabilities is inadequate, any deficiency is recognized as an expense to the consolidated statement of operations and unappropriated policyholders' surplus initially by writing down the deferred acquisition expenses and by subsequently establishing a provision for losses resulting from liability inadequacy tests (the "premium deficiency"). Impairment losses resulting from liability inadequacy can be reversed in future years if the impairment no longer exists.

(vi) Unpaid claims and adjustment expenses:

The provision for unpaid claims represents the amounts needed to provide for the estimated ultimate expected cost of settling claims related to insured events (both reported and unreported) that have occurred on or before each statement of financial position date. The provision for adjustment expenses represents the estimated ultimate expected costs of investigating, resolving and processing these claims. Estimated recoveries of these costs from reinsurance ceded are included in assets. The computation of these provisions takes into account the time value of money using discount rates based on projected investment income from the assets supporting the provisions. As required by actuarial standards in Canada, claims liabilities also include a provision for adverse deviation (PFAD), which represents an additional margin on valuation variable factors, which are claims development, reinsurance recoveries and interest rates used in discounting claims liabilities.

The process of determining the provision for unpaid claims and adjustment expenses is discussed in note 10.

2. Significant accounting policies (continued):

(g) Insurance contracts (continued):

(vii) Reinsurance ceded:

Premiums, claims and administrative expenses are recorded net of amounts ceded to, and recoverable from, reinsurers. Estimates of amounts recoverable from reinsurers on unpaid claims and adjustment expenses are recorded separately from estimated amounts payable to policyholders.

Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy.

(h) Income taxes:

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to taxes payable in respect of previous years.

The Company follows the asset and liability method of accounting for income taxes, whereby deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases and operating loss carry forwards. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes imposed by the same taxation authority.

(i) Foreign currency translation:

Transactions denominated in foreign currencies are translated into Canadian dollars using the temporal method. Under this method, monetary assets and liabilities are translated at year-end exchange rates and non-monetary assets and liabilities are translated at exchange rates prevailing at the transaction dates. Statement of comprehensive income (loss) items are translated at actual rates in effect at the time of the transactions. Translation gains and losses are included in current income.

2. Significant accounting policies (continued):

(j) Accounting standards issued but not yet applied:

IFRS 17, *Insurance Contracts:*

On May 18, 2017, the IASB issued IFRS 17 Insurance Contracts. On June 25, 2020, the IASB issued amendments to IFRS 17 aimed at helping companies implement the Standard and to defer the effective date. IFRS 17 will replace IFRS 4 Insurance Contracts. The new standard and its amendments are effective for annual periods beginning on or after January 1, 2023, with a transition date of January 1, 2022, and will be applied retrospectively.

This Standard introduces consistent accounting for all insurance contracts and provides guidance on the recognition, measurement, presentation and disclosure of insurance contracts. The Standard requires a company to measure insurance contracts using updated estimates and assumptions that reflect the timing of cash flows and any uncertainty relating to insurance contracts. Additionally, IFRS 17 requires an entity to recognize profits as it delivers insurance services, rather than when it receives premiums.

The Company will adopt IFRS 17 in its financial statements for the annual period beginning on January 1, 2023. The extent of the impact of adoption of the standard has not yet been determined.

IFRS 17 requires an insurance company to measure insurance contracts using a current measurement of discounted, expected cash flows plus a risk adjustment to reflect the variability in the amount and timing of expected insurance cash flows. A simplified approach (the “Premium Allocation Approach”) is allowed that is similar to the current accounting for the liability for remaining coverage and the recognition of earned premium under IFRS 4 for contracts meeting certain criteria, including all policies with coverage periods of one year or less.

The Company is eligible and has elected to use the simplified Premium Allocation Approach for its insurance contracts and reinsurance contracts held therefore upon transition, the insurance contract liabilities and reinsurance held assets will be recorded on a fully retrospective basis.

Change in net income is not expected to be significant at this time. The potential impacts include:

- reduction from recognition of onerous contract losses
- Increased income from changes in discount rate accretion of the liabilities for incurred claims
- Reduction given lower risk margin release given no investment margin under IFRS 17
- Changes from deferred acquisition cost amortization

The Company is still evaluating the extent of impact of the adoption of IFRS 17 on transition.

3. Significant judgments and estimates:

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. 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.

(a) Significant judgments:

The areas involving critical judgments 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 consolidated financial statements include:

(i) The calculation of unpaid claims and related reinsurer's share, 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;

(ii) The determination of the recoverability of deferred policy acquisition expenses;

(iii) The calculation of bad debt expense and allowance for doubtful accounts on premiums receivable and other customer receivables using historical experience a forward-looking information; and

(iv) The classification of financial assets as 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.

(b) Estimates:

Information about assumptions and estimation uncertainties that have a risk of resulting in material adjustment within the next twelve months are as follows:

(i) Unpaid claims and adjustment expenses:

Provisions for unpaid claims and adjustment expenses are valued based on Canadian accepted actuarial practice, which are designed to ensure the Company establishes an appropriate reserve on the statement of financial position to cover insured losses with respect to the reported and unreported claims incurred as of the end of each accounting period and claims expenses. The policy liabilities include a provision for unpaid claims and adjustment expenses on the expired portion of policies and of future obligations on the unexpired portion of policies.

In performing the valuation of the liabilities for these contingent future events, the Appointed Actuary makes assumptions as to future loss ratios, trends, reinsurance recoveries, investment rates of return, expenses and other contingencies, taking into consideration the circumstances of the Company and the nature of the insurance policies.

3. Significant judgments and estimates (continued):

(b) Estimates (continued):

(i) Unpaid claims and adjustment expenses (continued):

The assumptions underlying the valuation of provisions for unpaid claims and adjustment expenses are reviewed and updated by the Company on an ongoing basis to reflect recent and emerging trends in experience and changes in risk profile of the business.

(ii) Deferred policy acquisition costs:

Deferred policy acquisition costs are deferred and amortized in accordance with the accounting policy in note 2(g)(iv). The Company estimates expenses eligible for deferral based on the nature of expenses incurred.

4. Role of the actuary and auditors:

With respect to preparation of consolidated financial statements, the actuary is required to carry out a valuation of the Company's policy liabilities and report thereon to the shareholder. Policy liabilities consist of the provisions for and reinsurance recovery of unpaid claims and adjustment expenses on insurance policies in force, including provisions for salvage and subrogation, and future obligations on the unearned portion of insurance policies in force, including deferred policy acquisition costs. The valuation is made in accordance with Canadian accepted actuarial practice, as well as any other matter specified in any direction that may be made by regulatory authorities. In performing the valuation of the liabilities, which are by their nature inherently variable, assumptions are made as to the future loss ratios, trends, rates of claims frequency and severity, inflation, reinsurance recoveries, investment returns and both internal and external adjustment expenses, taking into consideration the circumstances of the Company and the nature of the insurance policies in force. The provisions do not include estimates for extraordinary future emergence of either new classes of claims or claims categories not sufficiently recognized in the claims data base.

The actuary, in verifying the management information provided by the Company used in the valuation, also makes use of the work of the external auditors. The actuary's report outlines the scope of his work and opinion.

The external auditors have been appointed by the shareholder pursuant to the Act to conduct an independent and objective audit of the consolidated financial statements of the Company in accordance with Canadian generally accepted auditing standards and report thereon to the shareholder. In carrying out their audit, the auditors also make use of the work of the actuary and his or her report on the Company's policy liabilities. The auditor’s report outlines the scope of their audit and their opinion.

5. Investments:

(a) Fair value:

The fair values of investments are summarized as follows:

	2022	2021
Pooled funds		
Canadian fixed income	$ 80,898,355	$ 81,795,466
Canadian equities	11,342,287	13,161,630
Global equities	11,494,304	12,825,635
	103,734,946	107,782,731
Other investments		
Fire Mutuals guarantee fund	$ 130,136	$ 129,640
Collectivfide Insurance Group Inc. bond	350,000	350,000
	480,136	479,640
	$ 104,215,082	$ 108,262,371

Fair values have been determined on the basis described in note 2(b) and are considered to approximate market values.

(b) Fair value hierarchy:

The Company uses a fair value hierarchy to categorize the inputs used in valuation techniques to measure fair value. The extent of the Company's use of quoted market prices (Level 1), internal models using observable market information as inputs (Level 2) and internal models without observable market information as inputs (Level 3) in the valuation of bond and equity investments as follows:

2022	Level 1	Level 2	Level 3	Total
Pooled funds	$ –	$ 103,734,946	$ –	$ 103,734,946
Other investments	–	130,136	350,000	480,136
Total	$ –	$ 103,865,082	$ 350,000	$ 104,215,082

2021	Level 1	Level 2	Level 3	Total
Pooled funds	$ –	$ 107,782,731	$ –	$ 107,782,731
Other investments	–	129,640	350,000	479,640
Total	$ –	$ 107,912,371	$ 350,000	$ 108,262,371

5. Investments (continued):

(b) Fair value hierarchy (continued):

There were no transfers between any levels of the fair value hierarchy for the years ended December 31, 2022 and 2021.

The Collectivfide Insurance Group Inc. investment is recorded at fair value and is not traded on an open market. It is a bond in a Canadian private company. The fair value of this investment is based on valuation techniques that include inputs that are not based on observable market data (unobservable inputs). Therefore, it is classified as Level 3.

6. Investment and other income:

	2022	2021
Interest income	$ 71,319	$ 56,347
Dividend income	83,227	65,000
Realized gains on disposal of investments	228,286	291,914
Investment expenses	(332,694)	(364,065)
Pooled fund distributions	3,160,241	5,759,527
Decrease in market value of investments	(7,437,271)	(1,190,849)
Total investment income (loss)	(4,226,892)	4,617,874
Other income	35,669	16,222
Realized gains (losses) on disposal of property, plant and equipment	72,902	(305,868)
Total other income	108,571	(289,646)
Total investment and other income (loss)	$ (4,118,321)	$ 4,328,228

7. Deferred policy acquisition costs:

	2022	2021
Balance, beginning of the year	$ 8,065,258	$ 7,482,456
Acquisition costs incurred	19,618,007	17,938,544
Expensed during year	(18,848,837)	(17,355,742)
Balance, end of the year	$ 8,834,428	$ 8,065,258

8. Property, plant and equipment

	Land	Buildings	Computer hardware	Furniture and fixtures	Vehicles	Total
Cost or deemed cost						
Balance, December 31, 2021	$ 1,004,360	$ 6,470,396	$ 1,938,532	$ 1,486,131	$ 406,734	$ 11,306,153
Additions	–	–	323,102	24,860	66,000	413,962
Disposals	–	–	(154,433)	–	(142,446)	(296,879)
Balance, December 31, 2022	$ 1,004,360	$ 6,470,396	$ 2,107,201	$ 1,510,991	$ 330,288	$ 11,423,236
Accumulated depreciation						
Balance, December 31, 2021	$ –	$ 984,231	$ 1,704,487	$ 1,358,694	$ 331,472	$ 4,378,884
Adjustment on acquisition	–	–	82	15	–	97
Depreciation expense	–	86,760	173,194	34,071	56,468	350,493
Disposals	–	–	(147,416)	–	(124,120)	(271,536)
Balance, December 31, 2022	$ –	$ 1,070,991	$ 1,730,347	$ 1,392,780	$ 263,820	$ 4,457,938
Net book value						
Balance, December 31, 2021	$ 1,004,360	$ 5,486,165	$ 234,045	$ 127,437	$ 75,262	$ 6,927,269
Balance, December 31, 2022	$ 1,004,360	$ 5,399,405	$ 376,854	$ 118,211	$ 66,468	$ 6,965,298

Depreciation of property and equipment included in operating expenses amounted to $350,493 in 2022 (2021 - $365,779).

9. Intangible assets:

	Computer software	Goodwill	Customer lists	Total
Cost				
Balance, December 31, 2021	$ 8,278,075	$ 680,695	$ 610,694	$ 9,569,464
Additions	494,160	–	–	494,160
Balance, December 31, 2022	8,772,235	680,695	610,694	10,063,624
Accumulated depreciation				
Balance, December 31, 2021	3,330,939	–	458,020	3,788,959
Adjustment on acquisition	85	–	6,358	6,443
Amortization expense for the year	951,254	–	54,712	1,005,966
Balance, December 31, 2022	4,282,278	–	519,090	4,801,368
Net book value				
Balance, December 31, 2021	$ 4,947,136	$ 680,695	$ 152,674	$ 5,780,505
Balance, December 31, 2022	$ 4,489,957	$ 680,695	$ 91,604	$ 5,262,256

Amortization of intangible assets included in operating expenses amounted to $1,005,966 in 2022 (2021 - $367,683).

10. Unpaid claims and adjustment expenses:

The following is a summary of the contract provisions and related reinsurance assets as at December 31, 2022 and December 31, 2021.

Gross	2022	2021
Outstanding claims provision	$ 35,909,645	$ 39,229,036
Provision for claims incurred but not reported	15,247,000	13,454,000
Provision for unallocated loss expenses	1,469,504	1,485,251
Effect of discounting and provision for adverse deviation	1,254,496	3,781,749
Facility Association and other residual pools	1,244,685	1,317,826
Total provision for gross unpaid claims and adjustment expenses	$ 55,125,330	$ 59,267,862

Ceded	2022	2021
Outstanding claims provision	$ 6,262,190	$ 7,739,306
Provision for claims incurred but not reported	7,808,000	7,293,000
Effect of discounting and provision for adverse deviation	(58,000)	653,000
Total provision for ceded unpaid claims and adjustment expenses	$ 14,012,190	$ 15,685,306

10. Unpaid claims and adjustment expenses (continued):

Net	2022	2021
Outstanding claims provision	$ 29,647,455	$ 31,489,730
Provision for claims incurred but not reported	7,439,000	6,161,000
Provision for unallocated loss expenses	1,469,504	1,485,251
Effect of discounting and provision for adverse deviation	1,312,496	3,128,749
Facility Association and other residual pools	1,244,685	1,317,826
Total provision for net unpaid claims and adjustment expenses	$ 41,113,140	$ 43,582,556

(a) Nature of unpaid claims and adjustment expenses:

The establishment of the provision for unpaid claims and adjustment expenses is based on known facts and interpretation of circumstances and, is therefore, a complex and dynamic process influenced by a large variety of factors. 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.

Other factors include the continually evolving and changing regulatory and legal environment, actuarial studies, professional experience and expertise of the Company's claim department’s personnel and independent adjusters retained to handle individual claims, the quality of the data used for projection purposes, existing claims management practices, including claims handling and settlement practices, the effect of inflationary trends on future claims settlement costs, court decisions, investment returns, economic conditions and public attitudes. In addition, time can be a critical part of the provision determination, since the longer the span between the incidence of a loss and the payment or settlement of the claims, the more variable the ultimate settlement amount can be.

Accordingly, short-tail claims, such as property claims, tend to be more reasonably predictable than long-tailed claims, such as general liability claims.

Consequently, the establishment of the provision for unpaid claims and adjustment expenses process relies on the judgment and opinions of a large number of individuals, on historical precedent and trends, on prevailing legal, economic, social and regulatory trends and on expectations as to future developments. The process of determining the provisions necessarily involves risks that the actual results will deviate, perhaps substantially, from the best estimates made.

10. Unpaid claims and adjustment expenses (continued):

(a) Nature of unpaid claims and adjustment expenses (continued):

The Company strives to establish adequate claim liabilities at the original valuation date. However, as time passes, the ultimate cost of claims (claims reserves and claims incurred but not reported) becomes more certain. During 2022, the Company experienced favourable net ultimate claims development of $4,587,000 (2021 - $941,000 favourable) across all lines. This was driven by favourable automobile net development of $2,850,000 (2021 - $231,000 favourable), favourable property net development of $1,300,000 (2021 - $870,000 favourable), and favourable liability net development of $437,000 (2021 - $160,000 unfavourable).

(b) Discounting of the provision for unpaid claims and adjustment expenses:

The provision for unpaid claims and adjustment expenses and related reinsurance recoverables are discounted using rates of return based on projected investment income from assets supporting the provisions, and reflecting the estimated timing of payments and recoveries. The provisions have been discounted using an interest assumption of 4.21% (2021 - 1.39%). A 1% increase in the discount rate could decrease the estimate of unpaid claims and adjustment expenses by approximately $885,000 (2021 - $1,049,745) on a gross basis and $620,533 (2021 - $719,927) on a net basis. A 1% decrease in the discount rate could increase the estimate of unpaid claims and adjustment expenses by approximately $921,951 (2021 - $1,095,096) on a gross basis and $644,514 (2021 - $749,070) on a net basis.

The provision for unpaid claims and adjustment expenses reflects the present value of the expected cash flows and the provision for adverse deviations and is considered an indicator of fair value since there is no ready market for the trading of insurance policy liabilities.

(c) Methodology and assumptions:

The best estimates of claims liabilities have been determined from the projected ultimate claims liabilities based on the incurred loss development, the paid loss development or the expected loss ratio methods. Where possible, the Company applies multiple techniques in estimating required provisions. The Company also considers the appropriateness of the methods and bases to the individual circumstances of the provision class and underwriting year.

Incurred Loss Development Method/Paid Loss Development Method

The distinguishing characteristics of the development method are that ultimate claims for each accident year are produced from recorded values assuming the future claim development is similar to the prior years' development. The underlying assumption is that claims recorded to date will continue to develop in a similar manner in the future.

10. Unpaid claims and adjustment expenses (continued):

(c) Methodology and assumptions (continued):

Expected Loss Ratio Method

The key assumption for the expected loss ratio method is that the appointed actuary can estimate total unpaid claims based on loss estimate derived from initial product pricing assumptions. This method is more commonly used in lines of business with longer emergence and settlement patterns or lines of business with a limited amount of historical claims development experience.

Bornhuetter-Ferguson Method

This approach weights the results Loss Development and Expected Loss Ratio methods based on expected claim reporting patterns. It is commonly used to integrate the first two methods.

Provisions are calculated gross of any reinsurance recoveries. The Company makes a separate estimate for amounts that will be recoverable from reinsurers. Claims paid and incurred, both gross and net of reinsurance recoveries, were produced in a triangular form, by accident year and development period. Ratios of claim amounts at successive development years were then calculated to build loss development factor triangles.

The loss development factors were selected from the historical development pattern shown in the reported loss development triangles. Judgment was used whenever there was a wide variability in the past development factors due to a small claims sample. Also, development factors which seemed abnormal have been disregarded in selecting the loss development factors.

The claims data includes external claims adjustment expenses, but does not include unallocated claims adjustment expenses. A provision for unallocated claims adjustment expenses ("ULAE") has been determined based on the ratio of paid ULAE to paid losses. This method assumes that half of the ULAE is required when the claim is first set up. The remaining half of the ULAE is required to maintain the claim. This ULAE percentage is applied to the pure claims incurred but not reported (“IBNR”) and to half of the case reserves plus IBNR for known claims.

Non-reinsurance recoveries, including salvage and subrogation, were implicitly considered in this valuation as part of the reported claims development experience that included such recoveries.

10. Unpaid claims and adjustment expenses (continued):

(c) Methodology and assumptions (continued):

Once the undiscounted claims liabilities are determined, the liabilities are adjusted to the actuarial present value. To adjust to the actuarial present value, the undiscounted claims liabilities are first discounted based on a selected discount rate. The selected discount rate is based on the market yield from the investment portfolio. Provision for adverse deviations ("PfAD") is then added to the discounted liabilities to become the actuarial present value. A provision for adverse deviations is selected in accordance with the Standards of Practice of the Canadian Institute of Actuaries.

The estimates for unearned premium liabilities have been tested to ensure that they are sufficient to pay for future claims and expenses in servicing the unexpired policies as of the valuation date.

(d) Changes in assumptions:

These provisions for unpaid claims and adjustment expenses are estimates and, as such, are subject to variability, which could be material in the near term. Changes to the estimates could result from future events such as receiving additional claim information, changes in judicial interpretation of contracts or significant changes in severity or frequency of claims from past trends. In general, the longer the term required for the settlement of claims, the more variable the estimates. As additional experience and other data becomes available, the estimates could be revised. Any future changes in estimates would be reflected in the statement of income and comprehensive income for the period in which the change occurred. The historical studies are regularly compared to current emerging experience so that adjustments may be made as necessary. The actual amount of ultimate claims can only be ascertained once all claims are closed. The effect of changes in assumptions is disclosed in note 17(a)(v) sensitivity analysis.

(e) Movements in insurance liabilities and reinsurance assets:

(i) Change in gross claims reserve:

	2022	2021
Gross claims reserve, beginning of year	$ 59,267,862	$ 59,516,457
Current year change	42,623,648	45,008,164
Loss reserve development (prior years)	(9,212,869)	(6,353,850)
Total claims incurred	33,410,779	38,654,314
Current year	19,839,583	20,334,959
Prior years	17,713,728	18,567,950
Total claims paid	37,553,311	38,902,909
Gross claims reserve, end of year	$ 55,125,330	$ 59,267,862

10. Unpaid claims and adjustment expenses (continued):

(e) Movements in insurance liabilities and reinsurance assets (continued):

(ii) Change in reinsurers' share in claims reserve:

		2022		2021
Reinsurers' share in claims reserve, beginning of year	$	15,685,306	$	15,113,597
Current year change		7,033,275		9,396,589
Loss reserve development (prior years)		(1,485,892)		(3,053,737)
Total reinsurers' share in total claims incurred		5,547,383		6,342,852
Current year		2,073,189		2,658,858
Prior years		5,147,310		3,112,285
Total reinsurers' share of claims paid		7,220,499		5,771,143
Reinsurers' share in claims reserve, end of year	$	14,012,190	$	15,685,306

(iii) Change in unearned premiums:

		2022		2021
Unearned premiums, beginning of year	$	37,028,548	$	34,897,616
Net premiums written during the year		69,477,847		66,443,607
Net premiums earned during the year		(67,162,720)		(64,312,675)
Change in provision for unearned premiums		2,315,127		2,130,932
Unearned premiums, end of year	$	39,343,675	$	37,028,548

10. Unpaid claims and adjustment expenses (continued):

(f) Claims development tables:

The following table shows the estimates of cumulative incurred claims, including both claims notified and IBNR for each successive loss year at each reporting date, together with cumulative payments to date.

Gross basis:

	Total all insurance risks										
Year of loss	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Estimate of ultimate claims costs:											
at end of the year of loss	-	-	24,700	34,207	33,320	41,712	47,908	42,583	42,608	41,516	
1 year later	-	22,032	22,799	31,191	32,508	40,650	48,049	40,028	41,169	-	
2 years later	21,602	20,626	23,059	31,542	34,428	41,076	46,854	38,504	-	-	
3 years later	20,792	20,446	24,098	30,728	34,710	40,690	46,278	-	-	-	
4 years later	20,579	20,340	23,714	30,118	35,371	40,310	-	-	-	-	
5 years later	21,800	20,693	23,297	30,186	34,244	-	-	-	-	-	
6 years later	21,971	20,731	23,157	30,088	-	-	-	-	-	-	
7 years later	21,671	20,652	22,808	-	-	-	-	-	-	-	
8 years later	21,599	20,646	-	-	-	-	-	-	-	-	
9 years later	21,599	-	-	-	-	-	-	-	-	-	
Current estimate of cumulative claims	21,599	20,646	22,808	30,088	34,244	40,310	46,278	38,504	41,169	41,516	337,162
Cumulative payments to date	21,599	18,670	22,467	29,768	32,828	35,496	40,991	32,756	31,591	19,840	286,006
Outstanding claims	-	1,976	341	320	1,416	4,814	5,287	5,748	9,578	21,676	51,156
ULAE											1,470
Facility Association and risk sharing pool											1,245
Effect of discounting and PfAD											1,254
Gross liabilities on statement of financial position											55,125

10. Unpaid claims and adjustment expenses (continued):

(f) Claims development tables (continued):

Net basis:

	Total all insurance risks										
Year of loss	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Estimate of ultimate claims costs:											
at end of year of loss	-	-	21,466	27,447	28,900	36,242	38,157	34,938	33,382	34,355	
1 year later	-	19,093	20,631	25,506	29,129	35,350	38,158	33,339	31,433	-	
2 years later	19,151	18,130	20,247	24,990	30,426	35,401	37,975	32,178	-	-	
3 years later	18,959	17,593	20,367	23,927	31,101	35,583	37,752	-	-	-	
4 years later	18,793	17,484	19,795	23,748	31,908	35,391	-	-	-	-	
5 years later	19,359	17,298	19,457	23,770	31,153	-	-	-	-	-	
6 years later	19,534	17,289	19,416	23,731	-	-	-	-	-	-	
7 years later	19,333	17,271	19,140	-	-	-	-	-	-	-	
8 years later	19,283	17,270	-	-	-	-	-	-	-	-	
9 years later	19,282	-	-	-	-	-	-	-	-	-	
Current estimate of cumulative claims	19,282	17,270	19,140	23,731	31,153	35,391	37,752	32,178	31,433	34,355	281,685
Cumulative payments to date	19,282	16,978	18,830	23,532	30,082	32,191	33,812	27,948	24,178	17,766	244,599
Outstanding claims	-	292	310	199	1,071	3,200	3,940	4,230	7,255	16,589	37,086
ULAE											1,470
Facility Association and risk sharing pool											1,245
Effect of discounting and PfAD											1,312
Net liabilities on statement of financial position											41,113

11. Underwriting policy and reinsurance ceded:

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 due to reinsurer and are recognized as an expense on the same basis as revenue on the underlying policies being reinsured.

The Company follows a policy of underwriting and reinsuring contracts of insurance which, in the main, limit the liability of the Company to an amount on any one claim of $600,000 (2021 - $500,000) in the event of a property claim, an amount of $1,500,000 (2021 - $1,500,000) in the event of an automobile claim and $1,500,000 (2021 - $1,500,000) in the even of a liability claim. The Company also obtained reinsurance which limits the Company’s liability to $1,500,000 (2021 - $1,500,000) in the event of a series of claims arising out of a single occurrence. In addition, the Company has obtained stop loss reinsurance on automobile and liability for loss ratios limited to 100% plus 10% of losses up to a loss ratio of 200% (2021 – 80% of gross net earned premiums for property, liability, and auto insurance).

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.

Failure of reinsurers to honour their obligations could result in losses to the Company; consequently, allowances are established for amounts deemed uncollectible. The Company evaluates the financial condition of our reinsurers and potential reinsurers on a regular basis and also monitors the concentrations of credit risk with reinsurers.

12. Related party transactions:

(a) Transactions with related parties:

From time to time, the Company enters into transactions in the normal course of business, which are measured at the exchange amounts, with related companies, directors and senior officers. All of these transactions (other than those disclosed) are recorded through the Company's statement of financial position and statement of comprehensive loss. Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operational decisions.

(b) Key management personnel compensation:

Key management personnel of the Company include all directors, executives and senior management.

Key management personnel compensation is composed of the following:

	2022	2021
Compensation		
Salaries, short-term employee benefits	$ 1,366,863	$ 1,224,275
Total pension and other post-employment benefits	87,150	83,425
	$ 1,454,013	$ 1,307,700
Premium income	$ 40,589	$ 40,678
Claims paid	$ 6,636	$ -

Amounts owing to and from key management personnel at December 31, 2022 are $151,959 (2021 - $126,531) and $4,128 (2021 - $2,873) respectively. The amounts are included in due from policyholders and accounts payable and accrued liabilities on the statement of financial position.

13. Fees, commissions and other acquisition costs:

	2022	2021
Commissions	$ 15,647,251	$ 14,473,858
Inspection salaries and benefits	715,434	677,313
Underwriter salaries and benefits	2,263,305	1,967,769
Premium taxes	259,662	236,802
	$ 18,885,652	$ 17,355,742

14. Company pension plan:

(a) Defined benefit plan:

The Company participates in a multi-employer defined benefit pension plan (the Ontario Mutual Insurance Association Pension Plan, "the plan"), however, sufficient information is not available to use defined benefit accounting. Therefore, the Company accounts for the plan as a defined contribution plan, recognizing contributions as an expense in the year to which they relate.

The Company makes contributions to the plan on behalf of members of its employees. The plan is a money purchase plan, with a defined benefit option at retirement, which specifies the amount of the retirement benefit plan to be received by the employees based on length of service and rates of pay. The amount contributed to the plan for 2022 was $375,246 (2021 - $339,037). The contributions were made for current service and these have been recognized in net income. The current service amount is determined by the plan actuary using the projected accrued benefit actuarial cost method. These contributions amount to 7.9% (2021 – 7.79%) of the total contributions made to the Ontario Mutual Insurance Association Pension Plan by all participating entities during the current fiscal year. Expected contributions to the plan for the next annual reporting period amount to $390,713 (2021 - $340,000), which is based on payments made to the multi-employer plan during the current fiscal year.

The defined benefit pension plan was closed to future eligible employees effective July 1, 2013. The Company and all current employees who are accruing benefits under the defined benefit plan will continue to contribute to the defined benefit plan according to the existing terms of the agreement. Future eligible employees will become part of a defined contribution plan.

Due to the complexity of the valuation and its long-term nature, the funding valuation is highly sensitive to changes in assumptions, which are reviewed at each reporting date.

(b) Defined contribution plan:

The Company’s employees hired after July 1, 2013 participate in a defined contribution plan. The Company’s obligations with respect to this plan is to make specified monthly payments based on a percentage of the employee’s eligible earnings. The amount contributed to the defined contribution plan for 2022 was $215,222 (2021 - $205,744).

15. Deferred tax assets and liabilities:

(a) Recognized deferred tax assets and liabilities:

The Company has unclaimed deductions for claims liabilities and capital assets which are available to offset against deferred income for tax purposes. Deferred income tax assets which would result from these temporary differences are as shown below. The Company does not expect to realize its deferred income tax assets within the next twelve months.

	2022	2021
Deferred income tax asset		
Property and equipment	$ 37,135	$ 23,942
Reserve for unpaid claims	2,246,468	1,822,852
Other	33,384	30,714
	2,316,987	1,877,508
Deferred income tax liability		
Property and equipment	(1,746,734)	(702,508)
Deferred tax	$ 570,253	$ 1,175,000

(b) Movement in temporary differences during the year:

	2022	2021
Deferred tax, beginning of the year	$ 1,175,000	$ 4,003,000
Recognized in income	604,747	2,828,000
Deferred tax, end of year	$ 570,253	$ 1,175,000

16. Income taxes:

(a) Components of income tax expense:

	2022	2021
Current period taxes on income	$ 76,102	$ 63,278
Deferred tax expense		
Origination and reversal of temporary differences	628,691	1,866,000
Adjustments in respect of prior years	(19,944)	962,000
	608,747	2,828,000
Total income tax expense	$ 684,849	$ 2,891,278

16. Income taxes (continued):

(b) Reconciliation of effective tax rate:

The Company's provision for income taxes varies from the expected provision at statutory rates for the following reasons:

	2022	2021
Combined basic Canadian federal and provincial income tax rate	26.50%	26.50%
Provision for income taxes based on combined basic income tax rate	$ 746,567	$ 2,044,729
Decrease (increase) in tax recovery resulting from:		
Non-deductible expenses	(33,325)	84,140
Under provision in prior years	(37,330)	962,000
Non-taxable dividends	(22,055)	(87,450)
Other	30,992	(112,141)
Income tax expense reflected in net income	$ 684,849	$ 2,891,278

17. Financial risk management:

The primary goals of the Company’s financial risk management are to ensure that the outcomes of activities involving elements of risk are consistent with the Company’s objectives and risk tolerance, and to maintain an appropriate risk/reward balance while protecting the Company’s statement of financial position from events that have the potential to materially impair its financial strength.

Risks identified as potentially significant are managed through a combination of Board policy, management monitoring and other management practices. The Company's Investment Policy Statement establishes asset mix parameters and risk limits to help minimize undue exposure to these risks in the investment portfolio while attempting to maximize the long-term value of policyholders’ surplus. The Investment Policy Statement is reviewed annually and compliance with the Investment Policy is monitored quarterly by the Board of Directors.

The Company’s exposure to potential loss is primarily due to underwriting risk along with various market risks, including interest rate risk, liquidity risk, as well as credit risk.

17. Financial risk management (continued):

(a) Underwriting risk:

Underwriting risk is the risk that the total cost of claims and acquisition expenses will exceed premiums received and can arise from numerous factors, including pricing risk, reserving risk and reinsurance coverage risk. The Company's underwriting objective is to develop business within the target market on a prudent and diversified basis and to achieve profitable underwriting results.

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. The Company primarily insures in Ontario and as a result the Company is exposed to geographical risk. These risks are mitigated by regular review of the claims reserves as well as risk management strategies and the use of reinsurance arrangements.

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.

(i) Pricing risk:

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.

In Ontario, automobile insurance premium rates, are regulated by and subject to approval by the Financial Services Regulatory Authority of Ontario. Regulation of premium rates is based on claims and other costs of providing insurance coverage, as well as projected profit margins.

Regulatory approvals can limit or reduce premium rates that can be charged, or delay the implementation of changes in rates. Accordingly, a significant portion of the Company's revenue is subject to regulatory approval.

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, 2022 and 2021.

17. Financial risk management (continued):

(a) Underwriting risk (continued):

(ii) Reserving risk (continued):

Reserving risk arises due to the length of time between the occurrence of a loss, the reporting of the loss to the insurer and ultimate resolution of the claim.

Claim provisions are expectations of the ultimate cost of resolution and administration of claims based on an assessment of facts and circumstances then known, a review of historical settlement patterns, estimates of trends in claims severity and frequency, legal theories of liability and other factors. Variables in the reserve estimation process can be affected by receipt of additional claim information and other internal and external factors, such as changes in claims handling procedures, economic inflation, legal and judicial trends, legislative changes, inclusion of exposures not contemplated at the time of policy inception and significant changes in severity or frequency of claims relative to historical trends. Due to the amount of time between the occurrence of a loss, the actual reporting of the loss and the ultimate payment, provisions may ultimately develop differently from the actuarial assumptions made when initially estimating the provision for claims.

Reserving risk is reduced through various internal and external control processes including minimum reserve standards, quality assurance reviews, monthly review, and legal counsel.

(iii) Catastrophic loss risk:

Catastrophic loss risk is the exposure to losses resulting from multiple claims arising out of a single catastrophic event. Property and casualty insurance companies experience large losses arising from man-made or natural catastrophes that can result in significant underwriting losses. Catastrophes can cause losses in a variety of property and casualty lines and may have continuing effects which could delay or hamper efforts to timely and accurately assess the full extent of the damage they cause. The incidence and severity of catastrophes are inherently unpredictable.

The Company evaluates catastrophic events and assesses the probability of occurrence and magnitude of catastrophic events through various modeling techniques and through the aggregation of limits exposed. The Company’s exposure to catastrophic loss is also managed through geographic and product diversification as well as through the use of reinsurance.

The Company reinsures claims from a single catastrophe when the sum exceeds $1,500,000 (2021 - $1,500,000) which amounts to 2.09% (2021 – 2.15%) of the Company’s surplus. Reinsurance coverage risk arises because reinsurance terms, conditions and/or pricing may change on renewal, particularly following catastrophes.

17. Financial risk management (continued):

(a) Underwriting risk (continued):

(iv) Reinsurance risk:

The Company relies on reinsurance to manage its underwriting risk. However, reinsurance does not release the Company from its primary commitments to its policyholders and, accordingly, the Company is exposed to the credit risk associated with the amounts ceded to its reinsurer.

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

The Company works with a well-established reinsurer that have expertise in their field as well as an understanding of the business. Management reviews reinsurance programs to manage cost-efficiency and reduce the likelihood of coverage gaps.

(v) Sensitivity analysis:

The Company has exposures to risks in each class of business that may develop and that could have a material impact on the Company’s financial position. 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. 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.

17. Financial risk management (continued):

(a) Underwriting risk (continued):

(v) Sensitivity analysis (continued)

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

	2022	2021
5% increase in		
Loss ratios		
Gross	$ 26,353,182	$ 22,470,345
Net	23,500,494	20,170,492
5% decrease in		
Loss ratios		
Gross	26,353,182	22,480,345
Net	23,500,494	20,170,492

(b) Credit risk:

Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and causes financial loss to another party. The Company is exposed to credit risk principally through its investment assets, balances receivable from policyholders, and balances recoverable from reinsurers on ceded losses.

The Company's Investment Policy Statement requires the Company to invest in bonds of high credit quality and to limit exposure with respect to any one issuer.

(i) Aggregated credit risk:

The total credit risk exposure is:

	2022	2021
Collectivfide Insurance Group Inc. bond	$ 350,000	$ 350,000
Investment income accrued	2,647	2,647
Due from policyholders	21,382,916	19,999,013
Due from the Auto Facility Association	1,390,074	1,422,503
Other receivables	669	3,976
Reinsurance recoverable on unpaid claims and adjustment expenses	14,012,190	15,685,306
	$ 37,138,496	$ 37,463,445

17. Financial risk management (continued):

(b) Credit risk (continued):

(ii) Invested assets:

The Company is exposed to credit risk relating to its bond holdings in its investment portfolio. 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. All fixed income portfolios are measured for performance on a quarterly basis 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 polices, procedures and methods used to measure the credit risk.

(iii) Reinsurance recoverable and receivable:

Credit exposure on the Company's reinsurance recoverable and receivable balances exists at December 31, 2022 to the extent that any reinsurer may not be able or willing to reimburse the Company under the terms of the relevant reinsurance arrangements.

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.

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

In 2022, the Company has reinsurance recoverable balances of $14,012,190 (2021 - $15,685,306). The receivable balance at December 31, 2022 is $204,300 (2021 - $1,153,011).

17. Financial risk management (continued):

(c) Liquidity risk:

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

The Company's investment policy requires a minimum of 2.5% up to a maximum of 10% of the Company's portfolio be held in cash and short-term investments, which mitigates liquidity risk. Short-term investments include treasury bills, commercial paper and term deposits with an original maturity of less than one year. The Company holds a portion of assets in liquid securities. At December 31, 2022, the Company has $9,158,170 (2021 - $4,489,148) of cash and cash equivalents.

(d) Market risk:

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as interest rates, equity market fluctuations, foreign currency exchange rates, and other relevant market rate or price changes. Market risk is directly influenced by the volatility and liquidity in the markets in which the related underlying assets are traded.

The Company's investment policy operates within the guidelines of the Insurance Act. An investment policy is in place and its application is monitored by the Investment Committee and the Board of Directors. Diversification techniques are utilized to minimize risk.

Below is a discussion of the Company's primary market risk exposures and how those exposures are currently managed.

(i) Interest rate risk:

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Company is exposed to interest rate risk through its interest-bearing investments.

Typically, investment income will be reduced during sustained periods of low interest rates but this will also create unrealized gains within the fixed income pooled funds. It will also create realized gains to be recognized in net income to the extent any fixed income pooled funds are sold during the period. The reverse is true during a sustained period of increasing interest rates.

17. Financial risk management (continued):

(d) Market risk (continued):

(i) Interest rate risk (continued):

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 profit or loss.

As at December 31, 2022, a 1% move in interest rates, with all other variables held constant, could impact the market value of bonds by $2,225,792 (2021 - $1,482,263). These changes would be recognized in comprehensive income.

(ii) Equity market risk:

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. Economic trends, the political environment and other factors can positively and adversely impact the equity markets and consequently the value of equity investments the Company holds. The Company is exposed to equity risk, through its portfolio of stocks in listed companies. 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 listed equities and income of $2,170,236 (2021 - $2,424,070).

The Company’s investment policy limits investment in common shares to a maximum of 26% of the market value of the portfolio.

Equities are monitored by the Investment Committee and the Board of Directors and holdings are adjusted following each quarter when the investments are offside of the investment policy.

17. Financial risk management (continued):

(d) Market risk (continued):

(iii) Currency risk:

Currency risk is the risk that the value of a financial instrument will fluctuate due to change in foreign exchange rates. The Company's, currency risk is related to stock holdings which are limited to foreign equities in sectors which are not readily available in Canada. The Company limits its holdings in foreign equity to 16% of the total investment portfolio in accordance with its investment policy. Foreign currency changes are monitored by the Investment Committee and the Board of Directors and holdings are adjusted when offside of the investment policy.

18. Capital management:

For the purpose of capital management, the Company has defined capital as unappropriated policyholers' 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.

As a provincially regulated property and casualty insurance company, the Company's capital position is monitored by the Financial Services Regulatory Authority of Ontario ("FSRA"). FSRA evaluates the Company's financial strength through the Minimum Capital Test ("MCT") which measures available capital against required risk-weighted capital. The regulators require 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 that are dependent on the risks associated with the Company's assets. Additionally, an interest rate risk margin is included in the MCT by assessing the sensitivity of the Company's interest sensitive assets and liabilities to changes in interest rates. The regulators indicate that the Company should produce a minimum MCT of 150%. During the year, the Company has consistently exceeded this minimum in its quarterly filings. The regulator has the authority to request more extensive reporting and can place restrictions on the Company's operations if the Company falls below this requirement and deemed necessary.

Reinsurance is also used to protect the Company's capital level from large losses, including those of a catastrophic nature, which could have a detrimental impact on capital. The Company has adopted policies that specify tolerance for financial risk retention. Once the retention limits are reached, reinsurance is utilized to cover the excess risk.

19. Recognizing Our Opportunity to Support ("ROOTS"):

The Company has decided to appropriate a portion of their surplus annually to Recognizing Our Opportunity to Support ("ROOTS"). The amount designated to appropriated policyholders' surplus annually is to be 7.5% of the current year investment income, with a minimum of $150,000 to a maximum of $300,000 for expenditure in the following year. If the maximum threshold is not met based on 7.5% of investment income, and the company's Combined Ratio (net incurred claims, commissions and general expenses to net underwriting revenue) is less than 90%, the appropriated portion will be increased to $300,000 maximum as long as the additional amount does not increase the Combined Ratio above 90%. The donations paid and committed during the year are expensed in the consolidated financial statement of comprehensive income. The ROOTS fund will be used to support not-for-profit organizations that provide growth opportunities for children, advance health care efforts for citizens and promote safety in everyday living within the communities where Company's policyholders, staff and brokers reside. The Company expects to continue to provide additional contributions to this fund.

	2022	2021
Appropriated Surplus, beginning of the year	$ 312,428	$ 257,343
Amounts designated to appropriated policyholders' surplus for future use	300,000	300,000
Donations paid and committed	(284,910)	(244,915)
Appropriated Surplus, end of the year	$ 327,518	$ 312,428

20. Acquisition of non-controlling interest:

On February 11, 2022, the Company acquired the remaining 50% interest in Morris-Wagner Insurance Agency Ltd. The Company maintained control before and after the transaction becoming the sole owner of the subsidiary. The carrying amount of the non-controlling interest acquired was $522,772 as of the settlement date.

21. 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, and assumptions of 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.

The Company is a member of the Farm Mutual Re ("the Plan"), which is a general reinsurer that shares in the insurance risks originally accepted by member insurance companies. As a member of the Plan, the Company may be required to contribute additional capital to the Plan in the form of subordinated debt should the Plan's capital fall below a prescribed minimum.

22. Prior year comparatives:

Certain comparative information has been reclassified to conform with the financial statement presentation adopted in the current year.