

**Caradoc Townsend Mutual Insurance Company**

Consolidated Financial Statements

**December 31, 2021**



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# Caradoc Townsend Mutual Insurance Company

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December 31, 2021

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## Management's Responsibility for Financial Reporting

The consolidated financial statements of Caradoc Townsend Mutual Insurance Company have been prepared in accordance with International Financial Reporting Standards. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. These statements include certain amounts based on management's estimates and judgments. Management has determined such amounts based on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly in all material respects.

The integrity and reliability of Caradoc Townsend Mutual Insurance Company's reporting systems are achieved through the use of formal policies and procedures, the careful selection of employees, and an appropriate division of responsibilities. These systems are designed to provide reasonable assurance that the financial information is reliable and accurate.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. Following its review of the consolidated financial statements and discussions with the auditors, the Board approves the consolidated financial statements to be submitted to the members for their approval at the annual general meeting. The Board also considers the engagement or re-appointment of the external auditors for approval by the Members at the annual general meeting.

The consolidated financial statements have been audited on behalf of the members by Millard, Rouse & Rosebrugh LLP, in accordance with Canadian Generally Accepted Auditing Standards.



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Neil Shay, CEO & General Manager



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Mary Heastont, VP Corporate Services  
& Treasurer

February 24, 2022

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## INDEPENDENT AUDITOR'S REPORT

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To the Members of Caradoc Townsend Mutual Insurance Company:

### *Opinion*

We have audited the consolidated financial statements of Caradoc Townsend Mutual Insurance Company (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2021, and the consolidated statements of surplus, income, and cash flow for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021, its financial performance, and its cash flow 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 Consolidated 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 consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with those requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Other Matter*

We draw your attention to Note 27 of the financial statements, which describes the effects of the novel coronavirus (COVID-19) on the Company. Our opinion is not modified in respect of this matter.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters relating 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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*Auditor's Responsibilities for the Audit of the Consolidated Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

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.

February 24, 2022  
Simcoe, Ontario

*Millard, Rouse & Rosebrugh LLP*

**Millard, Rouse & Rosebrugh LLP**  
Chartered Professional Accountants  
Licensed Public Accountants

# Caradoc Townsend Mutual Insurance Company

## Consolidated Statement of Financial Position

As at December 31, 2021

	2021	2020
<b>ASSETS</b>		
Cash	\$ 3,837,027	\$ 673,941
Investments (Note 5)	19,416,076	21,880,329
Accrued investment income	80,722	88,549
Due from members	4,044,476	4,212,592
Due from reinsurer (Note 6)	6,266	515,851
Due from Facility Association	121,203	92,451
Miscellaneous accounts receivable	54,116	227,759
Income taxes recoverable	5,460	-
Reinsurer's share of unearned premiums (Note 7)	131,229	140,277
Prepaid expenses	85,993	27,919
Deferred policy acquisition costs (Note 8)	1,270,467	1,293,685
Deferred income taxes (Note 9)	1,674,000	1,088,000
Investment in associate (Note 10)	657,450	636,876
Property and equipment (Note 11)	1,644,003	2,122,906
Right-of-use assets (Note 12)	806,526	470,175
Reinsurer's share of provision for unpaid claims (Note 13)	2,529,589	2,710,434
	<b>\$ 36,364,603</b>	<b>\$ 36,181,744</b>
<b>LIABILITIES AND SURPLUS</b>		
Accounts payable	\$ 808,902	\$ 1,042,071
Due to other insurance companies	125,082	283,642
Income taxes payable (Note 14)	-	22,731
Unearned premiums (Note 15)	7,586,796	7,501,552
Unearned commission revenue (Note 16)	46,499	45,224
Lease liabilities (Note 17)	807,242	465,310
Provision for unpaid claims and adjustment expenses (Note 18)	12,359,818	10,744,933
	<b>21,734,339</b>	<b>20,105,463</b>
<b>Surplus</b>	<b>14,630,264</b>	<b>16,076,281</b>
	<b>\$ 36,364,603</b>	<b>\$ 36,181,744</b>

### ON BEHALF OF THE BOARD

Robin Opersko

Director

Barry Woodley

Director

See accompanying notes

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# Caradoc Townsend Mutual Insurance Company

## Consolidated Statement of Surplus

Year ended December 31, 2021

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	2021	2020
Balance - beginning of year	\$ 16,076,281	\$ 14,233,761
Net income (loss) for the year	(1,446,017)	1,842,520
<b>BALANCE - END OF YEAR</b>	<b>\$ 14,630,264</b>	<b>\$ 16,076,281</b>

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See accompanying notes

# Caradoc Townsend Mutual Insurance Company

## Consolidated Statement of Income

Year ended December 31, 2021

	2021	2020
<b>UNDERWRITING OPERATIONS</b>		
Gross premiums written	\$ 15,760,300	\$ 15,631,204
Deduct: reinsurance ceded	(2,707,418)	(4,675,186)
Net premiums written	13,052,882	10,956,018
Deduct: increase in unearned premiums	(94,292)	(308,666)
<b>Net premiums earned</b>	<b>12,958,590</b>	<b>10,647,352</b>
<b>Other revenue</b>		
Service charges	123,535	123,432
Other	9,767	41,034
	133,302	164,466
<b>Total underwriting revenue</b>	<b>13,091,892</b>	<b>10,811,818</b>
<b>Direct losses incurred</b>		
Gross claims and adjustment expenses	10,320,680	5,104,395
Reinsurer's share of claims and adjustment expenses	(687,123)	(471,711)
	9,633,557	4,632,684
<b>Expenses</b>		
Fees, commissions, and other acquisition expenses (Note 20)	2,527,329	1,612,373
General expenses (see schedule on page 7)	3,699,682	3,518,743
Premium deficiency adjustments	5,433	(7,388)
	6,232,444	5,123,728
<b>Underwriting income (loss)</b>	<b>(2,774,109)</b>	<b>1,055,406</b>
<b>Other income (expenses)</b>		
Investment income (Note 21)	689,449	1,509,678
Other income (Note 22)	162,322	144,558
Refund of premiums (Note 29)	(107,531)	(273,000)
	744,240	1,381,236
<b>Income (loss) before income taxes</b>	<b>(2,029,869)</b>	<b>2,436,642</b>
Income taxes		
Current (Note 14)	2,148	25,122
Deferred (Note 9)	(586,000)	569,000
	(583,852)	594,122
<b>NET INCOME (LOSS) FOR THE YEAR</b>	<b>\$ (1,446,017)</b>	<b>\$ 1,842,520</b>

See accompanying notes

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# Caradoc Townsend Mutual Insurance Company

## Consolidated Schedule of General Expenses

Year ended December 31, 2021

	2021	2020
Advertising	\$ 47,958	\$ 58,135
Association fees	58,895	59,218
Bad debts	10,719	6,029
Bank charges and other service fees	94,532	82,590
Computer (a)	732,464	696,216
Contracted services	41,760	25,143
Directors fees	63,669	73,341
Donations	54,733	71,997
Employee benefits and other remuneration	287,699	258,379
Inspections and investigations	176,352	50,634
Insurance	64,372	76,666
Loss prevention rebates and supplies	3,777	1,535
Occupancy cost (a)	177,346	173,986
Other	24,831	30,444
Pension deficit contribution (Note 23)	20,844	15,426
Postage	36,004	35,950
Premium tax	46,439	42,839
Printing and stationary	49,314	48,488
Professional fees	162,006	154,477
Salaries	1,350,789	1,364,702
Scholarships	7,750	7,500
Seminars, conventions, and meetings	66,339	58,080
Statistics and reports	58,445	64,070
Telephone	27,575	26,655
Vehicle and travel	35,070	36,243
	<b>\$ 3,699,682</b>	<b>\$ 3,518,743</b>

(a) Depreciation expense of \$313,469 (\$247,150 - 2020) is included in the above amount

See accompanying notes

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# Caradoc Townsend Mutual Insurance Company

## Consolidated Statement of Cash Flow

Year ended December 31, 2021

	2021	2020
<b>OPERATING ACTIVITIES</b>		
Net income (loss) for the year	\$ (1,446,017)	\$ 1,842,520
Adjustments for:		
Depreciation of property & equipment and right-of-use assets	313,469	247,150
(Gain) loss on disposal of property and equipment	(239,880)	2,697
Deferred income taxes	(586,000)	569,000
Share of profit from investment in associate	(20,573)	(169)
Realized gain on sale of investments	(162,422)	(243,194)
Unrealized gain on investments	(33,802)	(991,285)
	<b>(2,175,225)</b>	<b>1,426,719</b>
Changes in non-cash working capital:		
Due from members	168,116	(221,167)
Due from reinsurer	509,585	(461,855)
Due from Facility Association	(28,752)	(3,716)
Miscellaneous accounts receivable	173,643	(191,970)
Reinsurer's share of unearned premiums	9,048	9,036
Prepaid expenses	(58,074)	(6,009)
Deferred policy acquisition costs	23,218	(93,154)
Reinsurer's share of provision for unpaid claims	180,845	278,838
Accounts payable	(233,170)	476,190
Due to other insurance companies	(158,560)	147,528
Income taxes (recoverable) payable	(28,191)	22,731
Unearned premiums	85,244	299,630
Unearned commission revenue	1,275	(175)
Provision for unpaid claims and adjustment expenses	1,614,885	(2,858,901)
	<b>2,259,112</b>	<b>(2,602,994)</b>
Cash flow from (used by) operating activities	<b>83,887</b>	<b>(1,176,275)</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(171,959)	(89,934)
Proceeds on disposal of property and equipment	762,180	11,500
Purchase of investments	(17,169,418)	(17,591,613)
Proceeds on disposition of investments	19,837,722	16,974,861
Cash flow from (used by) investing activities	<b>3,258,525</b>	<b>(695,186)</b>
<b>FINANCING ACTIVITIES</b>		
Repayment of lease liabilities	(179,326)	(125,306)
Cash flow used by financing activities	<b>(179,326)</b>	<b>(125,306)</b>
<b>INCREASE (DECREASE) IN CASH</b>	<b>3,163,086</b>	<b>(1,996,767)</b>
Cash - beginning of year	673,941	2,670,708
<b>CASH - END OF YEAR</b>	<b>\$ 3,837,027</b>	<b>\$ 673,941</b>

See accompanying notes

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# Caradoc Townsend Mutual Insurance Company

## Notes to Consolidated Financial Statements

Year ended December 31, 2021

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### 1. NATURE OF BUSINESS

Caradoc Townsend Mutual Insurance Company is a mutual insurance company and is owned by the member policyholders. The Company was incorporated under the laws of Ontario and is subject to the Insurance Act of Ontario. It is licensed to write property, liability, automobile, hail, boiler and machinery, and certain types of fidelity and accident and sickness insurance in Ontario. The Company's head office is located in Waterford, Ontario and a satellite office is located in Kilworth, Ontario.

The Company is subject to rate regulation in the automobile business 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's Auto Rate Filing Committee. The rate filing must include actuarial justification for rate increases or decreases. All rate filings are approved or denied by the Financial Services Commission of Ontario. Rate regulation may affect the automobile revenues that are earned by the Company. The actual impact of rate regulation would depend on the competitive environment at that time.

These consolidated financial statements have been authorized for issue by the Board of Directors on February 24, 2022.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis of presentation

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

These consolidated financial statements were prepared on a historical cost basis, except for those financial assets that have been measured at fair value. The Company's functional and presentation currency is the Canadian dollar. The consolidated financial statements are presented in Canadian dollars.

The notes to the consolidated 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.

#### Consolidation

The consolidated financial statements of the Company include its wholly-owned subsidiary, 2598695 Ontario Inc., which was incorporated on September 27, 2017. The accounting policies of the subsidiary have been aligned with the policies adopted by the Company. All intra-company transactions have been eliminated upon consolidation.

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# Caradoc Townsend Mutual Insurance Company

## Notes to Consolidated Financial Statements

Year ended December 31, 2021

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### Insurance contracts

In accordance with IFRS 4, balances arising from insurance contracts primarily include unearned premiums, provisions for unpaid claims and adjustment expenses, the reinsurer's share of unpaid claims and adjustment expenses, deferred policy acquisition expenses, and salvage and subrogation recoverable.

#### *Premiums and unearned premiums*

The Company earns premium income over the term of the insurance policy on a pro rata basis. 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. Premiums receivable are recorded at amounts due less any required provision of doubtful amounts.

#### *Reinsurer's share of unearned premiums*

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

#### *Deferred policy acquisition costs*

Acquisition costs are comprised of agents' commissions, premium taxes, and other expenses which relate directly to the acquisition of premiums, including salaries for underwriting personnel and inspection fees. 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 and investment income.

#### *Provision 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. Claim liabilities are carried on a discounted basis.

#### *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, initially, by writing off the deferred policy acquisition expense and, subsequently, by recognizing an additional claims liability for claims provisions.

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# Caradoc Townsend Mutual Insurance Company

## Notes to Consolidated Financial Statements

Year ended December 31, 2021

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### *Reinsurer's share of provision for unpaid claims for adjustment expenses*

Incurred reinsurance recoveries are recorded as reductions of the claims incurred accounts. 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. A contingent liability exists with respect to reinsurance ceded which could become a liability of the Company in the event that the reinsurer might be unable to meet its obligations under the reinsurance agreements.

#### Fire Mutuals Guarantee Fund

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 became bankrupt. As a result, the Company may be required to contribute assets to their proportionate share in meeting this objective.

#### Property and equipment

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 as follows:

Buildings	35 years
Office equipment	10 years
Computer equipment	3-5 years
Signs	5 years
Paving & sidewalks	10 years
Leasehold improvements	Lease term
Motor vehicles	5 years

Depreciation methods, useful lives, and residual values are reviewed annually and adjusted if necessary. Property and equipment acquired during the year are depreciated at one-half of the normal rate.

#### Right-of-use assets

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. This policy is applied to contracts entered into, or changed, on or after January 1, 2019. All leases are accounted for by recognizing a right-to-use asset and a lease liability except for leases of low value and short-term leases with a lease term of twelve months or less.

The Company recognizes right-of-use assets and lease liabilities at the lease commencement date.

The right-of-use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for lease payments made at or before commencement of the lease or initial direct costs incurred.

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# Caradoc Townsend Mutual Insurance Company

## Notes to Consolidated Financial Statements

Year ended December 31, 2021

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.

Right-of-use assets are subsequently measured at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability.

Lease liabilities are subsequently increased by the interest cost on the lease liability and decreased by lease payments made. Lease liabilities are remeasured when there is a change in future lease payments arising from a change in an index or rate. The revised future lease payments are discounted at the same discount rate that applied on lease commencement.

#### Income taxes

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

Current income taxes are recognized for the estimated income taxes payable or receivable 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 nor 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.

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 liabilities (assets) are settled (recovered).

#### Financial instruments

The Company classifies its consolidated financial instruments into one of the following categories based on the characteristics of the financial instruments and management's choices and intentions. All transactions related to financial instruments are recorded on a trade date basis. The Company's accounting policy for each category is as follows:

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# Caradoc Townsend Mutual Insurance Company

## Notes to Consolidated Financial Statements

Year ended December 31, 2021

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### *Financial assets at fair value through profit or loss*

A financial asset is classified at fair value through profit or loss if it is classified as held-for-trading or is designated as such upon initial recognition. Financial assets are designated as fair value through profit or loss if the Company manages such investments and makes purchases and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

#### *Loans and receivables*

These are comprised of amounts due from members, reinsurer's, Facility Association, and miscellaneous receivables. These assets are non-derivative financial assets 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 depreciated cost, less any impairment losses. Impairments are recognized when there is objective evidence that the Company will be unable to collect all of the amounts due under the terms receivable. On confirmation that the amounts receivable will not be collectable, the gross carrying value of the asset is written off and the loss is recognized in net income.

#### *Other financial liabilities*

Other financial liabilities include all financial liabilities and are comprised of accounts payable and amounts due to other insurance companies. 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 depreciated cost.

#### Standards, amendments, and interpretations not yet effective

Certain new standards, amendments, improvements, and interpretations to the existing standards have been issued by the IASB, but are not yet effective for the year ended December 31, 2021, and have not been applied in preparing these financial statements:

**IFRS 9 Financial Instruments** - IFRS 9 Financial Instruments amends the requirements for classification and measurement of financial assets, impairment, and hedge accounting.

IFRS 9 introduces an expected loss model of impairment, retains but simplifies the mixed measurement model, and establishes three primary measurement categories for financial assets: amortized cost, fair value through profit or loss, and fair value through other comprehensive income (loss). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The effective date for IFRS 9 is January 1, 2018. However, insurance entities have been provided the option of deferring the adoption of IFRS 9 until January 1, 2023, which is the effective date of IFRS 17, Insurance Contracts. The Company plans to defer the effective date of IFRS 9 and therefore expects to adopt IFRS 9 on January 1, 2023, concurrent with IFRS 17. The Company is currently assessing the impact of IFRS 9.

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# Caradoc Townsend Mutual Insurance Company

## Notes to Consolidated Financial Statements

Year ended December 31, 2021

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**IFRS 16 Leases** - Amendment to extend the exemption from assessing whether a COVID-19 related rent concession is a lease modification, which are applied retrospectively for annual periods beginning on or after 1 April 2021, with early application permitted.

#### **IFRS 17 Insurance Contracts**

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. IFRS 17 must be applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied.

The effective date for IFRS 17 is January 1, 2023. The Company has not yet determined the impact of adoption, however it is expected to significantly impact the overall financial statements.

**IAS 1 Presentation of Financial Statements** - Classification of Liabilities as Current or Non-current

The amendments to IAS 1 affect only the presentation of liabilities as current or non-current in the statement of financial position and not the amount or timing of recognition of any asset, liability, income, or expenses, or the information disclosed about those items.

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The amendments are applied retrospectively for annual periods beginning on or after 1 January 2023, with early application permitted.

**IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors** - Definition of Accounting Estimates

The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty".

The definition of a change in accounting estimates was deleted. However, the Board retained the concept of changes in accounting estimates in the Standard with the following clarifications:

- A change in accounting estimate that results from new information or new developments is not the correction of an error

*(continues)*

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# Caradoc Townsend Mutual Insurance Company

## Notes to Consolidated Financial Statements

Year ended December 31, 2021

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

- The effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors

The Board added two examples (Examples 4-5) to the Guidance on implementing IAS 8, which accompanies the Standard. The Board has deleted one example (Example 3) as it could cause confusion in light of the amendments.

The amendments are effective for annual periods beginning on or after 1 January 2023 to changes in accounting policies and changes in accounting estimates that occur on or after the beginning of that period, with earlier application permitted.

#### **IAS 12 *Income Taxes*** - *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

The amendments introduce a further exception from the initial recognition exemption. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences.

Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of an asset and liability in a transaction that is not a business combination and affects neither accounting nor taxable profit. For example, this may arise upon recognition of a lease liability and the corresponding right-of-use asset applying IFRS 16 at the commencement date of a lease.

Following the amendments to IAS 12, an entity is required to recognise the related deferred tax asset and liability, with the recognition of any deferred tax asset being subject to the recoverability criteria in IAS 12.

The Board also adds an illustrative example to IAS 12 that explains how the amendments are applied.

The amendments apply to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period an entity recognises:

- A deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised) and a deferred tax liability for all deductible and taxable temporary differences associated with:
  - Right-of-use assets and lease liabilities
  - Decommissioning, restoration and similar liabilities and the corresponding amounts recognised as part of the cost of the related asset
- The cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at that date

The amendments are effective for annual reporting periods beginning on or after 1 January 2023, with earlier application permitted.

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# Caradoc Townsend Mutual Insurance Company

## Notes to Consolidated Financial Statements

Year ended December 31, 2021

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### **IAS 16 Property, Plant, and Equipment** - Proceeds before Intended Use

The amendments prohibit deducting from the cost of an item of property, plant, and equipment any proceeds from selling items produced before that asset is available for use, i.e. proceeds while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Consequently, an entity recognises such sales proceeds and related costs in profit or loss. The entity measures the cost of those items in accordance with IAS 2 Inventories.

The amendments also clarify the meaning of 'testing whether an asset is functioning properly'. IAS 16 now specifies this as assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes.

If not presented separately in the statement of comprehensive income, the financial statements shall disclose the amounts of proceeds and cost included in profit or loss that relate to items produced that are not an output of the entity's ordinary activities, and which line item(s) in the statement of comprehensive income include(s) such proceeds and cost.

The amendments are applied retrospectively, but only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments.

The entity shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of that earliest period presented.

The amendments are effective for annual periods beginning on or after 1 January 2022, with early application permitted.

#### **IAS 37 Provisions, Contingent Liabilities, and Contingent Assets** - Onerous Contracts—Cost of Fulfilling a Contract

The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (examples would be direct labour or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant, and equipment used in fulfilling the contract).

The amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments. Comparatives are not restated. Instead, the entity shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application.

The amendments are effective for annual periods beginning on or after 1 January 2022, with early application permitted.

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# Caradoc Townsend Mutual Insurance Company

## Notes to Consolidated Financial Statements

Year ended December 31, 2021

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

The directors do not expect that the adoption of the Standards listed above, with exception to IFRS 17 will have a material impact on the financial statements.

### 3. ACCOUNTING ESTIMATES AND JUDGEMENTS

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and other 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 income in the period of the change, if the change affects that period only; or in the period of the change and future periods, if the change affects both. The areas involving critical judgements and estimates in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year are:

- The 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 18 Provision for Unpaid Claims and Adjustment Expenses*);
- The determination of the recoverability of deferred policy acquisition expenses (*Note 8 Deferred Policy Acquisition Costs*);
- 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 classified at fair value through profit or loss, which includes assessing the business model within which the assets are held and whether the contractual terms of the assets are solely payments of principal and interest on the principal amount outstanding (*Note 24 Financial Instruments and Insurance Risk Management*); and
- The determination of lease term for some lease contracts in which the Company is a lessee that include renewal options and termination options, including whether the Company is reasonably certain to exercise such options and the determination of the incremental borrowing rate used to measure lease liabilities for each lease contract (*Note 12 Right of use of assets*).
- Certain financial statement items requiring management estimates and judgements that may require revision in the future also include deferred income taxes, and certain accruals.

In addition, in preparing the consolidated financial statements, the notes to the consolidated 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.

# Caradoc Townsend Mutual Insurance Company

## Notes to Consolidated Financial Statements

Year ended December 31, 2021

#### 4. ADOPTION OF NEW ACCOUNTING STANDARDS

Accounting standards, interpretations, and amendments effective for accounting years beginning on or after January 1, 2021 did not materially affect the Company's financial statements.

#### 5. INVESTMENTS

The book and fair values of investments at December 31 are shown as follows:

	2021		2020	
	\$		\$	
	Book Value	Fair Value	Book Value	Fair Value
<u>Held-for-trading</u>				
Bonds issued by:				
Federal	1,270,809	1,270,809	5,961,363	5,961,363
Provincial	5,569,447	5,569,447	2,869,096	2,869,096
Corporate	7,831,800	7,831,800	6,605,760	6,605,760
	<b>14,672,056</b>	<b>14,672,056</b>	15,436,219	15,436,219
<u>Equity Investments</u>				
Common shares	2,940,300	2,940,300	4,896,906	4,896,906
Preferred shares	4,628	4,628	6,975	6,975
Equity interest in private company	477,644	477,644	397,918	397,918
Equity pooled funds	1,321,448	1,321,448	1,142,311	1,142,311
	<b>4,744,020</b>	<b>4,744,020</b>	6,444,110	6,444,110
Total investments	<b>19,416,076</b>	<b>19,416,076</b>	21,880,329	21,880,329

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

# Caradoc Townsend Mutual Insurance Company

## Notes to Consolidated Financial Statements

Year ended December 31, 2021

### 6. DUE FROM REINSURER

The continuity of amounts due from reinsurer are as follows:

	2021	2020
	\$	\$
Balance, beginning of year	515,851	53,996
Submitted to reinsurer	890,123	750,549
Received from reinsurer	(1,399,708)	(734,647)
Increase (decrease) in reinsurance receivable	(509,585)	15,902
Premiums receivable on Quota Share	-	665,602
Commissions payable on Quota Share	-	(219,649)
Net premiums receivable	-	445,953
Balance, end of year	6,266	515,851

At year-end, the Company reviewed the amounts owing from its reinsurer and determined that no allowance is necessary. All amounts are expected to be received within the year.

### 7. REINSURER'S SHARE OF UNEARNED PREMIUMS

The continuity of reinsurer's share of unearned premiums are as follows:

	2021	2020
	\$	\$
Balance, beginning of year	140,277	149,313
Submitted to reinsurer	2,707,418	4,675,186
Premiums earned during the year	(2,716,466)	(4,684,222)
Balance, end of year	131,229	140,277

### 8. DEFERRED POLICY ACQUISITION COSTS

The continuity of deferred policy acquisition costs are as follows:

	2021	2020
	\$	\$
Balance, beginning of year	1,293,685	1,200,531
Acquisition costs incurred	2,480,893	1,705,526
Expensed during the year	(2,504,111)	(1,612,372)
Balance, end of year	1,270,467	1,293,685

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

# Caradoc Townsend Mutual Insurance Company

## Notes to Consolidated Financial Statements

Year ended December 31, 2021

### 9. DEFERRED INCOME TAXES

Deferred tax is calculated on temporary differences under the liability method by applying the statutory income tax rate of 26.5% (2020 - 26.5%).

The change on the deferred tax account is as follows:

	2021	2020
	\$ -	
Income tax (recovered) based on change in losses carried forward:	\$ (510,267)	\$ 537,500
Decrease resulting from change in timing differences in:		
Capital cost allowance claimed in excess (deficiency) of depreciation	(51,097)	(2,200)
Non-deductible portion of claims liabilities	(24,636)	33,700
Effective tax recovery (utilization)	\$ (586,000)	\$ 569,000

The significant components of deferred income tax balance are as follows:

	2021	2020
	\$	\$
<b>Deferred tax assets</b>		
Non-capital losses carried forward	1,596,200	1,086,000
Non-deductible portion of claims liabilities	130,200	105,500
	1,726,400	1,191,500
<b>Deferred tax liabilities</b>		
Capital cost allowance claimed in excess of depreciation	(52,400)	(103,500)
<b>Deferred income taxes</b>	1,674,000	1,088,000

### 10. INVESTMENT IN ASSOCIATE

On December 15, 2017, Townsend Mutual Insurance Company acquired an equal share, 33.33% of a private insurance brokerage company with two unrelated parties. These shares are carried at cost in 2598695 Ontario Inc. which is 100% owned by Caradoc Townsend Mutual Insurance Company.

The investment is to be accounted for using the equity method of accounting whereby the investment will be adjusted to reflect the proportionate share of net income of the brokerage company less any dividends received. During 2021, the Company recognized their share of income in the amount of \$20,573 (2020 - \$169).

# Caradoc Townsend Mutual Insurance Company

## Notes to Consolidated Financial Statements

Year ended December 31, 2021

### 11. PROPERTY AND EQUIPMENT

<b>Cost</b>	Land \$	Building \$	Office Equipment \$	Computer Equipment \$	Signs \$	Paving & Sidewalks \$	Leasehold Improvements \$	Total \$
Balance on December 31, 2020	430,000	1,636,739	214,584	356,031	44,413	77,083	-	2,758,850
Additions	-	-	15,283	13,044	-	-	143,632	171,959
Disposals	(250,000)	(305,000)	-	-	-	-	-	(555,000)
<b>Balance on December 31, 2021</b>	<b>180,000</b>	<b>1,331,739</b>	<b>229,867</b>	<b>369,075</b>	<b>44,413</b>	<b>77,083</b>	<b>143,632</b>	<b>2,375,809</b>
<b>Accumulated depreciation</b>								
Balance on December 31, 2020	-	243,688	80,729	235,372	33,926	42,229	-	635,944
Depreciation expense	-	44,585	22,223	45,063	4,195	7,708	4,788	128,562
Disposals	-	(32,700)	-	-	-	-	-	(32,700)
<b>Balance on December 31, 2021</b>	<b>-</b>	<b>255,573</b>	<b>102,952</b>	<b>280,435</b>	<b>38,121</b>	<b>49,937</b>	<b>4,788</b>	<b>731,806</b>
<b>Net book value - December 31, 2021</b>	<b>180,000</b>	<b>1,076,166</b>	<b>126,915</b>	<b>88,640</b>	<b>6,292</b>	<b>27,146</b>	<b>138,844</b>	<b>1,644,003</b>

During the year, the Company disposed of land and property in Mount Brydges for \$805,000 and reported a gain of \$239,880.

# Caradoc Townsend Mutual Insurance Company

## Notes to Consolidated Financial Statements

Year ended December 31, 2021

### 11. PROPERTY AND EQUIPMENT (continued)

<b>Cost</b>	Land \$	Building \$	Office Equipment \$	Computer Equipment \$	Signs \$	Paving & Sidewalks \$	Motor Vehicles \$	Total \$
Balance on December 31, 2019	430,000	1,636,739	187,193	293,488	44,413	77,083	28,395	2,697,311
Additions	-	-	27,391	62,543	-	-	-	89,934
Disposals	-	-	-	-	-	-	(28,395)	(28,395)
<b>Balance on December 31, 2020</b>	<b>430,000</b>	<b>1,636,739</b>	<b>214,584</b>	<b>356,031</b>	<b>44,413</b>	<b>77,083</b>	<b>-</b>	<b>2,758,850</b>
<b>Accumulated amortization</b>								
Balance on December 31, 2019	-	196,903	60,640	196,397	27,387	34,520	14,197	530,044
Amortization expense	-	46,785	20,089	38,975	6,539	7,709	-	120,097
Disposals	-	-	-	-	-	-	(14,197)	(14,197)
<b>Balance on December 31, 2020</b>	<b>-</b>	<b>243,688</b>	<b>80,729</b>	<b>235,372</b>	<b>33,926</b>	<b>42,229</b>	<b>-</b>	<b>635,944</b>
<b>Net book value - December 31, 2020</b>	<b>430,000</b>	<b>1,393,051</b>	<b>133,855</b>	<b>120,659</b>	<b>10,487</b>	<b>34,854</b>	<b>-</b>	<b>2,122,906</b>

# Caradoc Townsend Mutual Insurance Company

## Notes to Consolidated Financial Statements

Year ended December 31, 2021

### 12. RIGHT-OF-USE ASSETS

Right-of-use assets consists of an office lease and computer equipment as follows:

	2021	2020
<u>Cost</u>		
Balance, beginning of year	\$ 561,259	\$ 257,980
Additions	521,258	479,754
Disposals	-	(176,475)
Balance, end of year	<b>1,082,517</b>	561,259
<u>Accumulated depreciation</u>		
Balance, beginning of year	91,084	140,507
Depreciation for the year	184,907	127,052
Disposals	-	(176,475)
Balance, end of year	<b>275,991</b>	91,084
Carrying amounts	<b>\$ 806,526</b>	\$ 470,175

### 13. REINSURER'S SHARE OF PROVISION FOR UNPAID CLAIMS

The continuity of reinsurer's share of provision for unpaid claims are as follows:

	2021	2020
	\$	\$
Balance, beginning of year	2,710,434	2,989,272
New claims reserve	1,192,068	1,451,569
Change in prior years' reserve	(2,263,037)	(2,480,956)
Submitted to reinsurer	890,124	750,549
Balance, end of year	<b>2,529,589</b>	2,710,434
Expected settlement		
Within one year	557,079	596,906
More than one year	1,972,510	2,113,528
	<b>2,529,589</b>	2,710,434

# Caradoc Townsend Mutual Insurance Company

## Notes to Consolidated Financial Statements

Year ended December 31, 2021

### 14. INCOME TAXES

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

	2021	2020
	\$	\$
Income (loss) before income taxes	<b>(2,029,869)</b>	2,436,642
Expected taxes based on the statutory rate of 26.5%	-	645,709
Small business deduction	-	(26,644)
Non-taxable dividends	-	(14,435)
Losses carried forward utilized during the year	-	(537,666)
Donations carried forward	-	(11,450)
Reserves on unpaid claims and expenses	-	(34,396)
Depreciation claimed in excess of capital cost allowance	-	439
Other	-	1,174
Sub-total	-	22,731
Non-resident tax not recoverable	<b>2,148</b>	2,391
Current income tax expense	<b>2,148</b>	25,122
<b>Current tax</b>		
Based on current year taxable income	-	22,731
Income taxes payable	-	22,731

### 15. UNEARNED PREMIUMS

The continuity of unearned premiums is as follows:

	2021	2020
	\$	\$
Balance, beginning of year	<b>7,501,552</b>	7,201,922
Premiums written	<b>15,760,300</b>	15,631,204
Premiums earned during year	<b>(15,675,056)</b>	(15,331,574)
Increase in reserve for unearned premiums	<b>85,244</b>	299,630
Balance, end of year	<b>7,586,796</b>	7,501,552

# Caradoc Townsend Mutual Insurance Company

## Notes to Consolidated Financial Statements

Year ended December 31, 2021

### 16. UNEARNED COMMISSION REVENUE

The continuity of unearned commission revenue is as follows:	2021	2020
	\$	\$
Balance, beginning of year	45,224	45,399
Received from reinsurer and pools	(76,715)	(932,732)
Commissions earned during year	77,990	932,557
Increase (decrease) in reserve for unearned commission revenue	1,275	(175)
Balance, end of year	46,499	45,224

### 17. LEASE LIABILITIES

	2021	2020
HP equipment and software lease, repayable in monthly payments of \$1,499, due December 31, 2023	\$ 34,252	\$ 50,569
HP equipment lease, repayable in monthly payments of \$13,835, due July 31, 2023	257,110	414,741
Premises lease (Kilworth), repayable in monthly payments of \$2,853, due September 30, 2036	515,880	-
	\$ 807,242	\$ 465,310

Interest expense on lease liabilities amounted to \$13,255 during 2021 (2020 - \$7,227).

Future minimum capital lease payments are approximately:

2022	\$ 218,260
2023	148,242
2024	35,380
2025	38,804
2026	38,804
Thereafter	441,112
Total minimum lease payments	920,602
Less: amount representing interest at various rates	113,360
	<u>\$ 807,242</u>

# Caradoc Townsend Mutual Insurance Company

## Notes to Consolidated Financial Statements

Year ended December 31, 2021

### 18. PROVISION FOR UNPAID CLAIMS AND ADJUSTMENT EXPENSES

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

	2021	2020
	\$	\$
Balance, beginning of year	10,744,933	13,603,834
New claims reserve	11,746,092	7,790,233
Change in prior years' reserve	(1,425,203)	(2,685,834)
Paid claims		
Current year	(6,141,825)	(4,301,224)
Prior year	(2,564,179)	(3,662,076)
Balance, end of year, gross	12,359,818	10,744,933
Reinsurer's share of provision for unpaid claims	(2,529,589)	(2,710,434)
Balance, end of year	9,830,229	8,034,499
Expected settlement		
Within one year	3,819,741	3,320,668
More than one year	8,540,077	7,424,265
	12,359,818	10,744,933

The determination of the provision for unpaid claims and adjustment expenses and the related reinsurer's share requires the estimation of reinsurance recoveries and future development of claims. The provision for unpaid claims and adjustment expenses and related reinsurer's share are estimates subject to variability, and the variability could be material in the near term. The variability arises because all events affecting the ultimate settlement of claims have not taken place and may not take place for some time. Variability 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 principally based on the Company's historical experience. Methods of estimation have been used which the Company believes produce reasonable results given current information. 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 shares of the liabilities provided by the actuaries of the pools.

An actuary is retained by the Company's Board of Directors to review the policy liabilities of the Company. The actuary's responsibility is to carry out a valuation of the Company's policy liabilities in accordance with accepted actuarial practices and report thereon to the Company. In performing the valuation, the actuary makes assumptions as to the future loss ratios, trends, future rates of claims frequency and severity, inflation, and both internal and external adjustment expenses, taking into consideration the circumstances of the Company. The actuary also makes use of the work of the external auditor in verifying the underlying data used in the valuation. The actuary's report outlines the scope of work performed and recommendation.

(continues)

# Caradoc Townsend Mutual Insurance Company

## Notes to Consolidated Financial Statements

Year ended December 31, 2021

### 18. PROVISION FOR UNPAID CLAIMS AND ADJUSTMENT EXPENSES (continued)

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.

The following is a summary of the insurance contract provisions and related reinsurance assets

	Gross	Reinsurance	Net
	\$	\$	\$
<b>December 31, 2021</b>			
Outstanding claims provision			
Property	3,033,858	777,579	<b>2,256,279</b>
Automobile	5,349,691	711,780	<b>4,637,911</b>
Liability	1,259,062	343,230	<b>915,832</b>
Facility Association and other residual pools	488,207	-	<b>488,207</b>
Provisions for claims incurred but not reported	2,229,000	697,000	<b>1,532,000</b>
<b>Balance, end of year</b>	<b>12,359,818</b>	<b>2,529,589</b>	<b>9,830,229</b>
	Gross	Reinsurance	Net
	\$	\$	\$
December 31, 2020			
Outstanding claims provision			
Property	1,447,687	319,246	1,128,441
Automobile	4,738,358	621,038	4,117,320
Liability	1,947,607	845,150	1,102,457
Facility Association and other residual pools	422,063	25,000	397,063
Provisions for claims incurred but not reported	2,189,218	900,000	1,289,218
<b>Balance, end of year</b>	<b>10,744,933</b>	<b>2,710,434</b>	<b>8,034,499</b>

### 19. INSURANCE CONTRACTS

#### 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.

The tables that follow present the development of claims payments and the estimated ultimate cost of claims. The tables reflect the combination of Townsend Mutual Insurance Company and Caradoc Delaware Mutual Insurance Company. 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.

# Caradoc Townsend Mutual Insurance Company

## Notes to Consolidated Financial Statements

Year ended December 31, 2021

### 19. INSURANCE CONTRACTS *(continued)*

#### Gross claims

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Gross estimate of cumulative claims cost												
End of year claim	5,770,984	5,396,337	4,853,645	7,398,670	10,408,214	7,669,230	7,249,213	9,155,848	7,503,990	7,453,167	11,739,394	
One year later	5,674,238	4,482,318	4,243,297	6,566,776	9,455,485	7,143,687	7,840,311	9,922,379	7,058,936	7,002,509	-	
Two years later	5,329,160	4,690,005	4,773,096	6,110,623	9,374,029	8,034,844	8,952,338	8,727,130	7,284,356	-		
Three years later	4,983,880	4,242,979	4,637,721	5,491,495	9,104,924	9,184,307	9,056,884	7,646,566	-			
Four years later	4,741,551	4,269,309	4,196,619	5,442,863	9,348,475	8,370,343	9,238,778	-				
Five years later	4,724,863	4,333,580	4,111,190	5,532,975	9,267,481	8,542,820	-					
Six years later	4,581,783	4,334,808	4,129,137	5,532,016	8,878,590	-						
Seven years later	4,556,046	4,209,046	4,129,199	5,530,016	-							
Eight years later	4,551,046	4,207,046	4,053,806	-								
Nine years later	4,551,046	4,207,046	-									
Ten years later	4,551,046	-										
Current estimate of cumulative claims cost												
claims cost	4,551,046	4,207,046	4,053,806	5,530,016	8,878,590	8,542,820	9,238,778	7,646,566	7,284,356	7,002,509	11,739,394	
Cumulative payments	4,551,046	4,207,046	4,053,806	5,528,016	8,505,194	7,640,319	8,195,739	6,939,173	5,390,031	5,302,870	6,001,869	
Outstanding claims	-	-	-	2,000	373,396	902,501	1,043,039	707,393	1,894,325	1,699,639	5,737,525	12,359,818

# Caradoc Townsend Mutual Insurance Company

## Notes to Consolidated Financial Statements

Year ended December 31, 2021

### 19. INSURANCE CONTRACTS (continued)

#### Net claims after reinsurance

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Net estimate of cumulative												
claims cost												
End of year claim	3,369,350	2,651,601	4,335,870	5,484,324	6,391,716	5,476,156	6,319,571	7,505,545	7,212,990	5,546,613	10,318,325	
One year later	3,568,927	2,675,314	3,856,009	5,045,054	5,964,796	5,438,744	6,142,380	8,352,076	6,937,936	5,446,165	-	
Two years later	3,219,278	2,879,656	4,166,781	4,777,897	5,840,715	5,870,672	7,259,138	7,954,031	7,160,356	-		
Three years later	3,143,121	2,692,843	4,060,501	4,481,302	5,607,611	6,744,675	7,322,150	7,400,263	-			
Four years later	3,095,103	2,738,188	3,809,774	4,444,670	5,848,161	6,429,882	7,209,572	-				
Five years later	3,164,815	2,872,244	3,703,743	4,420,027	5,771,168	6,427,712	-					
Six years later	3,079,903	2,882,471	3,710,802	4,420,067	5,639,172	-						
Seven years later	3,061,167	2,762,710	3,713,864	4,420,067	-							
Eight years later	3,061,167	2,762,710	3,696,634	-								
Nine years later	3,061,167	2,762,710	-									
Ten years later	3,061,167	-										
Current estimate of cumulative												
claims cost												
claims cost	3,061,167	2,762,710	3,696,634	4,420,067	5,639,172	6,427,712	7,209,572	7,400,263	7,160,356	5,446,165	10,318,325	
Cumulative payments	3,061,167	2,762,710	3,696,634	4,420,067	5,270,776	5,940,440	6,502,750	6,724,870	5,380,031	4,365,172	5,587,297	
Outstanding claims	-	-	-	-	368,396	487,272	706,822	675,393	1,780,325	1,080,993	4,731,028	9,830,229

# Caradoc Townsend Mutual Insurance Company

## Notes to Consolidated Financial Statements

Year ended December 31, 2021

### 20. FEES, COMMISSIONS, AND OTHER ACQUISITION EXPENSES

	2021	2020
Agent commissions and benefits	\$ 1,126,955	\$ 1,044,938
Brokers commissions	879,226	945,537
Sales salaries	529,524	594,613
Other	45,121	54,412
Commission revenue	(76,715)	(933,973)
Change in deferred policy acquisition costs (Note 8)	23,218	(93,154)
	<b>\$ 2,527,329</b>	<b>\$ 1,612,373</b>

### 21. INVESTMENT INCOME

Investment income was derived from the following:

	2021	2020
Interest income	\$ 465,060	\$ 307,558
Dividend and distribution income	121,499	74,532
Gain on sale of investments	162,422	243,193
Market value adjustments	33,802	991,285
Investment fees	(113,907)	(107,059)
Share of profit from investment in associate (Note 10)	20,573	169
	<b>\$ 689,449</b>	<b>\$ 1,509,678</b>

### 22. OTHER INCOME

	2021	2020
Canada Emergency Wage Subsidy	\$ (77,558)	\$ 77,558
Temporary Wage Subsidy	-	25,000
Contributions	-	42,000
Gain on disposal of property and equipment (Note 11)	239,880	-
	<b>\$ 162,322</b>	<b>\$ 144,558</b>

During 2020, the Company applied for Canada Emergency Wage Subsidy (CEWS) and Temporary Wage Subsidy (TWS) to curtail the negative cashflow impact of the COVID-19 pandemic. CEWS was for covering part of employee wages and to ease back the Company into normal operations. During 2021 the Company approved the repayment of CEWS received to Canada Revenue Agency. Included in revenue for 2021 is the reversal of \$77,558 included in accounts receivables in 2020.

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# Caradoc Townsend Mutual Insurance Company

## Notes to Consolidated Financial Statements

Year ended December 31, 2021

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### 23. 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 and sales agents participate in the defined contribution 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 Company funds the excess defined benefit plan based on the Company's percentage of plan liabilities 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.

The amount contributed to the defined benefit plan for 2021 was \$79,073 (2020 - \$84,544). The contributions were made for current service and have been recorded as expenses for 2021. The Company had a 1.68% share of the total contributions to the Plan in 2021.

The next actuarial valuation to be filed under the Pension Benefit Act is due no later than January 1, 2023, which is not expected to be completed until mid-year 2023. The actuary has completed a valuation of the funded position of the pension plan as of January 1, 2020. The funded position deteriorated throughout the year, based on data extrapolated from the January 1, 2020 valuation report. As a result, the Company was required to make additional a special payment to fund the solvency deficit. The Company's share of the deficit in 2021 amounted to \$20,844 (2020 - \$15,426).

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.

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

The amount contributed to the defined contribution plan for 2021 was \$117,555 (2020 - \$97,855). The contributions were made for current service and have been recorded as expenses for 2021.

The expected contributions to the defined benefit plan and defined contribution plan for 2022 are \$207,378 combined.

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# Caradoc Townsend Mutual Insurance Company

## Notes to Consolidated Financial Statements

Year ended December 31, 2021

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### 24. FINANCIAL INSTRUMENTS AND INSURANCE RISK MANAGEMENT

#### 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 risk 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 risk mitigation program. Retention limits for the excess-of-loss reinsurance vary by product line.

Amounts recoverable from reinsure's are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its members and thus a credit exposure exists with respect to ceded insurance, to the extent that 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. Automobile premiums are subject to approval by the Financial Services Commission of Ontario and therefore may result in a delay in adjusting the pricing to exposed risk. 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 followed 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 \$430,000 in the event of a property claim, an amount of \$430,000 in the event of an automobile claim, an amount of \$430,000 in the event of a liability claim, an amount of \$20,000 in the event of a farmers' accident claim, and \$860,000 in the event of a catastrophe.

During 2020, the Company reinsured 50% of all its premiums for automobile insurance to Farm Mutual Re. As a result the Company earned a 33% commission on such premiums. As at December 31, 2020 the Company has elected to discontinue the purchase of automobile quota share reinsurance from Farm Mutual Re.

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# Caradoc Townsend Mutual Insurance Company

## Notes to Consolidated Financial Statements

Year ended December 31, 2021

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### 24. FINANCIAL INSTRUMENTS AND INSURANCE RISK MANAGEMENT *(continued)*

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.

The risks associated with insurance contracts are complex and subject to a number of variables, which complicate quantitative sensitivity analysis. The Company uses various techniques based on past claims development experience to quantify these sensitivities. This includes indicators such as average claim cost, amount of claims occurrence, expected loss ratios, and claims development as described in *Note 19*.

The table found at the end of *Note 18*, Provision for Unpaid Claims and Adjustment Expenses, sets out the concentration of unpaid claims and adjustment expenses by class of insurance.

A sensitivity analysis is based on the claims loss ratio, which is calculated by taking net claims incurred, including adjustment expenses over net premiums earned. A 5% movement in the current year claims loss ratio would impact the statement of comprehensive income by approximately \$646,000 (2020 - \$530,000), before tax.

The COVID-19 crisis' impact on the level of bad debt expense and allowance for doubtful accounts on Premiums receivable and other customer receivables are being observed by the Company. The Company applied judgment in its evaluation of the provision to consider flexible payment options provided, as well as experience during the crisis and in past economic downturns. Regular review of amounts outstanding is performed to ensure credit worthiness.

#### Fair value

The Company has categorized its assets that are carried at fair value on a recurring basis, based on priority of the inputs to valuation techniques used to measure fair value, into a three-level fair value hierarchy. Financial assets 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 for similar assets or liabilities in active markets, valuation that is based on significant observable inputs or inputs that are derived principally for, or corroborated with, observable market data through correlation or other means.

Level 3: Fair value is based on valuation techniques that require one or more significant unobservable inputs or the use of broker quotes. These unobservable inputs reflect the Company's assumptions about the assumptions market participants would use in pricing the assets or liabilities. The Company does not have any amounts classified as Level 3.

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# Caradoc Townsend Mutual Insurance Company

## Notes to Consolidated Financial Statements

Year ended December 31, 2021

### 24. FINANCIAL INSTRUMENTS AND INSURANCE RISK MANAGEMENT (continued)

	Level 1	Level 2	Level 3	Total
December 31, 2021	\$	\$	\$	\$
Cash	3,837,027	-	-	3,837,027
Bonds	-	14,672,056	-	14,672,056
Equities	-	4,266,376	477,644	4,744,020
Total assets measured at fair value	3,837,027	18,938,432	477,644	23,253,103

  

	Level 1	Level 2	Level 3	Total
December 31, 2020	\$	\$	\$	\$
Cash	673,941	-	-	673,941
Bonds	-	15,436,219	-	15,436,219
Equities	-	6,046,192	397,918	6,444,110
Total assets measured at fair value	673,941	21,482,411	397,918	22,554,270

During the year \$2,800,000 was transferred into Level 1 instruments from Level 2 instruments, consisting of \$2,677,245 from bonds and \$122,755 from equities.

During the year no additional amounts of level 3 were purchased. The Company recognized \$79,726 in gains from the change in fair value (2020 - loss \$2,082).

#### 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 debt holdings in its investment portfolio and the reliance on reinsure's to make payment when certain loss conditions are met.

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. All fixed income portfolios are measured for performance on a quarterly basis and monitored by management on a monthly basis.

The maximum exposure to credit risk and concentration of this risk would be the fair values as outlined in Note 5.

Bond yields have increased in the current year. The Company continues to monitor investments for credit ratings to ensure investments are made in bonds with an investment grade of BBB or better.

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.

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# Caradoc Townsend Mutual Insurance Company

## Notes to Consolidated Financial Statements

Year ended December 31, 2021

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### 24. FINANCIAL INSTRUMENTS AND INSURANCE RISK MANAGEMENT *(continued)*

Amounts receivable are short-term in nature and are not subject to material credit 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.

#### 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. An investment policy is in place and its application is monitored by the Investment Committee and the Board of Directors. Diversification techniques are utilized to minimize risk.

#### Currency risk

Currency risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange values. The Company is not significantly exposed to foreign exchange rate 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 this risk through its interest-bearing investments that include term deposits and bonds.

Historical data and current information is used to profile the ultimate claims settlement pattern by class of insurance, which is then used in a broad sense to develop an investment policy and strategy. However, because a significant portion of the Company's assets relate to its capital rather than liabilities, the value of its interest rate-based assets exceeds its interest rate-based liabilities. As a result, generally, the Company's investment income will move with interest rates over the medium to long-term, with short-term interest rate fluctuations creating unrealized gains or losses in other 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 bond portfolio in such a way that the bond portfolio is laddered over a number of years. A portion of the bond portfolio would come due each year and be reinvested. This protects the Company from fluctuations in the interest rates.

At December 31, 2021 a 1% move in interest rates, with all other variables held constant, could impact the market value of interest bearing investments by approximately \$827,000.

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# Caradoc Townsend Mutual Insurance Company

## Notes to Consolidated Financial Statements

Year ended December 31, 2021

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### 24. FINANCIAL INSTRUMENTS AND INSURANCE RISK MANAGEMENT *(continued)*

#### 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 equity and fixed investments with fair values that fluctuate with the stock markets. As at December 31, 2021, a 10% movement in the stock markets would have an estimated effect on the fair values of approximately \$480,000. For stocks that the Company did not sell during the period, the change would be recognized in the asset value and in net income. For stocks 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 income during the period.

The Company limits its equity holdings to less than 25% of the total portfolio value.

#### Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet all cash outflow obligations as they come due. The Company mitigates this risk by monitoring cash activities and expected outflows. The 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 investment income. There have been no significant changes from the previous period in the exposure to risk or policies.

### 25. RELATED PARTY TRANSACTIONS

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

	2021	2020
<b>Compensation</b>		
Salaries, benefits, and directors fees	\$ 841,393	\$ 750,040
Pension and other post-employment benefits	87,113	81,498
	<b>\$ 928,506</b>	<b>\$ 831,538</b>

Premiums for key management personnel during 2021 amounted to approximately \$66,917 (2020 - \$56,036). There were claims paid to key management personnel during 2021 \$15,769 (2020 - \$33,622).

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# Caradoc Townsend Mutual Insurance Company

## Notes to Consolidated Financial Statements

Year ended December 31, 2021

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### 26. 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 utilize capital allocations.

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

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

### 27. EXTRAORDINARY EVENTS

In March 2020, the World Health Organization declared a global pandemic due to the novel coronavirus (COVID-19). The situation is constantly evolving, and the measures put in place are having multiple impacts on local, provincial, national, and global economies.

As at date of issuance of the consolidated financial statements, the Company is aware of changes in its operations as a result of the COVID-19 crisis, including the closure of its offices.

Management is uncertain of the effects of these changes on its financial statements and believes that any disturbance may be temporary; however, there is uncertainty about the length and potential impact of the disturbance.

As a result, we are unable to estimate the potential impact on the Company's operations as at the date of these financial statements.

### 28. COMPARATIVE FIGURES

Certain comparative figures were reclassified to conform with current year's presentation, the net impact of which were not material to the financial statements.

### 29. REFUND OF PREMIUMS

During 2020, the Company accrued a refund of 5% of automobile premiums written in 2020 for eligible members. In 2021, the Board increased the refund to 7% and the difference is reflected in the 2021 financial statements.

### 30. CONTINGENT LIABILITY

The Company has been involved in a claim, the outcome of which is not determinable as of the date of issuance of the financial statements. Hence, no provision has been made in the financial statements.