

Algoma Mutual Insurance Company

Financial Statements

For the year ended December 31, 2020

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Independent Auditor's Report

To the Policyholders of Algoma Mutual Insurance Company

Opinion

We have audited the financial statements of Algoma Mutual Insurance Company (the Entity), which comprise the statement of financial position as at December 31, 2020, and the statements of comprehensive income and members' surplus and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2020, 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:

Independent Auditor's Report (continued)

- 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
Sault Ste. Marie, Ontario
February 10, 2021

BDO

Algoma Mutual Insurance Company
Statement of Financial Position
December 31, 2020

(in thousands of Canadian dollars)

| | 2020 | 2019 |
|--|------------------|------------------|
| Assets | | |
| Cash | \$ 1,273 | \$ 580 |
| Investments (Note 5) | 12,006 | 11,964 |
| Investment income accrued | 24 | 43 |
| Income taxes recoverable | - | 30 |
| Due from reinsurer (Note 4) | - | 31 |
| Due from policyholders and brokers | 3,161 | 3,376 |
| Reinsurer's share of unpaid claims (Note 4) | 3,640 | 4,887 |
| Deferred policy acquisition expenses (Note 4) | 1,080 | 1,188 |
| Property, plant and equipment (Note 13) | 439 | 472 |
| Intangible assets (Note 13) | 14 | 22 |
| Other receivables | 121 | 279 |
| Deferred income taxes | 26 | 28 |
| | \$ 21,784 | \$ 22,900 |
| Liabilities | | |
| Accounts payable and accrued liabilities | \$ 831 | \$ 906 |
| Income taxes payable | 174 | - |
| Unearned premiums (Note 4) | 5,589 | 5,732 |
| Unpaid claims and adjustment expenses (Note 4) | 7,334 | 9,148 |
| | 13,928 | 15,786 |
| Members' surplus | | |
| Unappropriated members' surplus | 7,856 | 7,114 |
| | \$ 21,784 | \$ 22,900 |

Signed on behalf of the Board by:

_____ Director

_____ Director

Algoma Mutual Insurance Company
Statement of Comprehensive Income and Members' Surplus
For the year ended December 31, 2020

(in thousands of Canadian dollars)

| | 2020 | 2019 |
|---|-----------------|-----------------|
| Underwriting income | | |
| Gross premiums written | \$ 10,381 | \$ 10,726 |
| Less reinsurance ceded | <u>2,318</u> | <u>1,963</u> |
| Net premiums written | 8,063 | 8,763 |
| Change in unearned premiums | <u>143</u> | <u>(584)</u> |
| Net premiums earned | 8,206 | 8,179 |
| Service charges | <u>93</u> | <u>125</u> |
| | 8,299 | 8,304 |
| Direct losses incurred | | |
| Gross claims and adjustment expenses (Note 10) | 13,904 | 7,957 |
| Less reinsurer's share of claims and adjustment expenses | <u>9,687</u> | <u>2,300</u> |
| | 4,217 | 5,657 |
| Expenses | | |
| Fees, commissions and other acquisition expenses (Note 8) | 2,163 | 1,902 |
| Other operating and administrative expenses (Note 9) | <u>1,675</u> | <u>1,665</u> |
| | 3,838 | 3,567 |
| Premium deficiency adjustments | <u>7</u> | <u>-</u> |
| Net underwriting income (loss) | 251 | (920) |
| Investment and other income (Note 6) | <u>651</u> | <u>719</u> |
| Comprehensive income (loss) before taxes | 902 | (201) |
| Provision (recovery) for income taxes (Note 11) | <u>160</u> | <u>(33)</u> |
| Total comprehensive income (loss) for the year | 742 | (168) |
| Unappropriated members' surplus, beginning of year | <u>7,114</u> | <u>7,282</u> |
| Unappropriated members' surplus, end of year | \$ 7,856 | \$ 7,114 |

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

Algoma Mutual Insurance Company

Statement of Cash Flows

For the year ended December 31, 2020

(in thousands of Canadian dollars)

| | 2020 | 2019 |
|---|-----------------|---------------|
| Operating activities | | |
| Comprehensive income (loss) | \$ 742 | \$ (168) |
| Adjustments for: | | |
| Depreciation and amortization | 80 | 79 |
| Writedown of capital assets | - | 60 |
| Interest and dividend income | (102) | (202) |
| Provision for income taxes | 160 | (33) |
| Realized (gain) loss from disposal of investments | (520) | (196) |
| Change in fair value on investments | (5) | (337) |
| | (387) | (629) |
| Changes in working capital | | |
| Change in due from policyholders and reinsurers | 246 | (474) |
| Change in other receivables | 158 | (131) |
| Change in accounts payable and accrued liabilities | (75) | 191 |
| | 329 | (414) |
| Changes in insurance contract related balances, provisions | | |
| Change in deferred policy acquisition expenses | 108 | (158) |
| Change in unearned premiums | (143) | 584 |
| Change in provision for unpaid claims | (1,814) | 1,790 |
| Change in reinsurer's share of unpaid claims | 1,247 | (1,248) |
| | (602) | 968 |
| Cash flows related to interest, dividends and income taxes | | |
| Interest and dividends received | 121 | 213 |
| Income taxes (paid) received | 206 | (7) |
| | 327 | 206 |
| Total cash inflows (outflows) from operating activities | 409 | (37) |
| Investing activities | | |
| Sale of investments | 24,887 | 10,565 |
| Purchase of investments | (24,564) | (10,925) |
| Purchase of property and equipment | (39) | (32) |
| Total cash inflows (outflows) from investing activities | 284 | (392) |
| Net decrease in cash and cash equivalents | 693 | (429) |
| Cash and cash equivalents, beginning of year | 580 | 1,009 |
| Cash and cash equivalents, end of year | \$ 1,273 | \$ 580 |

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

Algoma Mutual Insurance Company

Notes to Financial Statements

December 31, 2020

(in thousands of Canadian dollars)

1. Corporate information

Algoma Mutual Insurance Company ("the Company") is incorporated under the laws of Ontario and is subject to the Ontario Insurance Act. It is licensed to write property, liability and automobile insurance in Ontario. The Company's head office is located at 131 Main Street, Thessalon, Ontario.

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

These financial statements have been authorized for issue by the audit committee of the Board of Directors on February 10, 2021.

2. Basis of preparation

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).

Basis of measurement

These financial statements were prepared under the historical cost convention, as modified by the revaluation of financial assets measure at fair value through profit and loss.

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

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

- The calculation of unpaid claims, including the determination of the initial claim liability, discount rates, the estimate of time until ultimate settlement and the performance of a liability adequacy test (Note 4); and
- The determination of the recoverability of deferred policy acquisition expenses (Note 4).
- The calculation of bad debt expense and allowance for doubtful accounts on Premiums receivable and other customer receivables using historical experience and forward-looking information.
- The classification of financial assets at FVTPL, which includes assessing the business model within which the assets are held and whether the contractual terms of the assets are solely payments of principal and interest on the principal amount outstanding (Note 5).

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

Algoma Mutual Insurance Company

Notes to Financial Statements

December 31, 2020

(in thousands of Canadian dollars)

3. Adoption of new accounting standards

Accounting standards, interpretations and amendments effective for accounting years beginning on or after January 1, 2020 did not materially affect the Company's financial statements.

4. 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, provision 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.

a) Premiums and unearned premiums

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

The Company recognizes premium income evenly over the term of the insurance policy using the pro rata method. The portion of the premium related to the unexpired portion of the policy at the end of the fiscal year is reflected in unearned premiums (UEP). Changes in unearned premiums recorded in the statement of financial position for the years-ended December 31, 2020 and 2019 and their impact on net premiums earned for the two years follows:

| | 2020 | 2019 |
|---------------------------------------|-----------------|-----------------|
| Balance, beginning of the year | \$ 5,732 | \$ 5,148 |
| Premiums written | 8,063 | 8,763 |
| Premiums earned during year | (8,206) | (8,179) |
| Balance, end of the year | \$ 5,589 | \$ 5,732 |

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 and exposed risk. Automobile premiums are subject to approval by the Financial Services Regulatory Authority and therefore may result in a delay in adjusting the pricing to exposed risk.

The Company is exposed to a pricing risk to the extent that unearned premiums are insufficient to meet the related future policy costs. Evaluation is performed regularly to estimate future claims costs, related expenses, and expected profit in relation to unearned premiums. There was no premium deficiency at December 31, 2020 and 2019.

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

Algoma Mutual Insurance Company

Notes to Financial Statements

December 31, 2020

(in thousands of Canadian dollars)

4. Insurance contracts (continued)

b) Reinsurer's share of unearned premiums

The Reinsurer's share of unearned premiums are recognized as an asset using principles consistent with Company's method for determining the unearned premium liability.

c) Deferred policy acquisition expenses

Acquisition costs are comprised of brokers' commissions, premium taxes and other incremental costs of acquiring and renewing policies. These costs are deferred and amortized over the terms of the related policies to the extent that they are considered to be recoverable from unearned premiums, after considering the related anticipated claims and expenses. Changes in deferred policy acquisition expenses recorded in statement of financial position for the years-ended December 31, 2020 and 2019 and their impact on fees, commissions and other acquisition expenses for the two years follow:

| | 2020 | 2019 |
|---------------------------------------|-----------------|-----------------|
| Balance, beginning of the year | \$ 1,188 | \$ 1,030 |
| Acquisition costs incurred | 2,538 | 2,567 |
| Expensed during the year | (2,646) | (2,409) |
| Balance, end of the year | \$ 1,080 | \$ 1,188 |

d) Unpaid claims and adjustment expenses

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

Claim liabilities are carried on a discounted basis to reflect the time value of money. As required by actuarial standards in Canada, claims liabilities also include a provision for adverse deviation (PFAD), which represents an additional margin on valuation variable factors, which are claims development, reinsurance recoveries and interest rates used in discounting claims liabilities.

In relation to COVID-19, the Company applied judgment and actuarial standards to determine its unpaid claims, using different scenarios and assumptions based on the information currently available.

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

Algoma Mutual Insurance Company

Notes to Financial Statements

December 31, 2020

(in thousands of Canadian dollars)

4. Insurance contracts (continued)

| | 2020 | | | 2019 | | |
|---|------------------------|--------------------------|-----------------|------------------------|--------------------------|-----------------|
| | Gross insurance | Re- insurance | Net | Gross insurance | Re- insurance | Net |
| Outstanding claims provision | | | | | | |
| Long settlement term | \$ 1,638 | \$ 890 | \$ 748 | \$ 2,713 | \$ 1,575 | \$ 1,138 |
| Short settlement term | 2,542 | 1,409 | 1,133 | 3,063 | 1,699 | 1,364 |
| Facility Association and other residual pools | 198 | - | 198 | 202 | - | 202 |
| | 4,378 | 2,299 | 2,079 | 5,978 | 3,274 | 2,704 |
| Provision for claims in- curred but not reported | 2,956 | 1,341 | 1,615 | 3,170 | 1,613 | 1,557 |
| | \$ 7,334 | \$ 3,640 | \$ 3,694 | \$ 9,148 | \$ 4,887 | \$ 4,261 |

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

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

Changes in claim liabilities recorded in the statement of financial position for the years-ended December 31, 2020 and 2019 and their impact on claims and adjustment expenses for the two years follow:

| | 2020 | 2019 |
|--|-----------------|-----------------|
| Unpaid claim liabilities, beginning of year—net of reinsurance | \$ 4,261 | \$ 3,719 |
| Increase (decrease) in estimated losses and expenses, for losses occurring in prior years | (210) | (34) |
| Provision for losses and expenses on claims occurring in the current year | 3,613 | 4,951 |
| Payment on claims: | | |
| Current year | (2,542) | (3,518) |
| Prior years | (1,428) | (857) |
| Unpaid claim liabilities – end of year - net | 3,694 | 4,261 |
| Reinsurer's share and subrogation recoverable | 3,640 | 4,887 |
| Unpaid claims - end of year - gross | \$ 7,334 | \$ 9,148 |

Algoma Mutual Insurance Company

Notes to Financial Statements

December 31, 2020

(in thousands of Canadian dollars)

4. Insurance contracts (continued)

Claim development

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

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

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

The estimation of claim development involves assessing the future behaviour of claims, 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 that follow present the development of claims payments and the estimated ultimate cost of claims for the claim year 2011 to 2020. The upper half of the tables shows the cumulative amounts paid or estimated to be paid during successive years related to each claim year. The original estimates will be increased or decreased, as more information becomes known about the original claims and overall claim frequency and severity.

Algoma Mutual Insurance Company
Notes to Financial Statements
December 31, 2020

(in thousands of Canadian dollars)

4. Insurance contracts (continued)

Gross claims

| | 2011 & prior | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | Total |
|--|--------------|-----------|------------|-----------|------------|------------|------------|--------------|------------|--------------|-----------------|
| Gross estimate of cumulative claims cost | | | | | | | | | | | |
| At the end of accident year | \$ 6,392 | \$ 8,042 | \$ 6,847 | \$ 4,398 | \$ 5,241 | \$ 3,485 | \$ 4,435 | 5,809 | \$ 6,795 | \$ 13,090 | |
| One year later | 6,687 | 7,653 | 6,400 | 4,194 | 4,955 | 3,633 | 4,570 | 5,953 | 6,568 | | |
| Two years later | 6,024 | 8,711 | 5,816 | 3,786 | 4,836 | 3,202 | 4,426 | 5,502 | | | |
| Three years later | 6,069 | 8,355 | 5,935 | 3,801 | 5,317 | 3,097 | 5,274 | | | | |
| Four years later | 5,967 | 8,192 | 6,233 | 3,705 | 5,977 | 2,956 | | | | | |
| Five years later | 5,970 | 8,042 | 6,308 | 3,497 | 5,947 | | | | | | |
| Six years later | 6,206 | 8,009 | 6,102 | 3,442 | | | | | | | |
| Seven years later | 6,215 | 8,096 | 6,243 | | | | | | | | |
| Eight years later | 6,222 | 8,103 | | | | | | | | | |
| Nine years later | 6,327 | | | | | | | | | | |
| Current estimate of cumulative claims cost | 6,327 | 8,103 | 6,243 | 3,442 | 5,947 | 2,956 | 5,274 | 5,502 | 6,568 | 13,090 | 63,452 |
| Cumulative payments | 6,109 | 8,046 | 5,657 | 3,367 | 5,554 | 2,797 | 4,884 | 3,218 | 5,801 | 10,685 | 56,118 |
| Outstanding claims | 218 | 57 | 586 | 75 | 393 | 159 | 390 | 2,284 | 767 | 2,405 | 7,334 |
| Total gross unpaid claims and adjustment expenses | | | | | | | | | | | \$ 7,334 |

| | 2011 & prior | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | Total |
|--|--------------|-----------|------------|-----------|------------|------------|------------|------------|------------|--------------|-----------------|
| Net of reinsurance | | | | | | | | | | | |
| Net estimate of cumulative claims cost | | | | | | | | | | | |
| At the end of accident year | \$ 3,294 | \$ 4,022 | \$ 3,909 | \$ 2,960 | \$ 3,997 | \$ 2,879 | \$ 3,434 | \$ 3,419 | \$ 4,951 | \$ 3,613 | |
| One year later | 3,764 | 4,268 | 4,025 | 3,040 | 3,776 | 3,025 | 3,637 | 3,430 | 4,716 | | |
| Two years later | 3,735 | 4,713 | 4,110 | 3,023 | 4,010 | 2,903 | 3,666 | 3,300 | | | |
| Three years later | 3,783 | 4,593 | 4,129 | 3,096 | 4,318 | 2,905 | 3,771 | | | | |
| Four years later | 3,657 | 4,597 | 4,120 | 3,087 | 4,338 | 2,875 | | | | | |
| Five years later | 3,678 | 4,569 | 4,170 | 2,929 | 4,342 | | | | | | |
| Six years later | 3,696 | 4,569 | 4,165 | 2,906 | | | | | | | |
| Seven years later | 3,710 | 4,631 | 4,170 | | | | | | | | |
| Eight years later | 3,715 | 4,631 | | | | | | | | | |
| Nine years later | 3,792 | | | | | | | | | | |
| Current estimate of cumulative claims cost | 3,792 | 4,631 | 4,170 | 2,906 | 4,342 | 2,875 | 3,771 | 3,300 | 4,716 | 3,613 | 38,116 |
| Cumulative payments | 3,662 | 4,618 | 3,816 | 2,845 | 4,048 | 2,765 | 3,481 | 2,602 | 4,156 | 2,429 | 34,422 |
| Outstanding claims | 130 | 13 | 354 | 61 | 294 | 110 | 290 | 698 | 560 | 1,184 | 3,694 |
| Total net unpaid claims and adjustment expenses | | | | | | | | | | | \$ 3,694 |

Algoma Mutual Insurance Company

Notes to Financial Statements

December 31, 2020

(in thousands of Canadian dollars)

4. Insurance contracts (continued)

The risks associated with insurance contracts are complex and subject to a number of variables which complicate quantitative sensitivity analysis. The Company uses various techniques based on past claims development experience to quantify these sensitivities. This includes indicators such as average claim cost, amount of claims frequency, expected loss ratios and claims development.

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

| | Property claims | | Auto claims | | Liability claims | |
|----------------------------|-----------------|------------|-------------|------------|------------------|----------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| 5% increase in loss ratios | | | | | | |
| Gross | \$ 5,240 | \$ 4,892 | \$ 3,278 | \$ 3,131 | \$ 571 | \$ 544 |
| Net | \$ 3,334 | \$ 3,186 | \$ 2,433 | \$ 2,375 | \$ 294 | \$ 287 |
| 5% decrease in loss ratios | | | | | | |
| Gross | \$ (5,240) | \$ (4,892) | \$ (3,278) | \$ (3,131) | \$ (571) | \$ (544) |
| Net | \$ (3,334) | \$ (3,186) | \$ (2,433) | \$ (2,675) | \$ (294) | \$ (287) |

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.

e) 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 Statement of Comprehensive Income and Members' Surplus initially by writing off the deferred policy acquisition expense and subsequently by recognizing an additional claims liability for claims provisions.

f) 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 accounts payable and accrued liabilities and are recognized as an expense when due.

The Company follows a policy of underwriting and reinsuring contracts of insurance which, in the main, limit the liability of the Company to an amount on any one claim of \$180 (2019 - \$180) in the event of a property claim, an amount of \$200 (2019 - \$200) in the event of an automobile claim and \$180 (2019 - \$180) in the event of a liability claim. The Company also obtained reinsurance which limits the Company's liability to \$540 (2019 - \$540) 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 80% and 90% of gross net earned premiums for property and automobile respectively. As of January 1, 2015, the company ceased participating in the quota share reinsurance program related to property claims.

Algoma Mutual Insurance Company

Notes to Financial Statements

December 31, 2020

(in thousands of Canadian dollars)

4. Insurance contracts (continued)

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

Expected reinsurance recoveries on unpaid claims and adjustment expenses are recognized as assets at the same time and using principles consistent with the Company's method for establishing the related liability. Changes in due from reinsurer recorded in the statement of financial position for the years-ended December 31, 2020 and 2019 follow:

| | 2020 | 2019 |
|--------------------------------|----------|----------|
| Balance, beginning of the year | \$ 4,887 | \$ 3,639 |
| New claims reserve | 9,687 | 1,486 |
| Change in prior years' reserve | 6 | 776 |
| Submitted to reinsurer | (10,940) | (1,014) |
| Balance, end of the year | \$ 3,640 | \$ 4,887 |

Reinsurance is placed with Farm Mutual Re (FMRe), a Canadian registered reinsurer. Management monitors the creditworthiness of FMRe 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.

Changes in reinsurer's receivable for incurred claims recorded in the statement of financial position for the years-ended December 31, 2020 and 2019:

Reinsurer's receivable for incurred claims

| | 2020 | 2019 |
|--------------------------------|----------|-------|
| Balance, beginning of the year | \$ 31 | \$ - |
| Submitted to reinsurer | 10,940 | 1,014 |
| Received from reinsurer | (10,971) | (983) |
| Balance, end of the year | \$ - | \$ 31 |

g) 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 claim, it acquires rights to subrogate its claim against other parties. These claims are reflected when determined by the Company as the amounts cannot be accurately estimated.

h) Refund of premium

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

Algoma Mutual Insurance Company

Notes to Financial Statements

December 31, 2020

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5. Investments

a) Recognition and initial measurement

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

b) Classification and subsequent measurement

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

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

The company classifies its equity instruments at 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) Risks

The following table provides cost and fair value information of investments by type of security and issuer. The maximum exposure to credit risk would be the fair value as shown below.

| | December 31, 2020 | | December 31, 2019 | |
|-----------------------------|-------------------|------------|-------------------|------------|
| | Cost | Fair value | Cost | Fair value |
| Bonds issued by | | | | |
| Federal | \$ 11,725 | \$ 11,737 | \$ 6,830 | \$ 6,834 |
| Provincial | - | - | 4,775 | 4,860 |
| | 11,725 | 11,737 | 11,605 | 11,694 |
| Equity investments | | | | |
| Canadian private company | 250 | 249 | 250 | 250 |
| Other investments | | | | |
| Fire Mutuals guarantee fund | 20 | 20 | 20 | 20 |
| Total investments | \$ 11,995 | \$ 12,006 | \$ 11,875 | \$ 11,964 |

Algoma Mutual Insurance Company

Notes to Financial Statements

December 31, 2020

(in thousands of Canadian dollars)

5. Investments (continued)

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

The Company's investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits, corporate sector limits and general guidelines for geographic exposure. The bond portfolio includes 100% (2019 - 100%) of bonds rated A or better. The Company's investment policy limits investment in bonds and debentures of the various ratings to limits ranging from 65% to 100% of the Company's portfolio. Funds should be invested in bonds and debentures of Federal, Provincial or Municipal Government and corporations rated BBB or better. The bond portfolio will be invested so that its holdings have a minimum weighted average credit rating of A or its equivalent. All fixed income portfolios are measured for performance on a quarterly basis and are monitored by management on a monthly basis.

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

Due to the impact of COVID-19, bond yields have significantly decreased in the current year. The Company continues to monitor investments for credit ratings to ensure investments are made in bonds rated A or better.

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

The Company's investment policy requires that 0% to 30% of the Company's portfolio be held in cash and short-term investments. Short-term investments include treasury bills, commercial paper and term deposits with an original maturity of less than one year.

Maturity profile of bonds held is as follows:

| | Within 1 year | 2 to 5 years | 6 to 10 years | Over 10 years | Fair Value |
|--------------------------|------------------|-----------------|------------------|------------------|---------------|
| December 31, 2020 | \$ 3,212 | \$ 8,525 | - \$ | - \$ | 11,737 |
| Percent of total | 27.37 % | 72.63 % | - % | - % | |
| December 31, 2019 | \$ 8,510 | \$ 3,184 | - \$ | - \$ | 11,694 |
| Percent of total | 72.77 % | 27.23 % | - % | - % | |

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.

Market factors that will impact the fair value of investments include three types of risk: currency risk, interest rate risk and equity risk.

Algoma Mutual Insurance Company

Notes to Financial Statements

December 31, 2020

(in thousands of Canadian dollars)

5. Investments (continued)

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 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 bond portfolio for corporate bonds and 10% of the company equity portfolio for equities.

The Company's currency risk is related 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 limits its holdings in foreign equity to 10% of the total investment portfolio in accordance with its investment policy. Foreign currency changes are monitored by the General Manager and holdings are adjusted if offside of the investment policy.

The Company is exposed to this risk through its interest bearing investments (T-Bills, Money market funds, Bonds, and Mortgages).

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

At December 31, 2020, a 1% decrease in interest rates, with all other variables held constant, could impact the market value of bonds by approximately \$294 (2019 - \$81). A 1% increase in interest rates, with all other variables held constant, could impact the market value of bonds by approximately \$294 (2019 - \$81). These changes would be recognized in profit or loss.

The Company's investment policy limits investment in preferred and common shares to a maximum of 35% of the market value of the portfolio.

Equities are monitored by the Board of Directors and holdings are adjusted following each quarter if the investments are offside of the investment policy.

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

e) Fair value measurement

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

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

Algoma Mutual Insurance Company

Notes to Financial Statements

December 31, 2020

(in thousands of Canadian dollars)

5. Investments (continued)

| | Level 1 | Level 2 | Level 3 | Total |
|--------------------------|-------------|------------------|---------------|------------------|
| December 31, 2020 | | | | |
| Bonds | \$ - | \$ 11,737 | \$ - | \$ 11,737 |
| Equities | - | - | 249 | 249 |
| Other investments | - | - | 20 | 20 |
| Total | \$ - | \$ 11,737 | \$ 269 | \$ 12,006 |
| December 31, 2019 | | | | |
| Bonds | \$ - | \$ 11,694 | \$ - | \$ 11,694 |
| Equities | - | - | 250 | 250 |
| Other investments | - | - | 20 | 20 |
| Total | \$ - | \$ 11,694 | \$ 270 | \$ 11,964 |

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

6. Investment and other income

| | 2020 | 2019 |
|--|---------------|---------------|
| Interest income | \$ 99 | \$ 140 |
| Dividend income | 3 | 62 |
| Realized gains (losses) on disposal of investments | 520 | 196 |
| Investment expenses | (37) | (38) |
| Change in fair value on investments | 5 | 337 |
| Rental and other income | 61 | 22 |
| | \$ 651 | \$ 719 |

7. 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 the Company should produce a minimum MCT of 150%. During the year, the Company has consistently exceeded this minimum. The regulator has the authority to request more extensive reporting and can place restrictions on the Company's operations if the Company falls below this requirement and deemed necessary.

Algoma Mutual Insurance Company

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December 31, 2020

(in thousands of Canadian dollars)

8. Fees, commissions and other acquisition expenses

| | <u>2020</u> | | <u>2019</u> |
|-------------|-----------------|----|--------------|
| Commissions | \$ 2,105 | \$ | 1,871 |
| Other | 58 | | 31 |
| | <u>\$ 2,163</u> | \$ | <u>1,902</u> |

9. Other operating and administrative expenses

| | <u>2020</u> | | <u>2019</u> |
|---|-----------------|----|--------------|
| Administrative allocation to claims expense | \$ (507) | \$ | (486) |
| Advertising and promotion | 14 | | 9 |
| Amortization of intangible assets | 14 | | 14 |
| Auto and travel | 6 | | 18 |
| Bad debts (recovery) | 5 | | (16) |
| Computer costs | 433 | | 337 |
| Depreciation | 66 | | 65 |
| Inspections and investigations | 126 | | 149 |
| Insurance | 46 | | 42 |
| Licenses, fees, and dues | 64 | | 65 |
| Loss on disposition of capital assets | - | | 60 |
| Occupancy | 55 | | 51 |
| Office costs | 117 | | 102 |
| Professional fees | 69 | | 95 |
| Remuneration | 1,121 | | 1,104 |
| Telephone and communications | 14 | | 14 |
| Travel, meetings and training | 32 | | 42 |
| | <u>\$ 1,675</u> | \$ | <u>1,665</u> |

10. Salaries, benefits and directors' fees

| | <u>2020</u> | | <u>2019</u> |
|--|-----------------|----|--------------|
| Salaries and benefits | \$ 1,094 | \$ | 1,077 |
| Other salaries, benefits and directors' fees | 27 | | 27 |
| | <u>\$ 1,121</u> | \$ | <u>1,104</u> |

Included in claims expenses are wage and administrative costs of \$507 (2019 - \$486).

11. Income taxes

Income tax expense comprises current and deferred tax. Current and deferred tax are recognized in comprehensive income except to the extent that it relates to a business combination, or items recognized directly in members' surplus.

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

Algoma Mutual Insurance Company

Notes to Financial Statements

December 31, 2020

(in thousands of Canadian dollars)

11. Income taxes (continued)

| | <u>2020</u> | <u>2019</u> |
|---|---------------|----------------|
| Current tax expense | | |
| Based on current year taxable income | \$ 158 | \$ (28) |
| Deferred tax expense | | |
| Origination and reversal of temporary differences | <u>2</u> | <u>(5)</u> |
| Total income tax expense (recovery) | <u>\$ 160</u> | <u>\$ (33)</u> |

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 26.5% (2019 – 26.5%) are as follows:

| | <u>2020</u> | <u>2019</u> |
|--|---------------|-----------------|
| Income before taxes for the year | <u>\$ 902</u> | <u>\$ (201)</u> |
| Expected taxes based on the statutory rate of 26.5% (2019 – 26.5%) | 239 | (53) |
| Small Business deduction | (113) | 21 |
| Canadian dividend income not subject to tax | (1) | (15) |
| Other non deductible expenses | (6) | 16 |
| General tax adjustment | 55 | |
| Provision adjustment to prior year returns | (16) | |
| Other | <u>2</u> | <u>(2)</u> |
| Total income tax expense (recovery) | <u>\$ 160</u> | <u>\$ (33)</u> |

Algoma Mutual Insurance Company

Notes to Financial Statements

December 31, 2020

(in thousands of Canadian dollars)

12. Structured settlements, fire mutuals guarantee fund and financial guarantee contracts

The Company enters into annuity agreements with various life insurance companies to provide for fixed and recurring payments to claimants. Under such arrangements, the Company's liability to its claimants is substantially transferred, although the Company remains exposed to the credit risk 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 if a member company becomes bankrupt. As a result, the Company may be required to contribute assets equal to their proportionate share in meeting this objective.

The Company is also a member of the Farm Mutual Re ("the Plan"), which is a general reinsurer that shares in the insurance risks originally accepted by member insurance companies. As a member of the Plan, the Company may be required to contribute additional capital to the Plan in the form of subordinated debt should the Plan's capital fall below a prescribed minimum.

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

From time to time the Company purchases annuities from life insurance companies to settle certain obligations to claimants. The Company guarantees the life insurers' obligation under these annuities, which are estimated to be \$284 (2019 - \$285) based on the net present value of the projected cash flows of these guarantees in 2020. The Company acquires these annuities from reputable and credit-worthy life insurance companies whose obligations are insured, within limits, by Sun Life Assurance Co, Manulife Financial, Sun Life Financial Services and BMO Life Insurance Company. Accordingly, the Company considers its credit risk to be nil.

| | 2020 | 2019 |
|-----------------------------------|----------------|---------|
| Life company valuations: | | |
| Total original premium | \$ 250 | \$ 250 |
| Gross valuation as at December 31 | 284 | 285 |
| Net valuation as at December 31 | \$ (34) | \$ (35) |

Algoma Mutual Insurance Company

Notes to Financial Statements

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13. Property, plant and equipment and intangible assets

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

| | Useful Life | 2020 | | |
|------------------------|-------------|-----------------|--------------------------|----------------|
| | | Cost | Accumulated Depreciation | Net Book Value |
| Land | N/A | \$ 37 | \$ - | \$ 37 |
| Buildings | 40 years | 670 | 363 | 307 |
| Computer hardware | 4 years | 219 | 155 | 64 |
| Furniture and fixtures | 10 years | 160 | 139 | 21 |
| Vehicles | 7 years | 51 | 41 | 10 |
| | | <u>\$ 1,137</u> | <u>\$ 698</u> | <u>\$ 439</u> |

| | Useful Life | 2019 | | |
|------------------------|-------------|-----------------|--------------------------|----------------|
| | | Cost | Accumulated Depreciation | Net Book Value |
| Land | N/A | \$ 37 | \$ - | \$ 37 |
| Buildings | 40 years | 661 | 343 | 318 |
| Computer hardware | 4 years | 202 | 117 | 85 |
| Furniture and fixtures | 10 years | 159 | 139 | 20 |
| Vehicles | 7 years | 51 | 39 | 12 |
| | | <u>\$ 1,110</u> | <u>\$ 638</u> | <u>\$ 472</u> |

Intangible assets

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

| | Useful Life | 2020 | | |
|----------|-------------|-------|--------------------------|----------------|
| | | Cost | Accumulated Depreciation | Net Book Value |
| Software | 3 years | \$ 98 | \$ 84 | \$ 14 |

| | Useful Life | 2019 | | |
|----------|-------------|-------|--------------------------|----------------|
| | | Cost | Accumulated Depreciation | Net Book Value |
| Software | 3 years | \$ 92 | \$ 70 | \$ 22 |

Algoma Mutual Insurance Company

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14. 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 all 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 was \$120 (2019 - \$113). The contributions were made for current service and have been recognized in comprehensive income. These contributions amount to 1.96% of the total contributions made to the Ontario Mutual Insurance Association Pension Plan by all participating entities during the current fiscal year.

Expected contributions to the plan for the next annual reporting period amount to \$103, which is based on payments made to the multi-employer plan during the current fiscal year.

An actuarial valuation of the pension plan as of January 1, 2020 showed both a going concern surplus and solvency surplus positions. The next required actuarial valuation will be January 1, 2023.

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. The COVID-19 crisis has created additional uncertainty which could impact assumptions going forward. This uncertainty could create volatility in the funding status of the plan.

15. Related party transactions

The Company entered into the following transactions with key management personnel, which are defined by IAS 24, Related Party Disclosures, as those persons having authority and responsibility for planning, directing and controlling the activities of the Company, including directors and management:

| | 2020 | 2019 |
|--|---------------|---------------|
| Compensation | | |
| Short term employee benefits and directors' fees | \$ 150 | \$ 155 |
| Total pension and other employment benefits | 19 | 19 |
| | <u>\$ 169</u> | <u>\$ 174</u> |
| Premiums | <u>\$ 36</u> | <u>\$ 39</u> |
| Claims paid | <u>\$ -</u> | <u>\$ -</u> |

16. Standards, amendments and interpretations not yet effective

Certain new standards, amendments to standards, and interpretations were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting periods beginning on or after January 1, 2021 or later that the Company has decided not to adopt early.

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16. Standards, amendments and interpretations not yet effective (continued)

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

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

17. Commitment

In addition to a \$10 donation, the Company has extended a promissory note to the Matthews Memorial Hospital Foundation up to a maximum amount of \$65 to support their efforts in acquiring a residential property located in the community for use by locum doctors. As of December 31, 2020 none of these additional funds have been provided to the Matthews Memorial Hospital Foundation and the timing of these cashflows are unknown.