Financial Statements

And Independent Auditor's Report thereon

Year ended December 31, 2022

KPMG LLP
150 Elgin Street, Suite 1800
Ottawa ON K2P 2P8
Canada
Tel 613-212-5764
Fax 613-212-2896

INDEPENDENT AUDITOR'S REPORT

To the Policyholders of Grenville Mutual Insurance Company

Opinion

We have audited the financial statements of Grenville Mutual Insurance Company (the Entity), which comprise:

- the statement of financial position as at end of December 31, 2022
- the statement of comprehensive income (loss) for the year then ended
- the statement of accumulated surplus for the year then ended
- the statement of cash flows for the year then ended
- and notes to financial statements, including a summary of significant accounting policies

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

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

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the ***"Auditor's Responsibilities for the Audit of the Financial Statements"*** section of our auditor's report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- 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.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Ottawa, Canada

February 15, 2022

GRENVILLE MUTUAL INSURANCE COMPANY

Statement of Financial Position

December 31, 2022, with comparative information for 2021

	2022	2021
Assets		
Cash	$ 5,655,616	$ 2,814,219
Investments (note 5)	45,382,765	45,861,572
Accrued investment income	153,732	153,354
Premiums receivable from policyholders	10,308,575	10,184,281
Due from other insurers	649,552	76,732
Income taxes receivable	849,004	–
Unpaid claims and adjusting expenses recoverable from reinsurer (note 9(a))	17,694,106	13,630,180
Prepaid expenses	351,095	309,783
Deferred policy acquisition expenses (note 9(g))	3,196,778	3,018,946
Deferred income taxes (note 14(b))	1,014,248	248,016
Property and equipment (note 7)	4,479,106	4,771,690
Intangible assets (note 8)	–	8,136
	$ 89,734,577	$ 81,076,909
Liabilities and Policyholders' Surplus		
Accounts payable and accrued liabilities	$ 1,777,793	$ 1,661,660
Income taxes payable	–	837,579
Unearned premiums (note 9(f))	17,024,810	16,201,054
Provision for unpaid claims and adjusting expenses (note 9(c))	37,673,786	24,996,726
	56,476,389	43,697,019
Policyholders' surplus	33,258,188	37,379,890
Commitment (note 19)		
	$ 89,734,577	$ 81,076,909

See accompanying notes to financial statements.

On behalf of the Board:

_______________ Director

_______________ Director

GRENVILLE MUTUAL INSURANCE COMPANY

Statement of Comprehensive Income (Loss)

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

	2022	2021
Underwriting income:		
Premiums written	$ 33,934,117	$ 32,292,019
Increase in unearned premiums	(823,756)	(578,967)
	33,110,361	31,713,052
Premiums ceded to reinsurer	(6,787,619)	(6,195,997)
Net premiums earned	26,322,742	25,517,055
Service fee revenue	293,936	284,159
Net underwriting revenue	26,616,678	25,801,214
Claims incurred:		
Gross claims and adjusting expenses (note 11)	42,765,028	18,692,851
Less reinsurer's share of claims and adjusting expenses	(23,295,485)	(4,855,490)
	19,469,543	13,837,361
	7,147,135	11,963,853
Expenses:		
Commissions	6,895,774	6,733,618
Management and administrative salaries and benefits (note 12)	2,294,435	2,147,317
Computer operations and statistical information	1,017,180	855,249
Professional fees	333,686	258,201
Other operating and administrative costs	332,010	335,843
Advertising	297,400	136,838
Depreciation of property and equipment	260,720	337,977
Building	215,507	224,987
Directors' fees and travel	174,963	132,857
Bank and payroll service charges	157,738	148,390
Premium taxes	125,108	119,927
Other	79,309	40,030
Amortization of intangible assets	6,222	4,170
	12,190,052	11,475,404
Net underwriting income (loss)	(5,042,917)	488,449
Other income (expenses):		
Investment income (loss), net (note 13)	(680,672)	3,903,393
Community support program donations	(1,100)	(1,403)
Other write-offs and disposals	–	(56,204)
	(681,772)	3,845,786
Earnings (loss) before income taxes	(5,724,689)	4,334,235
Income taxes (note 14):		
Current expense (reduction)	(836,755)	510,374
Deferred expense (reduction)	(766,232)	420,499
	(1,602,987)	930,873
Total comprehensive income (loss)	$ (4,121,702)	$ 3,403,362

See accompanying notes to financial statements.

GRENVILLE MUTUAL INSURANCE COMPANY

Statement of Accumulated Surplus

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

	2022	2021
Balance, beginning of year	$ 37,379,890	$ 33,976,528
Total comprehensive income (loss)	(4,121,702)	3,403,362
Balance, end of year	$ 33,258,188	$ 37,379,890

See accompanying notes to financial statements.

GRENVILLE MUTUAL INSURANCE COMPANY

Statement of Cash Flows

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

	2022	2021
Cash provided by (used in):		
Operating activities:		
Total comprehensive income (loss)	$ (4,121,702)	$ 3,403,362
Items not involving cash:		
Depreciation of property and equipment (note 7)	348,899	463,681
Loss on disposal of property and equipment	–	22,097
Write-off of intangible assets	–	34,107
Amortization of intangible assets (note 8)	8,136	5,556
Amortization of discounts and premiums on bonds and debentures	27,294	41,961
Loss (gain) on investments	2,204,982	(2,603,962)
Deferred income tax expense (reduction) (note 14)	(766,232)	420,499
Change in non-cash operating working capital (note 15)	(1,765,312)	497,788
Change in insurance contract related balances (note 15)	8,686,239	76,156
	4,622,304	2,361,245
Investing activities:		
Additions to property and equipment	(27,438)	(67,741)
Purchase of investments	(4,303,469)	(6,853,621)
Proceeds on maturities of investments	2,550,000	4,979,865
	(1,780,907)	(1,941,497)
Increase in cash	2,841,397	419,748
Cash, beginning of year	2,814,219	2,394,471
Cash, end of year	$ 5,655,616	$ 2,814,219

See accompanying notes to financial statements.

Grenville Mutual Insurance Company (the "Company") is incorporated without share capital under the laws of Ontario as a mutual insurance company. The Company is subject to the Insurance Act (Ontario) and is licensed to write all classes of insurance other than life and surety in Ontario. The Company's registered head office is located at 380 Colonnade Drive, Kemptville, Ontario.

The Company's automobile rates and rules are subject to regulation by the Financial Services Regulatory Authority of Ontario ("FSRA"). Any change in the automobile insurance premium rates or rules must be approved by the FSRA. Approximately 18.8% (2021 - 20.7%) of the gross premiums written were automobile and subject to rate regulation.

These financial statements have been authorized for issue by the Company's Board of Directors on February 15, 2023.

1. Significant accounting policies:

The Company has consistently applied the following accounting policies to all periods presented in these financial statements.

(a) Basis of accounting:

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

The financial statements present the financial position, financial performance and cash flows of the Company.

The financial statements are presented in Canadian dollars, which is also the Company's functional currency.

(b) Financial instruments:

The Company classifies its financial instruments into the following categories: held to maturity, fair value through profit or loss, and loans and receivables.

The classification of investments is determined by management at initial recognition and depends on the purpose for which the investments were acquired. All transactions related to financial investments are recorded on a trade date basis.

(i) Bonds and debentures:

Investments in bonds and debentures are classified as held-to-maturity financial assets. These investments are initially recognized at fair value and are subsequently measured at amortized cost with premiums and discounts amortized using the effective interest rate method.

1. Significant accounting policies (continued):

(b) Financial instruments (continued):

(ii) Marketable common and preferred shares, pooled funds and mutual funds, and investment in private companies:

Management has designated to voluntarily classify its investments in marketable common and preferred shares, pooled funds and mutual funds, and investment in private companies at fair value through profit and loss. These investments are initially recognized at fair value. Subsequently these investments are carried at fair value or, if fair value is not reliably determinable, they are carried at cost. Fair values are determined by reference to published price quotations in an active market or, in the case of pooled funds, based on the net asset value supplied by the pooled fund manager, which represents the Company's proportionate share of underlying net assets at fair values. For the investment in the private companies, fair value was determined using the transaction price, and carrying value/net assets of the private company obtained from most recently available financial statements. Dividend income on common and preferred shares is accrued on the ex-dividend date. Gains and losses are reflected in net comprehensive income for the period in which they arise.

Transaction costs that are directly attributable to the acquisition of these assets are expensed as incurred.

(iii) Cash and cash equivalents and accounts receivables are classified as loans and receivables, and are measured at amortized cost using the effective interest method less any impairment if applicable.

(iv) Accounts payables and accrued liabilities are classified as other financial liabilities, and are measured at amortized cost using the effective interest rate method.

(c) Property and equipment:

Property and equipment are initially recorded at cost and subsequently measured at cost less depreciation and accumulated impairment losses, with the exception of land which is not depreciated.

Depreciation is recognized in net comprehensive income and is provided using the following methods and annual rates:

Asset	Method	Rate
Office premises	Straight-line	2 ½%
Building service equipment	Straight-line	5% to 10%
Parking lot	Straight-line	5%
Furniture and office equipment	Straight-line	20%
Computer equipment	Straight-line	33 ⅓%
Automobiles	Declining balance	30%

1. Significant accounting policies (continued):

(c) Property and equipment (continued):

Amortization methods, rates and residual values are reviewed annually and adjusted if necessary.

(d) Impairment of non-financial assets:

Property and equipment and intangible assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly.

For the purpose of assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(e) Insurance contracts:

In accordance with IFRS 4, Insurance Contracts, the Company has continued to apply the accounting policies it applied in accordance with Canadian generally accepted accounting principles in effect prior to the adoption of IFRS 17.

Balances arising from insurance contracts primarily include premiums written and unearned premiums, provisions for unpaid claims and adjusting expenses, the premiums ceded to reinsurer, and reinsurer's share of provisions for unpaid claims and adjusting expenses, deferred policy acquisition expenses, and subrogation recoverable.

(i) Premiums and unearned premiums:

Premiums written comprise of the premiums on contracts commencing (or renewing) in the financial year. Premiums written are stated gross of commission payable to agents and exclusive of taxes levied on premiums.

Insurance premiums are included in income on a daily pro rata basis over the terms of the policies. The portion of the premiums related to the unexpired portion of the policy at the end of the fiscal year is reflected in unearned premiums.

(ii) Deferred policy acquisition expenses:

Acquisition expenses related to unearned premiums, which includes commissions, are deferred and charged to expense over the periods in which the premiums are earned. The amount of the deferral is limited to its realizable value by giving consideration to investment income as well as claims and adjusting expenses expected to be incurred as the premiums are earned.

1. Significant accounting policies (continued):

(e) Insurance contracts (continued):

(iii) Provision for unpaid claims and adjusting expenses:

The provision for unpaid claims and adjusting expenses represents an estimate for the full amount of all costs, including investigation and the projected final settlements, of claims reported and for claims incurred but not reported. These estimates of future loss activity are subject to uncertainty and are selected from a wide range of possible outcomes based on past experience and business in force. These provisions are adjusted, up or down, as additional information affecting the estimated amounts becomes known during the course of claims settlement. All changes in estimates are recorded as incurred claims in the current period.

The Company also makes provisions for recovery from subrogation of claims, which are recorded as reductions in claims incurred. These provisions are also adjusted, up or down, as additional information affecting the estimated amounts becomes known during the course of settlement. All changes in estimates are recorded as incurred claims in the current period.

(iv) Liability adequacy test:

At each reporting date the Company performs a liability adequacy test on its insurance liabilities less deferred policy acquisition expenses to ensure that 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 comprehensive income initially by writing off the deferred policy acquisition expenses and subsequently by recognizing an additional claims liability for claims provisions.

(v) Reinsurance premiums ceded and reinsurer's share of provisions for unpaid claims and adjusting 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 ceded are calculated based on earned premiums. 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 pro-rata over the term of the reinsurance contract.

Reinsurance recoveries on unpaid claims and adjusting expenses are recognized as assets at the same time that the Company recognizes the related liabilities.

(vi) Subrogation recoverable:

When the Company indemnifies policyholders against a liability claim, it acquires rights to subrogate its claim against other parties. These claims are reflected at amounts expected to be received from the subrogated parties net of related costs.

1. Significant accounting policies (continued):

(f) Income taxes:

Income tax expense is comprised of current and deferred taxes and is recognized in net comprehensive income.

Current income taxes are recognized for the estimated income taxes payable or recoverable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

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

(i) IFRS 17, Insurance Contracts ("IFRS 17"):

In May 2017, the IASB issued IFRS 17 to establish a global standard which provides guidance on the recognition, measurement, presentation and disclosure of insurance contracts. Amendments to IFRS 17 were issued in June 2020. IFRS 17 replaces existing accounting under IFRS 4. IFRS 17 is effective beginning on January 1, 2023 with a transition date of January 1, 2022 and will be applied retrospectively.

The Company has not completed its full analysis of the impacts the IFRS 17 on its equity as at January 1, 2022 and as at January 1, 2023 given the timing of this reporting. As a result, quantitative disclosures of the impact of adoption of IFRS 17 are not estimable at this time. The below analysis of the expected impacts as a result of IFRS 17 are not exhaustive and represents the Company's analysis based on information available at present and are subject to change and may emerge differently. The Company's expected key policies around these topics are discussed further below.

1. Significant accounting policies (continued):

(g) Standards, amendments and interpretations not yet effective (continued):

(i) IFRS 17, Insurance Contracts (“IFRS 17”) (continued):

While the Company continues to finalize its application of this standard, its qualitative assessment of implications of this standard, are as follows:

- **Scope:** IFRS 17 introduces scope exemptions for specific types of contracts. The Company does not expect significant changes in the scope of insurance contracts between IFRS 4 and IFRS 17.
- **Level of aggregation:** IFRS 17 requires groups of contracts to be aggregated and measured based on the similar risks of contracts, whether the contracts can be managed together, the profitability of the contracts, and contracts that are issued not more than one year apart. The Company determines contracts subject to similar risks and whether they can be managed together based on product lines. The Company will cohort its new business using annual cohorts. When an insurance contract is written, it will be assigned to a profitability group based on the expected profitability on the date of initial recognition. The level of aggregation requirements do not permit the offsetting of gains and losses between groups of insurance contracts.
- **Measurement models:** Insurance contract liabilities for each group of insurance contracts represent the sum of the liability for incurred claims and liability for remaining coverage. The Company expects that substantially all of its liabilities will be measured using the Premium Allocation Approach ("PAA"). When measuring liabilities for remaining coverage, the PAA is similar to the Company's previous accounting treatment for short duration contracts and therefore the Company does not expect a significant impact to measurement. The Company primarily issues insurance contracts with a coverage period of 12 months or less (and never more than 12 months), which automatically qualify for the Premium Allocation Approach.

  The PAA does not have the concept of a contractual service margin and therefore, upon transition, the insurance contract liabilities and reinsurance held assets will be recorded on a fully retrospective basis.

  When measuring the liabilities for incurred claims, IFRS 17 requires:

  - Estimates of future cash flows to be discounted to reflect the time value of money and financial risk related to those cash flows unless the Company expects claims to be paid in one year or less from the date it was incurred. The methodology for determining the discount rate is not prescribed, therefore discount rates will be based on a risk-free rate plus an illiquidity premium reflective of the cash flow characteristics of the respective insurance contract.

1. Significant accounting policies (continued):

(g) Standards, amendments and interpretations not yet effective (continued):

(i) IFRS 17, Insurance Contracts ("IFRS 17") (continued):

- An explicit risk adjustment for non-financial risk which replaces the risk margin under IFRS 4. The IFRS 4 risk margin reflects the inherent uncertainty in the net discounted claim liabilities estimates, whereas the IFRS 17 risk adjustment for non-financial risk is the compensation the Company requires for bearing the uncertainty that arises from non-financial risk. IFRS 4 required a risk margin for financial risks (i.e., investment risk) which is not permitted by IFRS 17.

- **Onerous contracts:** IFRS 17 requires the identification of groups of onerous contracts when facts and circumstances indicate a loss for PAA contracts. When onerous contracts are identified, the Company is required to recognize a loss immediately in the statement of profit or loss along with an increase in the insurance contract liability known as a "loss component" to appropriately reflect the timing of losses. The amount of loss from onerous contracts written in a year is a required disclosure. The Company has not identified the existence of any onerous contracts impacting opening equity on transition to IFRS 17.

- **Reinsurance contracts held:** The Company will apply the PAA to its reinsurance contracts held which is similar to how they are measured under IFRS 4. When measuring the asset for incurred claims, the Company will include any risk of non-performance of the reinsurer.

- **Presentation and disclosure:** IFRS 17 introduces changes to the way in which the company will present and disclose financial results. Insurance contract liabilities presented in the balance sheet will consist of premiums receivable, deferred policy acquisition cash flows, unearned premiums, any onerous loss component (if applicable), discounted and risk adjusted claim liabilities, and other related liabilities.

  Reinsurance contract assets will be separately presented in the balance sheet and will include the risk adjusted amounts expected to be recovered from reinsurers, and any reinsurance premiums payable. The reclassification of amounts on the balance sheet are expected to result in a reduction in the total assets and liabilities of the Company. The statement of comprehensive income will no longer include premiums written, instead it will include an insurance service result comprising insurance revenue and insurance service expenses. Insurance finance income or expense will be presented within investment result. There will be significant insurance contract roll-forward schedules, discount rates, as well as some changes to the claims development table to reconcile to the liabilities for incurred claims.

1. Significant accounting policies (continued):

(g) Standards, amendments and interpretations not yet effective (continued):

(ii) IFRS 9, Financial Instruments:

In July 2014, the IASB issued the complete amended IFRS 9. The mandatory effective date of IFRS 9 was for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight.

IFRS 9 introduces new requirements for the classification and measurement of financial assets based on the business model in which they are held and the characteristics of their contractual cash flows. It also amends the impairment model by introducing a new expected credit losses (“ECL”) model for calculating impairment.

In September 2016, the IASB issued amendments to IFRS 4 to address accounting mismatches and volatility that may arise in profit or loss in the period between the effective date of IFRS 9 and the new insurance contracts standard IFRS 17 issued in May 2017.

As at January 1, 2018, the Company elected to apply the optional transitional relief under IFRS 4 that permits the deferral of the adoption of IFRS 9 for eligible insurers. The Company will continue to apply IAS 39 until January 1, 2023.

On January 1, 2023, the Company will adopt IFRS 9 in its financial statements on the same date of application of IFRS 17. Changes in accounting policies resulting from the adoption of IFRS 9 will be applied retrospectively. The below analysis of the expected impacts as a result of IFRS 9 are not exhaustive. The Company has not completed its full analysis of the impacts the IFRS 9 given the timing of this reporting.

Classification and measurement

The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed, and its contractual cash flow characteristics. IFRS 9 includes three principal measurement categories for financial assets:

1. Measured at amortized cost;
2. Measured at Fair Value through Other Comprehensive Income (“FVOCI”); and
3. Measured at Fair Value through Profit or Loss (“FVTPL”)

and eliminates the previous IAS 39 categories of held-to-maturity investments, loans and receivables, and available-for-sale financial assets.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as measured at FVTPL:

a) It is held within a business model whose objective it to hold assets to collect contractual cash flows; and
b) Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

1. Significant accounting policies (continued):

(g) Standards, amendments and interpretations not yet effective (continued):

(ii) IFRS 9, Financial Instruments (continued):

A financial asset is measured at FVOCI if it meets both of the following conditions and is not designated as measured at FVTPL:

a) It is held within a business model whose objective it achieved by both collecting contractual cash flows and selling financial assets; and
b) Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. In addition, on initial recognition the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The Company expects IFRS 9 will affect the classification and measurement of the Company's investments as follows:

- Marketable securities and equity investments in private companies previously designated to be measured as FVTPL will continue to be classified and measured at FVTPL under IFRS 9.
- Debt investments that are classified as held-to-maturity financial assets under IAS 39, will be measured at FVTPL following designation by management to be measured at FVTPL to eliminate or significantly reduce an accounting mismatch that would otherwise arise.

As a result of the above, the Company's total equity is expected to be impacted only to the extent of any reclassifications between the amortized cost and fair value measurement categories.

2. Critical accounting estimates and judgments:

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual experience may differ from these estimates and assumptions.

2. Critical accounting estimates and judgments (continued):

The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Provision for unpaid claims:

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

(b) Income taxes:

The Company periodically assesses its liabilities and contingencies related to income taxes for all years open to audit by the Canadian Revenue Agency based on the latest information available and records its best estimate of the tax liability. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

3. Role of the actuary:

An actuary is appointed by the Board of Directors pursuant to the Insurance Companies Act. The actuary's responsibility is to carry out an annual valuation of the Company's policy liabilities, which consist of a provision for, and reinsurance recovery of, unpaid claims and adjusting expenses on insurance policies in force, and of future obligations on the unearned portion of insurance policies in force including deferred policy acquisition expenses. The valuation is made in accordance with accepted actuarial practice and regulatory requirements and reported thereon to the policyholders. In performing the valuation of the liabilities, which are by their very nature inherently variable, assumptions are made as to the future loss ratios, trends, rates of claims frequency and severity, inflation, reinsurance recoveries, investment rates of return, and both internal and external adjusting expenses, taking into consideration the circumstances of the Company and the nature of the insurance policies in force. The provisions do not include estimates for extraordinary future emergence of either new classes of claims or claims categories not sufficiently recognized in the claims database. The actual development of claims and adjusting expenses will vary from the valuation and may, in fact, vary materially.

Examination of supporting data for accuracy and completeness, and analysis of Company assets for their ability to support the amount of policy liabilities are important elements of the work required to form this opinion. The actuary, in this verification of the underlying data used in the valuation, also makes use of the work of the Company's external auditor.

4. Financial instruments classification:

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

In thousands of dollars	Loans and receivables	Fair value through profit and loss	Held to maturity	Other financial liabilities	Total
December 31, 2022:					
Investments	$ –	$ 17,354	$ 28,029	$ –	$ 45,383
Accrued investment income	153	–	–	–	153
Premiums receivable from policy holders	10,309	–	–	–	10,309
Due from other insurers	650	–	–	–	650
Accounts payable and accrued liabilities	–	–	–	1,778	1,778

In thousands of dollars	Loans and receivables	Fair value through profit and loss	Held to maturity	Other financial liabilities	Total
December 31, 2021:					
Investments	$ –	$ 18,902	$ 26,960	$ –	$ 45,862
Accrued investment income	153	–	–	–	153
Premiums receivable from policy holders	10,184	–	–	–	10,184
Due from other insurers	77	–	–	–	77
Accounts payable and accrued liabilities	–	–	–	1,662	1,662

4. Financial instruments classification (continued):

(b) Additional disclosures:

The following additional disclosure, required by IFRS 9 for eligible insurers, presents the fair value and the amount of change in the fair value of the Company's financial assets as at and for the year ending December 31, 2022, showing separately the fair value of financial assets with contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding ("SPPI") and the fair value of financial assets that do not give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding ("Non-SPPI"):

In thousands of dollars	SPPI		Non-SPPI	
	Fair Value	Change in fair value	Fair value	Change in fair value
Bonds and debentures	$ 25,766	$ (1,602)	$ –	$ –
Pooled, mutual and other funds	–	–	9,792	(687)
Equities	–	–	7,562	(861)
	$ 25,766	$ (1,602)	$ 17,354	$ (1,548)

The following additional disclosure, required by IFRS 9 for eligible insurers, presents the credit risk ratings of SPPI financial assets at December 31, 2022:

In thousands of dollars Credit rating	Credit risk	Carrying Value	Carrying amount % of total
AAA	Low	$ 844	3.0%
AA	Low	11,692	41.7%
A	Low	11,172	39.9%
BBB	Low	4,321	15.4%
		$ 28,029	100.0%

5. Investments:

The carrying amounts of investments are summarized as follows:

In thousands of dollars	2022 Fair value	2022 Carrying amount	2021 Fair value	2021 Carrying amount
Bonds and debentures, carried at amortized cost:				
Government of Canada	$ 805	$ 844	$ 1,884	$ 1,859
Canadian provinces and Provincial enterprises	17,758	19,248	18,349	18,084
Canadian municipal and public authorities	956	995	517	501
Canadian corporate	6,247	6,942	6,618	6,516
	25,766	28,029	27,368	26,960
Marketable securities, carried at fair value:				
Common shares of Canadian corporations	5,232	5,232	5,977	5,977
Preferred shares of Canadian corporations	580	580	774	774
Greystone Canadian Fixed Income Pooled Fund	4,055	4,055	4,572	4,572
Greystone Canadian & Global Equity Pooled Funds	5,684	5,684	5,854	5,854
	15,551	15,551	17,177	17,177
Equity investment in private company	1,750	1,750	1,672	1,672
Fire Mutual Guarantee Fund	53	53	53	53
Total	$ 43,120	$ 45,383	$ 46,270	$ 45,862

All bonds held by Grenville Mutual are grouped into Level 2 – fair value measurements derived from inputs from quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

5. Investments (continued):

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).

In thousands of dollars	Level 1	Level 2	Level 3	Total
December 31, 2022:				
Equities	$ 5,812	$ –	$ 1,750	$ 7,562
Greystone Pooled funds	–	9,739	–	9,739
Fire Mutual Guarantee Fund	–	53	–	53
Total	$ 5,812	$ 9,792	$ 1,750	$ 17,354

In thousands of dollars	Level 1	Level 2	Level 3	Total
December 31, 2021:				
Equities	$ 6,751	–	$ 1,672	$ 8,423
Greystone Pooled funds	–	10,426	–	10,426
Fire Mutual Guarantee Fund	–	53	–	53
Total	$ 6,751	$ 10,479	$ 1,672	$ 18,902

There were no transfers between Level 1 and Level 2 for the years ended December 31, 2022 and December 31, 2021. There was 1 Level 3 investment for the year ended December 31, 2022.

5. Investments (continued):

The predominate factor used to determine the value of the private equity investment was the transaction price, and carrying value/net assets of the private company obtained from most recently available financial statements. Key unobservable inputs of the market value included progress towards operational milestones, valuation assumptions associated with underlying businesses, and any events occurring between the transaction and the measurement date. The difference between the opening balance as at January 1, 2022 and the closing balance as at December 31, 2022 is due to the change in fair value of the financial instrument at fair value through profit and loss.

(a) Credit risk:

The Company is exposed to credit risk resulting from the possibility that other parties may default on their financial obligations. The maximum exposure to this risk with respect to investments is the carrying value of bonds and debentures.

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 through its Conduct Review Committee. Diversification techniques are utilized to minimize risk. The policy limits the investment in any one corporate issuer to a maximum of 10% of the Company's total portfolio.

The Company's investment policy permits investment of 75% to 100% of the total portfolio in investment grade fixed income investments and up to 25% of the total portfolio in investment grade Canadian equity investments of which up to 5% can be held in private companies. The Company's investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits and aggregate issuer limits. The Company limits its holdings in foreign investments to 5% of its total portfolio.

The Company entered into an agreement with Greystone Managed Investments Inc. to manage the Company's investments in the Greystone Canadian Equity Fund, the Greystone Global Equity Fund, and the Greystone Canadian Fixed Income Fund. The eligible assets of the funds must be invested in publicly traded securities, with no more than 5% being invested in foreign securities outside of Canada. The Fixed Income Pooled Fund may have assets consisting of government bonds, corporate bonds with a BBB rating or better, Canadian Treasury Bills and preferred shares of corporations whose senior debt is rated A or better.

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

5. Investments (continued):

(b) Market risk:

Market risk is the risk that the fair value of investments or future cash flows from investments will fluctuate as a result of market factors. The significant market risks to which the Company is exposed are interest rate price risk and equity risk.

(i) Interest rate price risk:

The Company's investments in bonds and debentures are held-to-maturity and as such are not exposed to interest rate risk arising from fluctuations in interest rates.

The Company has an investment strategy to maintain a laddered structure of maturities of bonds and debentures to manage interest rate price risk. The laddered strategy helps reduce the sensitivity of the portfolio to the impact of interest rate fluctuations.

Approximately 7% (2021 - 9%) of the bonds and debentures mature within one year, 35% (2021 - 36%) mature after one year through five years and 58% (2021 - 55%) mature after five years.

At December 31, 2022, a 1% move in interest rates, with all other variables held constant, would impact the fair value of bonds and debentures by $1,221,295 (2021 - $1,332,810) and the value of fixed income pooled funds by $319,550 (2021 - $357,039).

(ii) Equity risk:

Equity risk is the uncertainty associated with the valuation of assets arising from changes in the equity markets.

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 common shares of $523,126 (2021 - $597,738) and Company's preferred shares of $58,016 (2021 - $77,387).

A 10% movement in the associated benchmark indices, with all other variables held constant, would have an estimated effect on the fair values of the Company's pooled equity funds of $519,871 (2021 - $541,758).

Realized and unrealized gains and losses are recognized in income during the year.

Shares have no fixed maturity date and are generally not exposed to interest rate risk. Dividends are generally declared on a quarterly or annual basis.

The Greystone equity pooled funds may have assets consisting of common shares of companies listed on Canadian and Global Stock Exchanges, convertible debentures or convertible preferred shares of eligible common shares, Treasury Bills, warrants of eligible common shares, exchange traded index funds and income trusts with growing underlying assets.

6. Other financial instruments:

(a) Fair values of financial assets and financial liabilities:

The fair values of financial assets and liabilities, other than investments (note 4), and unpaid claims and adjusting expenses (note 9), approximate their carrying amounts.

(b) Credit risk:

The Company is exposed to credit risk as all of its reinsurance is placed with Farm Mutual Reinsurance Plan Inc. ("FMRP"), a Canadian registered mutual reinsurer incorporated without share capital, of which the Company is a member. The Company's 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. The maximum exposure resulting from this credit risk would be the carrying amount of "unpaid claims and adjusting expenses recoverable from reinsurer" as reported on the statement of financial position.

Premiums receivable include $9,070,632 (2021 - $8,770,334) which is due from policyholders on monthly payment plans. Almost all of these premiums are unearned as at December 31, 2022 and have not been included in revenue.

The balance of premiums receivable represents amounts receivable from brokers. Broker accounts are due, per contract terms, in 60 days. Net premiums due from brokers greater than 60 days amount to $38,786 (2021 - $3,658). Brokers are required, by regulation, to hold amounts collected from policyholders in trust accounts until the funds are remitted to the insurer.

Due from other insurers and accrued investment income are short-term in nature and are not subject to material credit risk.

(c) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to fund its obligations as they come due. The Company mitigates liquidity risk by monitoring its cash activities and expected outflows. At December 31, 2022, the Company had $5,655,616 (2021 - $2,814,219) of cash. Canadian fixed-income securities issued or guaranteed by domestic governments and investment grade corporate bonds held by the Company had a carrying value of $28,028,823 as at December 31, 2022 (2021 - $26,959,752). The Company has a demand loan operating facility in the amount of $2,000,000 (2021 - $2,000,000) to finance operating requirements as necessary.

7. Property and equipment:

Cost	Balance at December 31, 2021	Additions	Disposals	Balance at December 31, 2022
Land	$ 666,856	$ –	$ –	$ 666,856
Office premises, building service equipment and parking lot	6,375,258	–	–	6,375,258
Furniture and office equipment	479,838	26,196	–	506,034
Computer equipment	701,760	1,242	–	703,002
Automobiles	42,779	–	–	42,779
Right-of-use leased assets	46,355	28,877	–	75,232
	$ 8,312,846	$ 56,315	$ –	$ 8,369,161

Accumulated depreciation	Balance at December 31, 2021	Depreciation expense	Disposals	Balance at December 31, 2022
Land	$ –	$ –	$ –	$ –
Office premises, building service equipment and parking lot	2,373,960	273,214	–	2,647,174
Furniture and office equipment	472,388	4,488	–	476,876
Computer equipment	649,222	46,822	–	696,044
Automobiles	17,326	7,636	–	24,962
Right-of-use leased assets	28,260	16,739	–	44,999
	$ 3,541,156	$ 348,899	$ –	$ 3,890,055

	Net book value December 31, 2022	Net book value December 31, 2021
Land	$ 666,856	$ 666,856
Office premises, building service equipment and parking lot	3,728,084	4,001,298
Furniture and office equipment	29,158	7,450
Computer equipment	6,958	52,538
Automobiles	17,817	25,453
Right-of-use leased assets	30,233	18,095
	$ 4,479,106	$ 4,771,690

8. Intangible assets:

Cost	Balance at December 31, 2021	Additions	Disposals	Completion of software under development	Balance at December 31, 2022
Computer software	$ 1,088,365	$ –	$ –	$ –	$ 1,088,365
Customer relationships acquired	471,724	–	–	–	471,724
	$ 1,560,089	$ –	$ –	$ –	$ 1,560,089

Accumulated amortization	Balance at December 31, 2021	Disposals	Amortization expense	Balance at December 31, 2022
Computer software	$ 1,080,229	$ –	$ 8,136	$ 1,088,365
Customer relationships acquired	471,724	–	–	471,724
	$ 1,551,953	$ –	$ 8,136	$ 1,560,089

	Net book value December 31, 2022	Net book value December 31, 2021
Computer software	$ –	$ 8,136
Customer relationships acquired	–	–
	$ –	$ 8,136

9. Insurance contracts:

(a) The following is a summary of the insurance contract provisions and related reinsurance assets at December 31:

	Gross	Re-insurance	Net
December 31, 2022:			
Provision for unpaid claims and adjusting expenses:			
Long settlement term	$ 9,738,514	$ 4,126,550	$ 5,611,964
Short settlement term	22,283,272	14,310,725	7,972,547
	32,021,786	18,437,275	13,584,511
Provision for claims incurred but not reported	5,652,000	2,077,000	3,575,000
	37,673,786	20,514,275	17,159,511
Less: advance from Farm Mutual Reinsurance Plan Inc.	–	(2,820,169)	2,820,169
	$ 37,673,786	$ 17,694,106	$ 19,979,680

9. Insurance contracts (continued):

(a) (continued):

	Gross	Re-insurance	Net
December 31, 2021:			
Provision for unpaid claims and adjusting expenses:			
Long settlement term	$ 11,046,366	$ 6,519,650	$ 4,526,716
Short settlement term	9,992,360	5,863,530	4,128,830
	21,038,726	12,383,180	8,655,546
Provision for claims incurred but not reported	3,958,000	1,247,000	2,711,000
	$ 24,996,726	$ 13,630,180	$ 11,366,546

(b) Nature of unpaid claims and adjusting expenses:

During the year, the establishment of the provision for unpaid claims and adjusting expenses is based on known facts and interpretation of circumstances and is, therefore, a complex and dynamic process influenced by a large variety of factors. These factors include the Company's experience with similar cases and historical trends involving claim payment patterns, loss payments, pending levels of unpaid claims, product mix or concentration, claims severity and claim frequency patterns.

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

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

9. Insurance contracts (continued):

(b) Nature of unpaid claims and adjusting expenses (continued):

Consequently, the establishment of the provision for unpaid claims and adjusting expenses process relies on the judgment and opinions of a large number of individuals, on historical precedent and trends, on prevailing legal, economic, social and regulatory trends and on expectations as to future developments. The process of determining the provisions necessarily involves risks that the actual results will deviate, perhaps substantially, from the best estimates made. In accordance with Canadian accepted actuarial practice, the provisions for unpaid claims, adjustment expenses and related reinsurance recoveries have been recorded on a discounted basis. The discount rate used in the December 31, 2022 valuation was 4.08% (2021 - 1.78%).

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

(c) Changes in claim liabilities during the years ended December 31, 2022 and 2021 and their impact on claims and adjustment expenses for these years are as follows:

	Gross	Re-insurance	Net
December 31, 2022:			
Unpaid claim liabilities, beginning of year	$ 24,996,726	$ 13,630,180	$ 11,366,546
Decrease in estimated losses and expenses for losses occurring in prior years	(4,063,415)	(3,553,223)	(510,192)
Provision for losses and expenses on claims occurring in the current year	45,554,558	26,845,522	18,709,036
Payment on claims:			
Current year	(20,534,297)	(12,268,711)	(8,265,586)
Prior years	(8,279,786)	(4,139,493)	(4,140,293)
	37,673,786	20,514,275	17,159,511
Less: advance from Farm Mutual Reinsurance Plan Inc.		(2,820,169)	2,820,169
Unpaid claims, end of year, net	$ 37,673,786	$ 17,694,106	$ 19,979,680

9. Insurance contracts (continued):

(c) (continued):

	Gross	Re-insurance	Net
December 31, 2021:			
Unpaid claim liabilities, beginning of year	$ 22,944,271	$ 11,216,170	$ 11,728,101
Decrease in estimated losses and expenses for losses occurring in prior years	(2,666,904)	(863,672)	(1,803,232)
Provision for losses and expenses on claims occurring in the current year	19,740,159	6,156,996	13,583,163
Payment on claims:			
Current year	(8,899,914)	(348,218)	(8,551,696)
Prior years	(6,120,886)	(2,531,096)	(3,589,790)
Unpaid claims, end of year, net	$ 24,996,726	$ 13,630,180	$ 11,366,546

The change in estimate of losses occurring in prior years is due to changes arising from new information received.

The determination of the provision for unpaid claims and adjustment expenses and the related reinsurer's share requires the estimation of two major variables which are the development of claims, and reinsurance recoveries.

(d) Claim development:

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

The table that follows presents the development of claims payments and the estimated ultimate cost of claims for the claim years 2013 to 2022. The tables indicate the cumulative amounts paid or estimated to be paid (gross and net) 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.

9. Insurance contracts (continued):

(d) Claim development (continued):

Gross outstanding claims

In thousands of dollars	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
Gross estimate of cumulative claims cost:											
At the end of year of claim	$ 14,670	$ 14,844	$ 20,086	$ 22,710	$ 23,948	$ 21,818	$ 17,375	$ 19,831	$ 19,740	$ 45,555	
One year later	14,624	13,784	19,771	20,671	23,202	20,027	18,778	17,537	17,464		
Two years later	13,780	13,075	20,163	19,678	22,849	19,600	18,068	17,489			
Three years later	14,047	12,681	18,754	19,605	22,318	19,742	18,171				
Four years later	13,818	12,658	18,912	19,685	22,781	19,856					
Five years later	14,080	12,656	18,754	19,647	21,926						
Six years later	14,107	12,656	18,630	19,646							
Seven years later	14,132	12,656	17,353								
Eight years later	13,699	12,656									
Nine years later	13,699										
Current estimate of cumulative claims cost	13,699	12,656	17,353	19,646	21,926	19,856	18,171	17,489	17,464	45,555	203,815
Cumulative payments	13,681	12,656	17,068	19,481	20,054	18,966	15,459	13,755	15,032	20,534	166,686
Outstanding claims	18	–	285	165	1,872	890	2,712	3,734	2,432	25,021	37,129
Risk Sharing/Facility											422
Reinsurance Assumed											123
											$ 37,674

9. Insurance contracts (continued):

(d) Claim development (continued):

Net of reinsurance

In thousands of dollars	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
Net estimate of cumulative claims cost:											
At the end of year of claim	$ 11,625	$ 11,683	$ 14,591	$ 13,404	$ 16,285	$ 14,861	$ 14,021	$ 14,352	$ 13,583	$ 18,709	
One year later	11,152	10,959	13,971	11,867	16,115	14,081	14,523	13,153	12,879		
Two years later	10,787	10,820	14,110	11,676	16,043	14,259	13,529	12,994			
Three years later	10,883	10,565	13,797	11,734	15,555	14,395	13,629				
Four years later	10,671	10,542	13,913	11,812	15,655	14,525					
Five years later	10,771	10,540	13,737	11,746	15,711						
Six years later	10,770	10,540	13,658	11,744							
Seven years later	10,770	10,540	13,548								
Eight years later	10,746	10,540									
Nine years later	10,746										
Current estimate of cumulative claims cost	10,746	10,540	13,548	11,744	15,711	14,525	13,629	12,994	12,879	18,709	135,025
Cumulative payments	10,746	10,540	13,262	11,667	15,045	13,622	12,484	11,196	11,582	8,266	118,410
Outstanding claims	–	–	286	77	666	903	1,145	1,798	1,297	10,443	16,615
Risk Sharing/Facility											422
Reinsurance Assumed											123
											17,160
Advance from Farm Mutual Reinsurance Plan Inc.											2,820
											$ 19,980

9. Insurance contracts (continued):

(e) Fair value of unpaid claims and adjusting expenses:

It is not practicable to estimate the fair value of unpaid claims and adjusting expenses, gross and recoverable from insurers.

(f) Unearned premiums:

	2022	2021
Balance, beginning of year	$ 16,201,054	$ 15,622,087
Premiums written	33,934,117	32,292,019
Premiums earned during the year	(33,110,361)	(31,713,052)
Balance, end of year	$ 17,024,810	$ 16,201,054

(g) Deferred policy acquisition expenses:

	2022	2021
Balance, beginning of year	$ 3,018,946	$ 2,855,742
Costs incurred	7,020,881	6,853,545
Expensed during the year	(6,843,049)	(6,690,341)
Balance, end of year	$ 3,196,778	$ 3,018,946

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

(h) Catastrophic claims loss event:

During May 2022, a significant windstorm impacted the Quebec City - Windsor corridor affecting many policyholders of the Company. The Company incurred gross claims totalling approximately $21.4 million resulting in this event being classified as a catastrophe for reinsurance purposes ("CAT" event). The Company expects it will be able to recover approximately $20.2 million of the total gross claims incurred, for a net retention $1.2 million or 6.8% of our total net claims incurred of $18.2 million. As at December 31, 2022, $9.6 million (25.5%) of our provision for unpaid claims and adjusting expenses is CAT related, while $5.4 million (30.4%) of our recoverable from reinsurer is CAT related.

10. Bank loan:

The Company has an unsecured demand credit facility in the amount of $2,000,000 (2021 - $2,000,000) to finance operating requirements as needed. The demand loan bears interest at the Bank of Montreal prime rate + 0.25% and is secured by a general security agreement.

11. Gross claims and adjusting expenses:

Included in gross claims and adjusting expenses is the allocation of internal expenses pertinent to the administration, investigation and resolution of claims, and includes salaries and benefits of $752,012, depreciation expense of $88,179, and amortization expense of $1,914 (2021 - $714,063, $125,704 and $1,386, respectively).

12. Management and administrative salaries and benefits:

	2022	2021
Underwriter salaries and benefits	$ 1,074,830	$ 980,548
Administrative salaries and benefits	1,059,562	1,002,221
Information systems salaries and benefits	160,043	164,548
	$ 2,294,435	$ 2,147,317

13. Investment income (loss), net of investment expenses:

	2022	2021
Interest from bonds and debentures	$ 714,054	$ 712,448
Amortization of discounts and premiums on bonds and debentures	(27,294)	(41,961)
Other interest	24,099	(3,473)
Dividends	286,587	292,830
Reinvested distributions from pooled funds and mutual funds	657,104	459,127
Realized gain on investments	–	689,313
Unrealized gain (loss) on investments	(2,205,184)	1,914,649
Investment management costs	(130,038)	(119,540)
	$ (680,672)	$ 3,903,393

14. Income taxes:

(a) Income tax expense:

The income tax provision has been calculated on income before income taxes and varies from the basic income tax rate as follows:

	2022	2021
Provision for income taxes based on combined basic Canadian federal and provincial income tax rate of 26.5% (2021 – 26.5%)	$ (1,517,043)	$ 1,148,573
Increases (decreases) resulting from:		
Non-taxable income	(99,918)	(105,199)
Adjustment of prior years' income taxes	11,396	(115,498)
Other	2,578	2,997
Provision for income taxes	$ (1,602,987)	$ 930,873

(b) Deferred income taxes:

The movement in 2022 of deferred tax liabilities and assets is as follows:

2022	Opening balance	Recognized in net comprehensive income (loss)	Closing balance
Deferred tax liabilities:			
Property and equipment	$ 3,287	$ (29,617)	$ (26,330)
Deferred tax assets:			
Claims liabilities	$ 150,607	$ 741,808	$ 892,415
Other	100,696	(5,193)	95,503
	$ 251,303	$ 736,615	$ 987,918
Net deferred tax asset	$ 248,016	$ 766,232	$ 1,014,248

14. Income taxes (continued):

(b) Deferred income taxes (continued):

The movement in 2021 of deferred tax liabilities and assets is as follows:

2021	Opening balance	Recognized in net comprehensive income (loss)	Closing balance
Deferred tax liabilities:			
Property and equipment	$ 67,883	$ (64,596)	$ 3,287
Deferred tax assets:			
Claims liabilities	$ 606,427	$ (455,820)	$ 150,607
Other	129,971	(29,275)	100,696
	$ 736,398	$ (485,095)	$ 251,303
Net deferred tax asset (liability)	$ 668,515	$ (420,499)	$ 248,016

15. Supplemental information to statement of cash flows:

	2022	2021
Cash provided by (used in):		
Changes in working capital:		
Accrued investment income	$ (378)	$ (15,376)
Premiums receivable from policyholders	(124,294)	(93,895)
Prepaid expenses	(41,312)	(150,588)
Accounts payable and accrued liabilities	116,133	(79,018)
Non-cash changes in ROU liabilities	(28,877)	–
Income taxes (payable) recoverable	(1,686,584)	836,665
	$ (1,765,312)	$ 497,788
Changes in insurance contract related balances:		
Due from other insurers	$ (572,820)	$ 21,948
Unpaid claims and adjusting expenses recoverable from reinsurer	(4,063,925)	(2,414,010)
Deferred policy acquisition expenses	(177,832)	(163,204)
Unearned premiums	823,756	578,967
Provision for unpaid claims and adjusting expenses	12,677,060	2,052,455
	$ 8,686,239	$ 76,156

16. Related party transactions:

The Company incurred salaries, employee benefits and director's fees of $1,092,111 (2021 - $1,087,835) with respect to key management personnel, defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company.

17. Capital management:

The Company's objectives with respect to capital management are to maintain a capital base that is structured to exceed regulatory requirements and to best utilize its capital. Reinsurance is utilized to protect capital from catastrophic losses as the frequency and severity of these losses are inherently unpredictable. The Company's agreements with its reinsurer Farm Mutual Reinsurance Plan Inc. are described in note 18. For the purpose of capital management, the Company has defined capital as accumulated surplus.

The regulators measure the financial strength of property and casualty insurers using a minimum capital test ("MCT"). The regulators generally expect property and casualty companies to comply with the 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%. The MCT for the Company at December 31, 2022 was 401% (2021 - 473%).

18. Insurance risk management:

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

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

The Company purchases reinsurance as part of its risk mitigation program. Retention limits for the excess-of-loss reinsurance vary by product line.

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 any reinsurer is unable to meet its obligations assumed under such reinsurance agreements.

18. Insurance risk management (continued):

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

The Company manages this risk via its underwriting and reinsurance strategy within an overall risk management framework. Exposures are limited by having documented underwriting limits and criteria. Pricing of property and liability policies are based on assumptions in regard to trends and past experience, in an attempt to correctly match policy revenue with exposed risk. Reinsurance is purchased to mitigate the effect of the potential loss to the Company. Reinsurance is placed with FMRP.

A summary of reinsurance arrangements and underwriting limits are as follows:

- The Company follows the policy of underwriting and reinsuring contracts of insurance which limit the retained liability of the Company to a maximum amount, on any one loss, to:
  - Property - $550,000 (2021 - $550,000)
  - Auto - $500,000 (2021 - $500,000)
  - Liability of $600,000 (2021 - $600,000).
- The reinsurance treaties provide stop loss coverage that limits the amount of net losses for a year to 70% (2021 - 70%) of earned premiums for property, automobile, and liability policies.
- The Company has catastrophe reinsurance which provides coverage for 100% of single event losses in excess $1,237,500 (2021 - $1,237,500).

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 mutual companies by FMRP. The rate filing must include actuarial justification for rate increases or decreases. All rate filings are approved or denied by FSRA. Rate regulation may affect the automobile premium revenues that are earned by the Company. The actual impact of rate regulation would depend on the competitive environment at the time.

Automobile premiums are subject to approval by FSRA and therefore may result in a delay in adjusting the pricing to exposed risk; in this case the Company has polices regarding renewal and new business accepted.

The Company is exposed to a pricing risk to the extent that unearned premiums are insufficient to meet the related future policy costs. Evaluations are performed regularly to estimate future claims costs, related expenses, and expected profit in relation to unearned premiums. There was no premium deficiency as at December 31, 2022 or December 31, 2021.

18. Insurance risk management (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 occurrence, expected loss ratios and claims development as described in note 9(d).

Results of sensitivity testing based on ultimate loss ratios for the 2022 accident year 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% change in loss ratios:						
Gross claims change	$1,206,368	$1,112,140	$ 335,138	$ 358,750	$ 114,013	$ 114,763
Net claims change	956,497	889,867	268,240	294,557	91,400	91,429

19. Commitment:

The Company is a member of the Fire Mutual Guarantee Fund. The Fund was established to provide payment of outstanding policy holders' 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.