we MUTUAL INSURANCE

# ANNUAL REPORT 2021

# CHAIRMAN'S REPORT TO POLICYHOLDERS

On behalf of the Board of Directors it is my pleasure to present to you, the policyholders of West Elgin Mutual, the Annual Report for the year 2021.

As another year ends we are all still dealing with COVID restrictions. We thank you, as policyholders, for being patient in doing business in a new format so we can stay safe and socially distanced and our management, staff and agents who have done a great job of serving our policyholders needs through all the ups and downs. Our company has always prided itself on a personal touch so as we move forward you can decide which system you prefer and continue with it.

This year West Elgin Mutual made a $100,000 donation to the Hospice of Elgin building project. Once completed, the hospice will touch many families in our area to improve end of life care which has not been available in Elgin County and it is with great pleasure that our company has helped to bring it closer to reality.

After a windstorm damaged the Dutton/Dunwich Community Centre, West Elgin stepped up to host the Federal Election polling station and two community group drive-thru dinners that had been planned for the Community Centre. The Mutual motto is “neighbour helping neighbour” so we tried to be there for ours.

The community garden (located on our property in Dutton) continued to expand in 2021, to provide more produce for those in need. At the end of 2021, the planning team received news that the garden had been selected to receive a grant of $2500 from Canada’s Farmers Grow Communities (sponsored by the Bayer Fund). This grant will definitely be put to good use in 2022 by the volunteer team.

During the year, West Elgin Mutual directors were involved in talks with our neighbour Howard Mutual, and at the beginning of 2022, an announcement was made that both companies would be seeking policyholder and regulatory approval of their amalgamation effective January 2023. This will make a very strong company that will meet policyholder needs in the future.

It has been an honour to be Chair this year and serve with this group of directors. We have a very exciting year ahead and look forward to a bright future.

Ken McCallum
Charman

# WEST ELGIN MUTUAL INSURANCE COMPANY

## FINANCIAL STATEMENTS

## DECEMBER 31, 2021

# WEST ELGIN MUTUAL INSURANCE COMPANY

**DECEMBER 31, 2021**

**CONTENTS**

Bailey
Kearney
Ferguson LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

**PARTNERS**
STEPHEN J. OUTRIDGE, CPA, CA
KEVIN M. SABOURIN, CPA, CA
JAMES D. KEARNEY, CPA, CA (RET.)

# INDEPENDENT AUDITORS' REPORT

To the Policyholders of
**West Elgin Mutual Insurance Company**

## Opinion

We have audited the accompanying financial statements of West Elgin Mutual Insurance Company (the Company), which comprise the statement of financial position as at December 31, 2021, and the statements of comprehensive income, policyholders' surplus and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021, and the results of its operations and 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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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

**Auditors' 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

Bailey Kearney Ferguson LLP

Wallaceburg, Ontario
February 22, 2022

Chartered Professional Accountants
Licensed Public Accountants

# WEST ELGIN MUTUAL INSURANCE COMPANY
**(Incorporated under the Laws of Ontario)**

## STATEMENT OF FINANCIAL POSITION

**AS AT DECEMBER 31, 2021**

### ASSETS

| | 2021 | 2020 |
|---|---|---|
| Cash and bank | $ 3,012,210 | $ 1,972,163 |
| Accrued investment income | 13,222 | 7,650 |
| Investments (Note 3) | 35,084,655 | 33,332,596 |
| Due from reinsurer (Note 2) | 20,848 | 27,398 |
| Premiums receivable | 4,632,034 | 4,598,051 |
| Reinsurer's share of provision for unpaid claims (Note 2) | 3,581,356 | 4,440,665 |
| Deferred policy acquisition expenses (Note 2) | 929,453 | 880,251 |
| Property, plant and equipment (Note 10) | 7,341,239 | 7,522,952 |
| Intangible assets (Note 10) | 2,730 | 10,623 |
| Deferred income taxes | 771,000 | 1,077,000 |
| | $ 55,388,747 | $ 53,869,349 |

### LIABILITIES

| | 2021 | 2020 |
|---|---|---|
| Provision for unpaid claims (Note 2) | $ 16,571,295 | $ 15,919,246 |
| Accounts payable and accrued liabilities | 766,515 | 852,941 |
| Provision for Unearned Premiums (Note 2) | 8,431,820 | 8,027,771 |
| Income taxes payable | 1,994 | 1,241 |
| Premium refund to policyholders | - | 500,000 |
| | 25,771,624 | 25,301,199 |
| **POLICYHOLDERS' SURPLUS** | | |
| Unappropriated policyholders' surplus | 29,617,123 | 28,568,150 |
| | $ 55,388,747 | $ 53,869,349 |

**APPROVED ON BEHALF OF THE BOARD**

Victor Lapadat Jr. **, Director**

Remi Van De Slyke **, Director**

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

## STATEMENT OF COMPREHENSIVE INCOME

### FOR THE YEAR ENDED DECEMBER 31, 2021

| | 2021 | 2020 |
|---|---|---|
| **GROSS INSURANCE PREMIUMS WRITTEN** | $ 17,511,834 | $ 16,654,482 |
| **REINSURANCE PREMIUMS CEDED** | 2,427,891 | 2,030,305 |
| **NET PREMIUMS WRITTEN** | 15,083,943 | 14,624,177 |
| **INCREASE IN PROVISION FOR UNEARNED PREMIUMS** | 404,049 | 725,556 |
| **NET PREMIUMS EARNED** | 14,679,894 | 13,898,621 |
| **SERVICE FEES** | 98,921 | 94,921 |
| **TOTAL UNDERWRITING REVENUE** | 14,778,815 | 13,993,542 |
| **DIRECT LOSSES INCURRED** | | |
| Gross claims and adjustment expenses | 9,943,179 | 8,765,139 |
| Less reinsurer's share of claims and adjustment expenses | 474,197 | (800,281) |
| | 10,417,376 | 7,964,858 |
| **UNDERWRITING INCOME BEFORE EXPENSES** | 4,361,439 | 6,028,684 |
| **EXPENSES** | | |
| Fees, commissions and other acquisition expenses (Note 6) | 2,075,570 | 1,986,651 |
| Other operating and administrative expenses (Note 7) | 3,253,392 | 3,052,215 |
| | 5,328,962 | 5,038,866 |
| **NET UNDERWRITING INCOME (LOSS)** | (967,523) | 989,818 |
| **OTHER INCOME (EXPENSE)** | | |
| Investment and other income (Note 4) | 2,322,340 | 1,405,799 |
| Premium refund to policyholders | - | (500,000) |
| | 2,322,340 | 905,799 |
| **INCOME BEFORE INCOME TAXES** | 1,354,817 | 1,895,617 |
| **PROVISION FOR INCOME TAXES** (Note 8) | 306,000 | 436,000 |
| **COMPREHENSIVE INCOME FOR THE YEAR** | $ 1,048,817 | $ 1,459,617 |

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

## STATEMENT OF POLICYHOLDERS' SURPLUS

### FOR THE YEAR ENDED DECEMBER 31, 2021

| | 2021 | 2020 |
|---|---|---|
| **BALANCE**, beginning of the year | $ 28,568,150 | $ 27,108,533 |
| Comprehensive income for the year | 1,048,817 | 1,459,617 |
| **BALANCE**, end of the year | $ 29,617,123 | $ 28,568,150 |

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

## STATEMENT OF CASH FLOWS

### FOR THE YEAR ENDED DECEMBER 31, 2021

| | 2021 | 2020 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Net income for the year | $ 1,048,817 | $ 1,459,617 |
| Items not requiring cash | | |
| Depreciation | 250,079 | 264,866 |
| Deferred income taxes | 306,000 | 436,000 |
| Realized gain on disposal of investments | (227,545) | (24,768) |
| Unrealized gain on investments | (1,468,201) | (361,266) |
| | (90,850) | 1,774,449 |
| Net change in non-cash working capital balances | | |
| Accrued investment income | (5,572) | (2,469) |
| Due from reinsurer | 6,550 | (26,433) |
| Premiums receivable | (33,983) | (575,227) |
| Reinsurer's share of provisions for unpaid claims | 859,309 | 407,015 |
| Deferred policy acquisition expenses | (49,202) | (78,531) |
| Provision for unpaid claims | 652,049 | (198,859) |
| Accounts payable and accrued liabilities | (86,426) | 242,318 |
| Provision for unearned premiums | 404,049 | 725,556 |
| Income taxes payable | 753 | (1,353) |
| Net cash provided by operating activities | 1,656,677 | 2,266,466 |
| **INVESTING ACTIVITIES** | | |
| Proceeds from sale of investments | 11,405,345 | 10,647,132 |
| Purchase of investments | (11,461,503) | (15,366,689) |
| Additions to property, plant and equipment | (60,472) | (33,333) |
| Net cash used in investing activities | (116,630) | (4,752,890) |
| **FINANCING ACTIVITIES** | | |
| Premium refund to policyholders | (500,000) | 500,000 |
| Cash provided by (used in) financing activities | (500,000) | 500,000 |
| **INCREASE (DECREASE) IN CASH AND BANK**, during the year | 1,040,047 | (1,986,424) |
| **CASH AND BANK**, beginning of the year | 1,972,163 | 3,958,587 |
| **CASH AND BANK**, end of the year | $ 3,012,210 | $ 1,972,163 |

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

## 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### REPORTING ENTITY

**West Elgin Mutual Insurance Company** (the "Company") is incorporated under the laws of Ontario and is subject to the Ontario Insurance Act. It is licensed to write property, liability, automobile and farmers' accident insurance in Ontario. The Company head office is located in Dutton, Ontario.

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

These financial statements have been authorized for issue by the Board of Directors on February 17, 2022.

### BASIS OF PRESENTATION

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

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

The Company functional and presentation currency is the Canadian dollar.

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 accounting policies. The areas involving critical judgments and estimates in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amount of assets and liabilities recognized in the financial statements within the next financial year are:

The calculation of unpaid claims and the related reinsurer's share, including the determination of the initial claim liability, the development of claims, the estimate of time until ultimate settlement and the performance of a liability adequacy test (Note 2);

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

The classification of financial assets at fair value through profit or loss, which includes assessing the business model within which the assets are held and whether the contractual terms of the assets are solely payments of principal and interest on the principal amount outstanding (Note 3).

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

## 2. INSURANCE CONTRACTS

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

Balances arising from insurance contracts primarily include unearned premiums, deferred policy acquisition expenses, provisions for unpaid claims and adjustment expenses, due from reinsurer, and the reinsurer share of provision for unpaid claims and adjustment 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 brokers and exclusive of taxes levied on premiums.

The Company earns premium income evenly over the term of the insurance policy generally using the pro rata method. The portion of the premium related to the unexpired portion of the policy at the end of the fiscal year is reflected in unearned premiums. Changes in unearned premiums recorded in the statement of financial position for the years ended December 31, 2021 and 2020 and their impact on net premiums earned for the two years follows:

| | 2021 | 2020 |
|---|---|---|
| **Balance, beginning of the year** | $ 8,027,771 | $ 7,302,215 |
| Premiums written | 17,511,834 | 16,654,482 |
| Premiums earned | (17,107,785) | (15,928,926) |
| **Balance, end of the year** | $ 8,431,820 | $ 8,027,771 |

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 Commission of Ontario and therefore may result in a delay in adjusting the pricing to exposed risk.

The Company is exposed to a pricing risk to the extent that unearned premiums are insufficient to meet the related future policy costs. Evaluation is performed regularly to estimate future claims costs, related expenses, and expected profit in relation to unearned premiums. There was no premium deficiency at December 31, 2021 and 2020.

Amounts due from 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.

## 2. INSURANCE CONTRACTS (continued)

(b) DEFERRED POLICY ACQUISITION EXPENSES

Acquisition expenses are comprised of agents' commissions for acquiring and renewing policies. 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, 2021 and 2020 and their impact on fees, commissions and other acquisition expenses for the two years follows:

| | 2021 | 2020 |
|---|---|---|
| **Balance, beginning of the year** | $ 880,251 | $ 801,720 |
| Acquisition costs incurred | 2,124,772 | 2,065,182 |
| Expensed during the year | (2,075,570) | (1,986,651) |
| **Balance, end of the year** | $ 929,453 | $ 880,251 |

(c) PROVISION FOR UNPAID CLAIMS AND ADJUSTMENT EXPENSES

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

Claim liabilities are carried on an undiscounted basis.

## 2. INSURANCE CONTRACTS (continued)

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

| | December 31, 2021 | | |
|---|---|---|---|
| | Gross | Reinsurance | Net |
| **Outstanding claims provision** | | | |
| Long settlement term | $ 7,917,867 | $ 1,134,977 | $ 6,782,890 |
| Short settlement term | 4,156,716 | 704,379 | 3,452,337 |
| Facility Association and other residual pools | 403,712 | - | 403,712 |
| | 12,478,295 | 1,839,356 | 10,638,939 |
| Provision for claims incurred but not reported | 4,093,000 | 1,742,000 | 2,351,000 |
| | $ 16,571,295 | $ 3,581,356 | $ 12,989,939 |

| | December 31, 2020 | | |
|---|---|---|---|
| | Gross | Reinsurance | Net |
| **Outstanding claims provision** | | | |
| Long settlement term | $ 9,793,870 | $ 2,674,584 | $ 7,119,286 |
| Short settlement term | 1,673,598 | 24,081 | 1,649,517 |
| Facility Association and other residual pools | 358,778 | - | 358,778 |
| | 11,826,246 | 2,698,665 | 9,127,581 |
| Provision for claims incurred but not reported | 4,093,000 | 1,742,000 | 2,351,000 |
| | $ 15,919,246 | $ 4,440,665 | $ 11,478,581 |

The ultimate cost of long settlement general liability claims is difficult to predict for several reasons. Claims may not be reported until many years after a policy expires. Changes in the legal environment may 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, may be imposed by legislators and judicial interpretation. Tort liability has been expanded by some jurisdictions to cover defective workmanship. Provisions for such difficult-to-estimate liabilities are established by examining the facts of tendered claims and adjusted in the aggregate for ultimate loss expectations based upon historical experience patterns and current socioeconomic trends.

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

## 2. INSURANCE CONTRACTS (continued)

Changes in claim liabilities recorded in the statement of financial position for the years ended December 31, 2021 and 2020 and their impact on claims and adjustment expenses for the two years follow:

| | 2021 | 2020 |
|---|---|---|
| **Balance, beginning of the year** | $ 15,916,246 | $ 16,118,105 |
| Increase (decrease) in estimated losses and expenses, for losses occurring in prior years | (4,413,306) | (1,286,875) |
| Provision for losses and expenses on claims occurring in the current year | 14,356,486 | 10,049,976 |
| Payment on claims: | | |
| Current year | (6,575,633) | (4,450,442) |
| Prior years | (2,712,498) | (4,514,518) |
| **Balance, end of the year** | $ 16,571,295 | $ 15,916,246 |

*Claim development*

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

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

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

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

The tables that follow present the development of claims payments and the estimated ultimate cost of claims for the claim year 2012 to 2021. The upper half of the tables shows the cumulative amounts paid or estimated to be paid during successive years related to each claim year. The original estimates will be increased or decreased, as more information becomes known about the original claims and overall claim frequency and severity.

## 2. INSURANCE CONTRACTS (continued)

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Gross estimate of cumulative claims cost** | | | | | | | | | | | |
| At the end year of claim | $ 5,486,028 | $ 10,965,152 | $ 9,411,434 | $ 8,853,309 | $ 10,012,566 | $ 9,939,693 | $ 11,033,512 | $ 12,489,060 | $ 10,049,013 | $ 14,356,486 | |
| One year later | 4,774,838 | 10,114,433 | 8,165,378 | 7,763,479 | 9,011,405 | 8,530,008 | 9,016,442 | 11,283,618 | 7,770,740 | | |
| Two years later | 4,168,459 | 8,922,711 | 7,391,462 | 7,746,763 | 9,397,543 | 8,829,560 | 9,121,081 | 10,519,485 | | | |
| Three years later | 3,340,701 | 8,796,811 | 6,963,931 | 7,139,125 | 9,324,653 | 8,402,819 | 8,968,146 | | | | |
| Four years later | 3,280,802 | 8,510,801 | 7,215,490 | 6,672,300 | 9,855,214 | 7,652,174 | | | | | |
| Five years later | 3,127,484 | 8,770,259 | 6,876,623 | 6,458,659 | 9,511,058 | | | | | | |
| Six years later | 3,071,890 | 8,529,552 | 6,813,545 | 6,446,370 | | | | | | | |
| Seven years later | 2,977,218 | 8,515,008 | 6,788,817 | | | | | | | | |
| Eight years later | 2,977,458 | 8,515,008 | | | | | | | | | |
| Nine years later | 2,977,458 | | | | | | | | | | |
| Current estimate of cumulative claims cost | 2,977,458 | 8,515,008 | 6,788,817 | 6,446,370 | 9,511,058 | 7,652,174 | 8,968,146 | 10,519,485 | 7,770,740 | 14,356,486 | 83,505,742 |
| Cumulative payments | (2,977,458) | (8,515,008) | (6,788,817) | (6,190,115) | (8,776,609) | (6,374,999) | (7,540,170) | (7,493,743) | (5,710,509) | (6,575,633) | (66,943,061) |
| Outstanding claims | - | - | - | 256,255 | 734,449 | 1,277,175 | 1,427,976 | 3,025,742 | 2,060,231 | 7,780,853 | 16,562,681 |
| Outstanding claims 2011 and prior | | | | | | | | | | | 8,614 |
| **Total gross outstanding claims** | | | | | | | | | | | **$ 16,571,295** |

## 2. INSURANCE CONTRACTS (continued)

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Net estimate of cumulative claims cost** | | | | | | | | | | | |
| At the end year of claim | $ 4,636,034 | $ 7,236,698 | $ 8,529,157 | $ 8,039,309 | $ 7,985,039 | $ 9,074,356 | $ 10,130,083 | $ 9,948,030 | $ 9,181,959 | $ 12,799,097 | |
| One year later | 3,917,042 | 6,770,434 | 7,342,692 | 7,281,479 | 7,727,758 | 7,986,670 | 8,448,473 | 8,749,016 | 7,240,128 | | |
| Two years later | 3,615,663 | 6,171,817 | 6,836,436 | 7,478,763 | 8,265,417 | 8,255,126 | 8,795,507 | 9,047,221 | | | |
| Three years later | 3,210,701 | 6,183,917 | 6,542,273 | 6,847,025 | 7,920,132 | 8,044,103 | 8,834,074 | | | | |
| Four years later | 3,240,802 | 6,246,537 | 6,661,401 | 6,440,168 | 6,981,056 | 7,584,017 | | | | | |
| Five years later | 3,123,484 | 6,542,916 | 6,876,623 | 6,458,659 | 6,788,000 | | | | | | |
| Six years later | 3,069,890 | 6,306,210 | 6,568,008 | 6,446,369 | | | | | | | |
| Seven years later | 2,977,218 | 6,291,665 | 6,543,280 | | | | | | | | |
| Eight years later | 2,977,458 | 6,291,665 | | | | | | | | | |
| Nine years later | 2,977,458 | | | | | | | | | | |
| Current estimate of cumulative claims cost | 2,977,458 | 6,291,665 | 6,543,280 | 6,446,369 | 6,788,000 | 7,584,017 | 8,834,074 | 9,047,221 | 7,240,128 | 12,799,097 | 74,551,309 |
| Cumulative payments | (2,977,458) | (6,291,665) | (6,543,280) | (6,190,115) | (6,572,128) | (6,374,999) | (7,536,098) | (6,885,721) | (5,665,147) | (6,533,373) | (61,569,984) |
| Outstanding claims | - | - | - | 256,254 | 215,872 | 1,209,018 | 1,297,976 | 2,161,500 | 1,574,981 | 6,265,724 | 12,981,325 |
| Outstanding claims 2011 and prior | | | | | | | | | | | 8,614 |
| **Total net outstanding claims** | | | | | | | | | | | **$ 12,989,939** |

## 2. 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 occurrence, expected loss ratios and claims development.

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

| | Property claims | | Auto claims | | Liability Claims | |
|---|---|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** | **2021** | **2020** |
| 5% increase in loss ratios | | | | | | |
| Gross | $ (411,340) | $ (376,393) | $ (385,564) | $ (379,701) | $ (67,089) | $ (64,212) |
| Net | $ (368,192) | $ (334,682) | $ (324,754) | $ (337,986) | $ (94,953) | $ (54,065) |
| 5% decrease in loss ratios | | | | | | |
| Gross | $ 411,340 | $ 376,393 | $ 385,564 | $ 379,701 | $ 67,089 | $ 64,212 |
| Net | $ 368,192 | $ 334,682 | $ 324,754 | $ 337,986 | $ 94,953 | $ 54,065 |

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

### (d) LIABILITY ADEQUACY TEST

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

## 2. INSURANCE CONTRACTS (continued)

(e) REINSURANCE

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

The Company follows a policy of underwriting and reinsuring contracts of insurance which, in the main, limit the liability of the Company to an amount on any one claim of $550,000 (2020 - $520,000) in the event of a property claim, an amount of $550,000 (2020 - $520,000) in the event of an automobile claim and $550,000 (2020 - $520,000) in the event of a liability claim. The Company also obtained reinsurance which limits the Company liability to $1,650,000 (2020 - $1,560,000) in the event of a series of claims arising out of a single occurrence. In addition, the Company has obtained stop loss reinsurance which limits the liability of all claims in a specific year to 70% of gross net earned premiums.

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

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

Expected reinsurance recoveries on unpaid claims and adjustment expenses are recognized as assets at the same time and using principles consistent with the Company method for establishing the related liability. Changes in due from reinsurer recorded in the statement of financial position for the years ended December 31, 2021 and 2020 follow:

**Due from Reinsurer**

| | 2021 | 2020 |
|---|---|---|
| **Balance, beginning of the year** | $ 27,398 | $ 965 |
| Submitted to reinsurer | 385,113 | 1,207,296 |
| Received from reinsurer | (391,663) | (1,180,863) |
| **Balance, end of the year** | $ 20,848 | $ 27,398 |

## 2. INSURANCE CONTRACTS (continued)

Changes in the reinsurer's share of provision for unpaid claims recorded in the statement of financial position for the years ended December 31, 2021 and 2020 follow:

**Reinsurer's share of provision for unpaid claims**

| | 2021 | 2020 |
|---|---|---|
| **Balance, beginning of the year** | $ 4,440,665 | $ 4,847,680 |
| New claims reserve | 1,557,389 | 867,054 |
| Change in prior years reserve | (2,031,585) | (66,773) |
| Submitted to reinsurer | (385,113) | (1,207,296) |
| **Balance, end of the year** | $ 3,581,356 | $ 4,440,665 |
| Expected settlement | | |
| Within one year | $ 704,379 | $ 24,081 |
| More than one year | 2,876,977 | 4,416,584 |
| | $ 3,581,356 | $ 4,440,665 |

(f) REFUND OF PREMIUM

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

## 3. INVESTMENTS

(a) RECOGNITION AND INITIAL MEASUREMENT

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

(b) CLASSIFICATION AND SUBSEQUENT MEASUREMENT

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

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

The Company classifies its municipal bonds and mortgage receivable at amortized cost as the investments are held to collect contractual cash flows, and the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

## 3. 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 cost and fair value information of investments by type of security and issuer,

**Fair value through profit or loss**

| | December 31, 2021 | | December 31, 2020 | |
|---|---|---|---|---|
| | **Cost** | **Fair Value** | **Cost** | **Fair Value** |
| Guaranteed investment certificates | $ 1,152,325 | $ 1,152,325 | $ 6,729,182 | $ 6,729,182 |
| Bonds | | | | |
| Canadian corporate | 800,000 | 800,000 | 500,000 | 500,000 |
| Equity investments | | | | |
| Canadian | 2,933,774 | 3,978,295 | 2,260,508 | 2,693,609 |
| Pooled funds | | | | |
| Canadian fixed income | 14,531,945 | 14,374,094 | 9,459,426 | 9,725,024 |
| Commercial mortgages | 6,585,298 | 6,680,226 | 6,363,491 | 6,538,202 |
| Canadian equity | 5,167,324 | 6,531,444 | 5,613,526 | 5,736,700 |
| Global equity | 1,190,731 | 1,386,273 | 1,117,166 | 1,193,636 |
| | 27,475,298 | 28,972,037 | 22,553,609 | 23,193,562 |
| Other investments | | | | |
| Fire Mutuals Guarantee Fund | 30,079 | 30,079 | 30,633 | 30,633 |
| | $ 32,391,476 | $ 34,932,736 | $ 32,073,932 | $ 33,146,986 |

**Amortized cost**

| | | | | |
|---|---|---|---|---|
| Bonds issued by | | | | |
| Municipal | $ 151,919 | $ 151,919 | $ 185,610 | $ 185,610 |

## 3. INVESTMENTS (continued)

*Credit Risk*

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

The Company investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits, corporate sector limits and general guidelines for geographic exposure. All fixed income portfolios are measured for performance on a quarterly basis and monitored by management on a monthly basis.

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

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

*Liquidity Risk*

Liquidity risk is the risk that the Company will not be able to meet all cash outflow obligations as they come due. The Company mitigates this risk by monitoring cash activities and expected outflows. The Company 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. Claim payments are funded by current operating cash flow including investment income.

Maturity profile of bonds held is as follows:

| | Within 1 Year | 2 to 5 years | Over 5 years | Fair value |
|---|---|---|---|---|
| December 31, 2021 | $ 31,879 | $ 386,336 | $ 533,704 | $ 951,919 |
| Percent of total | 3 % | 41 % | 56 % | |
| December 31, 2020 | $ 33,691 | $ 107,784 | $ 544,135 | $ 685,610 |
| Percent of total | 5 % | 16 % | 79 % | |

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

## 3. INVESTMENTS (continued)

*Market Risk*

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

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

The Company foreign exchange risk is related to stock holdings which are limited to United States equities in sectors which are not readily available in Canada. The Company currently does not have any exposure to this risk. The Company investment policy does not permit investment in bonds denominated in a foreign currency. Foreign currency changes are monitored by the investment committee and holdings are adjusted when offside of the investment policy.

The Company is exposed to this risk through its interest bearing investments (Bankers Acceptances, T-Bills, GICs, Bonds, and pooled funds - Canadian fixed income).

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 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 investment income will move with interest rates over the medium to long-term with short-term interest rate fluctuations creating unrealized gain or losses in comprehensive income. There are no occurrences where interest would be charged on liabilities; therefore, little protection is needed to ensure the fair market value of assets will be offset by a similar change in liabilities due to an interest rate change.

At December 31, 2021, a 1% move in interest rates, with all other variables held constant, could impact the market value of the Canadian fixed income pooled fund by $439,000 (2020 - $258,000) A similar move in rates could impact the market value of the commercial mortgages fund by $136,000 (2020 - $154,000). These changes would be recognized in comprehensive income.

## 3. INVESTMENTS (continued)

The Company is exposed to equity risk through its portfolio of Canadian stocks, ownership of Canadian equity pooled funds and global equity mutual funds. At December 31, 2021 a 10% movement in the Toronto Stock Exchange with all other variables held constant would have an estimated effect on the fair values of the Company equity portfolio of $1,080,000 (2020 - $913,000). These changes would be recognized in comprehensive income.

The Company investment policy limits investment in preferred and common shares to a maximum of 25% of the market value of the investment portfolio with a target of 15%. The Company also limits the amount invested in an individual equity to 10% of the stock portfolio. The Company only invests in equities which are contained in the S&P/TSX 60.

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

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

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

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

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **December 31, 2021** | | | | |
| Guaranteed investment certificates | $ 1,152,325 | $ - | $ - | $ 1,152,325 |
| Bonds | - | - | 800,000 | 800,000 |
| Equity investments | 2,880,014 | - | 1,098,281 | 3,978,295 |
| Pooled funds | - | 22,291,811 | 6,680,226 | 28,972,037 |
| Other investments | - | 30,079 | - | 30,079 |
| **Total** | $ 4,032,339 | $ 22,321,890 | $ 8,578,507 | $ 34,932,736 |
| **December 31, 2020** | | | | |
| Guaranteed investment certificates | $ 6,729,182 | $ - | $ - | $ 6,729,182 |
| Bonds | - | - | 500,000 | 500,000 |
| Equity investments | 2,196,216 | - | 497,393 | 2,693,609 |
| Pooled funds | - | 16,655,360 | 6,538,202 | 23,193,562 |
| Other investments | - | 30,633 | - | 30,633 |
| **Total** | $ 8,925,398 | $ 16,685,993 | $ 7,535,595 | $ 33,146,986 |

## 3. INVESTMENTS (continued)

There were no transfers between Level 1, Level 2 and Level 3 for the years ended December 31, 2021 and 2020.

A portion of the Company's investment portfolio is invested in a Canadian commercial mortgage pooled fund. 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. Due to the use of unobservable data and their limited liquidity, commercial mortgages are classified as Level 3.

The investment in Canadian corporate bonds and a portion of Canadian equity investments consists of amounts invested in a Canadian private company. The fair value of these investments is based on valuation techniques that include inputs that are not based on observable market data. Due to the use of unobservable data the investment in this Canadian private company is classified as Level 3.

## 4. INVESTMENT AND OTHER INCOME (EXPENSE)

| | 2021 | 2020 |
|---|---|---|
| Interest income | $ 80,478 | $ 175,063 |
| Dividend income | 795,475 | 836,041 |
| Investment expenses | (142,039) | (116,429) |
| Realized gains on disposal of investments | 227,545 | 24,768 |
| Change in unrealized gains on investments | 1,468,201 | 361,266 |
| Other income | (107,320) | 125,090 |
| | $ 2,322,340 | $ 1,405,799 |

## 5. CAPITAL MANAGEMENT

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

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

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

## 6. FEES, COMMISSIONS AND OTHER ACQUISITION EXPENSES

| | 2021 | 2020 |
|---|---|---|
| Commissions | $ 2,075,570 | $ 1,986,651 |

## 7. OTHER OPERATING AND ADMINISTRATIVE EXPENSES

| | 2021 | 2020 |
|---|---|---|
| Salaries and benefits | $ 1,321,423 | $ 1,305,816 |
| Directors' fees | 46,700 | 46,025 |
| Occupancy | 213,562 | 210,685 |
| Depreciation | 250,079 | 264,866 |
| Computer costs | 603,742 | 546,580 |
| Advertising and promotion | 218,465 | 143,367 |
| Premium tax | 40,953 | 37,475 |
| Professional fees | 28,962 | 26,419 |
| Insurance | 72,260 | 68,264 |
| Office | 357,977 | 311,818 |
| Other | 99,269 | 90,900 |
| | $ 3,253,392 | $ 3,052,215 |

## 8. INCOME TAXES

Income tax expense is comprised of current and deferred tax. Current and deferred tax are recognized in comprehensive income. The Company is subject to income taxes on the portion of its income derived from insuring other than farm related risks.

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

| | 2021 | 2020 |
|---|---|---|
| **Current tax expense (recovery)** | | |
| Based on current year taxable income | $ - | $ - |
| **Deferred tax expense** | | |
| Origination and reversal of temporary differences | 306,000 | 436,000 |
| **Total provision for income taxes** | $ 306,000 | $ 436,000 |

Reasons for the difference between tax expense (recovery) for the year and the expected income taxes based on the statutory tax rate of 26.5% (2020 - 26.5%) are as follows:

| | 2021 | 2020 |
|---|---|---|
| Income before income taxes | $ 1,354,817 | $ 1,895,617 |
| Expected taxes based on the statutory rate of 26.5% (2020 - 26.5%) | 359,027 | 502,339 |
| Deferred portion of claims liabilities | (285,692) | (427,143) |
| Adjustments related to investment income | (53,000) | (53,000) |
| Other | (20,335) | (22,196) |
| **Total current tax expense** | $ - | $ - |

## 9. STRUCTURED SETTLEMENTS, FIRE MUTUALS GUARANTEE FUND AND FINANCIAL GUARANTEE CONTRACTS

The Company enters into annuity agreements with various life insurance companies to provide for fixed and recurring payments to claimants. Under such arrangements, the settlement amount is removed from the provision for unpaid claims as the Company liability to its claimants is substantially transferred. However, the Company remains exposed to the credit risk that life insurers fail to fulfill their obligations.

Pursuant to an agreement effective January 1, 1976, the Company is a member of the Fire Mutuals Guarantee Fund ("the Fund"). The Fund was established to provide payment of outstanding policyholders' claims and unearned premiums if a member Company becomes insolvent. As a result, the Company may be required to contribute assets to their proportionate share in meeting this objective.

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

## 10. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

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

| | | |
|---|---|---|
| Buildings | 24-50 | years |
| Parking lot | 30 | years |
| Computer equipment | 5 | years |
| Office furniture and equipment | 15 | years |

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 5 years. Amortization expense is recognized in comprehensive income and gross claims and adjustment expenses.

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

## 10. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS (continued)

| | Property, plant and equipment | | | | | | Intangible assets |
|---|---|---|---|---|---|---|---|
| | Land | Buildings | Parking lot | Computer equipment | Office furniture and equipment | Total | Computer Software |
| **Cost** | | | | | | | |
| Balance at January 1, 2020 | $ 1,340,022 | $ 6,011,222 | $ 163,879 | $ 1,116,117 | $ 844,346 | $ 9,475,586 | $ 91,877 |
| Additions | - | - | - | 33,333 | - | 33,333 | - |
| Balance on December 31, 2020 | 1,340,022 | 6,011,222 | 163,879 | 1,149,450 | 844,346 | 9,508,919 | 91,877 |
| Additions | - | 12,380 | - | 48,092 | - | 60,472 | - |
| Balance on December 31, 2021 | $ 1,340,022 | $ 6,023,602 | $ 163,879 | $ 1,197,542 | $ 844,346 | $ 9,569,391 | $ 91,877 |
| **Accumulated depreciation** | | | | | | | |
| Balance at January 1, 2020 | $ - | $ 376,419 | $ 17,578 | $ 884,424 | $ 461,055 | $ 1,739,476 | $ 62,879 |
| Depreciation expense | - | 127,333 | 5,437 | 83,713 | 30,008 | 246,491 | 18,375 |
| Balance on December 31, 2020 | - | 503,752 | 23,015 | 968,137 | 491,063 | 1,985,967 | 81,254 |
| Depreciation expense | - | 127,581 | 5,436 | 79,202 | 29,966 | 242,185 | 7,893 |
| Balance on December 31, 2021 | $ - | $ 631,333 | $ 28,451 | $ 1,047,339 | $ 521,029 | $ 2,228,152 | $ 89,147 |
| **Net book value** | | | | | | | |
| December 31, 2020 | $ 1,340,022 | $ 5,507,470 | $ 140,864 | $ 181,313 | $ 353,283 | $ 7,522,952 | $ 10,623 |
| December 31, 2021 | $ 1,340,022 | $ 5,392,269 | $ 135,428 | $ 150,203 | $ 323,317 | $ 7,341,239 | $ 2,730 |

## 11. PENSION PLAN

DEFINED BENEFIT PENSION PLAN

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

The Company makes contributions to the plan on behalf of members of its staff. The plan is a money purchase plan, with a defined benefit option at retirement available to some employees, which specifies the amount of the retirement benefit plan to be received by the employees based on length of service and rates of pay.

The amount contributed to the plan for 2021 was $62,683 (2020 - $61,701). The contributions were made for current service and these have been recognized in comprehensive income. These contributions amount to 2.26% of the total contributions made to the Ontario Mutual Insurance Association Pension Plan by all participating entities during the current fiscal year.

Expected contributions to the plan for the next annual reporting period amount to $82,328, which is based on payments made to the multi-employer plan during the current fiscal year.

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

DEFINED CONTRIBUTION PENSION PLAN

Eligible employees hired after January 1, 2014 are enrolled in the defined contribution plan. The Company makes, on behalf of its employees, matching contributions up to 7.5% of their gross salary. The plan is a money purchase plan. The amount contributed to the plan for 2021 was $87,609 (2020 - $81,534). Expected contributions to the plan for the next annual reporting period amount to $84,455, which is based on payments made to the plan during the current fiscal year.

## 12. 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:

| | 2021 | 2020 |
|---|---|---|
| **Compensation** | | |
| Short-term employee benefits and directors' fees | $ 432,242 | $ 427,242 |
| Total pension and other post-employment benefits | 40,572 | 40,084 |
| | $ 472,814 | $ 467,326 |
| Premiums | $ 118,115 | $ 112,754 |
| Claims paid | $ 10,119 | $ 6,296 |

## 13. STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET EFFECTIVE

Certain new standards, amendments and interpretations were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting years beginning after January 1, 2022 or later that the Company has decided not to adopt early.

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

IFRS 17 Insurance Contracts supersedes IFRS 4 Insurance Contracts. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts. IFRS 17 requires entities to measure insurance contract liabilities using updated estimates and assumptions that reflect the timing of cash flows and any uncertainty relating to insurance contracts. Additionally, IFRS 17 requires entities to recognize profits as it delivers insurance services. The effective date for IFRS 17 is January 1, 2023. The Company has not yet determined the impact of adoption, however it is expected to significantly impact the overall financial statements.

## 14. SUBSEQUENT EVENTS

During the year, the Company entered into a formal process to evaluate a potential amalgamation with Howard Mutual Insurance Company. If the required regulatory approvals are received, and both organizations' policyholders vote in favour of this amalgamation, the two mutual insurance companies plan to combine operations in 2023. Management of the Company has not yet determined the impact of the amalgamation on its financial statements.