BRANT MUTUAL
INSURANCE COMPANY

Financial Statements
For the year ended December 31, 2022

Contents

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Independent Auditor's Report

To the Board of Directors of Brant Mutual Insurance Company

Opinion

We have audited the financial statements of Brant Mutual Insurance Company (the "Company"), which comprise the statement of financial position as at December 31, 2022, and the statement of operations and unappropriated members' surplus and statement of 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 its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

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

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

In preparing the financial statements, management is responsible for assessing the 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.

Independent Auditors' Report (Continued)

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.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

Oakville, Ontario
February 17, 2023

Brant Mutual Insurance Company
Statement of Financial Position

December 31	2022	2021
Assets		
Cash	**$ 91,484**	$ 618,899
Investments (Note 5)	**7,731,965**	8,073,950
Due from policyholders	**2,211,984**	2,031,736
Prepaid expenses	**79,042**	66,126
Due from reinsurer	**59,894**	-
Reinsurer's share of unpaid claims and adjustment expenses (Note 4e)	**1,617,784**	1,464,384
Deferred policy acquisition expenditures (Note 4b)	**772,693**	756,504
Property and equipment (Note 14)	**2,349,077**	2,217,178
Deferred tax asset (Note 11)	**259,941**	111,857
	$ 15,173,864	$ 15,340,634
Liabilities		
Accounts payable and accrued liabilities	**$ 453,922**	$ 376,006
Unearned premiums (Note 4a)	**3,781,889**	3,689,775
Unpaid claims and adjustment expenses (Note 4)	**4,815,159**	3,997,198
	9,050,970	8,062,979
Members' surplus		
Unappropriated members' surplus	**6,122,894**	7,277,655
	$ 15,173,864	$ 15,340,634

On behalf of the Board:

Jayne Carman

_______________________ Director

William W Emmott

_______________________ Director

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

Brant Mutual Insurance Company
Statement of Operations and Unappropriated Members' Surplus

For the year ended December 31	2022	2021
Revenue		
Gross premiums written	**$ 7,573,505**	$ 7,319,221
Less reinsurance ceded	**(1,469,600)**	(1,373,465)
Net premiums written	**6,103,905**	5,945,756
Increase in unearned premiums	**(92,114)**	(97,625)
Net premiums earned	**6,011,791**	5,848,131
Direct losses incurred		
Gross claims and adjustment expenses	**6,006,346**	3,614,039
Less reinsurer's share of claims and adjustment expenses	**(1,911,113)**	(812,326)
	4,095,233	2,801,713
Underwriting income before expenses and commissions	**1,916,558**	3,046,418
Expenses		
Commissions and premium taxes (Note 8)	**1,309,844**	1,274,862
Operating expenses (Note 9)	**1,483,122**	1,303,444
	2,792,966	2,578,306
Net underwriting income (loss)	**(876,408)**	468,112
Investment and other income (loss) (Note 6)	**(375,028)**	420,247
Investment expenses	**(51,409)**	(53,072)
Income (loss) before income taxes (recovery)	**(1,302,845)**	835,287
Income taxes (recovery)		
Deferred (Note 11)	**(148,084)**	102,716
Net income (loss) for the year	**(1,154,761)**	732,571
Unappropriated members' surplus, beginning of year	**7,277,655**	6,545,084
Unappropriated members' surplus, end of year	**$ 6,122,894**	$ 7,277,655

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

Brant Mutual Insurance Company
Statement of Cash Flows

For the year ended December 31	2022	2021
Cash provided by (used in)		
Operating activities		
Net income (loss) for the year	$ (1,154,761)	$ 732,571
Adjustments for:		
Depreciation of property and equipment	101,368	87,874
Investment and other income	375,028	(420,247)
Provision for deferred taxes	(148,084)	102,716
	(826,449)	502,914
Changes in working capital and insurance contract related balances		
Change in due from policyholders	(180,248)	(10,037)
Change in due from reinsurer	(59,894)	28,524
Change in accounts payable and other liabilities	77,916	35,428
Change in reinsurer's share of unpaid claims and adjustment expenses	(153,400)	(412,231)
Change in prepaid expenses	(12,916)	(50,430)
Change in unpaid claims and adjustment expenses	817,961	(6,368)
Change in unearned premiums	92,114	97,625
Change in deferred policy acquisition expenditures	(16,189)	(21,897)
	(261,105)	163,528
Cash flows related to interest, dividends and income taxes		
Interest and dividends received	477,060	362,127
Total cash inflows from operating activities	215,955	525,655
Investing activities		
Sale of investments	2,644,209	324,530
Purchase of investments	(3,154,312)	(540,334)
Purchase of property and equipment	(233,267)	(36,940)
Total cash outflows from investing activities	(743,370)	(252,744)
Increase (decrease) in cash during the year	(527,415)	272,911
Cash, beginning of year	618,899	345,988
Cash, end of year	$ 91,484	$ 618,899

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

1. Corporate Information

Brant Mutual Insurance Company (the "Company") was incorporated under the laws of Ontario and is subject to the Ontario Insurance Act. The Company is licensed to write property, liability, automobile and farmers' accident insurance in Ontario. The Company's registered office is located in Brantford, 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 includes 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 revenues that are earned by the Company. The actual impact of rate regulation would depend on the competitive environment at the time.

These financial statements have been authorized for issue by the Board of Directors on February 17, 2023.

2. Basis of Presentation

(a) Statement of Compliance

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

(b) Basis of Measurement

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

The financial statements are presented in Canadian dollars (“CDN”), which is also the Company’s functional currency.

(c) Judgment and Estimates

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

2. Basis of Presentation *(continued)*

(c) Judgment and Estimates (continued)

- The calculation of unpaid claims, including the determination of the initial claim liability, discount rates, the estimate of time until ultimate settlement and the performance of a liability adequacy test (Note 4);
- The determination of the recoverability of deferred policy acquisition expenses (Note 4); and
- The classification of financial assets at FVTPL, which includes assessing the business model within which the assets are held (Note 5).

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. Standards, Amendments and Interpretations Not Yet Effective

Certain new standards, amendments to standards, and interpretations were issued by the IASB and/or the IFRS Interpretations Committee that are mandatory for accounting years beginning after January 1, 2023 or later that the Company has decided not to adopt early.

Of those new standards, interpretations and amendments 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 supersedes IFRS 4 Insurance Contracts, effective for annual periods beginning on or after January 1, 2023 with restatement of comparative figures. IFRS 17 introduces a level of aggregation in identifying and measuring portfolios of insurance contracts. A portfolio comprises contracts subject to similar risks, within the same product line and managed together. To measure a portfolio of contracts, a Company may estimate the fulfilment cash flows by allocating such estimates to portfolios of contracts. This will bring changes to the accounting for insurance and reinsurance contracts and financial instruments and is expected to have an impact on the Company's financial statements in the period of initial application. 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.

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2 provides guidance and examples to assist entities apply materiality judgments to accounting policy disclosures. The amendments to IAS 1 aim to help entities improve the usefulness of its accounting policy disclosures by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies. The amendments to IFRS Practice Statement 2 provide guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures. The effective date for the amendments to IAS 1 is January 1, 2023 with earlier application permitted. The Company is currently assessing the impact of the amendments to determine the impact they will have on the Company's accounting policy disclosures.

4. Insurance Contracts

In accordance with IFRS 4, *Insurance Contracts*, the Company has continued to apply the accounting policies it applied in accordance with pre-changeover Canadian generally accepted accounting principles ("GAAP").

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

(a) Premiums and unearned premiums

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

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

	2022	2021
Balance, beginning of the year	**$ 3,689,775**	$ 3,592,150
Premiums written	**7,573,505**	7,319,221
Changes in UEP recognized in income	**92,114**	97,625
Premiums earned during year	**(7,573,505)**	(7,319,221)
Balance, end of the year	**$ 3,781,889**	$ 3,689,775

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 FSRA 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 policyholders are short-term in nature consisting of a large number of policyholders. The Company applied judgment in its evaluation of the provision to consider flexible payment options provided, as well as experience during the crisis and in past economic downturns. Regular review of amounts outstanding is performed to ensure credit worthiness.

4. Insurance Contracts (continued)

(b) Deferred policy acquisition expenditures

Acquisition costs are comprised of agents' commissions, premium taxes, salaries and certain identified business development costs considered to be directly related to the premiums written and therefore are allowed to be deferred. These costs are deferred and amortized over the terms of the related policies to the extent that they are considered to be recoverable from unearned premiums, after considering the related anticipated claims and expenses. Changes in deferred policy acquisition expenditures recorded in the statement of financial position for the years ended December 31, 2022 and 2021 and the impact on other acquisition expenses for the two years follow:

	2022	2021
Balance, beginning of the year	**$ 756,504**	$ 734,607
Acquisition expenses incurred	**1,643,139**	1,581,960
Expensed during the year	**(1,626,950)**	(1,560,063)
Balance, end of the year	**$ 772,693**	$ 756,504

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

(c) Unpaid claims and adjustment expenses

Individual loss estimates are provided on each claim reported. In addition, provisions are made for adjustment expenses, claims development, changes in reported claims and for claims incurred but not reported, based on past experience and business in force. The estimates are regularly reviewed and updated, and any resulting adjustments are included in current income.

Claim liabilities are carried on an undiscounted basis.

4. Insurance Contracts (continued)

(c) Unpaid claims and adjustment expenses *(continued)*

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

	December 31, 2022			December 31, 2021		
	Gross	**Re-insurance**	**Net**	Gross	Re-insurance	Net
Outstanding claims provision						
Long settlement term	**$ 1,091,250**	**$ 423,123**	**$ 668,127**	$ 1,634,443	$ 895,836	$ 738,607
Short settlement term	**1,371,741**	**140,661**	**1,231,080**	251,201	18,548	232,653
Facility Association and other residual pools	**139,168**	**-**	**139,168**	144,554	-	144,554
	2,602,159	**563,784**	**2,038,375**	2,030,198	914,384	1,115,814
Provision for claims incurred but not reported	**2,213,000**	**1,054,000**	**1,159,000**	1,967,000	550,000	1,417,000
	$ 4,815,159	**$ 1,617,784**	**$ 3,197,375**	$ 3,997,198	$ 1,464,384	$ 2,532,814

4. Insurance Contracts (continued)

(c) Unpaid claims and adjustment expenses (continued)

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

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

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

	2022	2021
Unpaid claims liabilities - beginning of year – net of reinsurance	**$ 2,532,813**	$ 2,951,413
Increase in estimated losses and expenses, for losses occurring in prior years	**(482,830)**	(795,723)
Provision for losses and expenses on claims occurring in the current year	**3,800,587**	2,856,902
Payment on claims:		
Current year	**(2,010,894)**	(1,677,441)
Prior years	**(642,301)**	(802,338)
Unpaid claims – end of year - net of reinsurance	**3,197,375**	2,532,813
Reinsurer’s share	**1,617,784**	1,464,384
	$ 4,815,159	$ 3,997,197

4. Insurance Contracts (continued)

(c) Unpaid claims and adjustment expenses (continued)

Claim development

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

The Company writes insurance 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, and the characteristics of the claim. In general, the longer the term required for the settlement 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 below show how the Company's estimate of cumulative incurred claim cost for each accident year has changed at successive year ends and reconcile the cumulative claims to the amount appearing in the statement of financial position. An accident-year basis is considered to be the most appropriate for the business written by the Company.

4. Insurance Contracts (continued)

(c) Unpaid claims and adjustment expenses (continued)

Gross claims (000's)

Reporting Date	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
At end of accident year	$ 3,618	$ 3,373	$ 3,976	$ 3,836	$ 3,038	$ 3,484	$ 3,171	$ 3,162	$ 2,131	$ 5,389	
1 year later	3,505	3,191	3,952	3,975	2,750	3,207	2,947	3,222	3,285		
2 years later	3,402	3,060	3,779	3,764	2,983	2,962	3,771	2,707			
3 years later	3,288	2,836	3,302	3,814	2,825	3,197	2,839				
4 years later	3,390	2,585	3,209	4,121	2,847	2,944					
5 years later	3,365	2,821	3,145	4,071	3,086						
6 years later	3,332	2,808	3,147	3,962							
7 years later	3,322	2,808	3,131								
8 years later	3,322	2,802									
9 years later	3,322										
Current estimate of ultimate cost	3,322	2,802	3,131	3,962	3,086	2,944	2,839	2,707	3,285	5,389	33,467
Cumulative payments	3,322	2,802	3,131	3,962	3,044	2,816	2,423	2,296	2,188	3,175	29,159
Outstanding claims	$ -	$	$ -	$	$ 42	$ 128	$ 416	$ 411	$ 1,097	$ 2,214	$ 4,308
Liability for all prior accident years											2
Unallocated loss adjustment expenses											366
Facility Association and risk sharing pool											139
Total gross outstanding claims											$ 4,815

4. Insurance Contracts (continued)

(c) Unpaid claims and adjustment expenses *(continued)*

Net of reinsurance (000's)

Reporting Date	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
At end of accident year	$ 2,576	$ 2,599	$ 2,785	$ 2,872	$ 2,419	$ 3,205	$ 2,876	$ 2,693	$ 2,045	$ 3,621	
1 year later	2,544	2,530	2,694	3,155	2,452	2,881	2,751	2,815	2,488		
2 years later	2,687	2,587	2,678	3,190	2,466	2,807	3,032	2,362			
3 years later	2,597	2,627	2,712	3,359	2,385	2,859	2,700				
4 years later	2,564	2,545	2,710	3,457	2,407	2,676					
5 years later	2,578	2,579	2,686	3,393	2,309						
6 years later	2,556	2,569	2,688	3,290							
7 years later	2,551	2,570	2,665								
8 years later	2,551	2,563									
9 years later	2,551										
Current estimate of ultimate cost	2,551	2,563	2,665	3,290	2,309	2,676	2,700	2,362	2,488	3,621	27,225
Cumulative payments	2,551	2,563	2,665	3,287	2,275	2,592	2,423	2,111	2,056	2,011	24,534
Outstanding claims	$ -	$ -	$ -	$ 3	$ 34	$ 84	$ 277	$ 251	$ 432	$ 1,610	$ 2,691
Liability for all prior accident years											1
Unallocated loss adjustment expenses											366
Facility Association and risk sharing pool											139
Total net outstanding claims											$ 3,197

4. Insurance Contracts (continued)

(c) Unpaid claims and adjustment expenses *(continued)*

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

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

	Property claims		Auto claims		Liability claims	
	2022	2021	**2022**	2021	**2022**	2021
5% increase in loss ratios						
Gross	**$ 215,345**	$ 205,970	**$ 118,383**	$ 115,094	**$ 44,947**	$ 44,897
Net	**176,016**	168,578	**90,805**	89,448	**38,375**	39,261
5% decrease in loss ratios						
Gross	**$(215,345)**	$(205,970)	**$(118,383)**	$(115,094)	**$ (44,947)**	$ (44,897)
Net	**(176,016)**	(168,578)	**(90,805)**	(89,448)	**(38,375)**	(39,261)

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 expenditures 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 statement of operations and unappropriated members' surplus initially by writing off the deferred policy acquisition expenditures and subsequently by recognizing an additional liability for unearned premiums.

4. Insurance Contracts (continued)

(e) Reinsurer's share of unpaid claims and adjustment expenses

The Company enters into reinsurance contracts in the normal course of business in order to limit potential losses arising from certain exposures. Reinsurance premiums are accounted for in the same period as the related premiums for the direct insurance business being reinsured. Reinsurance liabilities, comprised of premiums payable for the purchase of reinsurance contracts, are included in accounts payable and accrued liabilities and are recognized as an expense 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 $300,000 (2021 - $250,000) in the event of an automobile claim, an amount of $300,000 (2021 - $295,000) in the event of a liability claim, an amount of $300,000 (2021 - $290,000) in the event of a property claim, and an amount of $20,000 (2021 - $20,000) in the event of a farmers accident claim. The Company also obtained catastrophe reinsurance which limits the Company's liability to $870,000 (2021 - $870,000) 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% (2021 - 70%) of net earned premiums for lines of 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.

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 reinsurer's share of unpaid claims and adjustment expenses recorded in the statement of financial position is as follows:

	2022	2021
Balance, beginning of the year	**$ 1,464,384**	$ 1,052,153
New claims reserve	**561,543**	271,534
Change in prior years' reserve	**1,349,570**	474,792
Submitted to reinsurer	**(1,757,713)**	(334,095)
Balance, end of the year	**$ 1,617,784**	$ 1,464,384

4. Insurance Contracts (continued)

(e) Reinsurer's share of unpaid claims and adjustment expenses (continued)

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

(f) Refund of premium

At the discretion of the board of directors, the Company may declare a refund to its policyholders based on the premiums paid. This refund is recognized as a reduction of revenue in the period for which it is declared.

5. Investments

(a) Recognition and initial measurement

The Company recognizes debt instruments on the date on which they are originated. Equity instruments including pooled funds are recognized on the trade 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 and bonds as FVTPL because the Company manages the debt instruments and evaluates their performance on a fair value basis in accordance with a documented investment strategy and the instruments are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

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

The Company classifies its equity instruments as FVTPL.

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

5. **Investments** (continued)

(c) Derecognition

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

(d) Risks

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

	2022 Fair Value	2021 Fair Value
Bonds		
Corporate	$ 102,550	$ -
Treasury bills	75,396	-
Pooled funds		
Fixed income	3,189,527	5,437,838
Canadian equity	688,196	580,782
Global equity	1,060,290	1,447,994
Alternative investments	2,457,953	462,669
	7,395,966	7,929,283
Equity investments:		
Canadian common shares	500	500
Canadian preferred shares	20,532	12,798
Canadian private company	125,017	119,411
Fire Mutuals Guarantee Fund	12,004	11,958
	$ 7,731,965	$ 8,073,950

The Company's investment policy puts limits on the pooled funds portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits and corporate sector limits. The Company’s investment policy limits investments in fixed income funds of the various ratings to limits ranging from 20% to 80%, investments in equity funds to limits ranging from 15% to 30% of the Company's portfolio, and investments in alternative investments, which include private loan portfolios and hedging strategies, to limits raging from 0% to 40%. The Company's policy requires that funds be invested in fixed income of Federal, Provincial or Municipal Government and corporations rated BBB or better with non-investment grade bonds to a maximum of 10% of the Company's portfolio. All 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.

5. **Investments** (continued)

(d) Risks *(continued)*

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

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

The Company's investment policy requires that 0% to 25% of the Company's portfolio be held in cash and short-term investments, which mitigates liquidity risk.

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

The Company is not exposed to significant currency risk on its investment in global pooled funds.

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

The Company is exposed to interest rate risk through its investments in fixed income pooled funds, corporate bonds, and treasury bills.

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 gains or losses in profit or loss.

The Company is exposed to equity risk, through its investments in equity and equity pooled fund investments. 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 equities and equity pooled funds of $190,093 (2021 - $807,395). This change would be recognized in net income.

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

5. Investments (continued)

***(d) Risks** (continued)*

The fair value of the investment in the Canadian private company fluctuates based on the value of the underlying net assets held by the private company. At December 31, 2022, the change in measurement inputs would not result in a material adjustment to the Company's investment.

(e) Fair value measurement

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities 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				
Corporate	$ -	$ -	$ 102,550	$ 102,550
Treasury bills	-	75,396	-	75,396
Pooled funds				
Fixed income	-	3,189,527	-	3,189,527
Canadian equity	-	688,196	-	688,196
Global equity	-	1,060,290	-	1,060,290
Alternative investments	-	2,457,953	-	2,457,953
Equity investments				
Canadian common shares	-	-	500	500
Canadian preferred shares	-	-	20,532	20,532
Canadian private company	-	-	125,017	125,017
Fire Mutuals Guarantee Fund	-	-	12,004	12,004
Total	$ -	$ 7,471,362	$ 260,603	$ 7,731,965

December 31, 2022

5. Investments (continued)

(e) Fair value measurement (continued)

	Level 1	Level 2	Level 3	Total
December 31, 2021				
Pooled Funds				
Fixed income	$ -	$ 5,437,838	$ -	$ 5,437,838
Canadian equity	-	580,782	-	580,782
Global equity	-	1,447,994	-	1,447,994
Alternative investments	-	462,669	-	462,669
Equity investments				
Canadian common shares	-	-	500	500
Canadian preferred shares	-	-	12,798	12,798
Canadian private company	-	-	119,411	119,411
Fire Mutuals Guarantee Fund	-	-	11,958	11,958
Total	$ -	$ 7,929,283	$ 144,667	$ 8,073,950

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

The investments in the Canadian private company and corporate bonds are recorded at fair value and are not traded on an open market. The fair values of these investments are based on valuation techniques that include inputs that are not based on observable market data (unobservable inputs). Therefore, they are classified as Level 3.

6. Investment and Other Income (Loss)

Investment and other income (loss) for the year ended December 31, consists of the following:

	2022	2021
Dividend income	**$ 33,843**	$ 14,996
Interest income	**361,872**	252,773
Realized gain (loss) on disposal of investments	**(175,899)**	62,529
Unrealized loss on investments	**(685,193)**	(1,289)
Service charge income	**94,910**	92,458
Other	**(4,561)**	(1,220)
	$ (375,028)	$ 420,247

December 31, 2022

7. Capital Management

For the purpose of capital management, the Company has defined capital as unappropriated members' 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 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%. As at December 31, 2022, 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.

8. Commissions and Premium Taxes

	2022	2021
Commissions	**$ 1,288,608**	$ 1,249,875
Premium taxes	**21,236**	24,987
	$ 1,309,844	$ 1,274,862

9. Other Operating and Administrative Expenses

	2022	2021
Advertising	$ 30,346	$ 25,407
Association fees and training	42,386	49,559
Building occupancy costs	78,003	93,418
Convention and meetings expense	51,278	4,981
Data processing and equipment fees	347,527	287,319
Depreciation of property and equipment	101,368	87,874
Donations	3,335	10,004
Employee benefits	124,718	109,560
Inspection and investigation	25,035	25,697
Insurance	33,390	22,615
Licence and filing fees	25,052	23,768
Printing, stationery and office supplies	47,726	45,828
Professional fees	165,008	115,613
Salaries and directors' fees	398,697	361,401
Sundry (recovery)	(268)	34,854
Travel	9,521	5,546
	$ 1,483,122	$ 1,303,444

10. Salaries, Benefits and Directors' Fees

	2022	2021
Underwriter salaries and benefits	$ 379,158	$ 312,080
Sales salaries and commissions	559,203	546,335
Other salaries, benefits and directors fees	509,457	447,493
	$ 1,447,818	$ 1,305,908

Included in claims expenses were salary costs of $509,137 (2021 - $474,309).

11. Income Taxes

Income tax expense comprises current and deferred tax. Current and deferred tax are recognized in net income.

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

	2022	2021
Deferred tax		
Temporary differences	**24,889**	3,673
Non-deductible claims	**(4,054)**	2,554
Losses (carried forward) utilized	**(182,529)**	93,929
Other	**13,610**	2,560
Total tax effect of amounts recorded in net income	**$ (148,084)**	$ 102,716

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 12.20% (2021 – 12.20%) are as follows:

	2022	2021
Income (loss) before income taxes (recovery)	**$ (1,302,845)**	$ 835,287
Expected taxes (recovery) based on the statutory rate	**$ (158,947)**	$ 101,905
Other non deductible expenses	**975**	81
Non taxable dividend income	**(4,129)**	(1,830)
Other	**14,017**	2,560
Future Income tax expense (recovery)	**$ (148,084)**	$ 102,716

Deferred tax assets

	2022	2021
Deferred tax assets to be recovered within 12 months	**$ 78,859**	$ 65,100
Deferred tax assets to be recovered within more than 12 months	**181,082**	46,757
	$ 259,941	$ 111,857

As at December 31, 2022, a deferred tax asset of $259,941 (2021 - $111,857) has been recorded. The utilization of this tax asset is dependent on future taxable profits in excess of profits arising from the reversal of existing taxable temporary differences. The Company believes that this asset should be recognized as it will be recovered through future rates.

12. Credit Facility

The Company has an operating line of credit of $500,000 bearing interest at prime plus 0.50%, repayable on demand and interest payable monthly.

The line of credit is secured by a general security agreement from the Company and a first fixed charge collateral mortgage in the amount of $1,000,000 over the Company's building.

13. Fire Mutuals Guarantee Fund and Financial Guarantee Contracts

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

This exposure represents a financial guarantee contract. The Company accounts for financial guarantee contracts in accordance with IFRS 4, *Insurance Contracts*.

14. Property and Equipment

Property 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 the statement of operations and unappropriated members' surplus, and is provided on a declining balance basis over the estimated useful life of the assets and is calculated as follows:

Building	1.42%
Parking lot	2.5 % to 7%
Sign	10%
Office equipment	10%
Computer equipment	20%

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

14. Property & Equipment (continued)

	Land	Building	Parking lot	Sign	Office equipment	Computer equipment	Total
Cost							
Balance at January 1, 2022	$ 490,252	$ 1,967,253	$ 122,863	$ 41,186	$ 267,008	$ 605,984	$ 3,494,546
Additions	-	-	-	-	-	233,267	233,267
Balance at December 31, 2022	**$ 490,252**	**$ 1,967,253**	**$ 122,863**	**$ 41,186**	**$ 267,008**	**$ 839,251**	**$ 3,727,813**
Accumulated Depreciation							
Balance at January 1, 2022	$ -	$ 493,571	$ 57,799	$ 41,186	$ 267,008	$ 417,804	$ 1,277,368
Depreciation	-	15,651	7,717	-	-	78,000	101,368
Balance at December 31, 2022	**$ -**	**$ 509,222**	**$ 65,516**	**$ 41,186**	**$ 267,008**	**$ 495,804**	**$ 1,378,736**
Net book value:							
December 31, 2021	$ 490,252	$ 1,473,682	$ 65,064	$ -	$ -	$ 188,180	$ 2,217,178
December 31, 2022	**$ 490,252**	**$ 1,458,031**	**$ 57,347**	**$ -**	**$ -**	**$ 343,447**	**$ 2,349,077**

15. 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	**$ 230,308**	$ 209,002
Total pension and other post-employment benefits	**9,000**	7,800
	$ 239,308	$ 216,802
Premiums	**$ 38,719**	$ 35,222