Lambton Mutual Insurance Company
Financial Statements
For the year ended December 31, 2022

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Tel: 519-245-1913
Fax: 519-245-5987
www.bdo.ca

BDO Canada LLP
425 Caradoc Street South, Unit E
Strathroy, ON N7G 2P5

Independent Auditor's Report

To the Directors and Policyholders of
Lambton Mutual Insurance Company

Opinion

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Lambton Mutual Insurance Company as at December 31, 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 Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

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

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

Strathroy, Ontario
January 30, 2023

Lambton Mutual Insurance Company
Statement of Financial Position
As at December 31, 2022

	2022	2021
Assets		
Cash	$ 4,987,656	$ 3,888,903
Investments (Note 4)	60,494,314	64,486,793
Investment income accrued	204,095	104,535
Income taxes recoverable	151,109	-
Due from agents, brokers and policyholders	7,368,107	6,769,439
Reinsurers' share of provision for unpaid claims (Note 3)	4,836,733	4,826,916
Deferred policy acquisition expenses (Note 3)	2,698,145	2,472,331
Property, plant & equipment (Note 13)	1,188,842	1,255,346
Intangible assets (Note 13)	139,570	19,180
Other assets	216,612	229,639
Deferred income taxes (Note 11)	1,174,000	165,000
	$83,459,183	$ 84,218,082
Liabilities		
Accounts payable and accrued liabilities	$ 1,204,866	$ 2,107,344
Income taxes payable	-	71,291
Unearned premiums (Note 3)	16,147,250	14,874,830
Provision for unpaid claims (Note 3)	25,016,497	23,879,265
	42,368,613	40,932,730
Policyholders' Surplus		
Unappropriated policyholders' surplus	41,090,570	43,285,352
	$83,459,183	$ 84,218,082

Signed on behalf of the Board by:

_______________________________ Director

_______________________________ Director

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

Lambton Mutual Insurance Company
Statement of Comprehensive Income (Loss)
For the Year Ended December 31, 2022

	2022	2021
Underwriting income		
Gross premiums written	$32,412,533	$ 29,733,319
Less reinsurance ceded	4,797,120	4,293,235
Net premiums written	27,615,413	25,440,084
Less increase in unearned premiums	1,272,420	1,146,504
Net premiums earned	26,342,993	24,293,580
Service charges	157,855	140,738
	26,500,848	24,434,318
Direct losses incurred		
Gross claims and adjustment expenses (Note 10)	19,996,754	16,436,751
Less reinsurers' share of claims and adjustment expenses	1,096,494	1,178,475
	18,900,260	15,258,276
	7,600,588	9,176,042
Expenses		
Commissions and other acquisition expenses (Note 7)	5,481,785	4,851,625
Other operating and administrative expenses (Note 8)	3,479,577	3,381,370
	8,961,362	8,232,995
Net underwriting income (loss) before premium refund	(1,360,774)	943,047
Refund of premiums to policyholders	(61,160)	(1,000,000)
Net underwriting loss	(1,421,934)	(56,953)
Community support	(70,428)	(40,206)
Investment and other income (loss) (Note 5)	(1,781,402)	3,688,388
Income (loss) before income taxes	(3,273,764)	3,591,229
Provision (recovery) for income taxes (Note 11)	(1,078,982)	909,982
Net income and total comprehensive income (loss) for the year	$ (2,194,782)	$ 2,681,247

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

Lambton Mutual Insurance Company
Statement of Policyholders' Surplus
For the Year Ended December 31, 2022

	Total
Balance at January 1, 2021	$40,604,105
Net income and total comprehensive income for the year	2,681,247
Balance on December 31, 2021	43,285,352
Net income and total comprehensive income (loss) for the year	(2,194,782)
Balance on December 31, 2022	$41,090,570

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

Lambton Mutual Insurance Company
Statement of Cash Flows
For the Year Ended December 31, 2022

	2022	2021
Operating activities		
Net income and total comprehensive income	$ (2,194,782)	$ 2,681,247
Adjustments for:		
Depreciation (Note 8 and Note 10)	89,293	148,073
Unrealized gain (loss) on investments	3,904,666	(1,769,033)
Amortization of investments	36,006	53,309
Interest and dividend income	(1,989,959)	(1,673,201)
Provision for income taxes	(1,078,982)	909,982
Realized gain from disposal of investments	(291,215)	(408,485)
Gain on disposal of property, plant & equipment	-	(400)
	669,809	(2,739,755)
Changes in working capital		
Change in due from agents, brokers and policyholders and reinsurers' share of provision for unpaid claims	(608,485)	1,275,945
Change in other assets	13,027	(41,090)
Change in accounts payable and accrued liabilities	(902,478)	1,225,868
	(1,497,936)	2,460,723
Changes in insurance contract related balances, provisions		
Change in deferred policy acquisition expenses	(225,814)	(211,326)
Change in unearned premiums	1,272,420	1,146,504
Change in provision for unpaid claims	1,137,232	(914,976)
	2,183,838	20,202
Cash flows related to interest, dividends and income taxes		
Interest and dividends received	1,890,399	1,742,723
Income taxes received	(152,418)	84,960
	1,737,981	1,827,683
Total cash inflows from operating activities	898,910	4,250,100
Investing activities		
Sale of investments	17,037,335	4,385,432
Purchase of investments	(16,694,313)	(9,494,175)
Proceeds from sale of property, plant & equipment	-	400
Purchase of property, plant & equipment and intangible assets	(143,179)	(92,352)
Total cash outflows from investing activities	199,843	(5,200,695)
Net increase (decrease) in cash	1,098,753	(950,595)
Cash, beginning of year	3,888,903	4,839,498
Cash, end of year	$ 4,987,656	$ 3,888,903

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

1. Corporate Information

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

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

These financial statements have been authorized for issue by the Board of Directors on January 27, 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 the financial assets classified as fair value through profit or loss ("FVTPL").

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

(c) Judgment and Estimates

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

- The calculation of unpaid claims, including the determination of the initial claim liability, discount rates, the estimate of time until ultimate settlement and the performance of a liability adequacy test (Note 3);
- The determination of the recoverability of deferred policy acquisition expenses (Note 3); and
- The classification of financial assets at FVTPL, which includes assessing the business model within which the assets are held and whether the contractual terms of the assets are solely payments of principal and interest on the principal amount outstanding (Note 4).

2. Basis of presentation (continued)

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

3. 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.

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

(a) Premiums and unearned premiums

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

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

	2022	2021
Balance, beginning of the year	$14,874,830	$ 13,728,326
Premiums written	32,412,533	29,733,319
Premiums earned during year	(31,140,113)	(28,586,815)
Changes in UEP recognized in income	1,272,420	1,146,504
Balance, end of the year	$16,147,250	$ 14,874,830

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

3. Insurance contracts (continued)

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

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

(b) Deferred policy acquisition expenses

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

	2022	2021
Balance, beginning of the year	$ 2,472,331	$ 2,261,005
Acquisition costs incurred	5,707,599	5,062,951
Expensed during the year	(5,481,785)	(4,851,625)
Balance, end of the year	$ 2,698,145	$ 2,472,331

(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.

3. Insurance contracts (continued)

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

	December 31, 2022			December 31, 2021		
	Gross	Re-insurance	Net	Gross	Re-insurance	Net
Outstanding claims provision						
Long term	$11,815,596	$ 1,151,617	$10,663,979	$ 11,892,689	$ 1,270,259	$ 10,622,430
Short term	8,035,026	1,785,116	6,249,910	5,893,639	1,814,657	4,078,982
Facility Association and other residual pools	413,600	-	413,600	428,606	-	428,606
	20,264,222	2,936,733	17,327,489	18,214,934	3,084,916	15,130,018
Provision for claims incurred but not reported	4,752,275	1,900,000	2,852,275	5,664,331	1,742,000	3,922,331
	$25,016,497	$ 4,836,733	$20,179,764	$ 23,879,265	$ 4,826,916	$ 19,052,349

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.

3. Insurance contracts (continued)

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

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

	2022	2021
Unpaid claim liabilities - beginning of year – net of reinsurance	$19,052,349	$ 18,371,954
Decrease in estimated losses and expenses, for losses occurring in prior years	(6,918,685)	(2,386,731)
Provision for losses and expenses on claims occurring in the current year	25,818,943	17,645,017
Payment on claims:		
Current year	(12,704,514)	(9,209,976)
Prior years	(5,068,329)	(5,367,915)
Unpaid claims – end of year - net	20,179,764	19,052,349
Reinsurers' share of provision for unpaid claims	4,836,733	4,826,916
Provision for unpaid claims, end of year	$25,016,497	$ 23,879,265

3. Insurance contracts (continued)

Claim development

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

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

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

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

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

3. Insurance contracts (continued)

Gross claims	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
Gross estimate of cumulative claims cost											
End year of claim	$ 17,888,427	$ 17,166,979	$ 14,795,702	$ 16,540,379	$ 17,664,566	$ 19,912,085	$ 17,641,842	$ 19,105,122	$ 19,704,092	$ 27,578,750	
One year later	13,437,360	14,687,640	13,372,327	14,161,850	15,334,376	18,170,935	16,071,253	17,811,140	16,855,949		
Two years later	12,753,264	14,581,289	1,148,822	12,720,133	15,265,188	18,228,119	15,499,881	16,460,444			
Three years later	12,514,702	14,172,342	10,819,171	12,637,617	15,081,911	18,380,803	14,075,482				
Four years later	12,205,780	13,537,683	10,787,213	12,308,349	14,405,555	17,926,094					
Five years later	12,198,445	13,308,831	10,726,479	12,001,788	13,780,449						
Six years later	12,404,541	13,306,940	10,604,732	11,337,482							
Seven years later	12,510,214	13,312,340	10,345,589								
Eight years later	12,069,523	13,306,087									
Nine years later	12,064,548										
Current estimate of cumulative claims cost	12,064,548	13,306,087	10,345,589	11,337,482	13,780,449	17,926,094	14,075,482	16,460,444	16,855,949	27,578,750	153,730,874
Cumulative payments	12,052,713	13,288,913	10,152,111	11,298,091	13,383,516	16,952,239	12,567,081	13,224,547	13,194,462	12,976,796	129,090,469
Outstanding claims	$ 11,835	$ 17,174	$ 193,478	$ 39,391	$ 396,933	$ 973,855	$ 1,508,401	$ 3,235,897	$ 3,661,487	$ 14,601,954	$ 24,640,405
Outstanding claims 2012 and prior											376,092
Total outstanding claims											$ 25,016,497

3. Insurance contracts (continued)

Net of Reinsurance	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
Net estimate of cumulative claims cost											
End year of claim	$ 13,602,427	$ 15,476,266	$ 13,721,990	$ 14,834,452	$ 14,096,398	$ 17,265,813	$ 16,952,206	$ 17,311,325	$ 17,645,017	$ 25,818,943	
One year later	10,809,137	12,536,215	12,042,142	12,472,962	11,391,721	15,482,162	15,214,120	16,114,063	14,970,067		
Two years later	10,137,849	12,510,364	10,335,584	11,610,571	11,638,255	15,488,680	14,824,470	14,532,543			
Three years later	9,731,215	12,269,580	9,899,086	11,238,455	11,187,629	15,188,429	13,612,071				
Four years later	9,499,046	11,691,977	9,837,784	11,062,271	10,907,819	14,815,720					
Five years later	9,403,366	11,043,047	9,764,304	10,979,660	10,502,713						
Six years later	9,538,125	11,045,976	9,750,847	10,681,297							
Seven years later	9,447,310	11,051,376	9,530,704								
Eight years later	9,341,884	11,045,123									
Nine years later	9,336,909										
Current estimate of cumulative claims cost	9,336,909	11,045,123	9,530,704	10,681,297	10,502,713	14,815,720	13,612,071	14,532,543	14,970,067	25,818,943	134,846,090
Cumulative payments	9,325,074	11,027,949	9,363,226	10,641,906	10,155,780	13,994,865	12,308,670	12,504,936	12,501,109	12,704,527	114,528,042
Outstanding claims	$ 11,835	$ 17,174	$ 167,478	$ 39,391	$ 346,933	$ 820,855	$ 1,303,401	$ 2,027,607	$ 2,468,958	$ 13,114,416	$ 20,318,048
Outstanding claims 2012 and prior											(138,284)
Total outstanding claims											$ 20,179,764

3. Insurance contracts (continued)

The risks associated with insurance contracts are complex and subject to a number of variables which complicate quantitative sensitivity analysis. The Company 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 would result in the following increase:						
Gross	$ 764,305	$ 677,581	$ 673,314	$ 640,621	$ 119,387	$ 111,139
Net	$ 631,235	$ 556,283	$ 593,294	$ 571,542	$ 92,620	$ 86,854

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

(d) Liability adequacy test

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

(e) Reinsurers' share of provision for unpaid claims

The Company enters into reinsurance contracts in the normal course of business in order to limit potential losses arising from certain exposures. Retention limits for the excess-of-loss reinsurance are set by product line. Reinsurance premiums are accounted for in the same period as the related premiums for the direct insurance business being reinsured. Reinsurance liabilities, comprised of premiums payable for the purchase of reinsurance contracts, are included in accounts payable and accrued liabilities and are recognized as an expense when due.

3. Insurance contracts (continued)

The Company follows the policy of underwriting and reinsuring contracts of insurance which, for 2022 claims, limited the liability of the Company to a maximum amount on any one property claim to $400,000 (2021 - $325,000). The maximum liability to the Company for each auto claim is limited to the amount of $650,000 (2021 - $600,000), and for each liability claim to the amount of $600,000 (2021 - $550,000).

Additionally the Company carries reinsurance with an upper limit of $1,250,000 (2021 - $975,000) to protect itself against certain catastrophic losses. In addition, the Company has obtained stop loss reinsurance which limits the liability of all claims in a specific year to 70% (2021 - 70%) of gross net earned premiums for all lines of business combined.

Amounts recoverable from reinsurer are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that the reinsurer is unable to meet its obligations assumed under such reinsurance agreements.

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

Due from reinsurers	2022	2021
Submitted to reinsurer	1,086,678	2,773,845
Received from reinsurer	(1,086,678)	(2,773,845)
Balance, end of the year	$ -	$ -

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

3. Insurance contracts (continued)

Changes in reinsurers' share of provision for unpaid claims recorded in the statement of financial position for the years-ended December 31, 2022 and 2021 and their impact on net premiums earned for the two years follow:

Reinsurers' share of provision for unpaid claims	2022	2021
Balance, beginning of the year	$ 4,826,916	$ 6,422,287
New claims reserve	1,759,807	2,059,074
Change in prior year's reserve	(663,312)	(880,600)
Submitted to reinsurer	(1,086,678)	(2,773,845)
Balance, end of the year	$ 4,836,733	$ 4,826,916

(f) Refund from premium

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

4. Investments

(a) Recognition and initial measurement

The Company recognizes debt instruments and GICs on the date on which they are originated. Equity instruments (including investments in pooled funds) are recognized on the settlement date, which is the date that the asset is received by the Company. The instruments are initially measured at fair value.

(b) Classification and subsequent measurement

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

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

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

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

4. 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	2021
GICs, maturing January 2023 to December 2023 with fixed interest rates of 2.45% to 5.56%	$ 14,440,530	$ 10,600,313
Bonds issued by		
Federal	239,237	238,721
Provincial	6,294,445	7,139,207
Corporate (A or better)	2,436,854	3,771,545
	8,970,536	11,149,473
Equity investments		
Canadian	10,539,517	11,745,462
Pooled funds		
Lincluden Canadian equity	2,275,198	4,020,392
Lincluden fixed income	7,748,700	9,905,055
Scotia Trust fixed income	4,400,698	4,707,457
Addenda mortgage fund	8,851,317	8,940,358
Dynamic global infrastructure	1,077,613	1,084,802
1832 Equity income strategy	2,141,061	2,284,617
	26,494,587	30,942,681
Other investments		
Fire Mutuals guarantee fund	49,144	48,864
Total investments	$ 60,494,314	$ 64,486,793

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

4. Investments (continued)

The Company's investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits, corporate sector limits and general guidelines for geographic exposure. The bond portfolio includes 100% (2021 – 100%) of bonds rated A or better. The Company's investment policy limits investment in bonds and debentures of the various ratings to limits ranging from 65% to 100% of the Company's portfolio. All fixed income portfolios are measured for performance and monitored by management on a monthly basis.

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

The Company continues to monitor investments for credit ratings to ensure investments are made in bonds rated A or better.

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

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

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

The investment mix may be outside the minimum and maximum ranges stated by the investment policy with the approval of the Board of Directors.

Maturity profile of bonds held is as follows:

	Within 1 year	2 to 5 years	6 to 10 years	Over 10 years	Fair value
December 31, 2022	$ 590,662	$ 3,476,656	$ 4,032,063	$ 871,155	$ 8,970,536
Percent of Total	6 %	39 %	45 %	10 %	
December 31, 2021	$ 254,590	$ 4,840,566	$ 6,054,317	$ -	$11,149,473
Percent of Total	2 %	44 %	54 %	- %	

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

4. Investments (continued)

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's investment policy operates within the guidelines of the Insurance Act. An investment policy is in place and its application is monitored by the Board of Directors. Diversification techniques are utilized to minimize risk. 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 Canadian common equities of $1,053,952 (2021 - $1,174,546) and the equity pooled funds of $549,387 (2021 - $738,981). This change would be recognized in comprehensive income.

The Company's currency risk is related to stock holdings which are foreign equities in an effort to provide diversification to the portfolio. The Company limits its holdings in foreign equity to 8% and is currently at 2% of the total investment portfolio in accordance with its investment policy. Foreign currency changes are monitored by the Board of Directors and holdings are adjusted when offside of the investment policy.

The Company is exposed to interest rate risk through its interest bearing investments (Bonds, GICs and Fixed Income Pooled Funds).

Historical data and current information is used to profile the ultimate claims settlement pattern by class of insurance, which is then used in a broad sense to develop an investment policy and strategy. However, because a significant portion of the Company's assets relate to its capital rather than liabilities, the value of its interest rate based assets exceeds its interest rate based liabilities. As a result, generally, the Company's investment income will move with interest rates over the medium to long-term with short-term interest rate fluctuations creating unrealized gains or losses in comprehensive income.

At December 31, 2022, a 1% move in interest rates, with all other variables held constant, could impact the market value of bonds by $446,598 (2021 - $578,948). Also, a 1% move in interest rates, with all other variables held constant, could impact the market value of the fixed income pooled funds by $704,831 (2021 – $789,591). These changes would be recognized in comprehensive income.

The Company's equity investment policy limits investment in preferred and common shares to a maximum of 25% of total assets.

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

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

4. Investments (continued)

(e) Fair value measurement

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

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

	Level 1	Level 2	Level 3	Total
December 31, 2022				
GICs	$14,440,530	$ -	$ -	$14,440,530
Bonds	-	8,970,536	-	8,970,536
Equity investments	10,539,517	-	-	10,539,517
Pooled fund - commercial mortgages	-	-	8,851,317	8,851,317
Pooled funds - other	-	17,643,270	-	17,643,270
Other investments	-	49,144	-	49,144
Total	$24,980,047	$26,662,950	$ 8,851,317	$60,494,314
December 31, 2021				
GICs	$ 10,600,313	$ -	$ -	$ 10,600,313
Bonds	-	11,149,473	-	11,149,473
Equity investments	11,745,462	-	-	11,745,462
Pooled fund - commercial mortgages	-	-	8,940,358	8,940,358
Pooled funds - other	-	22,002,323	-	22,002,323
Other investments	-	48,864	-	48,864
Total	$ 22,345,775	$ 33,200,660	$ 8,940,358	$ 64,486,793

4. Investments (continued)

Transfers between levels are considered to have occurred at the date of the circumstances that caused the transfer. There were no transfers between level 1 and 2 for the year ended December 31, 2022 and 2021. There were also no transfers in and out of level 3. The level 3 commercial mortgage pooled funds are valued based on the net asset values of the fund as provided by the investment manager of the fund. The commercial mortgages in the commercial mortgage pooled fund are valued at the present value of discounted future cash flows. The discount rate is based on the equivalent Government of Canada rate and an additional spread to compensate for a loan's particular risk.

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

	2022	2021
Balance, beginning of year	$ 8,940,358	$ 8,746,961
Net purchases and sales	321,206	296,848
Unrealized gains (losses)	(410,247)	(103,451)
	$ 8,851,317	$ 8,940,358

5. Investment and other income

	2022	2021
Interest income	$ 1,288,545	$ 1,050,654
Dividend income	701,414	622,547
Realized gains on disposal of investments	291,215	408,485
Investment expenses	(171,760)	(172,031)
Unrealized gain (loss) on investments	(3,904,666)	1,769,033
Miscellaneous	13,850	9,700
	$ (1,781,402)	$ 3,688,388

6. Capital management

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

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

6. Capital management (continued)

The regulators measure the financial strength of property and casualty insurers using a minimum capital test (MCT). The regulators generally expect property and casualty companies to comply with capital adequacy requirements. This test compares a company's capital against the risk profile of the organization. The risk-based capital adequacy framework assesses the risk of assets, policy liabilities and other exposures by applying various factors. The regulator indicates that the Company should produce a minimum MCT of 150%. As at December 31, 2022, the Company has exceeded this minimum. The regulator has the authority to request more extensive reporting and can place restrictions on the Company's operations if the Company falls below this requirement as deemed necessary.

7. Commissions and other acquisition expenses

	2022	2021
Commissions and other acquisition expenses	$ 5,481,785	$ 4,851,625

8. Other operating and administrative expenses

	2022	2021
Computer costs	$ 607,602	$ 542,912
Licenses, fees and dues	204,593	182,989
Depreciation	46,648	97,522
Education, travel and meals	70,738	33,984
Office premises	65,523	72,527
Postage and office supplies	103,845	100,706
Professional fees	52,088	43,192
Salaries, benefits and directors fees	1,971,202	1,943,253
Other	357,338	364,285
	$ 3,479,577	$ 3,381,370

9. Salaries, benefits, commissions and directors fees

	2022	2021
Claims salaries and benefits (Note 10)	$ 1,268,808	$ 1,126,512
Commissions and other acquisition expenses (Note 7)	5,481,785	4,851,625
Other salaries, benefits and directors fees (Note 8)	1,971,202	1,943,253
	$ 8,721,795	$ 7,921,390

10. Gross claims and adjustment expenses

Included in claims expenses were wage costs of $1,268,808 (2021 - $1,126,512) and depreciation of $42,645 (2021 - $50,551).

11. Income taxes

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

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

	2022	2021
Current tax provision		
Based on current year taxable income (loss)	$ (69,982)	$ 69,982
Deferred tax expense		
Origination and reversal of temporary differences	(1,009,000)	840,000
Total income tax expense	$ (1,078,982)	$ 909,982

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

	2022	2021
Income before income taxes	$ (3,273,764)	$ 3,591,229
Expected taxes based on the statutory rate of 26.5% (2021 - 26.5%)	(867,547)	951,676
Deferred portion of claims liabilities	14,937	(858,791)
Other non-deductible expenses	1,034	140
Adjustments related to non-taxable dividends	(248,265)	(40,770)
Difference between amortization and CCA	6,859	17,833
Non-capital loss carryforward	1,023,000	-
Gain on sale of capital assets	-	(106)
Total current income tax expense	$ (69,982)	$ 69,982

11. Income taxes (continued)

	2022	2021
Deferred tax assets		
Deferred tax assets to be recovered within 12 months	$ 1,023,000	$ -
Deferred tax assets to be recovered after more than 12 months	151,000	165,000
	$ 1,174,000	$ 165,000

At December 31, 2022, a deferred tax asset of $1,174,000 (2021 - $165,000) 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. Structured settlements, fire mutuals guarantee fund and financial guarantee contracts

The Company enters into annuity agreements with various life insurance companies to provide for fixed and recurring payments to claimants. Under such arrangements, the Company’s liability to its claimants is substantially transferred, although the Company remains exposed to the credit risk if life insurers fail to fulfil their obligations.

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

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

13. Property, plant & equipment and intangible assets

Property, plant & equipment

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

Intangible assets

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

Property, plant and equipment

			2022	
	Depreciation Rate	Cost	Accumulated Depreciation	Net Book Value
Land	N/A	$ 459,410	$ -	$ 459,410
Buildings	2.5% declining balance	1,143,667	590,984	552,683
Computer hardware	4 years straight line	252,490	199,051	53,439
Equipment	10-20% declining balance	554,784	460,821	93,963
Vehicles	30% declining balance	135,617	106,270	29,347
		$ 2,545,968	$ 1,357,126	$ 1,188,842

			2021	
	Depreciation Rate	Cost	Accumulated Depreciation	Net Book Value
Land	N/A	$ 459,410	$ -	$ 459,410
Buildings	2.5% declining balance	1,143,667	576,813	566,854
Computer hardware	4 years straight line	241,545	165,202	76,343
Equipment	10-20% declining balance	550,804	439,989	110,815
Vehicles	30% declining balance	135,617	93,693	41,924
		$ 2,531,043	$ 1,275,697	$ 1,255,346

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

Intangible assets

	Useful Life	Cost	Accumulated Depreciation	Net Book Value
2022				
Computer software	4 years	$ 968,632	$ 829,062	$ 139,570

	Useful Life	Cost	Accumulated Depreciation	Net Book Value
2021				
Computer software	4 years	$ 840,377	$ 821,197	$ 19,180

14. Pension plan

The Company makes contributions on behalf of its employees to "The Retirement Annuity Plan for Employees of the Ontario Mutual Insurance Association and Member Companies". This pension plan is being accounted for as a multi-employer pension plan as defined by IAS 19 Employee Benefits. Each member company has signed an Ontario Mutual Insurance Association Pension Plan Agreement. Eligible employees participate in the defined benefit plan. The defined benefit plan specifies the amount of the retirement benefit to be received by the employee based on the number of years the employee has contributed and his/her final average earnings. The plan is accounted for as a defined contribution plan as insufficient information is available to account for the plan as a defined benefit plan. The Company is one of a number of employers that participates in the plans and the financial information provided to the Company on the basis of the contractual agreements is insufficient to reliably measure the Company's proportionate share in the plan assets and liabilities on defined benefit accounting requirements.

The Company matches the employee contributions and funds the excess defined benefit based on the Company's percentage of pensionable earnings as calculated by the Pension Plan actuaries. The Pension Plan agreement states that the Company is responsible for its share of any deficit as a result of any actuarial valuation or cost certificate. The minimum funding requirement is the solvency valuation amount determined by the Pension Plan actuary on the valuation dates prescribed by the Pension Benefit Act. In the event of a wind-up, voluntary withdrawal or bankruptcy, either by the Company or the group as a whole, the Company is responsible for its portion of all expenses and deficit related to such. According to the most recent actuarial valuation dated December 31, 2022, the going concern valuation of the defined benefit plan shows a surplus. The next pension valuation is scheduled for December 31, 2024.

14. Pension plan (continued)

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

The amount contributed to the plans for 2022 was $264,850 (2021 - $239,601). The contributions were made for current service and these have been recognized in comprehensive income (loss). Additional lump sum payments for 2022 were $nil (2021 - $50,665).

The Company had a 4.60% (2021 - 4.08%) share of the total contributions to the defined benefit plan in 2022.

The expected contributions to the plans by the Company for 2023 are $289,474.

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		
Salaries, short term employee benefits and director’s fees	$ 801,758	$ 690,384
Pension	91,780	67,846
	$ 893,538	$ 758,230
Premiums	$ 88,099	$ 94,035
Claims paid	$ 2,331	$ 22,651

Amounts owing to key management personnel at December 31, 2022 are $nil (2021 - $10,579).

16. Standards, amendments and interpretations not yet effective

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 in the process of quantifying the adjustments required on January 1, 2023, and to comparative balances.