KENT & ESSEX MUTUAL INSURANCE COMPANY

FINANCIAL STATEMENTS

DECEMBER 31, 2022

KENT & ESSEX MUTUAL INSURANCE COMPANY

DECEMBER 31, 2022

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Independent Auditor's Report

To the Policyholders of Kent & Essex Mutual Insurance Company:

Opinion

We have audited the financial statements of Kent & Essex Mutual Insurance Company (the "Company"), which comprise the statement of financial position as at December 31, 2022, and the statements of comprehensive income, policyholders' surplus, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2022, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Other Matter

The financial statements of the Kent & Essex Mutual Insurance Company for the year ended December 31, 2021 were audited by Bailey Kearney Ferguson LLP of Wallaceburg, Ontario, Canada, prior to its merger with MNP LLP. Bailey Kearney Ferguson LLP expressed an unqualified opinion on the December 31, 2021 financial statements.

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 these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

MNP LLP

Wallaceburg, Ontario — Chartered Professional Accountants

February 23, 2023 — Licensed Public Accountants

KENT & ESSEX MUTUAL INSURANCE COMPANY
(Incorporated under the Laws of Ontario)

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2022

ASSETS

		2022		2021
Cash	$	**13,028,793**	$	7,954,807
Investments (Note 4)		**84,762,726**		92,538,277
Investment income accrued		**550,608**		453,107
Due from reinsurer (Note 3)		**1,376**		22,564
Due from brokers and policyholders		**12,008,505**		11,177,563
Reinsurer's share of provision for unpaid claims (Note 3)		**6,601,748**		9,834,401
Income taxes recoverable		**1,550,301**		-
Deferred policy acquisition expenses (Note 3)		**4,311,060**		3,979,255
Other assets		**604,606**		498,905
Property, plant and equipment (Note 12)		**5,714,597**		3,051,652
Deferred income taxes		**302,000**		222,000
	$	**129,436,320**	$	129,732,531

LIABILITIES

		2022		2021
Accounts payable and accrued liabilities	$	**2,262,414**	$	2,248,126
Due to reinsurer		**446,552**		271,759
Refund to policyholders		-		1,300,000
Income taxes payable		-		700,426
Post employment benefits		**322,106**		393,608
Unearned premiums (Note 3)		**25,141,946**		23,450,199
Provision for unpaid claims (Note 3)		**37,621,452**		35,390,821
		65,794,470		63,754,939

POLICYHOLDERS' SURPLUS

POLICYHOLDERS' SURPLUS		**63,641,850**		65,977,592
	$	**129,436,320**	$	129,732,531

APPROVED ON BEHALF OF THE BOARD

_______________________, **1st Vice Chair**

Jennifer Douglas
_______________________, **2nd Vice Chair**

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

KENT & ESSEX MUTUAL INSURANCE COMPANY

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2022

	2022	2021
GROSS INSURANCE PREMIUMS WRITTEN	**$ 51,242,687**	$ 47,758,919
REINSURANCE PREMIUMS	**6,839,955**	6,038,366
NET PREMIUMS WRITTEN	**44,402,732**	41,720,553
INCREASE IN PROVISION FOR UNEARNED PREMIUMS	**1,691,747**	882,430
NET PREMIUMS EARNED	**42,710,985**	40,838,123
SERVICE CHARGES	**341,165**	326,509
TOTAL UNDERWRITING REVENUE	**43,052,150**	41,164,632
DIRECT LOSSES INCURRED		
Gross claims and adjustment expenses	**28,125,287**	21,784,675
Less reinsurer's share of claims and adjustment expenses	**(1,461,247)**	(1,822,987)
	26,664,040	19,961,688
UNDERWRITING INCOME BEFORE EXPENSES	**16,388,110**	21,202,944
EXPENSES		
Fees, commissions and other acquisition expenses (Note 7)	**9,726,265**	9,134,028
Other operating and administrative expenses (Note 8)	**5,277,254**	4,522,277
	15,003,519	13,656,305
UNDERWRITING INCOME	**1,384,591**	7,546,639
OTHER INCOME (EXPENSE)		
Investment and other income (expense) (Note 5)	**(4,820,333)**	4,594,640
Refund to policyholders	**-**	(1,200,000)
	(4,820,333)	3,394,640
INCOME (LOSS) BEFORE INCOME TAXES	**(3,435,742)**	10,941,279
PROVISION FOR (RECOVERY OF) INCOME TAXES (Note 10)	**(1,100,000)**	2,740,000
COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	**$ (2,335,742)**	$ 8,201,279

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

STATEMENT OF POLICYHOLDERS' SURPLUS

FOR THE YEAR ENDED DECEMBER 31, 2022

	2022	2021
BALANCE, beginning of the year	**$ 65,977,592**	$ 57,776,313
Comprehensive income (loss) for the year	**(2,335,742)**	8,201,279
BALANCE, end of the year	**$ 63,641,850**	$ 65,977,592

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2022

	2022	2021
OPERATING ACTIVITIES		
Comprehensive income (loss) for the year	**$ (2,335,742)**	$ 8,201,279
Items not requiring cash		
Depreciation	**199,170**	199,247
Gain on disposition of property, plant and equipment	**(177)**	(2,576)
Provision for (recovery of) income taxes	**(1,100,000)**	2,740,000
Realized gain on disposal of investments	**(760,950)**	(2,665,114)
Interest and dividend income	**(2,872,786)**	(2,621,608)
Unrealized loss on investments	**8,289,251**	428,048
	1,418,766	6,279,276
Net change in non-cash working capital balances		
Due from reinsurer	**21,188**	111,483
Due from brokers and policyholders	**(830,942)**	(9,814)
Reinsurer's share of provisions for unpaid claims	**3,232,653**	492,316
Deferred policy acquisition expenses	**(331,805)**	(184,113)
Other assets	**(105,701)**	(170,269)
Accounts payable and accrued liabilities	**14,288**	313,539
Due to reinsurer	**174,793**	(277,535)
Post employment benefits	**(71,502)**	5,217
Unearned premiums	**1,691,747**	882,430
Provision for unpaid claims	**2,230,631**	(4,952,090)
	6,025,350	(3,788,836)
Cash flows related to income taxes		
Income taxes paid	**(1,230,726)**	(2,092,526)
Net cash provided by operating activities	**6,213,390**	397,914
INVESTING ACTIVITIES		
Proceeds from sale of investments	**12,744,274**	17,874,031
Purchase of investments	**(12,497,024)**	(26,324,844)
Additions to property, plant and equipment	**(2,862,116)**	(139,024)
Proceeds from disposition of property, plant and equipment	**177**	3,805
Net cash used in investing activities	**(2,614,689)**	(8,586,032)
FINANCING ACTIVITIES		
Refund to policyholders	**(1,300,000)**	(1,303,000)
Interest and dividends received	**2,775,285**	2,597,039
Net cash provided by financing activities	**1,475,285**	1,294,039
INCREASE (DECREASE), during the year	**5,073,986**	(6,894,079)
CASH, beginning of the year	**7,954,807**	14,848,886
CASH, end of the year	**$ 13,028,793**	$ 7,954,807

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

1. CORPORATE INFORMATION

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

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

2. BASIS OF PRESENTATION

(a) STATEMENT OF COMPLIANCE

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

These financial statements have been authorized for issue by the Board of Directors on February 21, 2023.

(b) BASIS OF MEASUREMENT

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

The Company's functional and presentation currency is the Canadian dollar.

(c) CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving critical judgments and estimates in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amount of assets and liabilities recognized in the financial statements within the next financial year are:

The calculation of unpaid claims and the related reinsurer's share, including the determination of the initial claim liability, the development of claims, the estimate of time until ultimate settlement and the performance of a liability adequacy test (Note 3); and

The determination of the recoverability of deferred policy acquisition expenses; and

The classification of financial assets at fair value through profit or loss, which includes assessing the business model within which the assets are held and whether the contractual terms of the assets are solely payments of principal and interest on the principal amount outstanding (Note 4).

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

3. INSURANCE CONTRACTS

The Company accounts for insurance contracts in accordance with IFRS 4 and has continued to apply the accounting policies it applied in accordance with pre-changeover Canadian generally accepted accounting principles.

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

(a) PREMIUMS AND UNEARNED PREMIUMS

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

The Company earns premium income evenly over the term of the insurance policy generally using the pro rata method. The portion of the premium related to the unexpired portion of the policy at the end of the fiscal year is reflected in unearned premiums. Changes in unearned premiums recorded in the statement of financial position for the years ended December 31, 2022 and 2021 and their impact on net premiums earned for the two years follows:

	2022	2021
Balance, beginning of the year	**$ 23,450,199**	$ 22,567,769
Premiums written	**51,242,687**	47,758,919
Premiums earned	**(49,550,940)**	(46,876,489)
Balance, end of the year	**$ 25,141,946**	$ 23,450,199

Pricing of property and liability policies are based on assumptions in regard to trends and past experience, in an attempt to correctly match policy revenue with exposed risk. Automobile premiums are subject to approval by the Financial Services Regulatory Authority of Ontario and therefore may result in a delay in adjusting the pricing to exposed risk.

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

Amounts due from brokers and policyholders are measured at amortized cost less any impairment losses. These amounts are short-term in nature consisting of a large number of policyholders, and are not subject to material credit risk. Regular review of amounts outstanding is performed to ensure credit worthiness.

3. INSURANCE CONTRACTS (continued)

(b) DEFERRED POLICY ACQUISITION EXPENSES

Acquisition expenses are comprised of brokers' commissions for acquiring and renewing policies. These expenses are deferred and amortized over the terms of the related policies to the extent that they are considered to be recoverable from unearned premiums, after considering the related anticipated claims and expenses. Changes in deferred policy acquisition expenses recorded in the statement of financial position for the years ended December 31, 2022 and 2021 and their impact on fees, commissions and other acquisition expenses for the two years follows:

	2022	2021
Balance, beginning of the year	**$ 3,979,255**	$ 3,795,142
Acquisition expenses incurred	**10,058,070**	9,318,141
Expensed during the year	**(9,726,265)**	(9,134,028)
Balance, end of the year	**$ 4,311,060**	$ 3,979,255

(c) PROVISION FOR UNPAID CLAIMS AND ADJUSTMENT EXPENSES

Individual loss estimates are provided on each claim reported. In addition, provisions are made for adjustment expenses, claims development, changes in reported claims and for claims incurred but not reported, based on past experience and business in force. The estimates are regularly reviewed and updated, and any resulting adjustments are included in comprehensive income. The Company annually utilizes the expertise of an independent actuary to review the adequacy of its provisions and in particular its provision for claims incurred but not reported.

Claim liabilities are carried on an undiscounted basis.

3. INSURANCE CONTRACTS (continued)

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

	December 31, 2022		
	Gross	**Reinsurance**	**Net**
Outstanding claims provision			
Long settlement term	**$ 18,256,739**	**$ 1,278,563**	**$ 16,978,176**
Short settlement term	**8,398,118**	**563,185**	**7,834,933**
Facility Association and other residual pools	**1,026,595**	**-**	**1,026,595**
	27,681,452	**1,841,748**	**25,839,704**
Provision for claims incurred but not reported	**9,940,000**	**4,760,000**	**5,180,000**
	$ 37,621,452	**$ 6,601,748**	**$ 31,019,704**

	December 31, 2021		
	Gross	Reinsurance	Net
Outstanding claims provision			
Long settlement term	$ 18,287,472	$ 3,569,429	$ 14,718,043
Short settlement term	5,829,197	1,454,972	4,374,225
Facility Association and other residual pools	994,152	-	994,152
	25,110,821	5,024,401	20,086,420
Provision for claims incurred but not reported	10,280,000	4,810,000	5,470,000
	$ 35,390,821	$ 9,834,401	$ 25,556,420

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

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

3. INSURANCE CONTRACTS (continued)

Changes in claim liabilities recorded in the statement of financial position for the years ended December 31, 2022 and 2021 and their impact on claims and adjustment expenses for the two years follows:

	2022	2021
Balance - beginning of the year	**$ 35,390,821**	$ 40,342,911
Decrease in estimated losses and expenses, for losses occurring in prior years	**(522,546)**	(3,506,009)
Provision for losses and expenses on claims occurring in the current year	**28,640,412**	24,926,453
Payment on claims:		
Current year	**(12,668,928)**	(12,872,430)
Prior years	**(13,218,307)**	(13,500,104)
Balance, end of the year	**$ 37,621,452**	$ 35,390,821

Claim development

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

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

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

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

The tables that follow present the development of claims payments and the estimated ultimate cost of claims for the claim year 2013 to 2022. The upper half of the tables shows the cumulative amounts paid or estimated to be paid during successive years related to each claim year. The original estimates will be increased or decreased, as more information becomes known about the original claims and overall claim frequency and severity.

3. INSURANCE CONTRACTS (continued)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
Gross estimate of cumulative claims cost											
At the end year of claim	$ 16,897,872	$ 22,404,556	$ 20,465,886	$ 27,499,853	$ 32,306,466	$ 25,721,786	$ 31,349,163	$ 25,606,796	$ 24,926,453	$ 28,640,412	
One year later	13,144,024	18,396,300	19,864,844	23,340,100	29,610,604	24,257,521	32,682,082	23,358,160	26,352,475		
Two years later	13,444,184	17,074,026	18,095,411	21,752,013	29,036,285	25,547,239	32,875,117	22,530,965			
Three years later	12,429,588	16,758,864	16,945,849	21,104,507	28,804,959	24,993,593	32,936,127				
Four years later	12,825,071	16,649,254	15,996,463	20,187,451	28,354,816	23,176,844					
Five years later	12,967,795	16,393,590	15,661,470	20,545,067	29,071,313						
Six years later	12,705,676	15,928,212	15,333,253	20,635,023							
Seven years later	12,585,558	15,772,138	15,201,410								
Eight years later	12,585,558	15,746,014									
Nine years later	12,583,788										
Current estimate of cumulative claims cost	12,583,788	15,746,014	15,201,410	20,635,023	29,071,313	23,176,844	32,936,127	22,530,965	26,352,475	28,640,412	226,874,371
Cumulative payments	(12,582,558)	(15,379,822)	(15,190,336)	(20,222,581)	(27,438,458)	(20,252,846)	(29,227,676)	(18,681,207)	(17,608,507)	(12,668,928)	(189,252,919)
Outstanding claims	1,230	366,192	11,074	412,442	1,632,855	2,923,998	3,708,451	3,849,758	8,743,968	15,971,484	37,621,452
Outstanding claims 2012 and prior											-
Total gross outstanding claims											**$ 37,621,452**

3. INSURANCE CONTRACTS (continued)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
Net estimate of cumulative claims cost											
At the end year of claim	$ 15,410,153	$ 19,439,872	$ 17,384,111	$ 23,923,756	$ 26,980,997	$ 23,787,252	$ 25,924,826	$ 23,898,952	$ 22,843,889	$ 26,819,754	
One year later	12,507,364	16,927,704	16,497,807	23,278,501	25,125,570	22,807,506	25,750,154	21,641,938	23,357,589		
Two years later	12,382,134	16,146,742	18,766,604	21,709,330	24,841,131	23,837,316	23,679,924	21,265,456			
Three years later	11,448,550	17,102,505	17,800,550	21,335,658	24,903,041	25,473,885	24,259,104				
Four years later	12,576,213	16,758,202	17,378,461	20,534,318	24,552,234	24,376,515					
Five years later	12,875,231	16,734,272	17,113,620	17,410,430	24,682,490						
Six years later	12,695,383	16,303,658	15,840,417	17,579,969							
Seven years later	12,657,120	13,223,760	15,765,991								
Eight years later	8,454,750	13,207,810									
Nine years later	8,455,320										
Current estimate of cumulative claims cost	8,455,320	13,207,810	15,765,991	17,579,969	24,682,490	24,376,515	24,259,104	21,265,456	23,357,589	26,819,754	199,769,998
Cumulative payments	(8,453,759)	(12,831,716)	(15,750,384)	(17,212,808)	(23,758,202)	(21,818,580)	(21,379,235)	(18,161,877)	(16,714,805)	(12,668,928)	(168,750,294)
Outstanding claims	1,561	376,094	15,607	367,161	924,288	2,557,935	2,879,869	3,103,579	6,642,784	14,150,826	31,019,704
Outstanding claims 2012 and prior											-
Total net outstanding claims											**$ 31,019,704**

3. INSURANCE CONTRACTS (continued)

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

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

	Property claims		**Auto claims**		**Liability Claims**	
	2022	2021	**2022**	2021	**2022**	2021
5% increase in loss ratios						
Gross	**$(1,340,772)**	$(1,200,848)	**$ (992,263)**	$ (982,389)	**$ (229,100)**	$ (204,709)
Net	**$(1,053,190)**	$ (947,762)	**$ (764,224)**	$ (766,274)	**$ (180,709)**	$ (163,389)
5% decrease in loss ratios						
Gross	**$ 1,340,772**	$ 1,200,848	**$ 992,263**	$ 982,389	**$ 229,100**	$ 204,709
Net	**$ 1,053,190**	$ 947,762	**$ 764,224**	$ 766,274	**$ 180,709**	$ 163,389

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

(d) LIABILITY ADEQUACY TEST

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

3. INSURANCE CONTRACTS (continued)

(e) REINSURANCE

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 when due.

The Company follows a policy of underwriting and reinsuring contracts of insurance which limit the liability of the Company to an amount on any one claim of $700,000 (2021 - $700,000) in the event of a property claim, $800,000 (2021 - $800,000) in the event of an automobile claim, $700,000 (2021 - $700,000) in the event of a liability claim and $60,000 (2021 - $60,000) in the event of a farmers' accident claim. The Company also obtained reinsurance which limits the Company's liability to $1,750,000 (2021 - $1,750,000) in the event of a series of claims arising out of a single occurrence. In addition, the Company has obtained stop loss reinsurance which limits the liability of all claims in a specific year to 70% of gross net earned premiums.

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

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

Expected reinsurance recoveries on unpaid claims and adjustment expenses are recognized as assets at the same time and using principles consistent with the Company's method for establishing the related liability. Changes in due from reinsurer recorded in the statement of financial position for the years ended December 31, 2022 and 2021 follows:

Due from Reinsurer

	2022	2021
Balance, beginning of the year	**$ 22,564**	$ 134,047
Submitted to reinsurer	**4,693,899**	2,315,303
Received from reinsurer	**(4,715,087)**	(2,426,786)
Balance, end of the year	**$ 1,376**	$ 22,564

3. INSURANCE CONTRACTS (continued)

Changes in the reinsurer's share of provision for unpaid claims recorded in the statement of financial position for the years ended December 31, 2022 and 2021 follows:

Reinsurer's share of provision for unpaid claims

	2022	2021
Balance, beginning of the year	**$ 9,834,401**	$ 10,326,717
New claims reserve	**433,005**	838,723
Change in prior years reserve	**1,028,241**	984,264
Submitted to reinsurer	**(4,693,899)**	(2,315,303)
Balance, end of the year	**$ 6,601,748**	$ 9,834,401

4. INVESTMENTS

(a) RECOGNITION AND INITIAL MEASUREMENT

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

(b) CLASSIFICATION AND SUBSEQUENT MEASUREMENT

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

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

The Company classifies its loan receivable at amortized cost as the investment is held to collect contractual cash flows, and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

(c) DERECOGNITION

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

4. INVESTMENTS (continued)

(d) INVESTMENT EARNINGS

The Company recognizes interest as earned, dividends when declared, realized gains and losses on investments when the investment has been sold and unrealized gains and losses based on changes in the market value of the investments held at the year-end date. Realized gains and losses represent the difference between the amounts received through the sale of investments and their respective cost base.

Direct investment expenses, such as external custodial, investment management and other investment expenses are recorded against investment earnings.

(e) RISKS

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

Fair value through profit or loss

	December 31, 2022		December 31, 2021	
	Cost	**Fair Value**	Cost	Fair Value
Bonds issued by				
Federal	**$ 2,900,903**	**$ 2,593,799**	$ 2,900,903	$ 2,876,572
Provincial	**17,198,057**	**15,197,456**	18,226,407	18,071,702
Municipal	**2,745,883**	**2,368,310**	2,766,581	2,666,112
Corporate				
A or better	**33,244,515**	**31,921,592**	28,283,857	28,625,013
BBB	**8,643,205**	**7,655,207**	9,165,425	9,095,970
	64,732,563	**59,736,364**	61,343,173	61,335,369
Structured notes				
Principal protected notes	**900,000**	**736,605**	600,000	589,500
Equity investments				
Canadian common	**12,281,661**	**16,039,421**	10,729,820	16,343,021
Canadian preferred	**3,108,105**	**2,609,776**	2,983,105	3,194,662
Foreign	**3,990,753**	**5,561,452**	3,978,012	6,126,676
	19,380,519	**24,210,649**	17,690,937	25,664,359
Other investments				
Fire Mutuals Guarantee Fund	**79,108**	**79,108**	83,460	83,460
	85,092,190	**84,762,726**	79,717,570	87,672,688
Amortized cost				
Loans receivable	**-**	**-**	4,865,589	4,865,589
Total investments	**$ 85,092,190**	**$ 84,762,726**	$ 84,583,159	$ 92,538,277

4. INVESTMENTS (continued)

Credit Risk

The Company is exposed to credit risk relating to its debt 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. The bond portfolio includes 87% (2021 - 85%) of bonds rated A or better. The Company's investment policy limits investment in bonds and debentures of the various ratings to limits ranging from 65% to 90% of the Company's portfolio. Funds should be invested in bonds and debentures of Federal, Provincial or Municipal Government and corporations rated BBB or better. The Company's investment policy also permits investment in structured notes to a maximum of 2% of the portfolio. The portfolio includes structured notes at a level of 1% (2021 - 1%). 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 policies procedures and methods used to measure the risk.

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 that 0% to 20% of the Company's portfolio be held in cash and short-term investments. Short-term investments include treasury bills, commercial paper and term deposits with an original maturity of less than one year.

Maturity profile of bonds held is as follows:

	Within 1 Year	2 to 5 years	6 to 10 years	Over 10 years	Fair value
December 31, 2022	**$ 5,773,587**	**$ 33,211,317**	**$ 20,751,460**	**$ -**	**$ 59,736,364**
Percent of total	**10 %**	**56 %**	**34 %**	**- %**	
December 31, 2021	$ 4,490,199	$ 26,395,966	$ 30,449,204	$ -	$ 61,335,369
Percent of total	7 %	43 %	50 %	- %	

4. INVESTMENTS (continued)

Loans receivable consisted of amounts advanced to parties in the insurance industry. All amounts were repaid in the current year.

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

Market Risk

Market factors include three types of risk: currency risk, interest rate risk, and equity risk.

The Company's investment policy operates within the guidelines of the Insurance Act. An investment policy is in place and its application is monitored by the Board of Directors. Diversification techniques are utilized to minimize risk. The policy limits the investment in any one corporate issuer to a maximum of 10% (except government sponsored bonds) of the Company's portfolio.

The Company's currency risk is related to stock holdings which are limited to the United States and internationally in sectors which are not readily available in Canada in an effort to provide diversification to the portfolio. The Company limits its holding in foreign equity to 13% of the total investment portfolio in accordance with its investment policy. Foreign currency changes are monitored by the Board of Directors and holdings are adjusted when offside of the investment policy.

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

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

At December 31, 2022, a 1% move in interest rates, with all other variables held constant, could impact the market value of bonds by $2,285,093 (2021 - $2,782,247). These changes would be recognized in comprehensive income.

4. INVESTMENTS (continued)

The Company is exposed to equity risk through its portfolio of Canadian and Foreign stocks. At December 31, 2022 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 equity portfolio of $2,124,015 (2021 - $2,474,034). These changes would be recognized in comprehensive income.

The Company's investment policy limits investment in preferred shares to 7% and common shares to a maximum of 30% of the market value of the investment portfolio. The total investment in preferred and common shares cannot exceed 25% of the total assets of the Company. For the year ended December 31, 2022 , the Company had 3% (2021 - 3%) of the portfolio in preferred shares. For the year ended December 31, 2022, the Company had 25% (2021 - 24%) of the portfolio in common shares.

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

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

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities using the last bid price;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1	Level 2	Level 3	Total
December 31, 2022				
Bonds	**$ -**	**$ 60,472,969**	**$ -**	**$ 60,472,969**
Equities	**24,210,649**	**-**	**-**	**24,210,649**
Other investments	**-**	**79,108**	**-**	**79,108**
Total	**$ 24,210,649**	**$ 60,552,077**	**$ -**	**$ 84,762,726**
December 31, 2021				
Bonds	-	61,924,869	-	61,924,869
Equities	25,664,359	-	-	25,664,359
Other investments	-	83,460	-	83,460
Total	$ 25,664,359	$ 62,008,329	$ -	$ 87,672,688

There were no transfers between Level 1 and Level 2 for the years ended December 31, 2022 and 2021.

5. INVESTMENT AND OTHER INCOME (EXPENSE)

	2022	2021
Interest income	**$ 2,040,724**	$ 1,876,608
Dividend income	**832,062**	745,000
Investment expenses	**(215,821)**	(244,245)
Net realized gains on disposal of investments	**761,127**	2,667,690
Change in unrealized losses on investments	**(8,289,251)**	(428,048)
Foreign exchange	**50,826**	(22,365)
	$ (4,820,333)	$ 4,594,640

6. CAPITAL MANAGEMENT

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

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

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

7. FEES, COMMISSIONS AND OTHER ACQUISITION EXPENSES

	2022	2021
Commissions	**$ 9,161,358**	$ 8,663,369
Other	**564,907**	470,659
	$ 9,726,265	$ 9,134,028

8. OTHER OPERATING AND ADMINISTRATIVE EXPENSES

	2022	2021
Computer costs	$ 979,990	$ 742,821
Licenses, fees and dues	224,032	219,896
Depreciation	118,147	117,761
Property taxes, repairs and maintenance	154,531	124,848
Utilities	25,705	15,521
Postage and office supplies	102,993	92,763
Professional fees	102,578	124,216
Salaries, benefits and directors fees (Note 9)	3,284,715	2,916,233
Other	284,563	168,218
	$ 5,277,254	$ 4,522,277

9. SALARIES, BENEFITS AND DIRECTORS FEES

	2022	2021
Underwriter salaries and benefits	$ 2,414,810	$ 2,328,462
Other salaries, benefits and directors fees	869,905	587,771
	$ 3,284,715	$ 2,916,233

Included in claims expenses were salary and benefits costs of $1,984,484 (2021 - $1,685,774).

10. INCOME TAXES

Income tax expense is comprised of current and deferred tax. Current and deferred tax are recognized in comprehensive income.

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

	2022	2021
Current tax expense		
Based on current year taxable income (loss)	**$ (1,020,000)**	$ 2,657,000
Deferred tax expense		
Origination and reversal of temporary differences	**(80,000)**	83,000
Total provision for (recovery of) income taxes	**$ (1,100,000)**	$ 2,740,000

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 26.5% (2021 - 26.5%) are as follows:

	2022	2021
Income (loss) before income taxes	**$ (3,435,742)**	$ 10,941,279
Expected taxes based on the statutory tax rate	**(910,000)**	2,900,000
Deferred portion of claims liabilities	**72,000**	(59,000)
Other non deductible expenses	**10,000**	1,000
Adjustments related to investments	**(195,000)**	(170,000)
Capital cost allowance in excess of depreciation	**3,000**	(15,000)
Total current tax expense	**$ (1,020,000)**	$ 2,657,000

11. 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 settlement amount is removed from the provision for unpaid claims as the Company's liability to its claimants is substantially transferred. However, the Company remains exposed to the credit risk that life insurers fail to fulfill their obligations.

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

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

12. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is initially recorded at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses, with the exception of land which is not depreciated. Depreciation is recognized in comprehensive income and is provided on a straight-line basis over the estimated useful life of the assets.

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

		December 31, 2022		
	Useful Life	**Cost**	**Accumulated Depreciation**	**Net Book Value**
Land and land improvements	**N/A**	**$ 367,121**	**$ -**	**$ 367,121**
Buildings	**50 years**	**3,217,847**	**915,451**	**2,302,396**
Computer hardware	**3 years**	**800,576**	**733,824**	**66,752**
Office furniture and equipment	**15 & 5 years**	**560,481**	**403,425**	**157,056**
Computer software	**5 years**	**2,791,796**	**-**	**2,791,796**
Signs	**25 years**	**50,723**	**30,434**	**20,289**
Parking lot	**20 years**	**36,750**	**27,563**	**9,187**
		$ 7,825,294	**$ 2,110,697**	**$ 5,714,597**

		December 31, 2021		
	Useful Life	Cost	Accumulated Depreciation	Net Book Value
Land and land improvements	N/A	$ 367,121	$ -	$ 367,121
Buildings	50 years	3,217,847	851,094	2,366,753
Computer hardware	3 years	771,838	644,888	126,950
Office furniture and equipment	15 & 5 years	551,528	394,043	157,485
Signs	25 years	50,723	28,405	22,318
Parking lot	20 years	36,750	25,725	11,025
		$ 4,995,807	$ 1,944,155	$ 3,051,652

Computer software consists of capital expenditures related to a new policy administration system for the Company. The Company expects this new system to be operational in fiscal 2023. The amounts capitalized to date have not been subject to depreciation as the system is not yet operational. The capitalized cost includes development, labour and other expenses directly attributable to implementing the new policy administration system.

13. PENSION PLAN

DEFINED BENEFIT PENSION 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 if it were 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 staff. The plan is a money purchase plan, with a defined benefit option at retirement available to some employees, which specifies the amount of the retirement benefit plan to be received by the employees based on length of service and rates of pay. Under the terms of the plan, the Company is liable for the obligations of other companies participating in the pension should they be unable to satisfy their respective funding requirements.

The amount contributed to the plan for 2022 was $203,243 (2021 - $197,278). The contributions were made for current service. In the current year, the Company was not required to contribute for past service (2021 - $57,414). These were recognized in comprehensive income. These contributions amount to 5.30% 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 $236,000, which is based on payments made to the multi-employer plan during the current fiscal year.

The defined benefit plan has been closed to future eligible employees effective January 1, 2014. The Company and all current employees enrolled prior to that date who are accruing benefits under the defined benefit plan continue to contribute to the defined benefit plan, according to the existing terms of the agreement.

DEFINED CONTRIBUTION PENSION PLAN

Eligible employees hired after January 1, 2014 are enrolled in the defined contribution plan. The Company makes, on behalf of its employees, matching contributions up to 7.5% of their gross salary. The plan is a money purchase plan. The amount contributed to the plan for 2022 was $187,430 (2021 - $128,782). Expected contributions to the plan for the next annual reporting period amount to $211,000, which is based on payments made to the plan during the current fiscal year.

14. RELATED PARTY TRANSACTIONS

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

	2022	2021
Compensation		
Short-term employee benefits and directors' fees	**$ 821,489**	$ 542,691
Total pension and other post-employment benefits	**48,416**	45,080
	$ 869,905	$ 587,771
Premiums	**$ 132,138**	$ 127,856
Claims paid	**$ 12,380**	$ 14,772

Amounts owing from key management personnel at December 31, 2022 are $12,248 (2021 - $15,883). The amounts are included in due from brokers and policyholders on the statement of financial position.

15. STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET EFFECTIVE

Certain new standards, amendments and interpretations have been published that are mandatory for the Company's accounting periods beginning on or after January 1, 2023.

Of those new standards, amendments and interpretations that are not yet effective, IFRS 17 Insurance Contracts is expected to have a material impact on the Company's financial statements in the period of initial application.

IFRS 17 Insurance Contracts supersedes IFRS 4 Insurance Contracts. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts. IFRS 17 requires entities to measure insurance contract liabilities using updated estimates and assumptions that reflect the timing of cash flows and any uncertainty relating to insurance contracts. Additionally, IFRS 17 requires entities to recognize profits as it delivers insurance services. The effective date for IFRS 17 is January 1, 2023. The Company has evaluated the impact of the new standard and is in the process of quantifying the adjustments required on January 1, 2023, and to comparative balances.

16. COMMITMENT

The Company has entered into a contractual obligation related to the development and implementation of its policy administration system, as described in Note 12, with the amount of $1,872,000 to be paid in fiscal 2023.