Middlesex Mutual Insurance Co.

Financial Statements
For the year ended December 31, 2023

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For the year ended December 31, 2023

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To the Members of Middlesex Mutual Insurance Co.

Opinion

We have audited the financial statements of *Middlesex Mutual Insurance Co.* (the Entity), which comprise the *statement of financial position* as at *December 31, 2023,* and the *statement of comprehensive income, the statement of members' surplus and the statement of cash flows* for the year then ended, and notes to the financial statements, including a summary of material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at *December 31, 2023* 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.

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
February 28, 2024

Middlesex Mutual Insurance Co.
Statement of Financial Position

As at (in 000's of dollars)	December 31, 2023	December 31, 2022 (restated)	January 1, 2022 (restated)
Assets			
Cash	**$ 3,821**	$ 3,129	$ 3,991
Investments (Note 7)	**32,690**	30,294	30,087
Income taxes recoverable	**6**	2	1
Reinsurance contract assets (Note 5)	**3,000**	2,778	2,516
Investment property (Note 9)	**1,055**	1,066	1,077
Property, plant & equipment and intangible assets (Note 15)	**3,030**	2,879	2,996
Deferred income taxes (Note 13)	**150**	879	445
Other assets	**114**	142	78
	$ 43,866	$ 41,169	$ 41,191
Liabilities			
Accounts payable and accrued liabilities	**$ 276**	$ 205	$ 156
Insurance contract liabilities (Note 5)	**11,667**	11,296	10,640
	11,943	11,501	10,796
Members' Surplus			
Unappropriated members' surplus	**31,923**	29,668	30,395
	$ 43,866	$ 41,169	$ 41,191

Signed on behalf of the Board by:

_________________________ **Director**

_________________________ **Director**

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

Middlesex Mutual Insurance Co.
Statement of Comprehensive Income (Loss)

For the year ended December 31 (in thousands of dollars)	**2023**	2022 *(restated)*
Insurance revenue	**$ 15,724**	$ 14,146
Insurance service expense	**(13,918)**	(11,958)
Insurance Service Result Before Reinsurance Contracts Held	**1,806**	2,188
Amounts recoverable from reinsurers for incurred claims	**2,625**	1,240
Allocation of reinsurance premiums paid	**(2,532)**	(2,104)
Net Income (Expense) from Reinsurance Contracts Held	**93**	(864)
Insurance Service Result	**1,899**	1,324
Insurance finance income (expense) for insurance contracts issued	**(486)**	70
Reinsurance finance income (expense) for reinsurance contracts held	**174**	(49)
Net Insurance Financial Result	**(312)**	**21**
Investments and other income (Note 8)	**2,734**	(1,160)
Other expenses (Note 11)	**(1,340)**	(1,348)
Income (Loss) Before Taxes	**2,981**	(1,163)
Provision (Recovery) for Income Taxes (note 13)	**726**	(436)
Total Comprehensive Income (Loss) for the Year	**$ 2,255**	$ (727)

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

Middlesex Mutual Insurance Co.
Statement of Members' Surplus

For the year ended December 31 (in thousands of dollars)

Unappropriated Members' Surplus

Balance, December 31, 2021 as previously reported	**$ 30,989**
Impact of initial application of IFRS 17	**(594)**
Restated balance, January 1, 2022	**30,395**
Total comprehensive income (loss) for the year	**(727)**
Restated balance, December 31, 2022	**29,668**
Total comprehensive income (loss) for the year	**2,255**
Balance, end of year	**$ 31,923**

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

Middlesex Mutual Insurance Co.
Statement of Cash Flows

For the year ended December 31 (in thousands of dollars)	**2023**	2022 *(restated)*
Cash flows from operating activities		
Comprehensive income (loss) for the year	**$ 2,255**	$ (727)
Adjustments for:		
Depreciation of property, plant & equipment, and intangible assets	**191**	190
Depreciation of investment property	**11**	11
Income tax expense (recovery)		
Gain on disposal of investments	**(666)**	(449)
Unrealized (gain) loss on disposal of investments	**(879)**	2,437
Loss on disposal of property, plant & equipment	**4**	2
	916	1,464
Changes in working capital:		
Increase in reinsurance contract assets	**(222)**	(272)
Decrease (increase) in deferred tax asset	**729**	(434)
Decrease (increase) in other assets	**27**	(54)
Increase in accounts payable and accrued liabilities	**71**	49
Increase (decrease) in income taxes payable/recoverable	**(4)**	(1)
Increase in insurance contract liability	**372**	656
	973	(56)
Total cash inflows from operating activities	**1,889**	1,408
Cash flows for investing activities		
Purchase of investments	**(8,972)**	(7,452)
Sale of investments	**8,122**	5,257
Purchase of property, plant & equipment and intangible assets	**(347)**	(75)
Total cash outflows from investing activities	**(1,197)**	(2,270)
Net increase (decrease) in cash and equivalents	**692**	(862)
Cash and equivalents, beginning of year	**3,129**	3,991
Cash and equivalents, end of year	**$ 3,821**	$ 3,129

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

1. Corporate Information

Middlesex Mutual Insurance Co. (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's head office is located at 15 Meredith Drive, in Ilderton, Ontario.

The Company is subject to rate regulation on the automobile business that it writes. Before automobile insurance rates can be changed, a rate filing is prepared as a combined filing for most Ontario Farm Mutuals by the Farm Mutual Reinsurance Plan ("Farm Mutual Re"). 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 ("FSRA"). Rate regulation may affect the automobile revenues that are earned by the Company. The actual impact of rate regulation would depend on the competitive environment at the time.

These financial statements have been authorized for issue by the Board of Directors on February 20, 2024.

2. Basis of Preparation

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, as modified by the revaluation of financial instruments designated as fair value through profit and loss (FVTPL).

The financial statements are presented in Canadian dollars ("CDN"), which is also the Company's functional currency and have been rounded to the nearest thousand (CDN $'000), unless otherwise indicated.

c) Judgement 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 judgement in applying the Company's accounting policies. The areas involving critical judgements 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 Company applies the Premium Allocation Approach (PAA) to simplify the measurement of insurance contracts as the coverage period of each contract in the group is one year or less.
- The Company has not made the election in IFRS 17.59(a) to recognize any insurance acquisition cash flows as an expense when it incurs those costs therefore defers insurance acquisition cash flows.
- For groups of contracts that are onerous, the liability for the remaining coverage is determined by the fulfilment cash flows. Any loss/recovery is recognized on underlying contracts and the recovery expected on claims from reinsurance contracts held.
- The Company does not adjust the carrying amount of the liability for remaining coverage to include the time value of money or the effect of financial risk for any of its product lines.

December 31, 2023 (in thousands of dollars)

2. Basis of Preparation (continued)

- The cost of outstanding claims is estimated using appropriate standard actuarial claims projection techniques. The main assumption underlying these techniques is that a Company's past claims development experience can be used to project future claims development and hence ultimate claims costs.
- Insurance contract liabilities are calculated by discounting expected future cash flows at the risk-free rate, plus illiquidity premium (when applicable). Risk-free rates are determined by reference to the yield of highly liquid AA sovereign securities.

  Discount rates applied are listed below:

	1 year		3 years		5 years		10 years	
	2023	2022	2023	2022	2023	2022	2023	2022
Insurance Contract Liabilities	4.52%	4.41%	3.70%	3.97%	3.53%	3.86%	3.77%	4.08%

- The risk adjustment for non-financial risk is the compensation the Company requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk as the entity fulfils insurance contracts. The Company has estimated the risk adjustment using a cost of capital approach at the 60-70th confidence level. The Company has estimated the probability distribution of future cash flows, and the additional amount above the expected present value of future cash flows required to meet the target percentiles.
- The Company has elected not to disaggregate the change in risk adjustment for non-financial risk in accordance with IFRS 17.81 and includes the entire change as part of the insurance service result in the statement of profit or loss and other comprehensive income.
- The Company applies judgment over the inputs and methods used to allocate insurance acquisition cash flows to the related contracts. This includes judgments about the amounts allocated to insurance contracts expected to arise from renewals of insurance contracts in that group. The Company will revisit the assumptions at the end of each reporting period and revise the amounts of assets for insurance acquisition cash flows as necessary.

3. Adoption of New Accounting Standards:

IFRS 17 – Insurance Contracts

IFRS 17 replaces IFRS 4 – *Insurance Contracts* for periods on or after January 1, 2023. The Company has applied IFRS 17 for the first time using the full retrospective approach and has restated comparative information for 2022 applying the transitional provisions in IFRS 17.

The adoption of IFRS 17 did not change the classification of the Company's insurance contracts. Under the full retrospective approach, at January 1, 2022 the Company identified, recognized and measured each group of insurance contract liabilities and reinsurance contract assets held and any acquisition costs, and derecognized previously reported balances that would not have existed had IFRS 17 always applied. This includes due from reinsurer, due from members, reinsurer's share of unpaid claims, deferred policy acquisition expenses, unearned premiums and unpaid claims and adjustment expenses which are included in the measurement of insurance contract liabilities and reinsurance contract assets held under IFRS 17.

The net difference of $(594) was recognized in Unappropriated Members' Surplus on January 1, 2022.

3. Adoption of New Accounting Standards (continued)

All of the Company's insurance contract liabilities and reinsurance contract assets held are measured using the PAA, minimizing the differences between IFRS 4 and IFRS 17.

The measurement principles using the PAA which differ from those under IFRS 4 primarily include:

- The liability for remaining coverage which represents premiums received less deferred acquisition cash flows and less amounts recognized in revenue for insurance services provided in that period. The Company discounts the measurement of the liability for remaining coverage to reflect the time value of money and the effect of financial risk where the premium due date and the related period of services are more than 12 months apart.
- The liability for incurred claims is determined on a discounted-probability-weighted expected value basis and includes a risk adjustment for non-financial risk.
- Where a group of insurance contracts is onerous, measurement of the liability for remaining coverage includes a risk-adjustment for non-financial risk in order to calculate a loss component.
- Where a group of reinsurance contracts held is onerous, the measurement of the asset for remaining coverage is adjusted to include a loss-recovery component to reflect the expected recovery of onerous contract losses.

The presentation and disclosure principles using IFRS 17 differ from those under IFRS 4 primarily include:

- Portfolios of insurance contracts that are assets and those that are liabilities, and portfolios of reinsurance contract assets held that are assets and those that are liabilities, are presented separately on the Statement of Financial Position.
- The line-item descriptions for amounts recognized in the Statement of Comprehensive Income have changed significantly compared with the prior year. Changes to the line-item descriptions include:

Under IFRS 4, the Company presented:	**IFRS 17 requires separate presentation of:**
Gross written premiums	Insurance revenue
Changes in unearned premiums	
Net premiums earned	
Gross claims and adjustment expenses	Insurance service expenses
Fees, commissions, and other acquisition expenses	Other expenses
Other operating and administrative expenses	
Reinsurance ceded	Income or expenses from reinsurance contracts held
Reinsurer's share of claims and adjustment expense	Insurance finance income or expense
	Reinsurance finance income or expense

4. Accounting Treatment of Insurance and Reinsurance Contracts

a) Classification

Insurance contracts are those contracts that have significant insurance risk at the inception of the contract. The Company determines whether it has significant insurance risk by comparing the benefits payable after an insured event with benefits payable if the insured event did not occur.

The Company issues non-life insurance products including automobile (personal and commercial), personal property and liability, and commercial property and liability (including farm). These products offer protection of policyholder's assets and indemnification of other parties that have suffered damages as a result of a policyholder's accident.

b) Level of Aggregation and Recognition

Insurance contracts and reinsurance contracts held are required to be aggregated into portfolios of insurance contracts, based on underlying risk and the management of those risks, then further aggregated into groups based on the underlying expected profitability at inception into three categories: onerous contracts, contracts with no significant risk of becoming onerous, and the remainder. The profitability of groups of contracts is assessed by actuarial valuation models that take into account existing and new business. IFRS 17 also requires that no group for level of aggregation purposes may contain contracts issued more than one year apart. The Company assumes that no contracts in the portfolio are onerous at initial recognition unless facts and circumstance indicate otherwise. The Company considered facts and circumstances to identify whether a group of contracts are onerous based on (i) pricing information, (ii) results of similar contracts it has recognized, and (iii) environmental factors (i.e., change in market experience or regulations).

Insurance contracts are recognized from the earliest of the beginning of the insurance contract's coverage period; when payment from the policyholder becomes due or, if there is no contractual due date, when it is received; and when a contract is onerous.

Reinsurance contracts held that provide proportionate reinsurance coverage are recognized from the later of the beginning of the reinsurance contract's coverage period; and when underlying insurance contracts are initially recognized.

Other reinsurance contracts held are recognized at the beginning of the coverage period for the reinsurance contract unless the Company recognizes onerous insurance contracts on an earlier date which are reinsured and the related reinsurance contract was entered into prior to the onerous contract being recognized, in which case the reinsurance contract assets held are recognized at the date the onerous groups of underlying insurance contracts are recognized.

The Company adds new contracts to the group in the reporting period in which that contract meets one of the criteria set out above.

c) Separating components from insurance and reinsurance contracts

The Company assesses its insurance products to determine whether they contain distinct components which must be accounted for under another IFRS instead of under IFRS 17. After separating any distinct components, the Company applies IFRS 17 to all remaining components of the (host) insurance contract.

Currently, the Company's products do not include any distinct components that require separation.

4. Accounting Treatment of Insurance and Reinsurance Contracts (continued)

d) Measurement

The Company uses the PAA to all the insurance contracts that it issues, and reinsurance contracts held. Insurance contracts issued and reinsurance contracts held are eligible for the PAA when the coverage period of each contract in the group is one year or less or the Company reasonably expects that the resulting measurement of the liability for remaining coverage would not differ materially from that of applying the General Measurement Model.

Contract Boundary

The contract boundary determines the cash flows that are included in the measurement of a group of insurance contracts issued and reinsurance contracts held. Cash flows are within the contract boundary if they arise from substantive rights and obligations that exist during the reporting period in which the Company can compel the policyholder to pay the premiums or has a substantive obligation to provide services including insurance coverage. A liability or asset relating to expected premiums or claims outside the boundary of the insurance contract is not recognized. Such amounts relate to future insurance contracts.

Insurance acquisition cash flows

Insurance acquisition cash flows arise from the cost of selling, underwriting, and starting a group of insurance contracts that are directly attributable to the portfolio of insurance contracts to which the group belongs. These costs are deferred and amortized into profit and loss as the related premiums are earned. Insurance acquisition cash flows paid before the recognition of the related group of contracts are recognized as an asset and subsequently derecognized and included within the group of insurance contracts when the related contracts are recognized. At the end of each reporting period, the Company revises amounts of insurance acquisition cash flows allocated to groups of insurance contracts not yet recognized, to reflect changes in assumptions. At each reporting date, the Company assesses for impairment and will recognize impairment losses when the carrying amount of the asset exceeds the expected net cash inflows for the related group of insurance contracts. The Company reverses any impairment losses and increases the carrying amount of the asset to the extent that the impairment conditions have reversed.

Insurance Contract Liabilities - Initial Measurement

On initial recognition of each group of insurance contracts that is not onerous at initial recognition, the Company measures the liability for remaining coverage as:

- Premiums received on initial recognition
- Less any insurance acquisition cash flows allocated to the group, adjusted for any amounts previously recognized for cash flows related to the group and
- Any other asset or liability previously recognized for cash flows related to the group of contracts that the Company pays or receives before the group of insurance contracts is recognized.

If there are indications that a group of insurance contracts is onerous, then the Company recognizes a loss in insurance service expense in the statement of comprehensive income and increases the liability for remaining coverage if the current estimates of the fulfillment cash flows that relate to remaining coverage exceed the carrying amount of the liability for remaining coverage. This excess is recognized as a loss component within the liability for remaining coverage, which is reported in insurance contract liabilities on the statement of financial position.

4. Accounting Treatment of Insurance and Reinsurance Contracts (continued)

Insurance Contract Liabilities - Subsequent Measurement

The carrying amount of a group of insurance contracts at each reporting date is the sum of the liability for remaining coverage and the liability for incurred claims.

The Company measures the carrying amount of the liability for remaining coverage at the end of each reporting period as the liability for remaining coverage at the beginning of the period:

- Plus premiums received in the period
- Plus the amortization of insurance acquisition cash flows recognized as expense
- Minus the amount recognized as insurance revenue for services provided
- Minus any additional insurance acquisition cash flows allocated after initial recognition.

The liability for incurred claims includes the fulfillment cash flows for losses on claims and expenses that have not yet been paid, including those that have been incurred but not reported. The liability for incurred claims reflects current estimates from the perspective of the Company and include an explicit adjustment for non-financial risk. The Company does not adjust the future cash flows for the time value of money and the effect of financial risk for the measurement of liability for incurred claims that are expected to be paid within one year of being incurred.

The Company remeasures the loss component using the same calculation as on initial recognition and reflects any changes by adjusting the loss component as required until the loss component is reduced to zero. If a loss component did not exist on initial recognition but there are indications that a group of contracts is onerous on subsequent measurement, then the Company establishes a loss component using the same methodology as on initial recognition.

Reinsurance Contract Assets – Initial Measurement

The Company measures its reinsurance contract assets for a group of reinsurance contracts that it holds on the same basis as insurance contracts that it issues. However, they are adapted to reflect the features of reinsurance contracts held that differ from insurance contracts issued.

When there is an onerous group of underlying contracts, the Company establishes a loss-recovery component of the asset for remaining coverage for a group of reinsurance contracts held depicting the recovery of losses. The Company calculates the loss-recovery component by multiplying the loss recognized on the underlying insurance contracts and the percentage of claims on the underlying insurance contracts the Company expects to recover from the group of reinsurance contracts held.

This loss recovery component adjusts the carrying amount of the reinsurance contract asset held.

Reinsurance Contract Assets – Subsequent Measurement

The subsequent measurement of reinsurance contract assets follows the same principles as those for insurance contracts issued and has been adapted to reflect the specific features of reinsurance held.

If a loss-recovery component exists, it is adjusted on subsequent measurement to reflect changes in the loss component of the onerous group of underlying contracts to the extent that it impacts reinsured cash flows, but it cannot exceed the portion of the loss component of the onerous group of underlying contracts that the Company expects to recover from the reinsurance contract assets held.

4. Accounting Treatment of Insurance and Reinsurance Contracts (continued)

e) Derecognition and contract modification

An insurance contract is derecognized when it is extinguished, that is when the specified obligations in the contract expire or are discharged or cancelled. An insurance contract is also derecognized if its terms are modified in a way that would have significantly changed the accounting for the contract had the new terms always existed. In such cases, the Company derecognizes the initial contract and recognizes the modified contract as a new contract. If an insurance contract modification does not result in derecognition, then the changes in cash flows caused by the modification are treated as changes in estimates of fulfillment cash flows.

f) Presentation

The Company has presented separately, in the statement of financial position, the carrying amount of portfolios of insurance contracts issued that are assets, portfolios of insurance contracts issued that are liabilities, portfolios of reinsurance contracts held that are assets and portfolios of reinsurance contracts held that are liabilities.

Any assets for insurance acquisition cash flows recognized before the corresponding insurance contracts are included in the carrying amount of the related groups of insurance contracts are allocated to the carrying amount of the portfolios of insurance contracts that they relate to.

The Company disaggregates the total amount recognized in the statement of comprehensive income into a net insurance service result, comprising insurance revenue and insurance service expense, and insurance finance income or expenses.

The Company does not disaggregate the change in risk adjustment for non-financial risk between a financial and non-financial portion and includes the entire change as part of the insurance service result. The Company separately presents income or expenses from reinsurance contracts held from the expenses or income from insurance contracts issued.

<u>Insurance revenue</u>

The Company recognizes insurance revenue based on the expected premium receipts and the passage of time over the coverage period of a group of contracts unless the release of risk differs significantly from the passage of time, in which case insurance revenue is recognized based on the release of risk. For all periods presented, the Company has recognized insurance revenue based on the passage of time.

<u>Insurance service expense</u>

Insurance service expenses arising from insurance contracts are recognized in the statement of comprehensive income as they are incurred and include losses on claims, other insurance service expenses, amortization of insurance acquisition costs, losses and reversals of losses on onerous contracts, and impairment losses and reversals of those impairment losses on insurance acquisition cash flow assets.

<u>Net finance income or expense from insurance contracts and reinsurance contracts held</u>

Net finance income or expense from insurance contracts and reinsurance contracts held as presented in the statement of comprehensive income are comprised of changes in the carrying amounts of insurance and reinsurance contracts arising from the effects of time value of money and changes in the time value of money and the effect of financial risk and changes in financial risk.

December 31, 2023 (in thousands of dollars)

5. Insurance Contracts and Reinsurance Contracts

a) Movements in net asset or liability for insurance contracts issued

The roll-forward of the net asset or liability for insurance contracts issued is disclosed below:

	2023				
	Liabilities for remaining coverage		Liabilities for incurred claims		
	Excluding loss component	Loss component	Estimates of the present value of future cash flows	Risk adjustment	Total
Opening balance - Insurance contract liabilities	2,077	-	9,034	185	11,296
Opening balance - Net insurance contract (assets)/liabilities	**2,077**	**-**	**9,034**	**185**	**11,296**
Cash Flows					-
Premiums received	16,169	-	-	-	16,169
Claims and other expenses paid	-	-	(11,022)	-	(11,022)
Insurance acquisition cash flows	(3,456)	-	-	-	(3,456)
Total cash flows	**12,713**	**-**	**(11,022)**	**-**	**1,691**
Changes in the statement of comprehensive income					-
Insurance Revenue	(15,724)	-	-	-	(15,724)
Insurance services expenses					-
Incurred claims and other expenses	-	-	12,424	149	12,573
Amortization of insurance acquisition cash flows	3,079	-	-	-	3,079
Changes to liabilities for incurred claims	-	-	(1,706)	(28)	(1,734)
Total insurance service expenses	3,079	-	10,718	121	13,918
Insurance finance expenses	-	-	486	-	486
Total changes in the statement of comprehensive income	**(12,645)**	**-**	**11,204**	**121**	**(1,320)**
Closing balance - Net insurance contract (assets)/liabilities	**2,145**	**-**	**9,216**	**306**	**11,667**
Closing balance - Insurance contract liabilities	**2,145**	**-**	**9,216**	**306**	**11,667**

December 31, 2023 (in thousands of dollars)

5. Insurance Contracts and Reinsurance Contracts (continued)

	2022				
	Liabilities for remaining coverage		Liabilities for incurred claims		
	Excluding loss component	Loss component	Estimates of the present value of future cash flows	Risk adjustment	Total
Opening balance - Insurance contract liabilities	1,935	-	8,456	249	10,640
Opening balance - Net insurance contract (assets)/liabilities	1,935	-	8,456	249	10,640
Cash Flows					-
Premiums received	14,435	-	-	-	14,435
Claims and other expenses paid	-	-	(8,942)	-	(8,942)
Insurance acquisition cash flows	(2,579)	-	-	-	(2,579)
Total cash flows	11,856	-	(8,942)	-	2,914
Changes in the statement of comprehensive income					-
Insurance Revenue	(14,146)	-	-	-	(14,146)
Insurance services expenses					-
Incurred claims and other expenses	-	-	12,286	80	12,366
Amortization of insurance acquisition cash flows	2,432	-	-	-	2,432
Changes to liabilities for incurred claims	-	-	(2,696)	(144)	(2,840)
Total insurance service expenses	2,432	-	9,590	(64)	11,958
Insurance finance expenses	-	-	(70)	-	(70)
Total changes in the statement of comprehensive income	(11,714)	-	9,520	(64)	(2,258)
Closing balance - Net insurance contract (assets)/liabilities	2,077	-	9,034	185	11,296
Closing balance - Insurance contract liabilities	2,077	-	9,034	185	11,296

December 31, 2023 (in thousands of dollars)

5. Insurance Contracts and Reinsurance Contracts (continued)

b) Movements in net asset or liability for reinsurance contracts held

The roll-forward of the net asset or liability for reinsurance contracts held is disclosed below:

	2023				
	Assets for remaining coverage		**Amounts recoverable on incurred claims**		
	Excluding loss-recovery component	**Loss-recovery component**	**Estimates of the present value of future cash flows**	**Risk adjustment**	**Total**
Opening balance - reinsurance contract assets	(72)	-	2,766	84	2,778
Opening balance - Net reinsurance contract (assets)/liabilities	**(72)**	**-**	**2,766**	**84**	**2,778**
Cash Flows					-
Premiums paid	2,453	-	-	-	2,453
Amounts received	-	-	(2,498)	-	(2,498)
Changes in funds withheld	-	-	-	-	-
Total cash flows	**2,453**	**-**	**(2,498)**	**-**	**(45)**
Changes in the statement of comprehensive income					-
Allocation of reinsurance premiums	(2,532)	-	-	-	(2,532)
Amounts recoverable from reinsurers for incurred claims					-
Recoveries of incurred claims and other insurance service expenses	-	-	4,219	60	4,279
Changes to amounts recoverable for incurred claims	-	-	(1,619)	(35)	(1,654)
Total amounts recoverable from reinsurers for incurred claims	-	-	2,600	25	2,625
Net income or expense from reinsurance contracts held	**(2,532)**	**-**	**2,600**	**25**	**93**
Reinsurance finance income	-	-	174	-	174
Total changes in the statement of comprehensive income	**(2,532)**	**-**	**2,774**	**25**	**267**
Closing balance - Net reinsurance contract (assets)/liabilities	**(151)**	**-**	**3,042**	**109**	**3,000**
Closing balance - reinsurance contract assets	**(151)**	**-**	**3,042**	**109**	**3,000**

December 31, 2023 (in thousands of dollars)

5. Insurance Contracts and Reinsurance Contracts (continued)

	2022				
	Assets for remaining coverage		Amounts recoverable on incurred claims		
	Excluding loss-recovery component	Loss-recovery component	Estimates of the present value of future cash flows	Risk adjustment	Total
Opening balance - reinsurance contract assets	(51)	-	2,459	108	2,516
Opening balance - Net reinsurance contract (assets)/liabilities	(51)	-	2,459	108	2,516
Cash Flows					-
Premiums paid	2,083	-	-	-	2,083
Amounts received	-	-	(908)	-	(908)
Changes in funds withheld	-	-	-	-	-
Total cash flows	2,083	-	(908)	-	1,175
Changes in the statement of comprehensive income					-
Allocation of reinsurance premiums	(2,104)	-	-	-	(2,104)
Amounts recoverable from reinsurers for incurred claims					-
Recoveries of incurred claims and other insurance service expenses	-	-	1,578	34	1,612
Changes to amounts recoverable for incurred claims	-	-	(314)	(58)	(372)
Total amounts recoverable from reinsurers for incurred claims	-	-	1,264	(24)	1,240
Net income or expense from reinsurance contracts held	(2,104)	-	1,264	(24)	(864)
Reinsurance finance income	-	-	(49)	-	(49)
Total changes in the statement of comprehensive income	(2,104)	-	1,215	(24)	(913)
Closing balance - Net reinsurance contract (assets)/liabilities	(72)	-	2,766	84	2,778
Closing balance - reinsurance contract assets	(72)	-	2,766	84	2,778

6. Insurance and Financial Risk

a) Insurance Risk

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 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. For longer tail claims that take some years to settle, there is also inflation risk. Therefore, the objective of the Company is to ensure that sufficient reserves are available to cover these liabilities.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements. Inflation risk is mitigated by taking expected inflation into account when estimating insurance contract liabilities and pricing appropriately.

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

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

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. 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 $500 (2022 - $500) in the event of a property claim, an amount of $575 (2022 - $525) in the event of an automobile claim and $625 (2022 - $625) in the event of a liability claim. For amounts over the respective limits there is a 100% retention to a specified maximum. The Company also obtained reinsurance which limits the Company's liability to $1,500 (2022 - $1,500) 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% (2022 – 70%) of gross net earned premiums for property, automobile, and liability.

Amounts recoverable from the reinsurer are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its members, 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.

6. Insurance and Financial Risk (continued)

b) Claim Development

The estimation of claim development involves assessing the future behavior of claims, taking into consideration the consistency of the Company's claim handling procedures, the amount of information available, the characteristics of the line of business from which the claim arises and claims reporting patterns. 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 below show how the Company's estimate of cumulative incurred claim cost for each accident year has changed at successive year ends and reconcile the cumulative claims to the amount appearing in the statement of financial position. An accident-year basis is considered to be the most appropriate for the business written by the Company.

The Company has not disclosed previously unpublished information about claims development that occurred earlier than ten years before the end of the annual reporting period in which it first applies IFRS 17.

December 31, 2023 (in thousands of dollars)

6. Insurance and Financial Risk (continued)

Gross undiscounted liabilities for incurred claims for 2023

Accident Year	**Before 2014**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	Total
At end of accident year	$ 5,391	$ 5,005	$ 5,479	$ 3,652	$ 5,459	$ 7,657	$ 5,697	$ 4,602	$ 7,851	$ 6,878	$ 11,611	$ 69,284
One year later	4,590	4,937	5,564	5,545	5,795	7,900	5,711	4,912	10,104	6,525	-	$ 61,583
Two years later	5,337	4,870	5,805	5,688	5,570	7,875	6,005	5,308	9,906	-	-	$ 56,363
Three years later	6,016	5,092	5,669	5,995	5,515	8,252	6,106	5,369	-	-	-	$ 48,014
Four years later	6,601	5,099	5,766	5,782	5,518	8,436	6,105	-	-	-	-	$ 43,307
Five years later	6,403	4,885	5,793	5,967	5,525	8,443	-	-	-	-	-	$ 37,016
Six years later	6,389	4,878	5,717	6,154	5,503	-	-	-	-	-	-	$ 28,641
Seven years later	6,376	4,856	5,646	6,143	-	-	-	-	-	-	-	$ 23,021
Eight years later	6,376	4,856	5,652	-	-	-	-	-	-	-	-	$ 16,884
Nine years later	6,376	4,856	-	-	-	-	-	-	-	-	-	$ 11,232
Ten years later	6,376	-	-	-	-	-	-	-	-	-	-	$ 6,376
Gross estimates of the undiscounted amount of the claims	6,376	4,856	5,652	6,143	5,503	8,443	6,105	5,369	9,906	6,525	11,611	$ 76,489
Cumulative payments to date	6,376	4,856	5,646	5,994	5,494	8,176	5,978	5,037	7,524	5,768	7,643	$ 68,493
Gross undiscounted liabilities for incurred claims	-	-	6	149	9	266	128	332	2,382	757	3,968	7,996
IBNR												1,795
Risk Adjustment												306
Effect of discounting												(575)
Other attributable expenses												-
Total gross liabilities for incurred claims												$ 9,522

December 31, 2023 (in thousands of dollars)

6. Insurance and Financial Risk (continued)

Net undiscounted liabilities for incurred claims for 2023

Accident Year	**Before 2014**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	Total
At end of accident year	$ 5,227	$ 5,005	$ 4,662	$ 3,571	$ 4,736	$ 6,972	$ 5,697	$ 4,358	$ 6,957	$ 6,780	$ 8,043	$ 62,007
One year later	4,572	4,937	4,823	4,474	5,072	7,258	5,711	4,679	7,617	6,448	-	$ 55,591
Two years later	5,002	4,870	5,064	4,614	4,847	7,133	6,005	5,074	8,326	-	-	$ 50,935
Three years later	4,837	5,092	4,928	4,410	4,792	7,310	6,106	5,136	-	-	-	$ 42,611
Four years later	4,833	5,099	5,026	4,252	4,794	7,590	6,105	-	-	-	-	$ 37,699
Five years later	4,821	4,885	5,052	4,410	4,802	7,597	-	-	-	-	-	$ 31,567
Six years later	4,808	4,878	4,976	4,394	4,780	-	-	-	-	-	-	$ 23,835
Seven years later	4,794	4,856	4,905	4,383	-	-	-	-	-	-	-	$ 18,938
Eight years later	4,794	4,856	4,911	-	-	-	-	-	-	-	-	$ 14,561
Nine years later	4,794	4,856	-	-	-	-	-	-	-	-	-	$ 9,650
Ten years later	4,794	-	-	-	-	-	-	-	-	-	-	$ 4,794
Net estimates of the undiscounted amount of the claims	4,794	4,856	4,911	4,383	4,780	7,597	6,105	5,136	8,326	6,448	8,043	$ 65,380
Cumulative payments to date	4,794	4,856	4,905	4,234	4,771	7,331	5,978	4,804	6,767	5,751	5,196	$ 59,388
Net undiscounted liabilities for incurred claims	-	-	6	149	9	266	128	332	1,560	697	2,847	$ 5,992
IBNR												$ 458
Risk Adjustment												$ 197
Effect of discounting												$ (352)
Other attributable expenses												$ 76
Total net liabilities for incurred claims												$ 6,371

December 31, 2023 (in thousands of dollars)

6. Insurance and Financial Risk (continued)

c) Sensitivities

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:

		2023			
	Change in assumptions	Impact on profit before tax, gross of reinsurance	Impact on profit before tax, net of reinsurance	Impact on equity, gross of reinsurance	Impact on equity, net of reinsurance
Expected loss	**5%**	$ 259	$ 164	$ 190	$ 121
Inflation rate	**1%**	145	87	107	64
Interest rate	**1%**	(135)	(82)	(99)	(60)
Expected loss	**-5%**	(259)	(163)	(190)	(120)
Inflation rate	**-1%**	(142)	(86)	(104)	(64)
Interest rate	**-1%**	140	84	103	62

		2022			
	Change in assumptions	Impact on profit before tax, gross of reinsurance	Impact on profit before tax, net of reinsurance	Impact on equity, gross of reinsurance	Impact on equity, net of reinsurance
Expected loss	**5%**	$ 148	$ 80	$ 109	$ 59
Inflation rate	**1%**	150	75	110	55
Interest rate	**1%**	(139)	(70)	(102)	51
Expected loss	**-5%**	(150)	(79)	(110)	(58)
Inflation rate	**-1%**	(147)	(74)	(109)	(54)
Interest rate	**-1%**	144	72	106	53

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) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet all cash outflow obligations as they come due. The Company mitigates this risk by monitoring cash activities and expected outflows. The Company's current liabilities arise as claims are made. The Company does not have material liabilities that can be called unexpectedly at the demand of a lender or client.

December 31, 2023 (in thousands of dollars)

6. Insurance and Financial Risk (continued)

The Company has no material commitments for capital expenditures and there is no need for such expenditures in the normal course of business. Claim payments are funded by current operating cash flow including investment income.

The Company's investment policy requires that 4% (or a minimum of $1,250) to 20% of the Company's portfolio be held in cash and short-term investments, which mitigates liquidity risk. Short-term investments include GICs with an original maturity of less than one year.

The following table presents the maturity profile of investments held:

	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	>5 years	Total
December 31, 2023						
GICs	1,045	-	-	-	527	1,572
Debt instruments at FVTPL	50	2,611	2,878	8,680	6,752	20,971
Percentage of Total	4.86%	11.58%	12.77%	38.50%	32.29%	
December 31, 2022						
Debt instruments at FVTPL	2,514	-	-	-	-	2,514
Debt instruments at FVTPL	353	2,487	2,866	5,194	7,242	18,142
Percentage of Total	13.88%	12.04%	13.87%	25.15%	35.06%	

The following table summarizes the maturity profile of portfolios of insurance contracts issued that are liabilities and portfolios of reinsurance contracts held that are assets of the Company based on the estimates of the discounted future cash flows expected to be paid out in the periods expected:

	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	>5 years	Total
December 31, 2023						
Reinsurance contract assets	$ (1,554)	$ (411)	$ (354)	$ (352)	$ (371)	(3,042)
Insurance contract liabilities	5,094	1,515	1,011	862	735	9,217
Net contract liabilities	3,540	1,104	657	510	364	6,175
Percentage of Total	**57.33%**	**17.88%**	**10.64%**	**8.26%**	**5.89%**	
December 31, 2022						
Reinsurance contract assets	$ (476)	$ (765)	$ (641)	$ (251)	$ (633)	$ (2,766)
Insurance contract liabilities	4,283	2,093	1,230	562	866	9,034
Net contract liabilities	3,807	1,328	589	311	233	6,268
Percentage of Total	60.74%	21.19%	9.40%	4.96%	3.72%	

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.

December 31, 2023 (in thousands of dollars)

6. Insurance and Financial Risk (continued)

e) Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument, insurance contract issued, or reinsurance contract held will fluctuate because of changes in market prices. 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 Investment Committee and the Board of Directors. Diversification techniques are utilized to minimize risk. The policy limits the investment in corporate bonds rated 'AAA' or 'AA' to 10%, corporate bonds rated 'A' to 5%, and corporate bonds rated 'BBB' to 3% per issuer of their total fixed income portfolio. Furthermore, the policy limits the investment in 'BBB' corporate bonds to a maximum of the benchmark plus 15% of the total fixed income portfolio.

The Company's currency risk is related to stock holdings which are limited to United States equities in sectors which are not readily available in Canada. The Company limits its holdings in foreign equity to 10% of the total investment portfolio in accordance with its investment policy. The Company no longer holds investments in global equity pooled funds (2022 - $289).

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument or insurance or reinsurance contract will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk through its interest-bearing investments (GICs, Fixed Income Mutual Funds and Mortgage Pooled Funds).

Historical data and current information are 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.

		2023		2022	
	Change in interest rate	Impact on net profit	Impact on equity	Impact on net profit	Impact on equity
Debt instruments at FVTPL	+100bp	830	610	623	458
Debt instruments at FVTPL	-100bp	(830)	(610)	(623)	(458)

The Company is exposed to equity risk through its equity investments and equity pooled funds within its investment portfolio.

At December 31, 2023, a 10% movement in stock markets with all other variables held constant would have an estimated effect on the fair values of the Company's equity pooled fund of $734 (2022 - $738). This change would be recognized in comprehensive income.

The Company's investment policy limits investment in preferred and common shares to a maximum of 30% of the market value of the portfolio.

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

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

December 31, 2023 (in thousands of dollars)

6. Insurance and Financial Risk (continued)

Credit risk is the risk that one party to a financial instrument, insurance contract issued in an asset position or reinsurance contract held will cause a financial loss for the other party by failing to discharge an obligation. The Company is exposed to credit risk relating to its debt holdings in its investment portfolio and reinsurance contracts held.

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

	2023	2022
GICs, maturing February 2, 2024 to February 20, 2028		
with fixed interest rates of 4.91% to 6.25%	**$ 1,572**	$ 2,514
Equity investments		
Collectivfide	**2,397**	1,900
Canadian fixed income pooled funds	**14,603**	11,915
Equity pooled funds	**7,727**	7,715
Mortgage pooled fund	**6,368**	6,227
Other investments		
Fire Mutuals Guarantee Fund	**23**	23
Total investments	**$ 32,690**	$ 30,294
Reinsurance contract assets	**$ 3,000**	$ 2,778

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 Company's investment policy limits investment in bonds and debentures of the various ratings to limits ranging from 65% to 96% of the Company's portfolio. The Company's policy requires that funds be invested in bonds and debentures of Federal, Provincial or Municipal Government and corporations where the portfolio maintains an average 'A' rating or better. 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 the investments.

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.

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

7. Investments

a) Recognition and initial measurement

The Company recognizes debt instruments and GICs on the date on which they 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 and GICs as FVTPL because the Company manages the debt instruments and evaluates their performance on a fair value basis in accordance with a documented investment strategy and the instruments are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets. The Company's fixed income and mortgage pooled 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 investments and equity pooled funds in listed and unlisted 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, are recognized in profit or loss.

c) *Derecognition*

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

d) 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).

December 31, 2023 (in thousands of dollars)

7. **Investments (continued)**

	Level 1	Level 2	Level 3	Total
December 31, 2023				
GICs	**$ 1,572**	**$ -**	**$ -**	**$ 1,572**
Equities	**-**	**-**	**2,397**	**$ 2,397**
Fixed income pooled funds	**-**	**14,603**	**-**	**$ 14,603**
Equity pooled funds	**-**	**7,727**	**-**	**$ 7,727**
Mortgage pooled fund	**-**	**-**	**6,368**	**$ 6,368**
Other investments	**-**	**23**	**-**	**$ 23**
Total investments	**$ 1,572**	**$ 22,353**	**$ 8,765**	**$ 32,690**
December 31, 2022				
GICs	$ 2,514	$ -	$ -	$ 2,514
Equities	-	-	1,900	$ 1,900
Fixed income pooled funds	-	11,915	-	$ 11,915
Equity pooled funds	-	7,715	-	$ 7,715
Mortgage pooled fund	-	-	6,227	$ 6,227
Other investments	-	23	-	$ 23
Total investments	$ 2,514	$ 19,653	$ 8,127	$ 30,294

There were no transfers between any levels of the fair value hierarchy for the years-ended December 31, 2023, and 2022.

The fair value of the investment in mortgage pooled funds is 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 the loan's particular risk.

During 2023, the Company did not purchase any additional equity shares in Collectivfide (2022 - $150), a Canadian Controlled Private Corporation. Collectivfide is owned by 27 shareholders, all of which are Ontario Farm Mutuals. Collectivfide's mandate is to purchase insurance brokerages in Ontario to protect our collective premium volume. The investment is recorded at fair value and is not traded on an open market. The fair value of this investment is based on valuation techniques that include inputs that are not based on observable market data (unobservable inputs). Therefore, it is classified as Level 3. The fair value of the investment in Collectivfide fluctuates based on the value of underlying net assets held by the private company.

December 31, 2023 (in thousands of dollars)

8. Investment and Other Income

	2023	2022
Interest income	**$ 945**	$ 652
Dividend and other income	**355**	291
Realized gains on disposal of investments	**666**	449
Investment and other expenses	**(153)**	(157)
Change in unrealized gains	**879**	(2,437)
Rental income	**42**	42
	$ 2,734	$ (1,160)

9. Investment Property

Investment property 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, with the exception of furniture and fixtures which is provided on a declining-balance basis, over their estimated useful life.

The fair value is determined by market value which is defined as the highest price estimated to be received should the property be exposed for sale in the open market. The fair value of the property at December 31, 2023 was $3,550 (2022 - $3,550).

			2023	
	Useful Life	**Cost**	**Accumulated Depreciation**	**Net Book Value**
Land	N/A	**$ 889**	**$ -**	**$ 889**
Building	20 - 40 years	**437**	**271**	**166**
Furniture & Fixtures	20% declining balance	**9**	**9**	**-**
		$ 1,335	**$ 280**	**$ 1,055**

			2022	
	Useful Life	**Cost**	**Accumulated Depreciation**	**Net Book Value**
Land	N/A	$ 889	$ -	$ 889
Building	20 - 40 years	437	261	176
Furniture & Fixtures	20% declining balance	9	8	1
		$ 1,335	$ 269	$ 1,066

December 31, 2023 (in thousands of dollars)

10. Capital Management

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

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

The regulators measure the financial strength of property and casualty insurers using a minimum capital test (MCT). The regulators require property and casualty companies to comply with capital adequacy requirements. This test compares a Company's capital against the risk profile of the organization. The risk-based capital adequacy framework assesses the risk of assets, policy liabilities and other exposures by applying various factors that are dependent on the risks associated with the Company's assets. Additionally, an interest rate risk margin is included in the MCT by assessing the sensitivity of the Company's interest-sensitive assets and liabilities to changes in interest rates. The regulator indicates that the Company should produce a minimum MCT of 150%. As at December 31, 2023, the Company has consistently exceeded this minimum. The regulator has the authority to request more extensive reporting and can place restrictions on the Company's operations if the Company falls below this requirement or is deemed necessary.

11. Other Operating and Administrative Expenses

	2023	2022
Salaries, benefits and directors fees	**625**	702
Computer costs	**206**	216
Professional fees	**167**	131
Licenses, dues and fees	**97**	64
Depreciation and amortization	**49**	59
Staff education and training	**54**	48
Donations, travel, bank fees	**32**	41
Occupancy expenses	**46**	34
Postage and office supplies	**29**	21
Loss prevention and inspection	**14**	11
Statistical expenses	**12**	9
Amortization of intangible assets	**6**	8
Other expenses	**3**	4
	$ 1,340	$ 1,348

December 31, 2023 (in thousands of dollars)

12. Commissions, Salaries, Benefits and Directors Fees

	2023	2022
Underwriter salaries and benefits	$ 355	$ 310
Sales commissions, salaries and benefits	2,120	1,991
Other salaries, benefits and directors fees	995	1,085
	$ 3,470	$ 3,386

Included in claims expenses were salary and benefits costs of $180 (2022 - $179).

13. Income Taxes

Income tax expense is comprised of current and deferred tax. Current tax and deferred tax are recognized in comprehensive income except to the extent that they relate to items recognized directly in equity.

The significant components of the tax effect of the amounts recognized in comprehensive income is comprised of:

	2023	2022
Current tax expense (recovery)		
Based on current year taxable income	$ -	$ (2)
Adjustments for over/under provision in prior period	(3)	-
Deferred tax expense (recovery)		
Origination and reversal of temporary differences	$ 729	$ (434)
Total income tax expense (recovery)	$ 726	$ (436)

At December 31, 2023, a deferred tax asset of $150 (2022 - $879) 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.

	2023	2022
Deferred income tax asset		
Deferred tax assets to be recovered within 12 months	$ -	$ -
Deferred tax assets to be recovered after more than 12 months	150	879
	$ 150	$ 879

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

December 31, 2023 (in thousands of dollars)

13. Income Taxes (continued)

	2023	2022 *(restated)*
Income (loss) before taxes	**$ 2,981**	$ (1,163)
Expected taxes based on the statutory rate of 26.5% (2022 - 26.5%)	**790**	(308)
Non-deductible portion of claims liabilities	**(667)**	(391)
Difference between amortization and CCA	**(77)**	(11)
Other non-deductible expenses	**4**	6
Canadian dividend income	**(50)**	(43)
Deferred tax provision	**729**	(434)
Loss carryforward	**-**	907
IFRS 17 restatement	**-**	(160)
Other	**(3)**	(2)
Total income tax expense (recovery)	**$ 726**	$ (436)

14. 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 that life insurers fail to fulfill their obligations.

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

The Company is a member of Farm Mutual Re, which is a general reinsurer that shares in the insurance risks originally accepted by member insurance companies. As a member of Farm Mutual Re, the Company may be required to contribute additional capital to Farm Mutual Re should Farm Mutual Re's capital fall below a prescribed minimum. The additional capital would be provided by purchasing subordinated debt obligations issued by Farm Mutual Re.

These exposures represent financial guarantee contracts. The Company accounts for financial guarantee contracts in accordance with IFRS 17, Insurance Contracts.

December 31, 2023 (in thousands of dollars)

15. 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 recognized in comprehensive income and is provided on a straight-line basis, with the exception of office equipment which is provided on a declining-balance basis, over the estimated useful lives of the assets.

Intangible assets

Intangible assets consist of computer software, which is not integral to the computer hardware owned by the Company, and a website. Intangible assets are initially recorded at cost and subsequently measured at cost less accumulated amortization and accumulated impairment losses. Intangible assets are amortized on a straight-line basis over the estimated useful lives of the assets.

			2023	
	Useful Life	Cost	Accumulated Depreciation	Net Book Value
Land	N/A	**$ 568**	**$ -**	**$ 568**
Building	12 - 40 years	**2,323**	**403**	**1,920**
Office equipment	20% declining balance	**361**	**256**	**105**
Computer equipment	5 years	**700**	**276**	**424**
Intangibles	3 - 6 years	**119**	**106**	**13**
		$ 4,071	**$ 1,041**	**$ 3,030**

			2022	
	Useful Life	Cost	Accumulated Depreciation	Net Book Value
Land	N/A	$ 568	$ -	$ 568
Building	12 - 40 years	2,323	333	1,990
Office equipment	20% declining balance	361	230	131
Computer equipment	5 years	389	234	155
Intangibles	3 - 6 years	119	84	35
		$ 3,760	$ 881	$ 2,879

16. Pension Plans & Agents' RRSP 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 current service in 2023 was $38 (2022 - $35). These amounts have been recognized in comprehensive income. The Company had a 1.4% share of the total contributions made to the Plan by all participating entities during the current fiscal year.

An actuarial valuation of the Plan as of January 1, 2021, showed both a going-concern surplus and solvency surplus position. The next required actuarial valuation will be December 31, 2024.

Expected contributions to the Plan for the next annual reporting period amount to $36, which is based on payments made to the multi-employer plan during the current fiscal year.

The defined benefit plan was closed to future employees effective July 1, 2013.

Due to the complexity of the valuation and its long-term nature, the funding valuation is highly sensitive to changes in the assumptions, which are reviewed at each reporting date.

Defined Contribution Pension Plan

Effective July 1, 2013, new hires are enrolled in the defined contribution plan.

The Company makes, on behalf of members of its staff, matching contributions up to 7.5% of staff salaries. The plan is a money purchase plan.

The amount contributed to the plan for 2023 was $53 (2022 - $41).

Expected contributions to the plan for the next annual reporting period amount to $77, which is based on payments made to the plan during the current fiscal year.

Agents' RRSP Plan

The Company also makes, on behalf of its agents, matching contributions of up to 3% of agents' commissions to the agents' respective Registered Retirement Savings Plan (RRSP). The total amount contributed to the respective RRSPs for 2023 was $25 (2022 - $27).

December 31, 2023 (in thousands of dollars)

17. 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:

	2023	2022
Compensation		
Salaries, short-term benefits and directors' fees	**$ 262**	$ 307
Total pension and other post-employment benefits	**22**	16
	$ 284	$ 323
Premiums	**$ 40**	$ 36
Claims Paid	**$ -**	$ 1

Amounts owing to and from key management personnel at December 31, 2023 are $Nil (2022 - $Nil). The amounts are included in due from members and accounts payable and accrued liabilities on the statement of financial position.

18. Subsequent Events

During the year, the Company reached an agreement to amalgamate with McKillop Mutual Insurance Company, effective January 1, 2024, into a new amalgamated company MutualONE Insurance Company. Management of the Company has not yet determined the impact of the amalgamation on its financial statements.