BAY OF QUINTE MUTUAL INSURANCE CO.
FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2022

WILKINSON

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WILKINSON

INDEPENDENT AUDITOR'S REPORT

To the Policyholders of
Bay of Quinte Mutual Insurance Co.

Opinion

We have audited the financial statements of Bay of Quinte Mutual Insurance Co. (the Company), which comprise the balance sheet as at December 31, 2022 and the statements of surplus and resources for protection of policyholders, comprehensive loss 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, 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

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

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

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

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

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INDEPENDENT AUDITOR'S REPORT
(CONT'D)

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 Company's internal control.

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

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

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

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

Wilkinson & Company LLP

BELLEVILLE, Canada
January 30, 2023

Chartered Professional Accountants
Licensed Public Accountants

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BAY OF QUINTE MUTUAL INSURANCE CO.
BALANCE SHEET AS AT DECEMBER 31, 2022

	2022 $	2021 $
ASSETS		
Cash	**4,702,287**	5,663,397
Portfolio investments - Note 4	**52,977,185**	57,768,149
Accrued interest	**654,672**	516,511
Accounts receivable		
- Agents and policyholders	**8,719,629**	8,068,140
- Reinsurer - Note 5		14,710
Income taxes recoverable	**1,563,452**	
Reinsurer's share of provision for unpaid claims and adjustment expenses - Note 5	**2,918,681**	1,226,507
Deferred policy acquisition expenses - Note 5	**2,839,123**	2,686,438
Prepaid expenses	**96,917**	2,506
Property, plant and equipment - Note 6	**638,286**	626,087
Deferred income taxes - Note 7	**77,000**	55,000
	75,187,232	76,627,445
LIABILITIES		
Accounts payable and accrued liabilities	**806,926**	1,522,460
Due to reinsurer	**123,336**	110,958
Income taxes payable		826,011
Provision for unpaid claims and adjustment expenses - Note 5	**12,831,520**	8,360,313
Unearned premiums - Note 5	**14,842,116**	14,104,821
Provision for refund from premiums	**110,351**	3,510,109
	28,714,249	28,434,672
POLICYHOLDERS' SURPLUS		
Surplus and resources for protection of policyholders	**46,472,983**	48,192,773
	75,187,232	76,627,445

APPROVED ON BEHALF OF THE BOARD

Connie Rob Director

George R. Taylor Director

BAY OF QUINTE MUTUAL INSURANCE CO.
STATEMENT OF SURPLUS AND
RESOURCES FOR PROTECTION OF POLICYHOLDERS
FOR THE YEAR ENDED DECEMBER 31, 2022

	2022	2021
	$	$
BALANCE - BEGINNING OF YEAR	**48,192,773**	43,022,425
COMPREHENSIVE INCOME (LOSS) FOR YEAR	**(1,719,790)**	5,170,348
BALANCE - END OF YEAR	**46,472,983**	48,192,773

BAY OF QUINTE MUTUAL INSURANCE CO.
STATEMENT OF COMPREHENSIVE LOSS
FOR THE YEAR ENDED DECEMBER 31, 2022

	2022 $	2021 $
PREMIUM INCOME		
Gross premiums written	**28,312,702**	26,861,486
Less reinsurance premiums	**(4,010,800)**	(3,997,089)
Net premiums written	**24,301,902**	22,864,397
Increase in unearned premiums	**(737,295)**	(190,337)
Net premiums earned	**23,564,607**	22,674,060
Service charges	**173,861**	171,500
	23,738,468	22,845,560
DIRECT LOSSES INCURRED		
Gross claims and adjusting expenses - Note 5	**17,488,822**	7,706,376
Less reinsurer's share of claims and adjustment expenses	**(3,497,265)**	(925,818)
	13,991,557	6,780,558
	9,746,911	16,065,002
EXPENSES		
Net premium acquisition costs		
Policy services - Note 5	**283,015**	434,347
Other	**5,071,420**	5,483,374
Salaries and benefits	**1,553,472**	1,546,907
Directors and professional fees	**304,609**	245,394
Travel and education	**158,430**	31,161
Loss prevention - Note 5	**613,858**	586,417
Advertising and community support	**172,889**	255,631
Office and communications	**1,116,844**	1,071,924
Ontario premium taxes	**119,366**	115,512
Licences and dues	**107,017**	86,791
Miscellaneous	**95,667**	49,999
Building occupancy costs	**111,884**	106,752
Depreciation of property, plant and equipment	**54,413**	114,284
	9,762,884	10,128,493
UNDERWRITING PROFIT (LOSS)	**(15,973)**	5,936,509
INVESTMENT INCOME (LOSS) - Note 11	**(2,455,917)**	4,463,948
REFUND OF PREMIUMS - Note 2(b)		(3,510,109)
COMPREHENSIVE INCOME (LOSS) BEFORE TAXES	**(2,471,890)**	6,890,348
INCOME TAX EXPENSE (RECOVERY) - Note 7		
Current	**(730,100)**	1,664,000
Deferred	**(22,000)**	56,000
	(752,100)	1,720,000
COMPREHENSIVE INCOME (LOSS) FOR YEAR	**(1,719,790)**	5,170,348

The accompanying notes form an integral part of these financial statements

BAY OF QUINTE MUTUAL INSURANCE CO.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2022

	2022 **$**	2021 $
OPERATING ACTIVITIES		
Comprehensive income (loss) for year	**(1,719,790)**	5,170,348
Adjustment for items which do not affect cash		
Depreciation of property, plant and equipment	**54,413**	114,284
Realized gains on disposal of portfolio investments - Note 11	**(585,796)**	(177,978)
Change in unrealized gain on portfolio investments - Note 11	**4,439,363**	(2,744,669)
(Increase) decrease in deferred income tax asset	**(22,000)**	56,000
	2,166,190	2,417,985
Net change in non-cash working capital balances related to operations - Note 9	**(3,998,085)**	2,862,048
CASH FLOWS PROVIDED FROM (USED IN) OPERATING ACTIVITIES	**(1,831,895)**	5,280,033
INVESTING ACTIVITIES		
Purchase of portfolio investments	**(8,378,784)**	(11,280,410)
Proceeds on sale of portfolio investments	**9,316,182**	8,875,962
Purchase of property, plant and equipment	**(66,613)**	(15,902)
CASH FLOWS PROVIDED FROM (USED IN) INVESTING ACTIVITIES	**870,785**	(2,420,350)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS FOR YEAR	**(961,110)**	2,859,683
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	**5,663,397**	2,803,714
CASH AND CASH EQUIVALENTS - END OF YEAR	**4,702,287**	5,663,397
REPRESENTED BY:		
Cash	**4,702,287**	5,663,397

BAY OF QUINTE MUTUAL INSURANCE CO.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

1. NATURE OF BUSINESS OPERATIONS

(a) Reporting Entity

The Company was incorporated without share capital on August 11, 1874 under the laws of the Province of Ontario as a mutual insurance company and is subject to the Insurance Act (Ontario). It is licenced to conduct its principal business activity which is to write property and liability insurance in Ontario. The Company's head office is located at 13379 Loyalist Parkway, Picton, Ontario, Canada.

These financial statements have been authorized for issue by the Board of Directors on January 30, 2023.

(b) 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 convention.

The Company presents the balance sheet in order of liquidity with a distinction based on expectations regarding recovery or settlement within twelve months after the balance sheet date (current) and more than twelve months after the balance sheet date (non-current), as described below.

The following balances are generally classified as current unless otherwise disclosed in the notes to these financial statements: cash and cash equivalents, portfolio investments, accrued interest, accounts receivable, income taxes recoverable, reinsurer's share of provision for unpaid claims and adjustment expenses, deferred policy acquisition expenses, prepaid expenses, accounts payable and accrued liabilities, due to reinsurer, income taxes payable, provision for unpaid claims and adjustment expenses and unearned premiums.

The following balances are generally classified as non-current unless otherwise noted in these financial statements: property, plant and equipment and deferred income taxes.

The Company's 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's accounting policies. The areas involving a higher degree of judgment of complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2(a).

BAY OF QUINTE MUTUAL INSURANCE CO.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

2. ACCOUNTING POLICIES

The Company follows International Financial Reporting Standards (IFRS), which comply with the requirements for filing with the Financial Services Regulatory Authority of Ontario. Those accounting policies considered to be particularly significant are as follows:

(a) Accounting Estimates

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

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change effects that period only; or in the period of the change and future periods, if the change affects both.

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

(i) Provision for Unpaid Claims

The estimation of the provision for unpaid claims and the related reinsurer's share are the Company's most critical accounting estimates. There are several sources of uncertainty that need to be considered by the Company in estimating the amount that will ultimately be paid on these claims. The uncertainty arises because all events affecting the ultimate settlement of claims have not taken place and may not take place for some time. Changes in the estimate of the provision can be caused by receipt of additional claim information, changes in judicial interpretation of contracts, or significant changes in severity or frequency of claims from historical trends. The estimates are based on the Company's historical experience and industry experience. More details are included in Note 5 to these financial statements.

(ii) Income Taxes

The Company periodically assesses its liabilities and contingencies related to income taxes for all years open to audit based on the latest information available. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability / asset, including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities / assets.

(iii) Classification of Financial Assets at Fair Value Through Profit or Loss ("FVTPL")

The classification of financial assets at FVTPL 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. See Note 2(e) for further information on the Company's business model.

BAY OF QUINTE MUTUAL INSURANCE CO.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

2. ACCOUNTING POLICIES (Cont'd)

(b) Insurance Contracts

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

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

(i) Premiums and Unearned Premiums

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

The Company 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.

(ii) Deferred Policy Acquisition Expenses

Acquisition costs are substantially comprised of agents' commissions. These costs are deferred and amortized over the terms of the related policies to the extent that they are considered to be recoverable from unearned premiums, after considering the related anticipated claims and expenses.

(iii) Provisions for Unpaid Claims and Adjustment Expenses

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

Provisions for unpaid claims and adjustment expenses are carried on an undiscounted basis.

BAY OF QUINTE MUTUAL INSURANCE CO.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

2. ACCOUNTING POLICIES (Cont'd)

(b) Insurance Contracts (Cont'd)

(iv) Liability Adequacy Test

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

(v) Reinsurer's Share of Provisions for Unpaid Claims and Adjustment Expenses

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

Expected reinsurance recoveries on unpaid claims and adjustment expenses are recognized as assets at the same time and using principles consistent with the Company's method for establishing the related liability.

(vi) Salvage and Subrogation Recoverable

In the normal course of business, the Company obtains the ownership of damaged property, which they resell to various salvage operations. Unsold property is valued at its estimated net realizable value.

Where the Company indemnifies policyholders against a liability claim, it acquires rights to subrogate its claim against other parties. These claims are reflected when received or expected to be received from the subrogated parties, net of related costs, and are netted against the provision for unpaid claims and adjustment expenses.

(vii) Refund from Premiums

Under the discretion of the Board of Directors, while maintaining a net surplus to premium ratio of 1.5, the Company may declare a refund to its policyholders based on gross premiums paid in the fiscal year. Refunds would be paid only on policies of policyholders insured continuously in the Company during the three years preceding the effective date of refund. This refund would be recognized in the Statement of Comprehensive Income (Loss) in the period for which it is declared. In the current year the Company declared a refund of premiums of $NIL (2021 - $3,510,109).

2. ACCOUNTING POLICIES (Cont'd)

(c) Structured Settlements, Fire Mutuals Guarantee Fund and Financial Guarantee Contracts

The Company has the ability to enter 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 fulfil their obligations.

The Company is a member of the Fire Mutuals Guarantee Fund ("the Fund"). The Fund was established to provide payment of outstanding policyholders' claims and unearned premiums 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.

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

(d) Financial Instruments

The Company classifies its financial instruments into one of the following categories based on the business model in which they are held and the characteristics of their contractual cash flows. All transactions related to financial instruments are recorded on a trade date basis. The Company's accounting policy for each category is as follows:

(i) Amortized Cost

Financial Assets

Financial assets measured at amortized cost are non-derivative and resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue and subsequently carried at amortized cost, using the effective interest rate method, less any estimated credit loss.

The IFRS 9 impairment model requires impairment allowances for all exposures from the time a financial asset is originated, based on the deterioration of credit risk (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) since initial recognition. This is based on the history of all credit losses for similar financial assets. If the credit risk has not increased significantly, the Company sets up an allowance based on 12 month expected losses. If the credit risk has increased significantly and if the loan is credit impaired, the Company will set up an allowance based on lifetime expected losses. For amounts due from policyholders and reinsurer, which are reported net, such allowance is recorded in a separate allowance account with the loss being recognized in comprehensive income. On confirmation that the amounts receivable will not be collectable, the gross carrying value of the financial asset is written off against the associated allowance.

BAY OF QUINTE MUTUAL INSURANCE CO.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

2. ACCOUNTING POLICIES (Cont'd)

(d) Financial Instruments (Cont'd)

(i) Amortized Cost (Cont'd)

Financial Liabilities

Financial liabilities comprise accounts payables and other short-term monetary liabilities. These liabilities are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carrying in the balance sheet. Interest expense in this context includes initial transaction costs and premium's payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

(ii) Fair Value Through Profit or Loss

A financial asset is classified in this category if it is held for trading and acquired principally for selling in the short term, or upon initial recognition the Company designates it as such. Derivatives are also classified as held for trading unless they are designated hedges. Fair value through profit or loss instruments are carried at fair value in the balance sheet with changes in fair value recorded in the Statement of Comprehensive Income (Loss).

The Company uses settlement date accounting for the purchase and sale of equity instruments.

(iii) Classification

The classification of financial instruments are outlined in Note 3 to these financial statements.

(e) Portfolio Investments

Portfolio investments, which include fixed-income securities, equities and mutual/pooled funds, are classified as FVTPL and are initially recorded at their acquisition cost (fair value) on the date of trade. The Company manages and evaluates performance of its fixed-income securities, as well as equities and mutual/pooled funds, on a fair value basis in accordance with a documented investment strategy. The instruments are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Portfolio investments are subsequently adjusted to fair value as at the date of the balance sheet and the corresponding unrealized gains and losses are recorded in comprehensive income.

BAY OF QUINTE MUTUAL INSURANCE CO.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

2. ACCOUNTING POLICIES (Cont'd)

(f) Property, Plant and Equipment and Depreciation

Property, plant and equipment are stated at acquisition cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses. Gains or losses on the disposal of individual assets are recognized in comprehensive income in the year of disposal. Depreciation is provided on the basis as detailed below:

Asset	Basis	Rate
Building	Straight-line	4%
Building components	Straight-line	5%
Computer equipment	Straight-line	33%
Office furniture and fixtures	Straight-line	10%

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

(g) Income Taxes

Income tax expense (recovery) comprises of current and deferred tax. Current tax and deferred tax are recognized in comprehensive income (loss) except to the extent that it relates to a business combination or items recognized directly in equity or in other earnings.

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

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit or loss.

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

BAY OF QUINTE MUTUAL INSURANCE CO.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

2. ACCOUNTING POLICIES (Cont'd)

(g) Income Taxes (Cont'd)

The amount of the deferred tax asset or liability is measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date and are expected to apply when the liabilities / (assets) are settled / (recovered).

(h) Provisions

Provisions are recognized for liabilities of uncertain timing or amounts that have arisen as a result of past transactions, including legal, equitable or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

(i) Accounts Receivable

Accounts receivable are classified as amortized cost and are measured at initial recognition at fair value and are expected to be settled within one year. See Note 2(d)(i) to these financial statements for discussion regarding the impairment model. Subsequent recoveries of amounts previously written off are credited against operating expenses in the Statement of Comprehensive Income (Loss).

(j) Post-employment Benefits - Pension Plan

The Company participates in a multi-employer defined benefit pension plan, however, sufficient information is not available to use defined benefit pension accounting. Therefore, the Company accounts for the plan as if it were a defined contribution plan, recognizing contributions, including deficit payments, as an expense in the year to which they relate.

(k) Post-Employment Benefits - Non-Pension Benefits

The Company participates in a multi-employer health and dental benefit plan that provides post-employment extended health and dental benefits to eligible retired employees. Entitlement to these benefits is conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. There are no employee contributions and the benefits are not funded.

The accrued obligation is based on the present value of expected future benefit plan payments once an employee reaches the age of eligibility. This method includes various estimates including retirement dates and ages of employees, expected extended health and dental benefit plan costs and related factors. Such estimates are subject to uncertainty.

The accrued obligation is included in accounts payable and accrued liabilities in the balance sheet.

2. ACCOUNTING POLICIES (Cont'd)

(l) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on deposit.

(m) Standards, Amendments and Interpretations Not Yet Effective

Certain new standards, amendments and interpretations have been published that are mandatory for the Company's accounting periods beginning on or after January 1, 2023 or later periods that the Company has decided not to early adopt. The standards, amendments and interpretations that will be relevant to the Company are:

- IFRS 17 - Insurance Contracts (to supersede IFRS 4 Insurance Contracts). This standard changes how entities account for insurance contracts. Under IFRS 17, the general model requires entities to measure an insurance contract using the total of the fulfillment cash flows (which is comprised of the estimated future cash flows, an adjustment to reflect the time value of money and an explicit risk adjustment for non-financial risk) and the contractual service margin. The fulfillment cash flows are re-measured on a current basis each reporting period. The contractual service margin is recognized over the coverage period. If the insurance contract is less than one year in length, the standard allows a simplified approach called the premium allocation method. This standard is effective for annual periods beginning on or after January 1, 2023 with early adoption permitted. The standard is to be applied retrospectively unless impracticable, in which case, the modified retrospective approach or fair value approach is to be used. The Company is currently assessing the impact of IFRS 17.

BAY OF QUINTE MUTUAL INSURANCE CO.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

3. FINANCIAL INSTRUMENT CLASSIFICATION

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

	Fair Value through Profit or Loss $	Amortized Cost $	Total $
December 31, 2022			
Cash	**4,702,287**		**4,702,287**
Portfolio investments	**52,977,185**		**52,977,185**
Accrued interest		**654,672**	**654,672**
Accounts receivable			
- Agents and policyholders		**8,719,629**	**8,719,629**
Accounts payable and accrued liabilities		**(806,926)**	**(806,926)**
Due to reinsurer		**(123,336)**	**(123,336)**
	57,679,472	**8,444,039**	**66,123,511**
December 31, 2021			
Cash	5,663,397		5,663,397
Portfolio investments	57,768,149		57,768,149
Accrued interest		516,511	516,511
Accounts receivable			
- Agents and policyholders		8,068,140	8,068,140
- Reinsurer		14,710	14,710
Accounts payable and accrued liabilities		(1,522,460)	(1,522,460)
Due to reinsurer		(110,958)	(110,958)
Provision for refund of premiums		(3,510,109)	(3,510,109)
	63,431,546	3,455,834	66,887,380

BAY OF QUINTE MUTUAL INSURANCE CO.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

4. PORTFOLIO INVESTMENTS

As noted in Note 2(e) to these financial statements, portfolio investments are classified as fair value through profit or loss and are adjusted to market value as at the balance sheet date.

The cost and market values of the investments are as follows:

	2022		2021	
	Cost $	**Fair Value $**	Cost $	Fair Value $
Term deposits and GIC's	**11,435,000**	**11,441,953**	8,670,000	8,673,016
Fixed-income securities				
Federal government	**1,095,986**	**1,084,252**	2,087,715	2,140,374
Provincial government	**5,846,402**	**5,931,995**	7,510,947	8,082,304
Municipal government	**353,451**	**334,355**	355,172	365,470
Canadian Corporate - Rated A or better	**10,338,313**	**9,766,631**	9,582,312	9,690,923
Canadian Corporate - Rated less than A	**1,700,091**	**1,656,811**	2,799,731	2,903,377
	19,334,243	**18,774,044**	22,335,877	23,182,448
Guarantee Fund	**46,600**	**46,600**	46,408	46,408
Equities and Mutual/Pooled Funds				
Preferred shares	**4,170,431**	**3,407,820**	4,710,000	5,076,662
Common shares	**7,655,516**	**9,760,168**	6,835,806	9,827,192
Mutual and pooled funds	**8,369,132**	**8,296,434**	8,764,433	9,768,313
Canadian Corporate - private corporation	**1,000,000**	**1,250,166**	1,000,000	1,194,110
	21,195,079	**22,714,588**	21,310,239	25,866,277
	52,010,922	**52,977,185**	52,362,524	57,768,149

The effective interest rates range from 0.80% to 7.60% (0.80% to 7.60% for December 31, 2021).

The maximum exposure to credit risk would be the fair market value as shown above.

4. PORTFOLIO INVESTMENTS (Cont'd)

Fair Value

The estimated market value of bonds and debentures are based on quoted market values. The estimated market value of preference and common shares are determined using the last bid price.

Maturity Profile

The expected maturity dates for fixed-income securities, term deposits and GICs are as follows:

	2022 $	2021 $
Maturing within one year	**5,926,211**	4,695,422
Maturing between one and five years	**22,160,812**	21,780,251
Maturing over five years	**2,128,974**	5,379,791
	30,215,997	31,855,464

5. INSURANCE CONTRACTS

Accounts Receivable - Reinsurer

	2022 $	2021 $
Due from reinsurer, beginning of the year	**14,710**	
Submitted to reinsurer	**1,813,229**	1,028,220
Received from reinsurer	**(1,827,939)**	(1,013,510)
Due from reinsurer, end of the year	**NIL**	14,710

Expected settlement

	2022	2021
Within one year	**NIL**	14,710
More than one year	**NIL**	NIL

At year end, the Company reviewed the amounts owing from its reinsurer and determined that no allowance is necessary.

BAY OF QUINTE MUTUAL INSURANCE CO.
NOTES TO FINANCIAL STATEMENTS
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5. INSURANCE CONTRACTS (Cont'd)

Reinsurer's Share of Provision for Unpaid Claims

	2022 $	2021 $
Balance, beginning of the year	**1,226,507**	1,328,909
New claims reserve	**3,532,767**	841,618
Change in prior years' reserve	**(27,364)**	84,200
Submitted to reinsurer	**(1,813,229)**	(1,028,220)
Balance, end of the year	**2,918,681**	1,226,507

Expected settlement

	2022 $	2021 $
Within one year	**1,273,256**	297,543
More than one year	**1,645,425**	928,964

Deferred Policy Acquisition Expenses

	2022 $	2021 $
Balance, beginning of the year	**2,686,438**	2,648,897
Acquisition costs incurred	**5,507,120**	5,955,262
Expensed during the year	**(5,354,435)**	(5,917,721)
Balance, end of the year	**2,839,123**	2,686,438

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

BAY OF QUINTE MUTUAL INSURANCE CO.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

5. INSURANCE CONTRACTS (Cont'd)

Unearned Premiums (UEP)

	2022 $	2021 $
Balance, beginning of the year	**14,104,821**	13,914,484
Premiums written	**28,312,702**	26,861,486
Premiums earned during year	**(27,575,407)**	(26,671,149)
Changes in UEP recognized in comprehensive income	**737,295**	190,337
Balance, end of the year	**14,842,116**	14,104,821

The determination of the provision for unpaid claims and adjustment expenses and the related reinsurer's share requires the estimation of the following variables: development of claims and reinsurance recoveries. The estimates are based on the Company's historical experience and classified as follows:

	2022		2021	
	Gross $	Ceded $	Gross $	Ceded $
Short settlement term	**7,068,584**	**1,273,256**	4,895,510	297,543
Long settlement term	**3,967,936**	**1,645,425**	2,209,803	928,964
Provision for claims incurred but not reported	**1,795,000**		1,255,000	
	12,831,520	**2,918,681**	8,360,313	1,226,507

Short settlement term is defined as expected settlement within one year, long term settlement is defined as expected settlement of more than one year.

Comments and Assumptions for Specific Claims Categories

The ultimate cost of long term settlement general liability claims are difficult to predict for several reasons. Claims may not be reported until many years after a policy expires. Changes in the legal environment have created 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.

BAY OF QUINTE MUTUAL INSURANCE CO.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

5. INSURANCE CONTRACTS (Cont'd)

Claims and Adjustment Expenses

Changes in claim liabilities recorded in the balance sheet for the years ended December 31, 2022 and 2021 and their impact on claims and adjustment expenses for the two years are as follows:

	2022	2021
	$	$
Unpaid claim liabilities, beginning of year	**8,360,313**	9,947,341
Decrease in estimated losses and expenses for losses occurring in prior years	**(816,811)**	(1,339,805)
Provision for losses and expenses on claims occurring in the current year	**18,313,772**	8,833,785
Payment on claims:		
Current year	**(4,074,592)**	(4,880,340)
Prior years	**(8,951,162)**	(4,200,668)
Unpaid claims, end of year	**12,831,520**	8,360,313
Reinsurer's share	**2,918,681**	1,226,507
Unpaid claims, end of year - net	**9,912,839**	7,133,806

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

Provision for Unpaid Claims and Adjustment Expenses

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

Claim Development

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

BAY OF QUINTE MUTUAL INSURANCE CO.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

5. INSURANCE CONTRACTS (Cont'd)

The tables that follow present the development of the estimated ultimate cost of claims (less claim payments) for the claim years 2013 to 2022. The first table presents the claims at gross and the second table presents the claims net of reinsurance recoveries. The columns show the claim occurrence year and begin with the original estimated ultimate cost of claims in that year. The changes in the estimates are provided in the corresponding subsequent rows, along with the current estimate for the year ending December 31, 2022, less cumulative payments. The original estimates will be increased or decreased, as more information becomes known about the original claims and overall claim frequency and severity.

Provision for Unpaid Claims and Adjustment Expenses

Gross Claims

	2013 $ (000's)	2014 $ (000's)	2015 $ (000's)	2016 $ (000's)	2017 $ (000's)	2018 $ (000's)	2019 $ (000's)	2020 $ (000's)	2021 $ (000's)	2022 $ (000's)	Total $ (000's)
Gross estimate of cumulative claims costs											
At the end year of claim	16,668	10,822	17,377	16,437	14,371	13,595	17,074	12,335	8,834	18,080	
One year later	15,917	10,308	16,367	15,420	13,794	12,330	16,321	11,286	8,845		
Two years later	15,613	10,255	16,317	15,155	13,052	12,339	15,926	10,795			
Three years later	14,463	10,090	16,611	14,871	13,118	12,521	15,695				
Four years later	14,171	9,999	16,008	14,829	13,254	12,589					
Five years later	14,147	9,924	16,013	14,781	13,133						
Six years later	13,995	9,951	15,844	14,774							
Seven years later	13,998	9,979	15,780								
Eight years later	13,998	9,979									
Nine years later	13,998										
Current estimate of cumulative claims cost	13,998	9,979	15,780	14,774	13,133	12,589	15,695	10,795	8,845	18,080	133,668
Cumulative payments	13,998	9,979	15,231	14,756	13,017	12,287	15,370	10,175	7,444	8,718	120,975
Outstanding claims	NIL	NIL	549	18	116	302	325	620	1,401	9,362	12,693
Outstanding claims 2012 and prior											139
Provision for unpaid claims and expenses											12,832

BAY OF QUINTE MUTUAL INSURANCE CO.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

5. INSURANCE CONTRACTS (Cont'd)

Net Claims

	2013 $ (000's)	2014 $ (000's)	2015 $ (000's)	2016 $ (000's)	2017 $ (000's)	2018 $ (000's)	2019 $ (000's)	2020 $ (000's)	2021 $ (000's)	2022 $ (000's)	Total $ (000's)
Net estimate of cumulative claims costs											
At the end year of claim	10,702	10,448	12,403	12,091	10,738	12,264	14,660	11,817	7,992	14,547	
One year later	10,390	10,041	11,823	11,787	9,981	11,167	14,235	10,981	8,031		
Two years later	10,410	9,988	12,035	11,715	9,506	11,175	13,563	10,507			
Three years later	10,044	9,822	12,250	11,497	95,694	11,358	13,361				
Four years later	9,965	9,732	12,271	11,471	9,733	11,425					
Five years later	10,017	9,657	12,322	11,424	9,612						
Six years later	9,865	9,684	12,128	11,417							
Seven years later	9,867	9,712	12,163								
Eight years later	9,867	9,712									
Nine years later	9,867										
Current estimate of cumulative claims cost	9,867	9,712	12,163	11,417	9,612	11,425	13,361	10,507	8,031	14,547	110,642
Cumulative payments	9,867	9,712	11,658	11,406	9,496	11,123	13,193	9,887	6,630	7,828	100,800
Outstanding claims	NIL	NIL	505	11	116	302	168	620	1,401	6,719	9,842
Outstanding claims 2012 and prior											71
Total net outstanding claims net of reinsurance											9,913

BAY OF QUINTE MUTUAL INSURANCE CO.
NOTES TO FINANCIAL STATEMENTS
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6. PROPERTY, PLANT AND EQUIPMENT

	Property, Plant and Equipment				
	Land $	**Building $**	**Computer Equipment $**	**Office Furniture and Fixtures $**	**Total $**
Cost					
Balance on December 31, 2021	196,000	739,000	459,128	334,219	1,728,347
Additions		58,195	8,418		66,613
Balance on December 31, 2022	196,000	797,195	467,546	334,219	1,794,960
Accumulated Depreciation					
Balance on December 31, 2021		354,720	438,548	308,992	1,102,260
Depreciation expense		32,470	18,212	3,732	54,414
Balance on December 31, 2022	NIL	387,190	456,760	312,724	1,156,674
Net book value					
December 31, 2021	196,000	384,280	20,580	25,227	626,087
December 31, 2022	196,000	410,005	10,786	21,495	638,286

The Company's land and building was last valued at January 1, 2010. The land and building was subject to external valuation performed by S. Rayner & Associates Ltd., qualified professional appraiser adhering to the generally accepted Standards of Professional Practice and the Code of Ethics of the Appraisal Institute of Canada. The fair value of land and building was determined based on the midpoint of the income approach and direct comparison approach to value. Had the land and building not been accounted for using the revaluation model, on a historical cost basis, their net book values would have been approximately $51,000 and $184,000 respectively (2021 - $51,000 and $216,000).

BAY OF QUINTE MUTUAL INSURANCE CO.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

7. INCOME TAX INFORMATION

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

	2022 $	2021 $
Current Tax Expense (Recovery)		
Based on current year taxable income	**(730,100)**	1,664,000
Deferred Tax (Recovery)		
Reversal of prior year temporary differences	**55,000**	111,000
Current year temporary differences	**(77,000)**	(55,000)
	(22,000)	56,000
Total income tax expense (recovery)	**(752,100)**	1,720,000

Reasons for the difference between tax expense for the year and the expected income taxes based on the effective statutory tax rate are as follows:

	2022 $	2021 $
Comprehensive income (loss) before taxes	**(2,471,890)**	6,890,348
Effective statutory rate	**26.38 %**	26.43 %
Expected taxes based on the effective statutory rate	**(652,085)**	1,821,119
Non-taxable dividends	**(104,037)**	(103,042)
Non-taxable portion of claims reserves, sick leave and post-employment benefits	**33,417**	(20,366)
Mark to market and other adjustments related to investments	**(14,788)**	(51,306)
Depreciation in excess of capital cost allowance	**3,463**	16,584
Non-deductible expenses	**3,972**	607
Other	**(42)**	404
Total income tax expense (recovery)	**(730,100)**	1,664,000

BAY OF QUINTE MUTUAL INSURANCE CO.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

7. INCOME TAX INFORMATION (Cont'd)

The movement in 2022 deferred tax assets and liabilities are:

	Opening Balance at January 1, 2022 $	Recognize in Net Income $	Closing Balance at December 31, 2022 $
Deferred Tax Assets			
Claims liabilities	**94,000**	**37,000**	**131,000**
Sick leave liability	**59,000**	**(2,000)**	**57,000**
Other	**9,000**	**(1,000)**	**8,000**
Deferred tax asset	**162,000**	**34,000**	**196,000**
Deferred Tax Liabilities			
Mark to market and other adjustments related to investments	**(51,000)**	**(15,000)**	**(66,000)**
Property, plant and equipment	**(56,000)**	**3,000**	**(53,000)**
2022 net deferred tax asset movement	**55,000**	**22,000**	**77,000**

The movement in 2021 deferred tax assets and liabilities are:

	Opening Balance at January 1, 2021 $	Recognize in Net Income $	Closing Balance at December 31, 2021 $
Deferred Tax Assets			
Claims liabilities	115,000	(21,000)	94,000
Sick leave liability	59,000		59,000
Other	10,000	(1,000)	9,000
Deferred tax asset	184,000	(22,000)	162,000
Deferred Tax Liabilities			
Market to market and other adjustments related to investments		(51,000)	(51,000)
Property, plant and equipment	(73,000)	17,000	(56,000)
2021 net deferred tax asset movement	111,000	(56,000)	55,000

BAY OF QUINTE MUTUAL INSURANCE CO.
NOTES TO FINANCIAL STATEMENTS
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7. INCOME TAX INFORMATION (Cont'd)

	2022	2021
	$	$
Deferred Tax Assets		
Deferred tax assets to be recovered within 12 months	**188,000**	153,000
Deferred tax assets to be recovered after more than 12 months	**8,000**	9,000
	196,000	162,000
Deferred Tax Liabilities		
Deferred tax liabilities to be settled after more than 12 months	**(119,000)**	(107,000)
Net deferred tax asset	**77,000**	55,000

The Company has a capital loss carry-forward balance for tax purposes of approximately $406,000 which may be used to reduce income taxes on specific taxable capital gains of future years. The deferred tax asset relating to this balance has not been recognized in these financial statements.

8. SALARIES AND BENEFITS

Included in the below line items within the Statement of Comprehensive Income (Loss) are the following amounts of salaries and benefits:

	2022	2021
	$	$
Gross claims and adjusting expenses	**194,786**	177,560
Policy services	**245,837**	398,787
Loss prevention	**503,378**	482,706

BAY OF QUINTE MUTUAL INSURANCE CO.
NOTES TO FINANCIAL STATEMENTS
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9. NET CHANGE IN NON-CASH WORKING CAPITAL BALANCES RELATED TO OPERATIONS

Cash provided from (used in) non-cash working capital is compiled as follows:

	2022	2021
	$	$
(INCREASE) DECREASE IN CURRENT ASSETS		
Accrued interest	**(138,161)**	(88,628)
Accounts receivable - agents and policyholders	**(651,489)**	(112,737)
Accounts receivable - reinsurer	**14,710**	(14,710)
Income taxes recoverable	**(1,563,452)**	
Reinsurer's share of provision for unpaid claims and adjustment expenses	**(1,692,174)**	102,402
Deferred policy acquisition expenses	**(152,685)**	(37,541)
Prepaid expenses	**(94,411)**	10,912
	(4,277,662)	(140,302)
INCREASE (DECREASE) IN CURRENT LIABILITIES		
Accounts payable and accrued liabilities	**(715,534)**	354,571
Due to reinsurer	**12,378**	29,676
Income taxes payable	**(826,011)**	504,685
Provision for unpaid claims and adjustment expenses	**4,471,207**	(1,587,028)
Unearned premiums	**737,295**	190,337
Provision for refund from premiums	**(3,399,758)**	3,510,109
	279,577	3,002,350
NET CHANGE IN NON-CASH WORKING CAPITAL BALANCES RELATED TO OPERATIONS	**(3,998,085)**	2,862,048

10. INSURANCE RISK MANAGEMENT

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

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

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

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

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

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

The Company follows a policy of underwriting with reinsuring contracts of insurance. The limit of liability of the Company is to a maximum amount of any one claim of $500,000 (2021 - $500,000) in the event of a property claim, and $550,000 (2021 - $500,000) in the event of a liability claim. For claims incurred over the respective limits, there is a 10% retention to a specified maximum for claims occurring prior to 2013 and 100% is recovered for all claims occurring in 2013 and subsequent years over the respective limits. In addition, the Company has obtained reinsurance having an upper amount of $8,000,000 and which limits the Company's liability to $1,650,000 in the event of a series of claims arising out of a single occurrence. The Company also has obtained stop loss reinsurance which limits the liability of all claims in a specific year to 80% of gross net earned premiums for all property and liability lines of business.

BAY OF QUINTE MUTUAL INSURANCE CO.
NOTES TO FINANCIAL STATEMENTS
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10. INSURANCE RISK MANAGEMENT (Cont'd)

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

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 occurrences, expected loss ratios and claims development as described in Note 5.

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

	Property Claims		**Liability Claims**	
	2022	2021	**2022**	2021
	$	$	**$**	$
5% change in loss ratios				
Gross claims change	**1,236,000**	1,169,000	**179,000**	174,000
Net claims change	**1,057,000**	987,000	**158,000**	156,000

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.

11. INVESTMENT INCOME (LOSS)

	2022	2021
	$	$
Interest income	**852,366**	848,497
Dividends and mutual/pooled fund distributions	**597,827**	720,199
(Decrease) increase in unrealized gain on portfolio investments	**(4,439,363)**	2,744,669
Realized gains on disposal of portfolio investments	**585,796**	177,978
Investment expenses	**(52,543)**	(27,395)
	(2,455,917)	4,463,948

BAY OF QUINTE MUTUAL INSURANCE CO.
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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:

	2022	2021
	$	$
Compensation		
Salaries, wages and director's fees	**1,215,316**	902,971
Short-term employee benefits	**72,404**	49,571
Pension and post-employment benefits	**94,424**	82,863
Premiums	**49,987**	50,316
Claims incurred	**(4,922)**	14,200

Amounts owing from and to key management personnel and directors (excluding compensation due and accrued) at December 31, 2022 are $12,388 (2021 - $13,850) and $Nil (2021 - $Nil) respectively. The amounts owing from related parties are subject to regular payment terms for policyholders and are included in accounts receivable agents and policyholders.

BAY OF QUINTE MUTUAL INSURANCE CO.
NOTES TO FINANCIAL STATEMENTS
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13. FINANCIAL RISKS AND CONCENTRATION OF RISK

Credit Risk

Credit risk is the risk of financial loss to the Company if a debtor fails to make payments of interest and principal when due. The Company is exposed to this risk relating to its fixed-income securities in its investment portfolio and the reliance on its reinsurer to make payment when certain loss conditions are met.

The Company's investment policy puts limits on the fixed-income securities portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits, corporate sector limits and general guidelines for geographic exposure. The fixed-income security portfolio remains very high quality with 95% of the securities rated A or better; all fixed-income securities must have an A rating or better at the time of purchase per the Company's investment policy. All fixed-income portfolios are measured for performance on a quarterly basis and monitored by management on a monthly basis.

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.

Accounts receivable are short term in nature, originating from a large number of policyholders and are not subject to material credit risk. Regular review of amounts outstanding is performed to ensure credit worthiness. The maximum exposure to credit risk and concentration of this risk is limited to the carrying value of these instruments.

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

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of market factors. Market factors 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 (Ontario). An investment policy is in place and its application is monitored by 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% of the Company's total securities portfolio.

13. FINANCIAL RISKS AND CONCENTRATION OF RISK (Cont'd)

Currency Risk

Currency risk relates to the Company operating in different currencies and converting non-Canadian earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur.

The Company does not hold any significant financial instruments in foreign currency, and as such, is not exposed to significant currency risk.

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

Interest Rate Risk

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

The Company is exposed to risk through its interest-bearing investments (term deposits and fixed-income securities).

Historical data and current information is used to profile the ultimate claims settlement pattern by class of insurance, which is then used in a broad sense to develop an investment policy and strategy. However, because a significant portion of the Company's assets relate to its capital rather than liabilities, the value of its interest rate based assets exceeds its interest 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. 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.

The objective and policies and procedures for managing interest rate risk is to diversify the fixed-income securities portfolio in such a way that the securities are laddered over several years and an approximately equal portion of the fixed-income securities portfolio would come due each year and be reinvested. This protects the Company from fluctuations in the interest rates.

As prevailing interest rates increase or decrease, the market value of these interest-bearing investments change. If interest rates were to change by 1%, with all other variables being held constant, then the effect on the market value of these investments would be approximately $774,000 (2021 - $980,000). The Company has structured its portfolio in a manner as to be able to allow fixed-income securities to be held to maturity to reduce any potential interest rate risk. For fixed-income securities that the Company did not sell during the year, the change during the year and changes prior to the year would be recognized as comprehensive income during the period.

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

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13. FINANCIAL RISKS AND CONCENTRATION OF RISK (Cont'd)

Equity Risk

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Company is exposed to this risk through its equity holdings within its investment portfolio.

The Company's portfolio includes equities with fair values that move with the Toronto Stock Exchange Composite Index. A 10% movement in the stock markets with all other variables held constant would have an estimated effect on the fair values of the Company's preference and common shares and mutual/pooled funds of $1,896,000 (2021 - $2,149,000). For equities and mutual/pooled funds that the Company did not sell during the period, the change would be recognized in the asset value and in comprehensive income. For shares that the Company did sell during the period, the change during the period and changes prior to the period would be recognized as net realized gains in comprehensive income during the period.

The Company's portfolio also includes unlisted shares in a Canadian private corporation. Equity risk with respect to this investment is limited to the carrying value ($1,250,166) of this investment.

The Company's investments policy operates within the guidelines of the Insurance Act (Ontario). An investment policy is in place and its application is monitored by the Board of Directors. Diversification techniques are utilized to minimize risk. The Policy limits the investment in portfolio investments as follows:

Investment Category	Maximum percentage of investment portfolio	Minimum percentage of investment portfolio
Preference shares	30%	0%
Common shares	25%	0%
Mutual and pooled funds	20%	0%
Bonds and debentures	80%	50%
Individual corporate group	10%	0%
Foreign securities	10%	0%

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. Current liabilities arise as claims are made. There are no material liabilities that can be called unexpectedly at the demand of a lender or client. There are 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 the investment income.

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

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14. DISCLOSURES RELATING TO FAIR VALUE MEASUREMENTS

The Company has categorized its financial assets and liabilities where fair value does not approximate cost based on the priority of the inputs to the valuation techniques used to measure fair value, into a three level fair value hierarchy. Financial assets and liabilities measured at fair value are categorized as follows:

Level 1: Fair value is based on unadjusted quoted prices for identical assets or liabilities in an active market.

Level 2: Fair value is based on quoted prices in markets that are not active or inputs that are observable for the asset or liability either directly as price or indirectly derived from price.

Level 3: Fair value is based on valuation techniques that require one or more significant unobservable inputs that are supported by little or no market activity and are significant to the estimated fair value of the assets and liabilities.

	Level 1 $ (000's)	Level 2 $ (000's)	Level 3 $ (000's)	Total $ (000's)
December 31, 2022				
Fixed-income securities				
Term deposits	**11,442**			**11,442**
Federal government	**1,084**			**1,084**
Provincial government and Provincially guaranteed	**5,932**			**5,932**
Canadian Municipal government	**334**			**334**
Canadian Corporate	**11,423**			**11,423**
Fire Mutual's Guarantee Fund		**47**		**47**
Equity Securities				
Preference shares	**3,408**			**3,408**
Common shares	**9,760**			**9,760**
Mutual and pooled funds	**8,296**			**8,296**
Canadian Corporate private corporation			**1,250**	**1,250**
TOTAL ASSETS MEASURED AT FAIR VALUE	**51,679**	**47**	**1,250**	**52,976**

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14. DISCLOSURES RELATING TO FAIR VALUE MEASUREMENTS (Cont'd)

	Level 1 $ (000's)	Level 2 $ (000's)	Level 3 $ (000's)	Total $ (000's)
December 31, 2021				
Fixed-income securities				
Term deposits	8,673			8,673
Federal government	2,141			2,141
Provincial government and Provincially guaranteed	8,082			8,082
Canadian Municipal and School Boards	366			366
Canadian Corporate	12,594			12,594
Fire Mutual's Guarantee Fund		46		46
Equity Securities				
Preference shares	5,077			5,077
Common shares	9,827			9,827
Mutual and pooled funds	9,768			9,768
Canadian Corporate private corporation			1,194	1,194
TOTAL ASSETS MEASURED AT FAIR VALUE	56,528	46	1,194	57,768

Levels of fair value for financial assets are consistent with those in the prior year.

The Level 3 financial asset is an investment in a Canadian private corporation. The corporation is in its fourth year of operations and fair value of the investment is determined based on the valuation techniques as set out in the private corporation's Shareholders' Agreement. The increase in fair value for the year ending December 31, 2022 of $250,166 (2021 - $194,110) has been netted against investment income within the Statement of Comprehensive Income (Loss).

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15. CAPITAL MANAGEMENT

The Company's objectives with respect to capital management are to maintain a capital base that is structured to exceed regulatory requirements and to best use capital allocations. Reinsurance is utilized as outlined in the Company's underwriting policy on Note 10 to these financial statements to protect the Company's capital. In addition, reinsurance is utilized to protect capital from catastrophic losses as the frequency and severity of these losses are inherently unpredictable. To limit their potential impact, catastrophic coverage limits exposure to $1,650,000 (2021 - $1,500,000). The $1,650,000 retained amount represents approximately 3.55% (2021 - 3.12%) of the Company's capital. For the purpose of capital management, the Company has defined capital as policyholders' surplus.

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

The Company uses a ratio of policyholders' surplus to gross premiums written to monitor capital adequacy. The Company's goal is to have a ratio of policyholders' surplus to gross premiums written of at least 1:1. As at December 31, 2022, the Company has policyholders' surplus to gross premiums written of 1.62:1 (2021 - 1.79:1).

The Company has several guidelines and benchmarks established by the Financial Services Regulatory Authority of Ontario regarding capital management which it continues to review and manage. As at December 31, 2022, the Company's MCT ratio is well in excess of the minimum requirement of 150%.

16. PENSION PLAN

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

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16. PENSION PLAN (Cont'd)

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

For the year ended December 31, 2022, the Company recognized $254,552 (2021 - $212,822) in operating expenses for current pension contributions. The Company had a 3.20% share of the total contributions to the Plan in 2022 (2021 - 4.89%).

The Company's expected contributions for current service to the Plan for 2023 are approximately $295,958.

An actuarial valuation of the Pension Plan as of December 31, 2021 showed a going-concern surplus position. The next actuarial valuation to be filed under the Pension Benefit Act will be as of December 31, 2024.

17. COVID-19

The Coronavirus (COVID-19) has caused a world-wide pandemic, including being present in Canada. The pandemic has had a considerable impact both globally and locally, which has the potential to create financial stress on the Company.

Both federal and provincial governments have introduced legislative measures to combat the financial impact of the pandemic as well as combating the spread of the virus, including restrictions on gathering and forced closures of several businesses.

As at the date these financial statements were issued, the full financial impact of the effects of COVID-19 to the Company could not be determined and management continues to monitor.